ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 08, 2008

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 the month of August 2008

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 Company announcements, in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K: ________

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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’, ‘should’, ‘intend’, ‘plan’, ‘probability’, ‘risk’, ‘Value-at-Risk (“VaR”)’, ‘target’, ‘goal’, ‘objective’, ‘will’, ‘outlook’, 'optimistic', 'prospects' and similar expressions or variations on such expressions and sections such as ‘Group Chief Executive’s review’ and ‘Financial review'.

In particular, this document includes forward-looking statements relating, but not limited, to 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. Such statements are subject to risks and uncertainties. For example, certain of the 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: the extent and nature of future developments in the credit markets, including the sub-prime market, and their impact on the financial industry in general and the Group in particular; the effect on the Group’s capital of write downs in respect of credit market exposures; the Group’s ability to achieve revenue benefits and cost savings from the integration of certain of ABN AMRO’s businesses and assets; general economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G-7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes; changes in competition and pricing environments; natural and other disasters; the inability to hedge certain risks economically; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; 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 report, 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.

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PRESENTATION OF INFORMATION

Acquisition of ABN AMRO

On 17 October 2007, RFS Holdings B.V. ("RFS Holdings"), a company jointly owned by RBS, Fortis N.V., Fortis SA/NV (" Fortis") and Banco Santander S.A. (" Santander") (together, the "Consortium Banks") and controlled by RBS, completed the acquisition of ABN AMRO Holding N.V. ("ABN AMRO").

RFS Holdings is implement ing an orderly separation of the business units of ABN AMRO with RBS retaining the following ABN AMRO business units:

• Continuing businesses of Business Unit North America;

• Business Unit Global Clients and wholesale clients in the Netherlands

(including former Dutch wholesale clients) and Latin America (excluding Brazil);

• Business Unit Asia (excluding Saudi Hollandi); and

• Business Unit Europe (excluding Antonveneta).

Certain other assets will continue to be shared by the Consortium Banks.

Pro forma results

Pro forma results have been prepared that include only those business units of ABN AMRO that will be retained by RBS and assuming that the acquisition of ABN AMRO was completed on 1 January 2007. The per share data have been calculated on the assumption that the rights issue occurred on 1 January 2007. The financial review and divisional performance in this Company Announcement focus on the pro forma results. The basis of preparation of the pro forma results are detailed on page 49.

Given the significant write-downs on the Group's credit market exposures, and in order to provide a basis for comparison of underlying performance, these write-downs and one-off items are shown separately in the pro forma income statement.

Statutory results

RFS Holdings is jointly owned by the Consortium Banks. It is controlled by RBS and is therefore fully consolidated in its financial statements. Consequently, the statutory results of the RBS Group for the year ended 31 December 2007 and the half year ended 30 June 2008 include the results of ABN AMRO for 76 days and the full six months respectively. The interests of Fortis and Santander in RFS Holdings are included in minority interests.

R estatements

Divisional results for 2007 have been restated to reflect the new organisational structure announced in February 2008. These changes do not affect the Group’s results.

The statutory income statement and cash flow statement for the year ended 31 December 2007 have been restated to reflect the reclassification of Banco Real as a discontinued operation.

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2008 FIRST HALF HIGHLIGHTS

Pro forma

- Pre-tax loss of £691 million after credit market write-downs of £5.9 billion

- Underlying profit* of £5.1 billion, down 3%

- Capital ratios ahead of plan on a proportional consolidated basis:

  - Core Tier 1 - 5.7%

  - Tier 1 - 8.6%

  - Total - 13.1%

- GBM balance sheet deleveraged by £157 billion since March**

- ABN AMRO integration ahead of plan

· A djusted earnings per ordinary share down 10 % to 21.3 p

· Cost:income ratio unchanged at 48.2%

· Adjusted net interest margin improved slightly to 2.02%

Statutory

· Loss before tax of £692 million

· Basic earnings per ordinary share (6.6p)

· Core Tier 1 capital ratio 6.7%

· Tier 1 capital ratio 9.1%

· Total capital ratio 13.2 %

*profit before tax, credit market write-downs and one-off items, amortisation of purchased intangibles, integration costs and share of shared assets.
**reduction in third party assets, excluding derivatives

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RESULTS SUMMARY – PRO FORMA

	First half 2008 £m	First half 200 7 £m	**Movement £m**	Full year 2007 £m
Total income (1)	**16,835**	17,076	**(241)**	33,564
Operating expenses (2)	**8,285**	8,403	**(118)**	16,618
Impairment losses	**1,479**	936	**543**	2,104
Underlying profit (3)	**5,144**	5,322	**(178)**	10,314
Credit market write-downs and one-off items	**5,113**	7	**5,106**	1,026
Purchased intangibles amortisation	**182**	43	**139**	124
Integration costs	**316**	55	**261**	108
(Loss)/profit before tax	**(691)**	5,115	**(5,806)**	8,962
Cost:income ratio (4)	**48.2%**	48.2%		48.4%
Basic earnings per ordinary share (5)	**(4.7p)**	22.8p	**(27.5p)**	42.4p
Adjusted earnings per ordinary share (5 , 6)	**21.3p**	23.6p	**(2.3p)**	46.1p

For basis of preparation of pro forma results see page 49. Reconciliations from statutory to pro forma data are provided in Appendix 1.

(1) *excluding credit market write-downs and one-off items and share of shared assets.*
(2) *excluding one-off items, purchased intangibles amortisation, integration costs and share of shared assets.*
(3) *profit before tax, credit market write-downs and one-off items, purchased intangibles amortisation, integration costs and share of shared assets.*
(4) *the cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above, and after netting operating lease depreciation against rental income.*
(5) *earnings per ordinary share are based on the assumption that the rights issue was completed on 1 January 2007.*
(6) *adjusted earnings per ordinary share is based on earnings adjusted for credit market write-downs and one-off items, purchased intangibles amortisation, integration costs and share of shared assets.*

Sir Fred Goodwin, Group Chief Executive, said:

" The first half of 2008 has been as difficult an operating environment as we have encountered for some time, presenting both general and specific challenges to RBS. The results we have published today demonstrate progress in a number of important areas, and it is all the more unsatisfactory, therefore, that they record a loss as a result of our credit market write-downs. We are determined to ensure that the inherent strengths of the Group’s diverse business model are not obscured in this way again."

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RESULTS SUMMARY - STATUTORY

	First half 2008 £m	First half 200 7 £m	**Movement £m**	Full year 2007 £m
Total income	**13,729**	14, 690	**(961)**	3 0 , 366
Operating expenses (1)	**10,571**	6, 396	**4,175**	1 3 , 942
Impairment losses	**1,661**	871	**790**	1,968
(Loss)/profit before tax	**(692)**	5,008	**(5,700)**	9, 832
Basic earnings per ordinary share	**(6.6p)**	32.3p	**(38.9p)**	65.6p

(1) *including purchased intangibles amortisation and integration costs.*

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GROUP CHIEF EXECUTIVE'S REVIEW

The Group's results for the first half of 2008 have been seriously affected by the impact of unprecedented market conditions on a number of our business lines. It has been a chastening experience and reporting a pre-tax loss of £691 million is something I and my colleagues regret very much. This loss is a consequence of previously signalled write-downs on credit market exposures amounting to £5.9 billion. In response to these new market conditions we moved decisively to strengthen our capital position materially. In so doing we are acutely aware that we drew heavily on our shareholders for financial support and we recognise that we must now deliver a level of performance that meets their expectations for the company and restores value to our shares. We are determined to do so, and this is our focus.

This is the first occasion on which we have presented results in the new Group structure announced in February 2008, and our strategic pursuit of earnings diversification is evident in the underlying numbers. The earnings performance of our businesses has been resilient, and we have made considerable progress on the separation and integration of ABN AMRO. Excluding the write-downs and other one-off items, the Group's income totalled £16,835 million, down 1%, and underlying profit declined by 3% to £5,144 million.

Underlying net interest margin improved slightly to 2.0 2%, as we have begun to take advantage of the increased risk premia available in most markets. Operating expenses have been reduced by 1% to £8,285 million, leaving our cost:income ratio flat at 48.2%.

