RUSCHELL CAROLINE T
Form 5
February 10, 2006

FORM 5

OMB APPROVAL

OMB Number:	3235-0362
Expires:	January 31, 2005
Estimated average burden hours per response...	1.0

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).
Form 3 Holdings Reported
Form 4 Transactions Reported

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *
RUSCHELL CAROLINE T

(Last) (First) (Middle)

NACCO INDUSTRIES, INC.,Â 5875 LANDERBROOK DRIVE

(Street)

MAYFIELD HEIGHTS,Â OHÂ 44124

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NACCO INDUSTRIES INC [NC]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
Member of a group

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				Amount	(A) or (D)	Price			
Class A Common Stock	02/10/2005	02/10/2005	G	86	D	$ 0	56,050	D	Â
Class A Common Stock	02/27/2005	02/27/2005	G	104	A	$ 0	56,154	D	Â
Class A Common	08/01/2005	08/01/2005	J (2)	2,766	A	$ 0	58,920	D	Â

Stock									
Class A Common Stock	11/02/2005	11/02/2005	G	10	D	$ 0	58,910	D	Â
Class A Common Stock	08/01/2005	08/01/2005	J [(2)](#)	2,766	D	$ 0	0	I	By Trust 1 [(1)](#)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
					(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Class B Common Stock	Â	08/01/2005	08/01/2005	J [(2)](#)	Â	2,334	Â [(3)](#)	Â [(3)](#)	Class A Common Stock	2,334
Class B Common Stock	Â	08/01/2005	08/01/2005	J [(2)](#)	2,334	Â	Â [(3)](#)	Â [(3)](#)	Class A Common Stock	2,334

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RUSCHELL CAROLINE T NACCO INDUSTRIES, INC. 5875 LANDERBROOK DRIVE MAYFIELD HEIGHTS,Â OHÂ 44124	Â	Â	Â	Member of a group

Signatures

/s/Constantine E. Tsipis, attorney-in-fact for Caroline T. Ruschell	02/10/2006
[**](#)Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares are held in an irrevocable trust of which Reporting Person is Trustee, for the benefit of Reporting Person.

(2) Reporting Person transferred stock from one account to another. No change in beneficial ownership occurred.

(3) N/A

Â

Remarks:

?RemarkÂ onÂ InsiderÂ Relationship?Â -Â AsÂ aÂ memberÂ ofÂ aÂ ?group?Â deemedÂ toÂ ownÂ moreÂ thanÂ 10%Â o

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
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5.9
39
379
412

Wealth

1,412
17,117
276
107
1.6
39
7
8

International Banking

5,565
40,619
528
395
1.3
75
153
156

Ulster Bank

685
32,955
8,578
4,430
26.0
52
503
109

US Retail & Commercial

185

	53,325
	1,133
	266
	2.1
	23
	51
	138
Retail & Commercial	
	9,479
	360,847
	20,960
	10,074
	5.8
	48
	1,262
	1,123
Markets	
	16,135
	28,236
	365
	283
	1.3
	78
	(3)
	32
Other	
	4,191
	5,026
	1
	1
	-
	100
	(1)
	-

Explanation of Responses:

Core	
	29,805
	394,109
	21,326
	10,358
	5.4
	49
	1,258
	1,155
Non-Core	
	610
	47,179
	20,857
	11,395
	44.2
	55
	903
	968
Group	
	30,415
	441,288
	42,183
	21,753
	9.6
	52
	2,161
	2,123

31 December 2012

UK Retail

695
113,599
4,569
2,629
4.0
58
529
599

UK Corporate

746
107,025
5,452
2,432
5.1
45
836
514

Wealth

1,545
17,074
248
109

	1.5
	44
	46
	15
International Banking	
	4,827
	42,342
	422
	391
	1.0
	93
	111
	445
Ulster Bank	
	632
	32,652
	7,533
	3,910
	23.1
	52
	1,364
	72
US Retail & Commercial	
	435
	51,271
	1,146
	285
	2.2
	25
	83
	391
Retail & Commercial	
	8,880
	363,963
	19,370
	9,756
	5.3

	50
	2,969
	2,036
Markets	
	16,805
	29,787
	396
	305
	1.3
	77
	25
	109
Other	
	3,196
	2,125
	-
	1
	-
	nm
	1
	-
Core	
	28,881
	395,875
	19,766
	10,062
	5.0
	51
	2,995
	2,145
Non-Core	
	477
	56,343
	21,374
	11,200
	37.9
	52

	2,320
	2,121
Direct Line Group	
	2,036
	881
	-
	-
	-
	-
	-
	-
Group	
	31,394
	453,099
	41,140
	21,262
	9.1
	52
	5,315
	4,266

nm = not meaningful

See Appendix 3 for additional analysis of gross loans, REIL, provisions and impairment charge.

