

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 03, 2012

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

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

For August 3, 2012

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X

Form 40-F ___

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

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

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

Yes ___

No X

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

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

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)

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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

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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

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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 to £412.8 billion, reflecting decreases in International Banking, £2.2 billion, Markets, £1.9 billion, Non-Core, £0.7 billion and Ulster Bank, £0.6 billion, together

with exchange and other movements, £2.2 billion. This was partially offset by increases in UK Retail, £4.8 billion, UK Corporate, £1.1 billion and Wealth, £0.3 billion.

Commentary on condensed consolidated balance sheet (continued)

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

Average balance sheet

	Half year ended		Quarter ended	
	30 June 2012 %	30 June 2011 %	30 June 2012 %	31 March 2012 %
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	3.14	3.30	3.13	3.15
Cost of interest-bearing liabilities of banking business	(1.52)	(1.59)	(1.47)	(1.57)
Interest spread of banking business	1.62	1.71	1.66	1.58
Benefit from interest-free funds	0.30	0.29	0.29	0.31
Net interest margin of banking business	1.92	2.00	1.95	1.89

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Average interest rates				
The Group's base rate	0.50	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	1.02	0.81	0.99	1.06
- Eurodollar	0.49	0.29	0.47	0.51
- Euro	0.79	1.20	0.61	0.97

Average balance sheet (continued)

	Half year ended 30 June 2012			Half year ended 30 June 2011		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	82,588	282	0.69	65,606	336	1.03
Loans and advances to customers	439,395	8,369	3.83	472,385	9,138	3.90
Debt securities	105,199	1,149	2.20	122,134	1,343	2.22
Interest-earning assets - banking business						
(1,2,3)	627,182	9,800	3.14	660,125	10,817	3.30
Trading business (4)	246,256			281,771		
Non-interest earning assets						
	618,586			532,429		
Total assets	1,492,024			1,474,325		
Memo: Funded assets	984,037			1,078,045		
Liabilities						
Deposits by banks	42,965	334	1.56	65,895	504	1.54
Customer accounts	335,552	1,787	1.07	333,071	1,688	1.02
Debt securities in issue	109,934	1,290	2.36	173,647	1,743	2.02
Subordinated liabilities	22,297	336	3.03	23,300	318	2.75
Internal funding of trading business						
	(6,884)	66	(1.93)	(51,811)	30	(0.12)
Interest-bearing liabilities - banking business						
(1,2,3)	503,864	3,813	1.52	544,102	4,283	1.59

Trading business (4)	257,343	307,926
Non-interest-bearing liabilities		
- demand deposits	74,088	64,256
- other liabilities	582,768	483,682
Owners' equity	73,961	74,359
Total liabilities and owners' equity	1,492,024	1,474,325

Notes:

- (1) Interest receivable has been increased by nil (H1 2011 - £5 million) and interest payable has been decreased by £10 million (H1 2011 - nil) to exclude RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (2) Interest receivable has been increased by £9 million (H1 2011 - £5 million) and interest payable has been increased by £82 million (H1 2011 - £63 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (3) Interest receivable has been increased by nil (H1 2011 - £2 million) and interest payable has been decreased by £80 million (H1 2011 - £57 million) in respect of non-recurring adjustments.
- (4) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

Average balance sheet (continued)

	Quarter ended 30 June 2012			Quarter ended 31 March 2012		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	78,151	134	0.69	87,025	148	0.68
Loans and advances to customers	435,372	4,117	3.80	443,418	4,252	3.86
Debt securities	99,472	524	2.12	110,926	625	2.27
Interest-earning assets - banking business (1)	612,995	4,775	3.13	641,369	5,025	3.15
Trading business (4)	241,431			251,081		
Non-interest earning assets	603,888			633,284		

Total assets	1,458,314			1,525,734		
Memo: Funded assets	955,789			1,012,285		
Liabilities						
Deposits by banks	41,543	154	1.49	44,387	180	1.63
Customer accounts	337,189	870	1.04	333,915	917	1.10
Debt securities in issue	96,977	541	2.24	122,891	749	2.45
Subordinated liabilities	22,064	190	3.46	22,530	146	2.61
Internal funding of trading business	(7,336)	41	(2.25)	(6,432)	25	(1.56)
Interest-bearing liabilities - banking business (1,2,3)						
	490,437	1,796	1.47	517,291	2,017	1.57
Trading business (4)	252,639			262,047		
Non-interest-bearing liabilities						
- demand deposits	75,806			72,370		
- other liabilities	565,310			600,226		
Owners' equity	74,122			73,800		
Total liabilities and owners' equity	1,458,314			1,525,734		

Notes:

- (1) Interest receivable has been increased by £1 million (Q1 2012 - £8 million) and interest payable has been increased by £30 million (Q1 2012 - £52 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (2) Interest payable has been decreased by £2 million (Q1 2012 - £8 million) to exclude RFS Holdings minority interest. Related interest-bearing liabilities have also been adjusted.
- (3) Interest payable has been decreased by £35 million (Q1 2012 - £45 million) in respect of non-recurring adjustments.
- (4) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

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

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

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

Note:

(1) Analysis provided on page 110.