We have achieved a good performance in UK Retail & Commercial Banking, reinforcing our leading market positions with, for example, 12% growth in personal savings and 10% in mortgage balances. We have generated good growth in our newer markets in Asia, where deposits are up 34%, and in the Gulf, while results from our newly created Global Transaction Services division have reinforced our confidence that this business will provide us with a very strong platform from which to broaden our services to our clients globally. RBS Insurance has also performed well, with contribution recovering strongly as claims fell from the high flood-affected levels recorded in 2007.

Clearly, market conditions have been difficult for our US Retail and Commercial Banking division, despite which we have achieved positive net interest income growth, reflecting a focus on disciplined management of our deposit base, as well as good growth in US commercial lending, up 13%.

Global Banking & Markets has been affected by credit market conditions both through the write-downs incurred on some of its positions and through subdued volumes of activity, for example in securitisation. In our rates, currencies and local markets business, however, we have achieved excellent growth with income up by 87%, and we have significantly enhanced our commodities platform through our joint venture with Sempra.

Impairments increased to £1,479 million. While we have as yet seen only a modest deterioration in corporate and commercial credit metrics, we are keeping in close contact with our customers and continue to monitor early indicators of credit stress vigilantly. In a selected number of segments that now offer more attractive risk-adjusted returns, we have taken the opportunity to increase lending volumes.

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GROUP CHIEF EXECUTIVE'S REVIEW (continued)

Write-downs on our credit market portfolio totalled £5,925 million, in line with the estimates we announced in April, offset by an £812 million reduction in the carrying value of own debt held at fair value. We have been actively reducing our credit market portfolio, disposing of a number of holdings at prices that have often been higher than we had estimated in April. We reduced our leveraged finance portfolio from £14.5 billion at the end of 2007 to £10.8 billion at 30 June, and in July sold another £1.25 billion of leveraged loans. While these leveraged disposals have been at better prices than we had assumed in April, we have increased the credit valuation adjustment on our exposures to monoline insurers as credit spreads have widened.

The credit market write-downs are the subject of detailed additional disclosure which we are publishing today in line with the guidance issued by the Financial Stability Forum and our regulators. These can be found at Appendix 2.

ABN AMRO integration

The process of separating the ABN AMRO businesses and transferring them to their ultimate owners is proceeding smoothly. Asset Management and Banca Antonveneta passed successfully to their new owners during the first half while the transfer of Banco Real and certain other businesses to Santander concluded last month. We expect to complete the transfer of Private Clients to Fortis in the first half of 2009 and the remainder of the Netherlands activities will follow in the second half of 2009. Most shared assets have already been dealt with, leaving only some small private equity holdings and the Saudi Hollandi stake.

As announced in February, we have identified additional cost savings and revenue benefits from the integration of ABN AMRO over and above those we originally anticipated. Our forecast is now for integration benefits totalling €2.3 billion annually (£1.6 billion) in 2010, almost four times the underlying profit before tax achieved in 2007 by the businesses we have acquired.

We are currently ahead of schedule in realising those benefits, with the amounts delivered so far running at almost twice what we anticipated at this early stage of the integration process. In the six months to June we have made cost savings ranging from headcount reductions to economies as mundane as cutting the price paid for printer cartridges. Together, these savings have contributed £135 million pre-tax profit to our first half results. In addition, we achieved £57 million of revenue synergies within our enlarged business in the first half, and now have concrete evidence from a stream of new business that we are achieving real gains from our broader footprint and product range.

The trading environment for credit markets and equities is currently dislocated, but the strategic rationale for the acquisition remains intact. Our global client franchises and complementary product strengths have materially enhanced Global Banking & Markets, while our G lobal Transaction S ervices platform has given us the capability to cross-sell a much greater range of cash management and trade finance services to our UK and global clients. We are also pleased with the international retail and commercial businesses we have acquired, while the implementation of our manufacturing model on a global basis presents us with the opportunity to reduce costs significantly.

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GROUP CHIEF EXECUTIVE'S REVIEW (continued)

Capital

From our review of market conditions, we concluded in April that we needed to materially strengthen our capital base, and that to accomplish this we needed to conduct the rights issue which was completed in June.

Our capital plan set a target for our capital ratios to exceed 5.0% for core Tier 1 and 7.5% for Tier 1 by mid-year, on a proportional consolidated basis. In fact, our Core Tier 1 ratio at 30 June stood at 5.7% and we are on course to achieve our target level, in excess of 6%, by the end of the year. Our Tier 1 ratio at 30 June was 8.6%, already in excess of our target minimum.

Our disposal plans are on track, and we have already announced agreements that contribute £1 billion to capital, including the already-completed sales of Angel Trains and European Consumer Finance and the recently announced agreement to sell our stake in Tesco Personal Finance to our joint venture partner.

As we entered 2008 we experienced an increase in customer drawings on existing credit lines, which increased in the first quarter. We have, however, taken decisive action to deleverage our business, particularly in GBM, where we have reduced third party assets, excluding derivatives, by £108 billion since the end of 2007. We have concentrated on improving the risk/return profile of our balance sheet while continuing to support our customers. We will continue to make further reductions in leverage during the second half.

The Board believes, as we stated in April, that it is prudent to issue new shares by way of a capitalisation of reserves, instead of paying an interim dividend. We have decided on a capitalisation issue of 1 new ordinary share for every 40 shares held, which is in line with last year's interim dividend. We have established a share-dealing facility that will enable eligible shareholders to sell up to 250 shares, including new shares from the capitalisation issue, free of charge.

It remains the Board’s intention that the 2008 final dividend will be paid in cash.

Risk

Our overall credit portfolio remains resilient, with a slight reduction in impairments in UK Retail & Commercial Banking but an increase in impairments, from a low base, in both GBM and US Retail & Commercial Banking. We are, however, anticipating that the credit environment will become more challenging, and are positioning ourselves accordingly.

We have increased our impairment charge by £543 million to £1,479 million, which on an annualised basis represents 0.46% of loans and advances. For the Group as a whole, non-performing and potential problem loans at 30 June represented 1.47% of loans and advances, very slightly lower than at the end of 2007. Our provision balance at the end of June totalled £5.0 billion, covering 56% of non-performing loans.

Within the UK, we have already seen some increased strains particularly among small business clients, but this has been offset in the first half by a further reduction in personal unsecured losses, as a result of our conservative approach to this segment in recent years. The US has seen somewhat higher delinquencies in its core mortgage and home equity book, but the deterioration in credit quality has been most marked, as we have reported before, in a specific home equity portfolio sourced from other originators. This activity has been shut down and the book is in run-off. The remainder of the Citizens book is of much stronger credit quality, with an average loan to value ratio of 64% on residential property. Commercial credit quality remains stable.

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GROUP CHIEF EXECUTIVE'S REVIEW (continued)

Commercial property accounts for 15% of our loan book, and while there have been concerns over conditions in this sector in some countries, our portfolio remains well diversified, both by geography and by type of development, with only 3% of our UK lending advanced at loan to value ratios above 85%. We have for several years maintained strict limits on lending for speculative developments, and in our UK book only 1% of commitments secured on commercial property is for speculative development.

Our UK mortgage portfolio also remains strong, with an average LTV of 66% on new business and of 49% on our entire book. Impairments remain negligible, representing 0.04% of UK mortgage balances. We have never been prominent in the buy-to-let segment, and this category represents, as we stated in June, only 1% of our UK loan book, with an average LTV of 56%.

Outlook

The difficult conditions in the financial markets look set to be compounded by a deteriorating economic outlook, with consensus forecasts pointing to slowing growth in many countries. In recognition of this our main priority, and indeed our main challenge, is to position our businesses to enable them to remain supportive of our customers whilst operating within a risk appetite appropriate to market conditions.

Whilst the dislocation of global financial markets which began in 2007 makes this task more complex, it also has the effect of increasing the risk premium available on most business lines. We now have many new products and services to offer to our enlarged customer base, and these provide us with opportunities for income growth, whilst the synergies arising from the integration of the newly acquired businesses promise meaningful efficiency gains.