Risk and balance sheet management (continued)

Credit risk: Loans and related credit metrics (continued)

Key points

- In the half year to 30 June 2013, REIL increased by £1.0 billion to £42.2 billion or 9.6% of total customer loans (31 December 2012 - £41.1 billion, 9.1%), due primarily to exchange rate movements. Increases of £1.0 billion in

UIster Bank and £0.7 billion in UK Corporate were partly offset by decreases of £0.5 billion in Non-Core and £0.3 billion in Retail.

· The annualised impairment charge for the period decreased by 19%, with most of this in the retail and commercial business.

· UK Corporate REIL increased £0.7 billion or 13% mainly as a result of individual cases in the commercial real estate and shipping portfolios as credit conditions remain difficult in these sectors. Impairment charge on an annualised basis was down 9%, largely driven by lower collective provisions in the SME businesses.

· The economic outlook in Ireland appears to be stabilising with key economic indicators suggesting a modest decline in the level of uncertainty. Ulster Bank Group credit metrics remain elevated with REIL increasing by £771 million excluding the impact of foreign exchange (including foreign exchange £1.6 billion). The increase is largely due to a technical classification adjustment on corporate loans, which will reverse as loan documentation is brought up to date. Impairments continue to outpace write-offs but showed a 26% decline on an annualised basis in Core and a 12% decline in Non-Core.

Debt securities: IFRS measurement classification by issuer

The table below analyses debt securities by issuer and IFRS measurement classifications. US central and local government includes US federal agencies; financial institutions includes US government sponsored agencies and securitisation entities, latter principally relating to asset-backed securities (ABS).

	Central and local government				Other financial		
	UK	US	Other	Banks	institutions	Corporate	Total
30 June 2013	£m	£m	£m	£m	£m	£m	£m
Held-for-trading (HFT)	8,222	11,881	25,159	1,774	21,499	2,014	70,549
Designated as at fair value	-	-	122	-	487	1	610
Available-for-sale (AFS)	6,671	16,573	12,554	6,071	21,225	147	63,241
Loans and receivables	4	-	7	326	3,276	218	3,831
Long positions	14,897	28,454	37,842	8,171	46,487	2,380	138,231
Of which US agencies	-	5,896	-	-	19,291	-	25,187
Short positions (HFT)	(2,019)	(8,557)	(12,718)	(979)	(2,010)	(635)	(26,918)
Available-for-sale (AFS)							
Gross unrealised gains	433	606	675	58	592	8	2,372
Gross unrealised losses	-	(91)	(8)	(288)	(1,204)	(1)	(1,592)

Risk and balance sheet management (continued)

Credit risk: Debt securities: IFRS measurement classification by issuer (continued)

	Central and local government				Other financial		
	UK	US	Other	Banks	institutions	Corporate	Total
31 December 2012	£m	£m	£m	£m	£m	£m	£m
Held-for-trading (HFT)	7,692	17,349	27,195	2,243	21,876	2,015	78,370
Designated as at fair value	-	-	123	86	610	54	873
Available-for-sale (AFS)	9,774	19,046	16,155	8,861	23,890	3,167	80,893
Loans and receivables	5	-	-	365	3,728	390	4,488
Long positions	17,471	36,395	43,473	11,555	50,104	5,626	164,624
Of which US agencies	-	5,380	-	-	21,566	-	26,946
Short positions (HFT)	(1,538)	(10,658)	(11,355)	(1,036)	(1,595)	(798)	(26,980)
Available-for-sale							
Gross unrealised gains	1,007	1,092	1,187	110	660	120	4,176
Gross unrealised losses	-	(1)	(14)	(509)	(1,319)	(4)	(1,847)

Key points

- HFT: The decrease in US government bonds reflects sales following increase in yields. The decrease in other government bonds comprise reductions primarily in Japanese, French and Canadian bonds due to sales and maturities, partially offset by increased holding in Markets of German bonds (£2.2 billion).

- AFS: A reduction of £7.2 billion relates to Direct Line Group, not included at 30 June 2013 as the Group ceded control in the first quarter. Other reductions include - Government securities £7.2 billion, primarily US, UK and Germany following sales as part of Group Treasury's liquidity portfolio management. Reductions were also seen in banks (£1.2 billion) due to maturities and amortisations and other financial institutions (£2.1 billion), primarily US agency RMBS (£1.4 billion).