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

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	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	£m	£m	£m	£m	£m
Foreign exchange reserve					
At beginning of period	4,775	5,138	4,227	4,775	4,754
Retranslation of net assets	(566)	(240)	82	(648)	189
Foreign currency gains/(losses) on hedges					
of net assets	88	(40)	(8)	96	(116)
Tax	20	(24)	16	4	7
Recycled to profit or loss on disposal of business (nil tax)	(3)	-	(3)	-	-
At end of period	4,314	4,834	4,314	4,227	4,834
Capital redemption reserve					
At beginning of period	198	198	198	198	198
Share capital sub-division and consolidation	8,933	-	8,933	-	-
At end of period	9,131	198	9,131	198	198
Contingent capital reserve					
At beginning and end of period	(1,208)	(1,208)	(1,208)	(1,208)	(1,208)
Retained earnings					
At beginning of period	18,929	21,239	17,405	18,929	20,713
(Loss)/profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	(1,911)	(1,429)	(387)	(1,524)	(899)
- discontinued operations	(3)	4	(3)	-	2
Transfer from merger reserve	-	50	-	-	50
Equity preference dividends paid	(76)	-	(76)	-	-
Actuarial losses recognised in retirement benefit schemes					
- tax	(38)	-	-	(38)	-
Loss on disposal of own shares held	(196)	-	(196)	-	-
Shares released for employee benefits	(129)	(207)	(116)	(13)	(166)
Share-based payments					
- gross	92	67	47	45	29
- tax	(11)	2	(17)	6	(3)

At end of period	16,657	19,726	16,657	17,405	19,726
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Condensed consolidated statement of changes in equity
for the period ended 30 June 2012 (continued)

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

changes in equity is attributable
to:

Non-controlling interests	(13)	(6)	(10)	(3)	3
Ordinary and B shareholders	(1,386)	(465)	164	(1,550)	647
	(1,399)	(471)	154	(1,553)	650

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

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

Notes

1. Basis of preparation

The Group's condensed financial statements have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority and IAS 34 'Interim Financial Reporting'. They should be read in conjunction with the Group's 2011 annual accounts which were prepared in accordance with International Financial

Reporting Standards issued by the IASB and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the EU (together IFRS).

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

The Group's business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 6 to 128. Its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the risk and balance sheet management sections on pages 129 to 236. A summary of the risk factors which could materially affect the Group's future results are described on pages 239 and 240. The Group's regulatory capital resources are set on page 133 and 134. The Group's liquidity and funding management is described on pages 137 to 148. Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the interim financial statements for the six months ended 30 June 2012 have been prepared on a going concern basis.

2. Accounting policies

There have been no significant changes to the Group's principal accounting policies as set out on pages 314 to 323 of the 2011 Annual Report and Accounts.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions that are considered to be the most important to the portrayal of Group's financial condition are those relating to loan impairment provisions; pensions; financial instrument fair values; general insurance claims and deferred tax. These critical accounting policies and judgments are described on pages 323 to 325 of the Group's 2011 Annual Report and Accounts.

Recent developments in IFRS

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

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

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

Notes (continued)