Sir Fred Goodwin

Group Chief Executive

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SUMMARY CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2008 – PRO FORMA (unaudited)

In the income statement set out below, credit market write-downs and one-off items, amortisation of purchased intangible assets, integration costs and share of shared assets are shown separately. In the statutory condensed consolidated income statement on page 64, these items are included in non-interest income and operating expenses, as appropriate.

	First half 2008 £m	**First half** 2007 £m	Full year 2007 £m
Net interest income	**7,564**	5,790	12,382
Non-interest income (excluding insurance net premium income)	**6,410**	8,238	15,200
Insurance net premium income	**2,861**	3,048	5,982
Non-interest income excluding credit market write-downs and one-off items	**9,271**	11,286	21,182
Credit market write-downs and one-off items (Note 2)	**(5,113)**	(38)	(1,268)
Non-interest income	**4,158**	11,248	19,914
Total income	**11,722**	17,038	32,296
Operating expenses excluding one-off items	**8,285**	8,403	16,618
O ne-off items (Note 2)	**-**	(31)	(242)
Profit before other operating charges	**3,437**	8,666	15,920
Insurance net claims	**1,927**	2,415	4,528
Operating profit before impairment losses	**1,510**	6,251	11,392
Impairment losses	**1,479**	936	2,104
Group operating profit*	**31**	5,315	9,288
Amortisation of purchased intangible assets	**182**	43	124
Integration costs	**316**	55	108
Share of shared assets	**224**	102	94
(Loss)/p rofit before tax	**(691)**	5,115	8,962
Tax	**(303)**	1,274	1,709
(Loss)/p rofit for the period	**(388)**	3,841	7,253

Minority interests	**148**	88	184
Other owners' dividends	**225**	106	246
(Loss)/profit attributable to ordinary shareholders	**(761)**	3,647	6,823
Basic earnings per ordinary share (Note 4)	**(4.7p)**	22.8p	42.4p
Adjusted earnings per ordinary share (Note 4)	**21.3p**	23.6p	46.1p

* Profit before tax, purchased intangibles amortisation, integration costs and RBS share of Consortium shared assets.

FINANCIAL REVIEW

PRO FORMA RESULTS

Profit

Group operating profit was £31 million compared with a profit £5,315 million in the first half of 2007. Adjusting for credit market write-downs and one-off items, operating profit was £5,144 million.

Total income

Total income was £16,835 million, excluding credit market write-downs and one-off items.

Net interest income increased by 31% to £7,564 million and represents 45% of total income before credit market write-downs and one-off items (2007 - 34%). Average loans and advances to customers and average customer deposits grew by 20% and 9% respectively.

Non-interest income was affected by credit market write-downs. Excluding these and one-off items, non-interest income was £9,271 million and represents 55% of total income before credit market write-downs and one-off items (2007 - 66%).

Net interest margin

The Group's net interest margin at 2.09% was up from 1.96% in the first half of 2007.

Operating expenses

Operating expenses, excluding purchased intangibles amortisation and integration costs, fell by 1% to £8,285 million.

Cost:income ratio

The Group's cost:income ratio at 48.2% was unchanged.

Net insurance claims

Bancassurance and general insurance claims, after reinsurance, decreased by 20% to £1,927 million.

Impairment losses

Impairment losses were £1,479 million, compared with £936 million in 2007.

Risk elements in lending and potential problem loans represented 1.47% of gross loans and advances to customers excluding reverse repos at 30 June 2008 (31 December 2007 - 1.49%).

Provision coverage of risk elements in lending and potential problem loans was 56% (31 December 2007 - 59%).

Integration

Integration costs were £316 million compared with £55 million in 2007.

Taxation

The effective tax rate for the first half of 2008 was 43.8% compared with 24.9% in the first half of 2007.

Earnings

Basic earnings per ordinary share dec reased from 22 .8 p to (4.7p) . Adjusted earnings per ordinary share fell by 10 %, from 23.6 p to 21.3p (see Note 4 on page 50).

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FINANCIAL REVIEW (continued)

Capital

Capital ratios on a proportional consolidated basis at 30 June 2008 were 5.7% (Core Tier 1), 8.6% (Tier 1) and 13.1 % (Total).

Profitability

The adjusted after-tax return on ordinary equity, which is based on profit attributable to ordinary shareholders before credit market write-downs and one-off items, purchased intangibles amortisation, integration costs and share of shared assets, and average ordinary equity assuming the rights issue occurred on 1 January 2007, was 12.2 % compared with 14.6 % in the first half of 2007.

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DESCRIPTION OF BUSINESS

On 28 February 2008, the company announced changes to its organisational structure which are aimed at recognising RBS's presence in over 50 countries and facilitating the integration and operation of its expanded footprint. Following the acquisition of ABN AMRO in October 2007, the Group's new organisational structure incorporates those ABN AMRO businesses to be retained by the Group but excludes the ABN AMRO businesses to be acquired by Fortis and Santander. This new organisational structure is expected to give RBS the appropriate framework for managing the enlarged Group in a way that fully capitalises on the enhanced range of attractive growth opportunities now available to it.

Global Markets is focused on the provision of debt and equity financing, risk management and transaction banking services to large businesses and financial institutions in the United Kingdom and around the world. Its activities have been organised into two divisions, Global Banking & Markets and Global Transaction Services.

Global Banking & Markets is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The expanded division is organised along four principal business lines: rates, currencies, and commodities; equities; credit markets; and asset and portfolio management.

- **Rates, Curr encies and Commodities** provides risk management, sales and trading activities in G11 and non-G11 (Local Markets) currencies /jurisdictions across this broad set of asset classes. Key product offering includes spot FX, local markets trading, short term markets and financing, inflation products, swaps and bonds (G11) and covered bonds, interest rate and currency options and hybrids and prime brokerage and futures. It also includes RBS Sempra Commodities LLP, the commodities-marketing joint venture between RBS and Sempra Energy which was formed on 1 April 2008.

- **Equities** p rovides a full range of origination, trading and distribution of cash and derivative products. The business provides a multi product approach operating through a wide range of channels with an emphasis on revenue diversification. Key product offerings include equity origination, core equities sales and trading, equity derivatives (sales & trading) and equity financing and collateral trading.

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Credit Markets offers a full range of origination, trading and distribution activities on a global basis for clients across all sectors. Key product offerings include corporate & structured debt capital markets (DCM), financial institutions DCM, leveraged finance, real estate finance, project finance, financial structuring and credit trading.

- **Asset and Portfolio Management** manages the lending portfolio and other assets of GBM and some third parties, ensuring efficient management of capital, credit and liquidity via portfolio management and global markets treasury. Key fund product offerings include fund of funds structures, multi-manager strategies, private equity & credit funds, other core products are equity finance and asset finance (covering shipping and aviation).

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, as well as trade finance, United Kingdom and international merchant acquiring and commercial card products and services. It includes the Group’s corporate money transmission activities in the United Kingdom and the United States.

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DESCRIPTION OF BUSINESS (continued)

Regional Markets is organised around the provision of retail and commercial banking to customers in four regions: the United Kingdom, the United States, Europe and the Middle East and Asia. This includes the provision of wealth management services both in the United Kingdom and internationally.

UK Retail & Commercial Banking comprises retail, corporate and commercial banking and wealth management services in the United Kingdom. RBS UK supplies financial services through b oth the RBS and NatWest brands, offering a full range of banking products and related financial services to the personal, premium and small business (''SMEs'') markets. It serves customers through the largest network of branches and ATMs in the United Kingdom, as well as by telephone and internet. Together, RBS and NatWest hold the joint number one position in personal current accounts and are the UK market leader in SME banking. The division also issues credit and charge cards and other financial products, including through other brands such as MINT and First Active UK.

The UK wealth management arm provides private banking and investment services to clients through Coutts, Adam & Company, RBS International and NatWest Offshore.

In corporate and commercial banking the division is the largest provider of banking, finance and risk management services in the United Kingdom. Through its network of relationship managers across the country, it distributes the full range of RBS Group products and services to companies.