- AFS gross unrealised gains and losses: £0.2 billion of the decrease relates to Direct Line Group. The remaining UK government decrease of £0.6 billion reflects exposure reduction and impact of rating downgrade. US government decrease of £0.6 billion also reflects exposure reduction as well as the impact of concerns over tapering of quantitative easing. A significant proportion of banks and financial institutions as well as ABS gross unrealised losses of £1.6 billion at 30 June 2013 relates to Group Treasury's holding of Spanish covered bonds.

Risk and balance sheet management (continued)

Credit risk (continued)

Derivatives

The table below analyses the fair value of the Group's derivatives by type of contract. Master netting arrangements in respect of mark-to-market (mtm) positions and collateral shown below do not result in a net presentation in the Group's balance sheet under IFRS.

	30 June 2013							31 December 2012		
	Notional (1)									
								Notional		
	GBP	USD	Euro	Other	Total	Assets	Liabilities	(1)	Assets	Liabilities
	£bn	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£m
Interest rate (2)	5,757	11,797	14,117	7,242	38,913	284,051	270,873	33,483	363,454	345,565
Exchange rate	416	2,558	936	1,932	5,842	76,633	83,446	4,698	63,067	70,481
Credit	3	328	97	26	454	9,215	8,583	553	11,005	10,353
Other (3)	12	42	30	17	101	3,795	7,147	111	4,392	7,941
						373,694	370,049		441,918	434,340
Counterparty mtm netting						(316,148)	(316,148)		(373,906)	(373,906)
						57,546	53,901		68,012	60,434
Cash collateral						(27,664)	(22,396)		(34,099)	(24,633)
Securities collateral						(5,300)	(5,319)		(5,616)	(8,264)
						24,582	26,186		28,297	27,537

Notes:

(1) Includes exchange traded contracts of £2,317 billion (31 December 2012 - £2,497 billion), principally interest rate. Trades are generally closed out daily hence carrying values are insignificant (assets - £29 million (31 December 2012 - £41 million); liabilities - £235 million (31 December 2012 - £255 million).
(2) Interest rate notional includes £22,206 billion (31 December 2012 - £15,864 billion) in respect of contracts with central clearing counterparties to the extent related assets and liabilities are offset.
(3) Comprises equity and commodity derivatives.

Key points

· Net exposure after taking into account position and collateral netting arrangements, decreased by 13% (liabilities decreased by 5%) due to lower derivative fair values, driven by upward shifts in interest rate yields and continued use of trade compression cycles. Sterling weakened against the US Dollar and Euro and resulted in increases in notionals and fair values.

· Interest rate contracts decreased in the first half of 2013 due to significant upward shifts in major yield curves as fears of US Federal Reserve tapering of quantitative easing programme heightened. In addition, continued participation in trade compression cycles and offset relating to transactions with central counterparties reduced exposures. This was partially offset by higher trade volumes and exchange rate movements.
· The increase in notional and fair value of exchange rate contracts reflected exchange rate movements, particularly on US Dollar denominated contracts. Trade volumes were also up.

· The downward trend in credit derivatives notional and fair values primarily reflected increased use of trade compression cycles and novation of certain trades in Markets in line with the Group's risk reduction strategy. This was complemented by tightening of credit spreads in the US as optimism in the economy improved, partially offset by widening of credit spreads in Europe. The decrease was partially offset by exchange rate movements and increased trade volumes.

· Reduction in equity contracts reflected market volatilities, sales and reduction in trade volumes.

For additional analysis of credit derivatives, refer to Appendix 3, page 17.

Risk and balance sheet management (continued)

Market risk

Value-at-risk (VaR)
For a description of the Group's basis of measurement and methodologies, refer to pages 243 to 247 of the Group's 2012 Annual Report and Accounts.

	Half year ended								Year ended			
	30 June 2013				30 June 2012				31 December 2012			
	Average	Period end	Maximum	Minimum	Average	Period end	Maximum	Minimum	Average	Period end	Maximum	Minimu
Trading VaR	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	[illegible]
Interest rate	40.3	30.3	78.2	24.6	66.3	58.7	95.7	43.6	62.6	75.6	95.7	40
Credit spread	72.9	57.9	86.8	55.8	75.7	50.2	94.9	44.9	69.2	74.1	94.9	44
Currency	11.2	9.3	20.6	4.6	12.6	10.9	21.3	8.2	10.3	7.6	21.3	[illegible]
Equity	6.8	4.8	12.8	4.2	6.3	6.2	12.5	3.3	6.0	3.9	12.5	[illegible]
Commodity	1.3	0.9	3.7	0.5	1.9	1.3	6.0	0.9	2.0	1.5	6.0	0
Diversification (1)		(23.4)				(45.3)				(55.4)		
Total	96.4	79.8	118.8	69.5	103.4	82.0	137.0	66.5	97.3	107.3	137.0	66
Core	80.1	64.1	104.6	57.6	75.3	67.2	118.0	47.4	74.6	88.1	118.0	47
Non-Core	21.1	19.2	24.9	18.1	35.8	24.3	41.9	22.1	30.1	22.8	41.9	22
CEM (2)	68.9	57.4	85.4	55.1	78.2	75.8	84.2	73.3	78.5	84.9	86.0	7
Total (excluding CEM)	47.3	34.1	60.4	33.8	50.4	43.0	76.4	37.5	47.1	57.6	76.4	32