3. Analysis of income, expenses and impairment losses

Half year ended

Quarter ended

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	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Loans and advances to customers	8,369	9,128	4,117	4,252	4,535
Loans and advances to banks	282	336	134	148	164
Debt securities	1,140	1,341	523	617	705
Interest receivable	9,791	10,805	4,774	5,017	5,404
Customer accounts	1,784	1,684	870	914	853
Deposits by banks	347	508	156	191	249
Debt securities in issue	1,209	1,680	511	698	863
Subordinated liabilities	415	375	225	190	190
Internal funding of trading businesses	66	30	41	25	22
Interest payable	3,821	4,277	1,803	2,018	2,177
Net interest income	5,970	6,528	2,971	2,999	3,227
Fees and commissions receivable	2,937	3,342	1,450	1,487	1,700
Fees and commissions payable					
- banking	(380)	(419)	(201)	(179)	(238)
- insurance related	(224)	(164)	(113)	(111)	(85)
Net fees and commissions	2,333	2,759	1,136	1,197	1,377
Foreign exchange	435	578	210	225	375
Interest rate	1,100	651	428	672	2
Credit	(893)	314	(94)	(799)	562
Other	227	439	113	114	208
Income from trading activities	869	1,982	657	212	1,147
Gain on redemption of own debt	577	255	-	577	255
Operating lease and other rental income	562	672	261	301	350
Own credit adjustments	(1,694)	(66)	(247)	(1,447)	228
Changes in the fair value of securities and other financial assets and liabilities	55	292	(26)	81	224
Changes in the fair value of investment properties	(56)	(52)	(88)	32	(27)
Profit on sale of securities	482	429	259	223	193
Profit on sale of property, plant and equipment	23	22	18	5	11
	143	26	155	(12)	55

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

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Notes (continued)

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

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

Impairment losses	2,649	5,053	1,335	1,314	3,106
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Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Payment Protection Insurance (PPI)

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

	Half year ended	Quarter ended		Year ended	
	30 June 2012	30 June 2012	31 March 2012	31 December 2011	31 December 2011
	£m	£m	£m	£m	£m
At beginning of period	745	689	745	-	-
Transfers from accruals and other liabilities	-	-	-	215	-
Charge to income statement	260	135	125	850	-
Utilisations	(417)	(236)	(181)	(320)	-
At end of period	588	588	689	745	-

Notes (continued)

4. Loan impairment provisions

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

	Half year ended						
	30 June 2012			30 June 2011			
	Core	Non-Core	Total	Core	Non-Core	RFS MI	Total
	£m	£m	£m	£m	£m	£m	£m
At beginning of period	8,414	11,469	19,883	7,866	10,316	-	18,182
Intra-group transfers	-	-	-	177	(177)	-	-
Currency translation and other adjustments	1	(316)	(315)	89	240	-	329
Disposals	-	-	-	-	-	11	11
Amounts written-off	(991)	(934)	(1,925)	(1,018)	(912)	-	(1,930)
Recoveries of amounts previously written-off	127	53	180	80	206	-	286
Charge to income statement							

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- continuing	1,515	1,215	2,730	1,662	2,473	-	4,135
- discontinued	-	-	-	-	-	(11)	(11)
Unwind of discount (recognised in interest income)	(122)	(134)	(256)	(104)	(139)	-	(243)
At end of period	8,944	11,353	20,297	8,752	12,007	-	20,759

	30 June 2012			Quarter ended 31 March 2012			30 June 2011			
	Core £m	Non- Core £m	Total £m	Core £m	Non- Core £m	Total £m	Core £m	Non- Core £m	RFS MI £m	Total £m
At beginning of period	8,797	11,414	20,211	8,414	11,469	19,883	8,416	10,842	-	19,258
Transfers to disposal groups	-	-	-	-	-	-	-	9	-	9
Currency translation and other adjustments	9	(236)	(227)	(8)	(80)	(88)	33	145	-	178
Disposals	-	-	-	-	-	-	-	-	11	11
Amounts written-off	(586)	(494)	(1,080)	(405)	(440)	(845)	(504)	(474)	-	(978)
Recoveries of amounts previously written-off	65	20	85	62	33	95	41	126	-	167
Charge to income statement										
- continuing	719	716	1,435	796	499	1,295	810	1,427	-	2,237
- discontinued	-	-	-	-	-	-	-	-	(11)	(11)
Unwind of discount (recognised in interest income)	(60)	(67)	(127)	(62)	(67)	(129)	(44)	(68)	-	(112)
At end of period	8,944	11,353	20,297	8,797	11,414	20,211	8,752	12,007	-	20,759

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

Notes (continued)

5. Pensions

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

The most recent funding valuation of the main UK scheme, as at 31 March 2010, showed the value of liabilities exceeded the value of assets by £3.5 billion, a ratio of assets to liabilities of 84%. In order to eliminate this deficit, the Group has agreed to pay additional contributions each year over the period 2011 to 2018. These contributions started at £375 million in September 2011 and in March 2012, increasing to £400 million per annum in 2013 and from 2016 onwards will be further increased in line with price inflation. These contributions are in addition to the regular annual contributions of around £300 million for future accrual benefits.