US Retail & Commercial Banking **provides financial services through the Citizens and Charter One brands as well as through Kroger Personal Finance, its credit card joint venture with the second-largest US supermarket group.**

Citizens is engaged in retail and corporate banking activities through its branch network in 13 states in the United States and through non-branch offices in other states. Citizens was ranked the tenth-largest commercial banking organisation in the United States based on deposits as at 31 March 2008.

Europe & Middle East Retail & Commercial Banking comprises Ulster Bank and the Group's combined retail and commercial businesses in Europe and the Middle East.

Ulster Bank, including First Active, provides a comprehensive range of financial services across the island of Ireland. Its retail banking arm has a network of branches and operates in the personal, commercial and wealth management sectors, while its corporate markets operations provides services in the corporate and institutional markets.

The retail and commercial businesses in Europe and the Middle East offer services in Romania, Russia, Kazakhstan and the United Arab Emirates.

Asia Retail & Commercial Banking holds prominent market positions in India, Pakistan, China and Taiwan as well as presences in Hong Kong, Indonesia, Malaysia and Singapore. It provides financial services across four segments: affluent banking, cards and consumer finance, business banking and international wealth management, which offers private banking and investment services to clients in selected markets through the RBS Coutts brand.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill and Privilege, which sell general insurance products direct to the customer, as well as Green Flag and NIG. Through its international division, RBS Insurance sells general insurance, mainly motor, in Spain, Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

THE ROYAL BANK OF SCOTLAND GROUP plc

DESCRIPTION OF BUSINESS (continued)

Group Manufacturing comprises the Group’s worldwide manufacturing operations. It supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Manufacturing drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group’s purchasing power and has become the centre of excellence for managing large-scale and complex change.

The Centre comprises group and corporate functions, such as capital raising, finance, risk management, legal, communications and human resources. The Centre manages the Group’s capital resources and Group-wide regulatory projects and provides services to the operating divisions.

THE ROYAL BANK OF SCOTLAND GROUP plc

DIVISIONAL PERFORMANCE

The profit of each division before credit market write-downs and one-off items, amortisation of purchased intangible assets, integration costs, share of shared assets and after allocation of manufacturing costs where appropriate ("Group operating profit") are shown below. The Group continues to manage costs where they arise, with customer-facing divisions controlling their direct expenses whilst Manufacturing is responsible for shared costs. The Group does not allocate these shared costs between divisions in the day-to-day management of its businesses, and the way in which divisional results are presented reflects this. However, in order to provide a basis for market comparison, the results below also include an allocation of Manufacturing costs to the customer-facing divisions on a basis management considers to be reasonable.

		PRO FORMA		
	First half 2008 £m	First half 2007 £m	**Increase %**	Full year 2007 £m
Global Markets				
- Global Banking & Markets	**2,184**	2, 634	**(17)**	4 , 573
- Global Transaction Services	**665**	578	**15**	1, 220
Total Global Markets (excluding credit market write-downs and one-off items)	**2,849**	3, 212	**(11)**	5 , 793
Regional Markets				
- UK Retail & Commercial Banking	**2,117**	1 , 956	**8**	4 , 063
- US Retail & Commercial Banking	**368**	630	**(42)**	1, 155
- Europe & Middle East Retail & Commercial Banking	**250**	222	**13**	477
- Asia Retail & Commercial Banking	**16**	(8)	**-**	(9)
Total Regional Markets	**2,751**	2 , 800	**(2)**	5 , 686
RBS Insurance	**403**	258	**56**	691
Group Manufacturing	**-**	-	**-**	-
Central items (excluding one-off items)	**(859)**	(948)	**9**	(1, 856)
Profit before credit market write-downs and one-off items	**5,144**	5,322	**(3)**	10, 314
Credit market write-downs and one-off items	**(5,113)**	(7)	**-**	(1,026)
Group operating profit	**31**	5,315	**-**	9,288

Risk-weighted assets of each division were as follows:

		Basel II	Basel II	Basel I
		30 June 2008	1 January 2008	31 December 2007
		£bn	£bn	£bn
Global Markets				
-	Global Banking & Markets	**211.9**	213.1	191.4
-	Global Transaction Services	**17.1**	15.6	12.6
Total Global Markets		**229.0**	228.7	204.0
Regional Markets				
-	UK Retail & Commercial Banking	**159.4**	153.1	179.0
-	US Retail & Commercial Banking	**55.4**	53.8	57.1
-	Europe & Middle East Retail & Commercial Banking	**29.9**	30.3	36.7
-	Asia Retail & Commercial Banking	**5.3**	4.9	3.3
Total Regional Markets		**250.0**	242.1	276.1
Other		**12.7**	15.3	9.9
		491.7	486.1	490.0

THE ROYAL BANK OF SCOTLAND GROUP plc

GLOBAL MARKETS

		PRO FORMA	
	First half 2008 £m	First half 200 7 £m	Full year 2007 £m
Net interest income	**1,937**	1,491	3,071
Non-interest income before credit market write-downs	**4,542**	5,479	10,027
Credit market write-downs and one-off items	**(5,341)**	(38)	(1,776)
Total income	**1,138**	6,932	11,322
Direct expenses			
- staff costs	**1,979**	2,400	4,213
- other	**779**	696	1,394
- operating lease depreciation	**125**	192	365
	2,883	3,288	5,972
Contribution before impairment losses	**(1,745)**	3,644	5,350
Impairment losses	**305**	17	137
Contribution	**(2,050)**	3,627	5,213
Allocation of manufacturing costs	**442**	422	858
Operating (loss)/profit	**(2,492)**	3,205	4,355
Operating profit before credit market write-downs and one-off items	**2,849**	3,212	5,793
	£bn	£bn	£bn
Total third party assets*	**781.3**	833.1	887.6
Loans and advances**	**299.4**	229.5	273.1
Customer deposits***	**155.4**	136.9	163.7
	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn
Risk-weighted assets	**229.0**	228.7	****204.0

*excluding derivatives mark to market
**excluding reverse repos
***excluding repos

**** on Basel I basis

THE ROYAL BANK OF SCOTLAND GROUP plc

GLOBAL MARKETS

GLOBAL BANKING & MARKETS

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income from banking activities	**1,497**	1,098	2,229
Net fees and commissions receivable	**812**	1,178	2,372
Income from trading activities	**2,322**	2,744	4,407
Other operating income (net of related funding costs)	**675**	905	1,908
Non-interest income before credit market write-downs	**3,809**	4,827	8,687
Credit market write-downs and one-off items	**(5,341)**	(38)	(1,776)
Non-interest income	**(1,532)**	4,789	6,911
Total income	**(35)**	5,887	9,140
Direct expenses			
- staff costs	**1,793**	2,230	3,856
- Other	**689**	618	1,230
- operating lease depreciation	**125**	192	365
	2,607	3,040	5,451
Contribution before impairment losses	**(2,642)**	2,847	3,689
Impairment losses	**294**	9	125
Contribution	**(2,936)**	2,838	3,564
Allocation of manufacturing costs	**221**	211	429
Operating (loss)/profit	**(3,157)**	2,627	3,135
Operating profit before credit market write-downs and one-off items	**2,184**	2,634	4,573
Analysis of income by product:			
Rates, currencies and commodities	**2,935**	1,570	3,707
Equities	**524**	742	1,168
Credit markets	**355**	1,754	2, 720
Asset and portfolio management	**1,492**	1,859	3,321
Total income before credit market write-downs and one-off items	**5,306**	5,925	10,916

Credit market write-downs and one-off items	**(5,341)**	(38)	(1,776)
Total income	**(35)**	5,887	9,140
	£bn	£bn	£bn
Loans and advances	**282.3**	214.6	257.3
Reverse repos	**188.6**	291.2	308.9
Securities	**189.7**	227.2	239.5
Cash and eligible bills	**49.8**	15.1	26.9
Other assets	**52.4**	69.1	38.0
Total third party assets*	**762.8**	817.2	870.6
Net derivative assets (after netting)	**73.8**	51.1	64.1
Customer deposits**	**96.5**	83.3	106.7

	30 June 2008	1 January 2008	31 December 2007
	£bn	£bn	£bn
Risk-weighted assets	**211.9**	213.1	***191.4

*excluding derivatives mark to market; **excluding repos; *** on Basel I basis

GLOBAL MARKETS
GLOBAL BANKING & MARKETS (continued)

Global Banking & Markets has undertaken an active balance sheet management programme in the first half of 2008, managing down its US mortgage and leveraged finance exposures while at the same time reducing risk and leverage by cutting back total third party assets (excluding derivatives) by £108 billion since the year end. We have achieved excellent trading performances in rates and currencies, and have materially upgraded our commodities capabilities, but credit markets and equities have experienced slower market conditions. Integration benefits are being delivered ahead of plan, with both revenue synergies and cost savings exceeding our initial targets.