Notes:

(1) The Group benefits from diversification, as it reduces risk by allocating positions across various financial instrument types, currencies and markets. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time.

(2)

For a description of counterparty exposure management (CEM) activities, refer to page 248 of the Group's 2012 Annual Report and Accounts.

Risk and balance sheet management (continued)

Market risk: Value-at-risk (VaR) (continued)

Key points

- The Group's average and period end total and interest rate VaR were lower than for the same period last year reflecting de-risking by a number of Markets businesses and an extension in March 2013 by CEM of the scope of valuation adjustments captured in VaR. The decrease in interest rate VaR during H1 2013 also resulted in reduced diversification in the Group's total VaR. The CEM VaR was also lower in H1 2013 as a result of these changes, while impact on the Group's total, Core and Non-Core was less significant.

- The period end credit spread VaR was lower than 31 December 2012. Towards the end of H1 2013 the credit spread VaR fell, as a number of Markets businesses reduced and repositioned their exposures following comments by the US Federal Reserve chairman which indicated a tapering of the Federal Reserve bond-buying programme this year.

Risk and balance sheet management (continued)

Market risk (continued)

VaR non-trading portfolios
The table below details VaR for the Group's non-trading portfolios, which predominantly comprise available-for-sale portfolios in Markets, Non-Core and International Banking.

	Half year ended								Year ended			
	30 June 2013				30 June 2012				31 December 2012			
	Average £m	Period end £m	Maximum £m	Minimum £m	Average £m	Period end £m	Maximum £m	Minimum £m	Average £m	Period end £m	Maximum £m	Minimu
Interest rate	2.8	2.4	4.8	1.9	8.4	6.0	10.7	6.0	6.9	4.5	10.7	[illegible]
Credit spread	10.0	11.0	13.3	6.7	12.6	9.1	15.4	9.1	10.5	8.8	15.4	[illegible]
Currency	1.4	1.3	2.8	1.2	3.5	3.5	4.5	3.2	3.0	1.3	4.5	[illegible]
Equity	0.2	0.2	0.3	0.1	1.8	1.6	1.9	1.6	1.7	0.3	1.9	[illegible]
Diversification (1)		(2.6)				(11.2)				(5.4)		
Total	10.7	12.3	13.6	6.6	14.3	9.0	18.3	9.0	11.8	9.5	18.3	[illegible]

Core	9.5	11.3	12.7	5.7	14.0	9.0	19.0	8.9	11.3	7.5	19.0
Non-Core	2.9	2.2	3.4	2.1	2.2	1.7	2.6	1.6	2.5	3.4	3.6
CEM (2)	1.0	1.1	1.1	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.1
Total (excluding CEM)	10.3	12.2	13.3	6.3	14.1	9.0	17.8	9.0	11.5	9.4	17.8

Notes:

(1) The Group benefits from diversification, as it reduces risk by allocating investments across various financial instrument types, currencies and markets. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time.
(2) For a description of counterparty exposure management (CEM) activities, refer to page 248 of the Group's 2012 Annual Report and Accounts.
(3) The table above excludes the structured credit portfolio and loans and receivables.

Key point

· The Group's total period end VaR was higher than 2012, as a result of changes in the call assumptions on certain Dutch residential mortgage-backed securities, which extended their weighted average life.

Risk and balance sheet management (continued)

Country risk

Introduction*
Country risk is the risk of material losses arising from significant country-specific events such as sovereign events (default or restructuring); economic events (contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (transfer or convertibility restrictions, expropriation or nationalisation); and conflict. Such events have the potential to affect elements of the Group's credit portfolio that are directly or indirectly linked to the country in question and can also give rise to market, liquidity, operational and franchise risk-related losses.