6. Tax

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

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

Taxable foreign exchange movements	(2)	-	(3)	1	(2)
Losses brought forward and utilised	11	29	(4)	15	13
Adjustments in respect of prior periods	(32)	51	(63)	31	56
Actual tax charge	(429)	(645)	(290)	(139)	(222)

Notes (continued)

6. Tax (continued)

The high tax charge for the half year ended 30 June 2012 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the derecognition of deferred tax assets in respect of losses in Australia, following the strategic changes to the Markets and International Banking businesses announced in January 2012.

The combined effect of tax losses in Ireland and the Netherlands in the half year ended 30 June 2012 for which no deferred tax asset has been recognised and the derecognition of the deferred tax asset in respect of losses in Australia account for £502 million (63%) of the difference between the actual tax charge and the tax credit derived from applying the standard UK Corporation Tax rate to the results for the period.

The Group has recognised a deferred tax asset at 30 June 2012 of £3,502 million (31 March 2012 - £3,849 million; 31 December 2011 - £3,878 million) of which £3,029 million (31 March 2012 - £3,134 million; 31 December 2011 - £2,933 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 30 June 2012 and concluded that it is recoverable based on future profit projections.

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

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

Notes (continued)

8. Dividends

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

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

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

9. Share consolidation

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

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

Notes (continued)

10. Earnings per ordinary and B share

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

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Earnings					
Loss from continuing operations attributable to ordinary and B shareholders (£m)	(1,987)	(1,429)	(463)	(1,524)	(899)
(Loss)/profit from discontinued operations	(3)	4	(3)	-	2

attributable to ordinary and B
shareholders (£m)

Ordinary shares in issue during
the period

(millions) 5,812 5,689 5,854 5,770 5,697

Effect of convertible B shares in
issue during

the period (millions) 5,100 5,100 5,100 5,100 5,100

Weighted average number of
ordinary shares and effect of
convertible B shares in issue
during the period (millions)

10,912 10,789 10,954 10,870 10,797

Basic loss per ordinary and B
share from

continuing operations (18.2p) (13.2p) (4.2p) (14.0p) (8.3p)

Own credit adjustments 21.5p 1.6p 4.1p 17.4p (2.3p)

Asset Protection Scheme 0.3p 4.3p - 0.3p 1.1p

Payment Protection Insurance
costs 1.8p 5.8p 0.9p 0.9p 5.8p

Sovereign debt impairment - 7.8p - - 7.8p

Amortisation of purchased
intangible assets 0.7p 0.7p 0.3p 0.3p 0.4p

Integration and restructuring costs 4.8p 2.5p 1.7p 3.2p 1.5p

Gain on redemption of own debt (4.0p) (2.3p) - (4.0p) (2.3p)

Strategic disposals (1.3p) (0.3p) (1.4p) 0.1p (0.5p)

Bonus tax - 0.2p - - 0.1p

Adjusted earnings per ordinary
and B share from continuing
operations

5.6p 7.1p 1.4p 4.2p 3.3p

Loss from Non-Core divisions
attributable to

ordinary shareholders 4.8p 6.9p 3.0p 1.8p 3.6p

Core adjusted earnings per
ordinary

and B share from continuing
operations 10.4p 14.0p 4.4p 6.0p 6.9p

Core impairment losses 5.4p 6.2p 2.5p 2.9p 3.3p

Pre-impairment Core adjusted
earnings per ordinary and B
share

15.8p 20.2p 6.9p 8.9p 10.2p

Memo: Core adjusted earnings
per

ordinary and B share from
continuing

21.3p 26.8p 9.7p 11.6p 11.6p

operations assuming normalised
tax
rate of 24.5% (2011 - 26.5%)

Diluted loss per ordinary and B
share from continuing operations (18.2p) (13.2p) (4.2p) (14.0p) (8.3p)

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

Notes (continued)

11. Segmental analysis

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

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of divisional operating profit/(loss) by main income statement captions. The divisional income statements on pages 21 to 67 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

	Net interest income	Non- interest income	Total income	Operating expenses	Insurance net claims	Impairment losses	Operating profit/(loss)
Half year ended 30 June 2012	£m	£m	£m	£m	£m	£m	£m
UK Retail	1,989	508	2,497	(1,288)	-	(295)	914
UK Corporate Wealth	1,528	884	2,412	(1,051)	-	(357)	1,004
International Banking (1)	357	236	593	(462)	-	(22)	109
Ulster Bank	485	618	1,103	(777)	-	(62)	264
US Retail & Commercial Markets (2)	325	95	420	(258)	-	(717)	(555)
Direct Line Group (3)	988	583	1,571	(1,193)	-	(47)	331
Central items	48	2,752	2,800	(1,704)	-	(21)	1,075
Core	152	1,748	1,900	(456)	(1,225)	-	219
Non-Core (4)	(4)	7	3	(147)	-	(32)	(176)
Managed basis	5,868	7,431	13,299	(7,336)	(1,225)	(1,553)	3,185
Reconciling items	112	158	270	(525)	-	(1,096)	(1,351)
Own credit adjustments (5)	5,980	7,589	13,569	(7,861)	(1,225)	(2,649)	1,834
	-	(2,974)	(2,974)	-	-	-	(2,974)