Net mark-to-market adjustments of £5,341 million have been taken on credit market exposures during the period, comprising write-downs totalling £5,925 million, in line with the estimates indicated in April, partially offset by a benefit of £584 million from the reduction in the carrying value of own debt carried at fair value. This has resulted in an operating loss for the division of £3,157 million. The write-downs are set out in further detail on page 42 and in Appendix 2.

Excluding the write-downs on credit market exposures and one-off items, total income declined by 10% to £5,306 million with contribution down 15% to £2,405 million. After allocating a portion of Group Manufacturing costs, operating profit was 17% lower at £2,184 million.

GBM has produced a very strong performance in rates, currencies and commodities, where its leading positions in interest rate and currency risk management products have enabled it to benefit from market volatility, with total income up 87% to £2,935 million. The establishment of our joint venture with Sempra Commodities has significantly enhanced the Group’s commodities activities.

Equities have seen good growth in capital markets and corporate broking fee income but weaker stock markets have held back results from equity trading and derivatives, leaving income down 29% to £524 million.

Credit markets income excluding the write-downs, has fallen sharply to £355 million, reflecting difficult trading conditions, the reduction in risk positions and the decline in securitisation and leveraged finance volumes across the industry, but we have continued to originate and distribute deals in both these areas. We have also strengthened and rebalanced our business in the US and Europe, growing our corporate client franchise with, for example, significant progress in investment grade corporate bonds and loans in both regions.

In asset and portfolio management income totalled £1,492 million, with overall gains lower than in the first half of 2007.

For GBM as a whole net interest income totalled £1,497 million, 36% higher than in the same period of 2007, with strong growth in money markets, increased draw-downs on corporate borrowing facilities and renewals of corporate lending at wider margins.

Non-interest income before credit market write-downs was 21% lower at £3,809 million.

Fees and commissions declined by 31% to £812 million, largely reflecting the reduced origination volumes in the debt capital markets, notably in US securitisations.

Income from trading activities fell by 15% to £2,322 million, with weaker income from credit market trading partially offset by good growth in money markets, currencies and commodities.

Other operating income fell to £675 million, with lower gains in the first half of the year.

Direct expenses were reduced by 14% to £2,607 million, with staff costs falling by 20% as a result of lower variable performance-related pay and a reduction in headcount, which has fallen by 11% since the end of 2007, excluding the addition of Sempra.

GLOBAL MARKETS
GLOBAL BANKING & MARKETS (continued)

Impairment losses on customer loans and advances increased from a historically low base to £192 million, representing on an annualised basis 0.15 per cent of customer loans and advances. In addition, impairment losses of £102 million were recognised in respect of available-for-sale securities.

Loans and advances increased by 10% since the end of 2007 to £282.3 billion, as GBM continued to extend credit selectively to clients. Customers had increased drawings on existing credit lines in the early part of the year, but by active management of leverage and risk we have reduced total third party assets, excluding derivatives, by 12% since the end of 2007. Reverse repurchase positions have been cut back by 39% to £188.6 billion, while the securities portfolio has also been reduced significantly over the same period, dropping by 21% to £189.7 billion. Holdings of highly liquid cash and bills have increased by £23 billion to £49.8 billion.

Risk-weighted assets decreased by 1% to £211.9 billion. The integration of Sempra Commodities added £20 billion of RWAs; this has been more than offset by disciplined capital management and increased distribution activity.

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GLOBAL MARKETS
GLOBAL TRANSACTION SERVICES

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**440**	393	842
Non-interest income	**733**	652	1,340
Total income	**1,173**	1,045	2,182
Direct expenses			
- staff costs	**186**	170	357
- other	**90**	78	164
	276	248	521
Contribution before impairment losses	**897**	797	1,661
Impairment losses	**11**	8	12
Contribution	**886**	789	1,649
Allocation of manufacturing costs	**221**	211	429
Operating profit	**665**	578	1,220
Analysis of income by product:			
Cash management	**733**	665	1,374
Merchant services and cards	**328**	310	653
Trade finance	**112**	70	155
Total income	**1,173**	1,045	2,182
	£bn	£bn	£bn
Total third party assets	**18.5**	15.9	17.0
Loans and advances	**17.1**	14.9	15.9
Customer deposits	**58.9**	53.6	57.0

	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn
Risk-weighted assets	**17.1**	15.6	*12.6

* on Basel I basis

Global Transaction Services grew income by 12% to £1,173 million and contribution by the same percentage to £886 million in the first half of 2008, demonstrating the strength and enhanced international capability of its cash management and trade finance platform. After allocating a share of Group Manufacturing costs, operating profit grew by 15% to £665 million.

Growth was driven by a strong performance in cash management, where income rose by 10% to £733 million. Average customer deposits were 13% higher, more than offsetting the impact of lower interest rates on income from non-interest bearing balances, and fees for payment services have increased strongly, particularly in the US and internationally. The division has achieved considerable success in winning new international cash management mandates from existing clients on the strength of its enhanced international payments platform.

THE ROYAL BANK OF SCOTLAND GROUP plc

GLOBAL MARKETS
GLOBAL TRANSACTION SERVICES (continued)

Merchant services and commercial cards delivered a 6% increase in income to £328 million, with particularly good growth in Streamline International. Merchant acquiring volumes have increased, with transactions up 23% and stronger growth in debit than credit card transactions.

Trade finance made good progress, with income up 60 % to £112 million. GTS has substantially improved its penetration into the Asia-Pacific market, increasing trade income in the region by 54%, and has expanded its supply chain finance activities with an enhanced product suite. Margins have been expanded to reflect increased pricing for country risk.

Direct expenses rose by 11% to £276 million from the first half of 2007, primarily reflecting investment in the second half of 2007 to expand the business.

Impairment losses were £11 million compared with £8 million in the first half of 2007.

THE ROYAL BANK OF SCOTLAND GROUP plc

REGIONAL MARKETS

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**5,233**	4,865	9,954
Non-interest income*	**2,805**	2,668	5,534
Total income	**8,038**	7,533	15,488
Direct expenses			
- staff costs	**1,634**	1,492	3,089
- other	**896**	849	1,749
	2,530	2,341	4,838
Contribution before impairment losses	**5,508**	5,192	10,650
Impairment losses	**1,211**	917	1,964
Contribution	**4,297**	4,275	8,686
Allocation of manufacturing costs	**1,546**	1,475	3,000
Operating profit	**2,751**	2,800	5,686
	£bn	£bn	£bn
Total banking assets	**380.6**	344.8	363.4
Loans and advances to customers - gross	**346.9**	309.2	327.7
Customer deposits**	**280.6**	258.9	275.2
Investment management assets - excluding deposits	**45.3**	41.3	45.7

	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn
Risk-weighted assets	**250.0**	242.1	***276.1

* net of insurance claims

****** excluding bancassurance

*** on Basel I basis

THE ROYAL BANK OF SCOTLAND GROUP plc

REGIONAL MARKETS
UK RETAIL & COMMERCIAL BANKING

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**3,485**	3,275	6,667
Fees and commissions - banking	**1,491**	1,440	3,027
Other non-interest income *	**476**	464	890
Non-interest income	**1,967**	1,904	3,917
Total income	**5,452**	5,179	10,584
Direct expenses			
- staff costs	**973**	937	1,928
- other	**564**	526	1,081
	1,537	1,463	3,009
Contribution before impairment losses	**3,915**	3,716	7,575
Impairment losses	**694**	706	1,368
Contribution	**3,221**	3,010	6,207
Allocation of manufacturing costs	**1,104**	1,054	2,144
Operating profit	**2,117**	1,956	4,063
	£bn	£bn	£bn
Total banking assets	**23 4.5**	209.5	220.7
Loans and advances to customers – gross			
- UK Retail Banking	**117.6**	108.2	111.1
- UK Corporate & Commercial Banking	**107.0**	91.7	98.9
- UK Wealth	**9.0**	7.9	8.4
Customer deposits**	**191.8**	179.1	189.3
AUMs – excluding deposits	**25.4**	24.1	25.8
	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn

Risk-weighted assets	**159.4**	153.1	***179.0

* net of insurance claims; ** excluding bancassurance; *** on Basel I basis

UK Retail & Commercial Banking produced a good performance in the first half of the year across its businesses. Total income net of insurance claims grew by 5% to £5,452 million and contribution increased by 7% to £3,221 million. After allocating a portion of Group Manufacturing costs, operating profit increased by 8% to £2,117 million.