External environment*
Country risk trends presented a mixed picture in the first half of the year. The systemic crisis in the eurozone was contained despite risks crystallising in Cyprus, but emerging economies experienced growing headwinds linked to slowing growth, political pressures and global risk re-pricing. Taking account of these problems, the International Monetary Fund downgraded its forecast for global GDP growth in 2013 by 0.25% to approximately 3%.

The pause in the eurozone crisis generally held, though some of the smaller countries witnessed problems. The European Commission eased fiscal targets for a number of the most vulnerable economies, and rules on future lending to banks were agreed by the European Stability Mechanism. Financial sector risks eased as deposit growth returned and Spain continued its banking sector restructuring. Most periphery economies showed clear signs of rebalancing, with Ireland leading but Italy lagging.

In Cyprus, the bail-in of bank depositors with deposits over €100,000 underlined the increased risks to creditors in the event of new official loan programmes with similar bail-in terms elsewhere. Market worries over Portugal grew, reflecting a number of key resignations from the government as well as expectations of worsening recession and public debt problems.

The Japanese government and central bank undertook significant policy loosening in a major effort to boost growth and inflation. While early signs indicated improving confidence and increasing consumer spending, and the large depreciation of the yen is expected to help exports, the public debt stock continued to rise rapidly, posing substantial long-term risks.

*Not within the scope of Deloitte LLP's review report

Risk and balance sheet management (continued)

Country risk(continued)

Comments from the US Federal Reserve chairman regarding the timing of any reduction in quantitative easing resulted in a correction in global risk appetite in H1, with sovereign bond spreads for many emerging economies widening from May. Emerging markets equities as a whole saw significant net outflows for the period, while their currencies generally weakened against sterling.

Growth continued to slow in China, despite rapid credit expansion, reflecting the challenges of reducing the direct role the State plays in driving economic growth. Risks in the banking sector remained. A number of countries, including Turkey and Brazil, saw large demonstrations over infrastructure issues broaden into wider expressions of dissatisfaction, though these did not lead to country risk losses.

Country risk exposure

The tables that follow show the Group's exposure by country of incorporation at 30 June 2013. Countries shown are those where the Group's balance sheet exposure (as defined in this section) to counterparties incorporated in the country exceeded £1 billion and the country had an external rating of A+ or below from Standard and Poor's, Moody's or Fitch at 30 June 2013, as well as selected eurozone countries. The exposures are stated before taking into account mitigants, such as collateral (with the exception of reverse repos), insurance or guarantees, which may have been put in place to reduce or eliminate exposure to country risk events. Exposures relating to ocean-going vessels are not included as they cannot be meaningfully assigned to specific countries from a country risk perspective.

For a description of the governance, monitoring and management of the Group's country risk framework and definitions, refer to pages 254 and 255 of the Group's 2012 Annual Report and Accounts.

Risk and balance sheet management (continued)

Country risk(continued)

Developments during H1 2013*:

· Sterling depreciated by 6.0% against the US dollar and by 4.7% against the euro. This resulted in exposures denominated in these currencies (and in other currencies linked to them) increasing in sterling terms.

· Balance sheet and off-balance sheet exposure to most countries shown in the table on page 149 declined despite the depreciation of sterling, as the Group maintained a cautious stance and many clients reduced debt levels. Reductions were seen across all broad product categories. Non-Core lending exposure declined further in most countries as the Group continued to execute its disposals strategy, although adverse market conditions hampered the sale of certain asset classes in some countries.

· Most of the Group's country risk exposure is in International Banking (primarily trade facilities, other lending and off-balance sheet exposure to corporates and financial institutions), Markets (mostly derivatives and repos with financial institutions, and HFT debt securities), Ulster Bank (mostly lending exposure to corporates and consumers in Ireland) and Group Treasury (largely cash balances at central banks and AFS debt securities.

· Total eurozone - Balance sheet exposure declined by £17.1 billion or 10% to £148.7 billion, caused by significant reductions in liquidity held with the Bundesbank, and in derivatives exposure to banks (notably in Germany, France and the Netherlands, and largely related to the sale of a part of the Group's CDS positions - refer to below). These reductions reflected continued active exposure management by the Group and debt reduction efforts by bank clients. On a constant currency basis, the reductions were higher.

· Eurozone periphery - Balance sheet exposure decreased slightly to a combined £58.6 billion, a reduction of £0.5 billion or 1%, with small reductions in most countries, despite the appreciation of the euro against sterling.

Group Treasury's liquidity portfolio includes a portfolio of covered bonds or 'cedulas' issued by Spanish banks and other financial institutions.
Balance sheet exposure to Cyprus was broadly stable at £0.3 billion, comprising mainly lending exposure to special purpose vehicles incorporated in Cyprus, but with assets and cash flows largely elsewhere.