Asset Protection Scheme							
(6)	-	(45)	(45)	-	-	-	(45)
Payment Protection							
Insurance costs	-	-	-	(260)	-	-	(260)
Amortisation of purchased intangible assets	-	-	-	(99)	-	-	(99)
Integration and restructuring costs	-	-	-	(673)	-	-	(673)
Gain on redemption of own debt	-	577	577	-	-	-	577
Strategic disposals	-	152	152	-	-	-	152
RFS Holdings minority interest	(10)	(6)	(16)	(1)	-	-	(17)
Statutory basis	5,970	5,293	11,263	(8,894)	(1,225)	(2,649)	(1,505)

Notes:

- (1) Reallocation of £9 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Reallocation of £8 million between net interest income and non-interest income to record interest on financial assets and liabilities designated as at fair value through profit or loss.
- (3) Total income includes £163 million investment income, of which £90 million is included in net interest income and £73 million in non-interest income. Reallocation of £62 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £89 million between net interest income and non-interest income in respect of funding costs of rental assets, £91 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £2 million.
- (5) Comprises £1,280 million loss included in 'Income from trading activities' and £1,694 million loss included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

11. Segmental analysis (continued)

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

	Net interest income	Non-interest income	Total Operating income	Operating expenses	Insurance net claims	Impairment losses	Operating profit/(loss)
Half year ended 30 June 2011	£m	£m	£m	£m	£m	£m	£m
UK Retail	2,184	637	2,821	(1,366)	-	(402)	1,053

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

Notes:

- (1) Reallocation of £21 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Reallocation of £6 million between net interest income and non-interest income to record interest in financial assets and liabilities designated as at fair value through profit or loss.
- (3) Total income includes £133 million investment income, of which £107 million is included in net interest income and £26 million in non-interest income. Reallocation of £70 million between non-interest income and net interest income in respect of instalment income.
- (4)

Reallocation of £105 million between net interest income and non-interest income in respect of funding costs of rental assets, £102 million and to record interest in financial assets and liabilities designated as at fair value through profit or loss, £3 million.

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

Notes (continued)

11. Segmental analysis (continued)

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

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

Statutory basis	2,971	3,116	6,087	(4,277)	(576)	(1,335)	(101)
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Notes:

- (1) Total income includes £73 million investment income, of which £37 million is included in net interest income and £36 million in non-interest income. Reallocation of £31 million between non-interest income and net interest income in respect of instalment income.
- (2) Reallocation of £38 million between net interest income and non-interest income in respect of funding costs of rental assets, £40 million and to record interest in financial assets and liabilities designated as fair value through profit or loss, £2 million.
- (3) Comprises £271 million loss included in 'Income from trading activities' and £247 million loss included in 'Other operating income' on a statutory basis.
- (4) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

11. Segmental analysis (continued)

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

	Net interest income	Non- interest income	Total income	Operating expenses	Insurance claims	net Impairment losses	Operating profit/(loss)
Quarter ended 31 March 2012	£m	£m	£m	£m	£m	£m	£m
UK Retail	1,001	266	1,267	(635)	-	(155)	477
UK Corporate Wealth	756	445	1,201	(533)	-	(176)	492
International Banking (1)	179	111	290	(235)	-	(10)	45
Ulster Bank	251	291	542	(410)	-	(35)	97
US Retail & Commercial Markets (2)	165	49	214	(130)	-	(394)	(310)
Direct Line Group (3)	496	260	756	(635)	-	(19)	102
Central items	16	1,718	1,734	(908)	-	(2)	824
	84	882	966	(233)	(649)	-	84
	(5)	(103)	(108)	(2)	-	(34)	(144)
Core	2,943	3,919	6,862	(3,721)	(649)	(825)	1,667
Non-Core (4)	64	205	269	(263)	-	(489)	(483)
Managed basis	3,007	4,124	7,131	(3,984)	(649)	(1,314)	1,184
Reconciling items							
Own credit adjustments (5)	-	(2,456)	(2,456)	-	-	-	(2,456)
Asset Protection Scheme (6)	-	(43)	(43)	-	-	-	(43)