Retail Banking performed well, with steady income generation and controlled cost growth. We have increased market share in selected segments at attractive margins and with acceptable risk criteria. Commercial Banking delivered controlled growth in customer volumes at expanding risk premia. UK Wealth maintained its strong growth record, demonstrating its ability to continue to make progress in more difficult equity market conditions.

As anticipated, there has been some increase from historically low impairment losses in the corporate and commercial segment, particularly among smaller businesses. Personal sector credit costs have so far continued to decline, reflecting the cautious approach taken in recent years to the personal unsecured market. We continue to monitor forward-looking credit indicators closely and have tightened scorecards and lending limits where appropriate.

Risk-weighted assets increased to £159.4 billion, up 4% since the start of the year, reflecting growth in lending.

REGIONAL MARKETS
UK RETAIL & COMMERCIAL BANKING

UK Retail Banking	**First half 2008 £m**	PRO FORMA First half 2007 £m	Full year 2007 £m
Net interest income	**2,129**	2,059	4,173
Fees and commissions - banking	**1,144**	1,118	2,351
Other non-interest income *	**133**	130	271
Non-interest income	**1,277**	1,248	2,622
Total income	**3,406**	3,307	6,795
Direct expenses			
- s taff costs	**595**	604	1,225
- o ther	**285**	259	542
	880	863	1,767
Contribution before impairment losses	**2,526**	2,444	5,028
Impairment losses	**556**	606	1,184
Contribution	**1,970**	1,838	3,844
Allocation of manufacturing costs	**883**	843	1,715
Operating profit	**1,087**	995	2,129
	£bn	£bn	£bn
Loans and advances to customers – gross			
- mortgages	**72.4**	66.2	67.3
- personal	**17.7**	16.5	17.3
- cards	**7.8**	7.3	7.8
- business	**19.7**	18.2	18.7
Customer deposits**	**96.3**	90.9	96.1
AUMs – excluding deposits	**6.6**	7.0	7.0

	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn

Risk-weighted assets	**67.2**	65.7	***100.3

* net of insurance claims

** excluding bancassurance

*** on Basel I basis

Retail Banking performed well in the first half of 2008, with income net of claims up 3% to £3,406 million and contribution up 7% to £1,970 million. After allocating a portion of Group Manufacturing costs, operating profit rose by 9 % to £1,087 million .

RBS and NatWest continue to lead the other major high street banks in Great Britain for customer satisfaction, demonstrating our strong commitment to service. In the last 12 months we have attracted more than one million new money transmission account customers , helping to retain our joint number one position in the current account market.

Business Banking has continued to grow, cementing the Group's market leadership with a market share of 25%, and 22% in the start-up market.

REGIONAL MARKETS
UK RETAIL & COMMERCIAL BANKING (continued)

UK Retail Banking (continued)

Average deposits have increased by 9%, driven by strong performance in personal savings, up 13% , and business deposits, up 9%. Pricing has been managed with a view to enhancing margins despite competitive pressure.

Average loans and advances to customers increased by 5%, with good growth in mortgage and business lending but more limited increases in personal unsecured lending, where average balances were ahead 1%. We continue to concentrate on lending through core banking relationships. Following several years in which we have had a limited appetite for the returns available within the UK mortgage market, we have taken the opportunity during the first half to write good quality mortgages , improving market share at attractive margins. Net mortgage lending market share increased to 17 % from less than 2% in 2007, against a share of stock of 6%.

Net interest income increased by 3% to £2,129 million as a result of strong balance sheet growth, partly offset by a reduction in net interest margin, which reflects in part the increasing weight of lower margin secured lending products in the asset mix. While new business asset margins have improved, these will take time to feed through to back book pricing.

Non-interest income net of claims increased by 2% to £1,277 million, with growth in banking fees offset by a modest reduction in fees on current account and other services.

Total expenses remain under tight control with a reduction in staff costs as we focus on increased efficiency with further investment in customer-facing staff. Other costs have increased by 10% as a result of investments in selected business lin es.

Impairment losses decreased by 8% to £556 million, with a further decline in personal impairments partly offset by an increase in small business delinquencies . Improvements in arrears have been observed across our consumer portfolios as a result of our previous cautious approach. We have taken specific actions in relation to new mortgage business to manage risk, reducing the avail ability of mortgages at higher loan to value ("LTV") ratios. LTVs on new mortgages written in the first half of the year averaged 66%, with the average LTV on the entire mortgage book at 49% and only 6% of mortgages at LTVs greater than 90%. Impairment losses from mortgages remain very low whilst arrears are broadly in line with the same period in 2007, and are below industry levels. Business banking has experienced an increase in impairment losses from historically low levels as the economy slows .

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REGIONAL MARKETS
UK RETAIL & COMMERCIAL BANKING

UK Corporate & Commercial Banking		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**1,079**	973	1,988
Fees and commissions	**218**	205	424
Other non-interest income	**324**	315	593
Non-interest income	**542**	520	1,017
Total income	**1,621**	1,493	3,005
Direct expenses			
- staff costs	**260**	228	479
- o ther	**242**	232	473
	502	460	952
Contribution before impairment losses	**1,119**	1,033	2,053
Impairment losses	**133**	99	180
Contribution	**986**	934	1,873
Allocation of manufacturing costs	**166**	158	322
Operating profit	**820**	776	1,551
	£bn	£bn	£bn
Loans and advances to customers – gross	**107.0**	91.7	98.9
Customer deposits	**67.4**	63.4	66.1

	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn
Risk-weighted assets	**84.5**	80.5	*72.5

* on Basel I basis

The first half of 2008 has seen a solid performance from UK Corporate & Commercial Banking, with t otal income up 9 % to £1,621 million and contribution up 6% to £986 million. After allocating a portion of Group Manufacturing costs, operating profit rose by 6% to £820 million.

Net interest income from banking activities increased by 11% to £1,079 million, with good growth in customer volumes. Average loans and advances rose by 18% driven partly by higher draw-downs of existing facilities, with improved margins on new lending over the previous year. Average customer deposits increased by 8%, despite acute competition in some segments. N et interest margin narrowed, partly driven by increased funding costs. As risk premia have expanded, new business asset margins have improved. However, these will take time to feed through to the portfolio.

Non-interest income increased by 4 % to £ 542 million, reflecting strong growth in sales of interest rate and currency risk management products as well as good growth in lending fees.

Total expenses rose 8 % to £668 million, with a 9% increase in headcount reflecting the completion of last year’s ' Another Way of Banking' investment in front- line staff to improve service quality.

REGIONAL MARKETS
UK RETAIL & COMMERCIAL BANKING

UK Corporate & Commercial Banking (continued)

Impairment losses totalled £133 million, an increase of 34% on the previous year, largely in the smaller end of the corporate sector. Credit metrics have deteriorated in this segment as the economy has slowed, though there has been little change in the larger corporate sector. The performance of our commercial property portfolio remains satisfactory, with average LTV ratios on the UK portfolio at 68% and less than 3% of the portfolio with LTVs greater than 85%. In view of economic conditions, a rise from historically low impairment levels is anticipated.