· Japan - Exposure decreased by £5.8 billion (net HFT government bonds £3.1 billion, AFS government bonds £1.2 billion and derivatives to banks £1.6 billion), reflecting depreciation of the yen, lower trading flows and a reduction in the bond portfolio used as collateral.

· India - Group exposure decreased by £0.6 billion during H1 2013, driven largely by reductions in exposure to banks and to the oil & gas and communications sectors.

· China - Lending to banks increased by £0.7 billion, reflects increased customer demand in Q2 2013. Derivatives exposure to public sector entities increased by £0.2 billion, due to fluctuations in short-term hedging by bank clients.

*Not within the scope of Deloitte LLP's review report

Risk and balance sheet management (continued)

Country risk: Developments during H1 2013* (continued)

·

The Group holds net bought CDS protection on most of the countries shown in the table. Markets sold a significant part of its European CDS trading positions during Q2 to reduce risks and capital requirements in line with strategic plans. This resulted in major reductions in gross notional value of CDS bought and sold protection referencing corporates and other entities in eurozone countries. Net bought protection in terms of CDS notional less fair value, was also reduced by £1.2 billion to £5.7 billion, with reductions particularly in France, the Netherlands and Germany.

· The average credit quality of CDS bought protection counterparties deteriorated with the share of AQ1 counterparties falling by around 7%, largely the result of the sale of CDS positions during this period.

· The Group's focus continues to be on reducing its asset exposures and funding mismatches in the eurozone periphery countries. The estimated funding mismatch at risk of redenomination at 30 June 2013 was £1.0 billion lower at £8.0 billion for Ireland and was unchanged at £4.5 billion and £1.0 billion for Spain and Italy respectively. The net positions for Portugal, Greece and Cyprus were all minimal. These mismatches can fluctuate owing to volatility in trading book positions and changes in bond prices. For more information on redenomination risk considerations, refer to page 254 of the Group's 2012 Annual Report and Accounts.

For additional analysis and commentary, refer to Appendix 5.

*Not within the scope of Deloitte LLP's review report

Risk and balance sheet management (continued)

Country risk: Summary tables

	30 June 2013													
	Lending													
	Govt £m	Central Banks £m	Other Banks £m	Other FI £m	Corporate £m	Personal £m	Total Lending £m	Of which Non-Core £m	Debt securities £m	Net Derivatives £m	Repos £m	Balance sheet £m	bal
Eurozone													
Ireland	42	116	88	519	18,062	18,452	37,279	9,586	642	1,531	225	39,677	2
Spain	-	-	15	6	3,918	341	4,280	2,723	5,942	1,426	-	11,648	1
Italy	-	22	148	256	1,298	24	1,748	858	1,622	2,133	-	5,503	2
Portugal	-	-	-	-	261	6	267	258	235	437	-	939	
Greece	-	-	-	1	199	13	213	61	-	325	-	538	
Cyprus	-	-	-	-	270	13	283	122	1	30	-	314	
Germany	-	10,643	633	167	3,395	81	14,919	2,674	12,295	8,505	678	36,397	7
Netherlands	18	2,488	789	1,360	4,229	21	8,905	1,893	7,978	7,474	180	24,537	11
France	496	-	3,037	112	2,260	75	5,980	1,392	3,676	6,132	496	16,284	9
Luxembourg	-	17	95	973	1,717	3	2,805	930	111	1,512	542	4,970	2
Belgium	-	-	98	220	635	19	972	306	928	2,757	57	4,714	1

Other	105	-	27	46	739	17	934	88	865	1,323	28	3,150	1
Other countries													
Japan	-	767	350	148	508	16	1,789	67	2,052	1,346	257	5,444	
India	-	98	859	42	2,263	82	3,344	146	1,081	114	-	4,539	
China	-	153	1,572	90	645	34	2,494	29	192	1,121	65	3,872	
South Korea	-	1	510	44	612	1	1,168	-	390	376	178	2,112	
Brazil	-	-	1,025	-	121	4	1,150	61	338	69	-	1,557	
Turkey	102	80	78	97	927	26	1,310	190	144	99	-	1,553	
Russia	-	34	725	3	368	34	1,164	48	157	29	-	1,350	
Poland	-	96	4	17	624	6	747	29	324	37	-	1,108	
Romania	19	175	11	-	312	320	837	832	197	3	-	1,037	

Risk and balance sheet management (continued)

Country risk: Summary tables (continued)