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REGIONAL MARKETS
UK RETAIL & COMMERCIAL BANKING

UK Wealth		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**277**	243	506
Fees and commissions	**129**	117	252
Other non-interest income	**19**	19	26
Non-interest income	**148**	136	278
Total income	**425**	379	784
Direct expenses			
- staff costs	**118**	105	224
- o ther	**37**	35	66
	155	140	290
Contribution before impairment losses	**270**	239	494
Impairment losses	**5**	1	4
Contribution	**265**	238	490
Allocation of manufacturing costs	**55**	53	107
Operating profit	**210**	185	383
	£bn	£bn	£bn
Loans and advances to customers – gross			
- mortgages	**4.9**	3.9	4.2
- personal	**3.1**	2.8	3.0
- other	**1.0**	1.2	1.2
Customer deposits	**28.1**	24.8	27.1
AUMs – excluding deposits	**18.8**	17.1	18.8

	30 June 2008 £bn	1 January 2008 £bn	31 December 2007 £bn

Risk-weighted assets	**7.7**	6.9	*6.2

* on Basel I basis

UK Wealth Management delivered strong growth, with total income rising by 12% to £425 million and contribution by 11% to £265 million. After allocating a share of Group Manufacturing costs, operating profit grew by 14% to £210 million.

Wealth Management generates earnings from both private banking and investment services, and this balanced income base enabled the division to maintain strong organic growth. Coutts & Co performed particularly well, with contribution up by 20%. Overall customer numbers increased by 3%. Average loans and advances to customers rose by 11% and average customer deposits by 18%, underpinning a 14% rise in net interest income to £277 million.

Non-interest income grew by 9% to £148 million, reflecting higher fee income and new product sales, particularly in Coutts. Assets under management rose to £18.8 billion at 30 June 2008, up 10 % from a year earlier.

Direct expenses rose by 11% to £155 million, reflecting continued investment in the UK.

REGIONAL MARKETS
US RETAIL & COMMERCIAL BANKING

	First half 2008 £m	PRO FORMA First half 200 7 £m	Full year 2007 £m	**First half 2008 $m**	PRO FORMA First half 2007 $m	Full year 2007 $m
Net interest income	**969**	960	1,936	**1,915**	1,891	3,874
Non-interest income	**421**	401	850	**831**	790	1,700
Total income	**1,390**	1,361	2,786	**2,746**	2,681	5,574
Direct expenses						
- staff costs	**328**	309	601	**648**	609	1,203
- other	**168**	181	368	**332**	357	736
	496	490	969	**980**	966	1,939
Contribution before impairment losses	**894**	871	1,817	**1,766**	1,715	3,635
Impairment losses – core	**196**	48	177	**388**	94	353
Impairment losses – SBO	**164**	35	164	**324**	69	329
Contribution	**534**	788	1,476	**1,054**	1,552	2,953
Allocation of manufacturing costs	**166**	158	321	**32 8**	311	642
Operating profit	**368**	630	1,155	**726**	1,241	2,311
Average exchange rate - US$/£	**1.975**	1. 97 0	2.001			

Analysis of contribution:						
Retail	**322**	582	1,052	**636**	1,147	2,108
Commercial	**212**	206	424	**418**	405	845
	534	788	1,476	**1,054**	1,552	2,953

	$bn	$bn	$bn
Total assets	**160.7**	160.1	160.9
Loans and advances to customers – gross			
- mortgages	**17.9**	18.5	19.1
- home equity	**35.0**	36.2	35.9
- other consumer	**21.6**	22.7	21.7
- corporate and commercial	**39.2**	34.6	37.6
Customer deposits	**104.8**	99.9	105.8
Spot exchange rate - US$/£	**1.989**	2.006	2.004

	30 June 2008 $bn	1 January 2008 $ bn	31 December 2007 $bn
Risk-weighted assets	**110.2**	107.9	*114.4

* on Basel I basis

REGIONAL MARKETS
US RETAIL & COMMERCIAL BANKING (continued)

US Retail & Commercial Banking's total income rose by 2% to $2,746 million and costs by 1% to $980 million but contribution declined by 32% to $1,054 million, largely as a result of a substantial increase in impairment losses. After allocating a share of Group Manufacturing costs, operating profit was 41% lower at $726 million. In sterling terms, total income increased by 2% to £1,390 million while contribution fell by 32% to £534 million.

US Retail & Commercial achieved higher net interest income, reflecting a focus on disciplined management of our deposit base without substantially increasing rates. Net interest margin increased slightly to 2.71%. Business volumes were strong in selected segments. Good growth has been achieved in commercial banking, with average corporate loan balances increasing by 16%, while volumes in the consumer business are lower, reflecting reduced consumer demand and the application of tighter pricing and credit criteria for home equity and auto lending.

Non-interest income increased by 5% to $831 million, with good sales of currency and interest rate risk management products to commercial banking and corporate customers.

Direct expenses were held to $980 million, up 1%, with increased costs from the expansion of the mid-corporate relationship management team absorbed through enhanced efficiency measures in retail operations.

In the core US Retail & Commercial portfolio, impairment losses totalled $388 million, up 50% compared with the second half of 2007. While there has been a decline in some customers' credit scores in line with weakening economic conditions, refreshed FICO scores on consumer real estate-secured lending averaged in excess of 740 at 30 June 2008, with an average LTV ratio of 62% on the Citizens $17.9 billion residential mortgage book and 66% on its $27.3 billion core home equity book. Non-performing loans represented 0.41% of core home equity balances and 0.54% of residential mortgage balances. Citizens does not originate negative amortisation mortgages or option adjustable rate mortgages. The overall commercial loan portfolio continues to perform well, with some increased impairment losses in the $10.2 billion commercial real estate segment, where charge-offs increased to 0.77% of balances in the first half.

Credit quality has deteriorated more sharply in an externally sourced home equity portfolio (the Serviced By Others (SBO) portfolio).This portfolio, now managed by a separate work-out group and in run-off, has been reduced by $1.6 billion over the last year to $7.7 billion at 30 June. Non-performing SBO loans now represent 1.98% of SBO balances. Impairment losses in relation to the SBO portfolio totalled $324 million in the first half. Closing provision balances totalled $413 million, providing a coverage ratio of 2.7 times NPLs.

We continue to evaluate opportunities to optimise capital allocation by exiting or reducing exposure to lower growth or sub-scale segments, and recently announced an agreement to sell 18 rural branches in the Adirondacks region to Community Bank System.

REGIONAL MARKETS
EUROPE & MIDDLE EAST RETAIL & COMMERCIAL BANKING

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**601**	506	1,066
Non-interest income	**204**	172	372
Total income	**805**	678	1,438
Direct expenses			
- staff costs	**205**	149	334
- other	**88**	82	170
	293	231	504
Contribution before impairment losses	**512**	447	934
Impairment losses	**96**	67	136
Contribution	**416**	380	798
Allocation of manufacturing costs	**166**	158	321
Operating profit	**250**	222	477
Analysis of contribution:			
Ulster Bank	**376**	347	728
Other Europe and Middle East	**40**	33	70
	416	380	798
	£bn	£bn	£bn
Total assets	**58.6**	50.2	55.5
Loans and advances to customers – gross			
- mortgages	**20.4**	16.2	18.3
- corporate	**28.5**	21.7	25.3
- other	**2.6**	3.9	4.2
Customer deposits	**23.4**	20.5	22.3

	30 June 2008 £bn	1 January 2008 £ bn	31 December 2007 £bn
Risk-weighted assets	**29.9**	30.3	*36.7

* on Basel I basis

Europe and Middle East Retail & Commercial Banking achieved a 19% rise in total income to £805 million and a 9% increase in contribution to £416 million, though economic growth has slowed markedly in the first half in its major markets in the island of Ireland. After allocating a portion of Group Manufacturing costs, operating profit rose by 13% to £250 million. Results in sterling terms have benefited from the movement in the euro exchange rate; at constant exchange rates income rose by 7% while contribution was 1% lower.

REGIONAL MARKETS
EUROPE & MIDDLE EAST RETAIL & COMMERCIAL BANKING (continued)

Within the core business, Ulster Bank, net interest income increased by 18% to £501 million, with average loans and advances to customers up 26% and average customer deposits up 20%. Ulster Bank has tightened its lending criteria over the past year, withdrawing the Ulster Bank brand from the broker mortgage market and widening new business margins on mortgages and other loan products. Deposit pricing has remained competitive, and the increased cost of funds has fed through into net interest margin more quickly than the progressive repricing of the loan back book.

Non-interest income in Ulster Bank increased by 13% to £143 million driven by continued growth in capital markets fee income, although growth in wealth and bancassurance fees has moderated.

Ulster Bank direct expenses increased by 25% to £210 million, reflecting the largely completed investment programme to expand the branch and business centre footprint in 2007. The investment programme has strengthened Ulster Bank's platform and enabled it to continue to add innovative products and attract new customers across the island of Ireland, with a record 53,000 new current account customers added during the first half.

Impairment losses in the Ulster Bank Group have risen to £57 million, reflecting growth in lending in previous years as well as a slowdown in Irish economic conditions which has affected commercial credit metrics. Ulster's commercial property portfolio remains well diversified, with an average LTV ratio of 67%. The proportion of commercial property commitments secured on speculative developments remains well inside the Group's limit of 3%.

Outside Ireland, E&ME Retail & Commercial has continued to make good progress, with a strong performance in the United Arab Emirates, where we are the market leader in credit cards, having sold 85,000 new cards in the first half of the year. UAE income grew by 38% and contribution by 32%, while Romania also continued to achieve strong growth.

Across Europe and Middle East as a whole, loans and advances at 30 June were 8% higher than at the end of 2007. The sale of the European Consumer Finance businesses in Germany and Austria was completed on 1 July.

THE ROYAL BANK OF SCOTLAND GROUP plc

REGIONAL MARKETS
ASIA RETAIL & COMMERCIAL BANKING

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Net interest income	**178**	124	285
Non-interest income	**213**	191	395
Total income	**391**	315	680
Direct expenses			
- staff costs	**128**	97	226
- other	**76**	60	130
	204	157	356
Contribution before impairment losses	**187**	158	324
Impairment losses	**61**	61	119
Contribution	**126**	97	205
Allocation of manufacturing costs	**110**	105	214
Operating profit/(loss)	**16**	(8)	(9)
Analysis of income :			
Private banking	**144**	122	252
Cards and consumer finance	**118**	92	193
Affluent banking (and general)	**103**	83	194
Business banking	**26**	18	41
	391	315	680
	£bn	£bn	£bn
Total assets	**6.7**	5.6	6.9
Loans and advances to customers – gross	**4.6**	3.8	4.5
AUMs – excluding deposits	**19.9**	17.2	19.9
Customer deposits	**12.7**	9.5	10.8

	30 June 2008 £bn	1 January 2008 £ bn	31 December 2007 £bn

Risk-weighted assets	**5.3**	4.9	*3.3

* on Basel I basis

Asia Retail & Commercial Banking delivered strong growth, with total income rising 24% to £391 million. Contribution grew by 30% to £126 million.

The division operates in 8 countries in Asia: China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Singapore and Taiwan, across 4 core business segments: affluent banking, cards & consumer finance, business banking and private banking.

In affluent banking, we have achieved good growth across the region, despite falling equity markets and worsening investor sentiment. Client numbers have increased by 13% and assets under management have grown by 27%. China, in particular, has seen strong structured deposit and investment sales, and assets under management have doubled in the last 12 months.

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REGIONAL MARKETS
ASIA RETAIL & COMMERCIAL BANKING (continued)

The current economic backdrop has led us to review our forward-looking credit metrics and to tighten our consumer lending policies. Despite this, cards and consumer finance reported revenue growth of 28% and a 25% consumer net receivables increase.

Business banking has seen strong growth across most regions with revenue increasing by 44%, having performed particularly well in the Indian and Chinese markets.

RBS Coutts' offering of private banking and investment services continued to deliver good organic income growth in the first half of 2008. Asia has seen good levels of client acquisition, though with lower average ticket sizes. Good growth in banking volumes led to a rise of 51% in net interest income, offsetting weaker sales of equity-related investment products. Non-interest income grew by 8%, largely driven by strong dealing profits, despite a downturn in investor sentiment.

Total expenses rose by 20% to £314 million, reflecting continued investment throughout the region. Despite the highly competitive market, RBS Coutts Asia has recruited additional experienced private bankers. Total divisional headcount increased by 10%.

Impairment losses, at £61 million, were in line with the previous year.

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RBS INSURANCE

		PRO FORMA	
	First half 2008 £m	First half 2007 £m	Full year 2007 £m
Earned premiums	**2,757**	2,815	5,607
Reinsurers' share	**(116)**	(110)	(220)
Insurance premium income	**2,641**	2,705	5,387
Net fees and commissions	**(202)**	(201)	(465)
Other income	**347**	339	734
Total income	**2,786**	2,843	5,656
Direct expenses			
- staff costs	**155**	147	297
- other	**255**	203	444
	410	350	741
Gross claims	**1,916**	2,164	4,091
Reinsurers' share	**(53)**	(34)	(81)
Net claims	**1,863**	2,130	4,010
Contribution	**513**	363	905
Allocation of manufacturing costs	**110**	105	214
Operating profit	**403**	258	691

In-force policies (thousands)			
- Own-brand motor	**6,762**	6,829	6,713
- Own-brand non-motor (home, rescue, pet, HR24)	**5,484**	3,757	3,752
- Partnerships & broker (motor, home, rescue, SMEs, pet, HR24)	**9,035**	9,588	9,302
General insurance reserves – total (£m)	**8,142**	8,223	8,192

RBS Insurance made good progress in the first half of 2008, with contribution recovering strongly to £513 million, an increase of 41%. Excluding the £125 million impact of the June 2007 floods, contribution grew by 5 %. Total income was slightly lower at £2,786 million, reflecting a strategy of discontinuing less profitable partnership contracts while focusing on growth in our own-brand businesses.

Own-brand businesses increased income by 3% and contribution by 17%. In the UK motor market we have increas ed premium rates to offset claims inflation and continued to target lower risk drivers, with p rice increases concentrated in higher risk categories in order to improv e profitability . During the first half we deployed selected brands on a limited number of aggregator web sites. Our international businesses in Spain, Italy and Germany performed well, with income up 25% and contribution growth doubling. All three countries achieved strong increases in contribution. Over the last six months own-brand motor policy numbers have again begun to increase to 6.8 million.

In o wn-brand non-motor insurance we have continued to achieve good sales through RBS and NatWest, where home insurance policies in force have increased by 23% since December. Overall in -force policies have grown by 46% to 5.5 million, benefiting from the addition of rescue cover to RBS and NatWest current account packages.

RBS INSURANCE (continued)

Results from our partnerships and broker business confirmed the Group's strategy of refocusing on the more profitable opportunities in this segment, in which we provid e under writing and processing services to third parties. We did not renew a number of rescue contracts and also pulled back from some less profitable segments of the broker market. As a result partnership and broker in-force policies have fallen by 6% over the last year with a corresponding 8% reduction in i ncome. Contribution , however, grew by 99%, or by 18% excluding the impact of the 2007 floods .

For RBS Insurance as a whole, insurance premium income, net of fees and commissions, was 3% lower at £2,439 million, reflecting 4 % growth in our o wn brands offset by an 11% decline in the partnerships and broker segment. Other income rose by 2 % to £347 million, reflecting increased investment income.

Direct expenses grew by 17% to £410 million, as a result of accelerated marketing investment in our own brands, including the launch of our new commercial insurance offering, Direct Line for Business, which has made a strong start. Cost growth has also been significantly affected by increased industry levies and an increase in profit sharing payments from the 2007 level, which was depressed by flood claims. Excluding these elements costs were only 1% higher.

Net claims fell by 13% to £1,863 million, benefiting from more benign weather conditions. Excluding the impact of the 2007 floods, net claims costs reduced by 6%, helped by continuing improvements in risk selection.

The UK combined operating ratio for 2008, including manufacturing costs but excluding floods, improved from 95.8% to 94. 6%.

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GROUP MANUFACTURING

PRO FORMA