	31 December 2012												
	Lending												
	Govt £m	Central Banks £m	Other Banks £m	Other FI £m	Corporate £m	Personal £m	Total Lending £m	Of which Non-Core £m	Debt securities £m	Net Derivatives £m	Repos £m	Balance sheet £m	bal
Eurozone													
Ireland	42	73	98	532	17,921	17,893	36,559	9,506	787	1,692	579	39,617	2
Spain	-	6	1	59	4,260	340	4,666	2,759	5,374	1,754	-	11,794	1
Italy	9	21	200	218	1,392	23	1,863	900	1,607	2,297	-	5,767	2
Portugal	-	-	-	-	336	7	343	251	215	514	-	1,072	
Greece	-	7	-	1	179	14	201	68	1	360	-	562	
Cyprus	-	-	-	2	274	15	291	121	4	35	-	330	
Germany	-	20,018	660	460	3,756	83	24,977	2,817	12,763	9,476	323	47,539	7
Netherlands	7	1,822	496	1,785	3,720	26	7,856	2,002	8,447	9,089	354	25,746	11
France	494	9	2,498	124	2,426	71	5,622	1,621	5,823	7,422	450	19,317	9
Luxembourg	-	13	99	717	1,817	4	2,650	973	251	1,462	145	4,508	2
Belgium	-	-	186	249	414	22	871	368	1,408	3,140	50	5,469	1
Other	126	-	19	90	856	14	1,105	88	1,242	1,737	11	4,095	1
Other countries													
Japan	-	832	315	193	319	15	1,674	123	6,438	2,883	199	11,194	
India	-	100	1,021	48	2,628	106	3,903	170	1,074	64	-	5,041	
China	2	183	829	48	585	29	1,676	33	262	903	94	2,935	
South Korea	-	22	771	71	289	2	1,155	2	307	221	30	1,713	
Brazil	-	-	950	-	125	3	1,078	60	596	73	-	1,747	
Turkey	115	163	82	94	928	12	1,394	258	181	93	-	1,668	

Russia	-	53	848	14	494	55	1,464	56	409	23	-	1,896
Poland	-	164	-	16	536	6	722	26	289	36	-	1,047
Romania	20	65	9	2	347	331	774	773	315	3	-	1,092

Independent review report to The Royal Bank of Scotland Group plc

We have been engaged by The Royal Bank of Scotland Group plc ("the Company") to review the condensed financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement, related Notes 1 to 18, the divisional results on pages 25 to 65, and the Risk and balance sheet management disclosures set out on pages 127 to 150 and in Appendices 2 to 5 except for those indicated as not reviewed (together "the condensed financial statements"). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review report to The Royal Bank of Scotland Group plc (continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the half-yearly financial report for the six months ended 30 June 2013 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
1 August 2013

Risk factors

The principal risks and uncertainties facing the Group are unchanged from those disclosed on pages 503 to 515 of the 2012 Annual Report & Accounts (the 2012 R&A), however the operational, legal and regulatory landscape in which the Group operates has continued to evolve since the 2012 R&A was approved. In particular, set out in further detail below in the Summary of our Principal Risks and Uncertainties, the Group has identified a new risk, namely arising from the on-going review with HM Treasury into separating the Group into "good" and "bad" banks.

Summary of our Principal Risks and Uncertainties

Set out below is a summary of certain risks which could adversely affect the Group. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The summary should be read in conjunction with the Risk and balance sheet management section on pages 107 to 293 of the 2012 R&A, which also includes a fuller description of these and other risk factors.

> The Group's businesses, earnings and financial condition have been and will continue to be negatively affected by global economic conditions, the instability in the global financial markets and increased competition and political risks including proposed referenda on Scottish independence and UK membership of the EU. Together with a perceived increased risk of default on the sovereign debt of certain European countries and unprecedented stresses on the financial system within the Eurozone, these factors have resulted in significant changes in market conditions including interest rates, foreign exchange rates, credit spreads, and other market factors and consequent changes in asset valuations.
>
> The actual or perceived failure or worsening credit of the Group's counterparties or borrowers and depressed asset valuations resulting from poor market conditions have adversely affected and could continue to adversely affect the Group.

The Group's ability to meet its obligations including its funding commitments depends on the Group's ability to access sources of liquidity and funding. The inability to access liquidity and funding due to market conditions or otherwise could adversely affect the Group's financial condition. Furthermore, the Group's borrowing costs and its access to the debt capital markets and other sources of liquidity depend significantly on its and the UK Government's credit ratings.

The Group is subject to a number of regulatory initiatives which may adversely affect its business, including the UK Government's implementation of the final recommendations of the Independent Commission on Banking's final report on competition and structural reforms in the UK banking industry the US Federal Reserve's proposal for applying US capital, liquidity and enhanced prudential standards to certain of the Group's US operations.

The Group's business performance, financial condition and capital and liquidity ratios could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements, including those arising out of Basel III implementation (globally or by European or UK authorities), or if the Group is unable to issue Contingent B Shares to HM Treasury under certain circumstances.

Risk factors (continued)

As a result of the UK Government's majority shareholding in the Group it can, and in the future may decide to, exercise a significant degree of influence over the Group including on dividend policy, modifying or cancelling contracts or limiting the Group's operations. The offer or sale by the UK Government of all or a portion of its shareholding in the company could affect the market price of the equity shares and other securities and acquisitions of ordinary shares by the UK Government (including through conversions of other securities or further purchases of shares) may result in the delisting of the Group from the Official List.

The Group or any of its UK bank subsidiaries may face the risk of full nationalisation or other resolution procedures and various actions could be taken by or on behalf of the UK Government, including actions in relation to any securities issued, new or existing contractual arrangements and transfers of part or all of the Group's businesses.

The Group is subject to substantial regulation and oversight, and any significant regulatory or legal developments could have an adverse effect on how the Group conducts its business and on its results of operations and financial condition. In addition, the Group is, and may be, subject to litigation and regulatory investigations that may impact its business, results of operations and financial condition.

The Group's ability to implement its Strategic Plan depends on the success of its efforts to refocus on its core strengths and its balance sheet reduction programme. As part of the Group's Strategic Plan and implementation of the State Aid restructuring plan agreed with the European Commission and HM Treasury, the Group is undertaking an extensive restructuring which may adversely affect the Group's business, results of operations and financial condition and give rise to increased operational risk.

The Group could fail to attract or retain senior management, which may include members of the Group Board, or other key employees, and it may suffer if it does not maintain good employee relations.

Operational and reputational risks are inherent in the Group's businesses.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.

Any significant developments in regulatory or tax legislation could have an effect on how the Group conducts its business and on its results of operations and financial condition, and the recoverability of certain deferred tax assets recognised by the Group is subject to uncertainty.

The Group may be required to make contributions to its pension schemes and government compensation schemes, either of which may have an adverse impact on the Group's results of operations, cash flow and financial condition.

Risk factors (continued)

The Group is also subject to the following new risk factor.

Options to accelerate the potential divestment by HM Treasury of its stake in the Group, including separation of the Group into "good" and "bad" banks, are currently under review and uncertainty remains as to the Group's future structure and organisation

In June 2013, responding to a recommendation by the UK Parliamentary Commission on Standards in Banking, the Chancellor of the Exchequer announced that the Government would be reviewing the case for splitting the Group into a 'good bank' and a 'bad bank'. This review is being conducted by HM Treasury with external professional support and will look at a broad range of the Group's assets. HM Treasury's advisors are expected to report by the end of September and a decision on the creation of a 'bad bank' is expected in the autumn of 2013. The outcome of the review is far from certain and if a 'good bank/bad bank' strategy were to be adopted, then depending on the nature and scope of the exercise, several hurdles might have to be met before such a separation could take place. These may or may not include the need for shareholder approval and further consultation with the European Commission. Any such restructuring would be complex and lengthy and require significant management time and resources. Until the outcome of the review is known, the Group's future structure and organisation remains uncertain. Such uncertainty could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The risk factor entitled, "The Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its and the UK Government's credit ratings" is also revised to reflect that at 30 June 2013, a simultaneous one notch long-term and associated short term downgrade in the credit ratings of RBSG and The Royal Bank of Scotland plc by the three main ratings agencies would have required the Group to post estimated additional collateral of £13 billion, without taking account of mitigating action by management.

Statement of directors' responsibilities

We, the directors listed below, confirm that to the best of our knowledge:

- the condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting';

- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Philip Hampton	Stephen Hester	Bruce Van Saun
Chairman	Group Chief Executive	Group Finance Director

1 August 2013

Board of directors

Chairman	Executive directors	Non-executive directors
Philip Hampton	Stephen Hester	Sandy Crombie
	Bruce Van Saun	Alison Davis
		Tony Di lorio
		Penny Hughes
		Brendan Nelson
		Baroness Noakes
		Arthur 'Art' Ryan
		Philip Scott

Additional information

Share information

	30 June 2013	31 March 2013	31 December 2012
Ordinary share price	273.5p	275.5p	324.5p
Number of ordinary shares in issue	6,121m	6,108m	6,071m

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2012 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

Financial calendar

2013 third quarter interim management statement	Friday 1 November 2013
2013 annual results	Thursday 27 February 2014

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 2 August 2013

THE ROYAL BANK OF SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary