ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 07, 2009

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 2009

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):_________

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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: ________

Interim Results

for the half year ended

30 June 2009

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

In particular, this document includes forward-looking statements relating, but not limited, to the Group's 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; 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 announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Presentation of information

Acquisition of ABN AMRO

On 17 October 2007, RFS Holdings B.V. ('RFS Holdings'), a company jointly owned by The Royal Bank of Scotland Group plc ('RBS'), Fortis Bank Nederland (Holding) N.V. ('Fortis') and Banco Santander S.A. ('Santander') (together, the 'Consortium Members'), completed the acquisition of ABN AMRO Holding N.V. ('ABN AMRO').

RFS Holdings is implementing 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 Members.

On 3 October 2008, the State of the Netherlands acquired Fortis Bank Nederland (Holding) N.V. including Fortis' participation in RFS Holdings that represents the acquired activities of ABN AMRO.

The separation of platforms shared between RBS and its Dutch state-owned partner has been completed and the Group is now on track, subject to legal process and regulatory approvals, for the legal separation of the constituent parts of

ABN AMRO by the end of the year. From that point RBS will cease to consolidate the Dutch state's interest in RBS Group statutory accounts.

Pro forma results

Pro forma results have been prepared that include only those business units of ABN AMRO that will be retained by RBS. The financial review and divisional performance and discussion of risk and capital management in this Company Announcement focus on the pro forma results. The basis of preparation of the pro forma results is detailed on page 72.

Statutory results

RFS Holdings is jointly owned by the Consortium Members. It is controlled by RBS and is therefore fully consolidated in its statutory financial statements. The interests of the State of the Netherlands and Santander in RFS Holdings are included in minority interests.

Restatements

Divisional results for 2008 have been restated to reflect the Group's new organisational structure that includes a Non-Core division comprising individual assets, portfolios and lines of business that the Group intends to run off or dispose of. The Non-Core division is reported separately from the divisions which form the Core Group. In addition, separate reporting of Group Manufacturing and Centre results has changed and, with the exception of certain items of a one off nature, costs incurred are now allocated to the customer-facing divisions and included in the measurement of the returns which they generate. The changes do not affect the Group's results. Comparatives have been restated accordingly. Descriptions of business for the new divisions are set out on page 27.

The pro forma and statutory results for 2008 have been restated for the amendment to IFRS 2 'Share-based Payment'. This has resulted in an increase in staff costs amounting to £35 million for the first half of 2008 and £169 million for the full year 2008.

The pro forma and statutory results for the first half of 2008 have been restated for the finalisation of the ABN AMRO acquisition accounting.

Results summary - pro forma

	First half	First half		Full year
	2009	2008	Change	2008
	£m	£m	%	£m
Core				
Total income (1)	**17,793**	14,192	25	24,437
Operating expenses (2)	**(7,745)**	(7,218)	7	(13,856)
Operating profit before impairment losses (3)	**8,471**	5,385	57	7,364
Impairment	**(2,177)**	(670)	-	(2,512)
Operating profit (3)	**6,294**	4,715	33	4,852
Non-Core				
Total income (1)	**(3,002)**	(2,541)	18	(3,838)
Operating expenses (2)	**(988)**	(1,175)	(16)	(2,332)

Operating loss before impairment losses (3)	**(4,304)**	(4,054)	6	(6,870)
Impairment	**(5,344)**	(809)	-	(4,920)
Operating loss (3)	**(9,648)**	(4,863)	98	(11,790)
Total				
Total income (1)	**14,791**	11,651	27	20,599
Operating expenses (2)	**(8,733)**	(8,393)	4	(16,188)
Operating profit before impairment losses (3)	**4,167**	1,331	-	494
Impairment	**(7,521)**	(1,479)	-	(7,432)
Operating loss (3)	**(3,354)**	(148)	-	(6,938)
Profit/(loss) before tax (4)	**15**	(726)	-	(8,296)
Loss attributable to ordinary shareholders	**(1,042)**	(827)	26	(24,306)
Performance ratios				
Return on equity (5)	**(18.1%)**	(2.0%)	(1,610bp)	(13.9%)
Net interest margin	**1.69%**	2.07%	(38bp)	2.08%
Cost:income ratio (8)	**59.0%**	72.0%	(1,300bp)	78.6%
Adjusted cost:income ratio (9)	**67.7%**	86.3%	(1,860bp)	97.0%

Capital and balance sheet (Pre-APS)	30 June 2009	31 December 2008	Change
Total assets	**£1,644.4bn**	£2,218.7bn	(26%)
Funded balance sheet (10)	**£1,088.6bn**	£1,227.2bn	(11%)
Loan:deposit ratio	**144.5%**	152.4%	(790bp)
RWAs	**£547.3bn**	£577.8bn	(5%)
Total equity	**£57.8bn**	£64.3bn	(10%)
Core Tier 1 ratio	**6.4%**	5.9%	50bp
Tier 1 ratio	**9.0%**	9.9%	(90bp)
Tier 1 leverage ratio (6)	**21.7x**	21.2x	2%
Net tangible equity per share	**58.0p**	73.8p	(15.8p)
Tangible equity leverage ratio (7)	**3.0%**	2.4%	60bp

For definitions of the notes see page 26.

First half 2009 update

Performance highlights

"This was a momentous half year for RBS. We gave a full and clear account of our vulnerabilities to the 'credit crunch'. We set out comprehensive restructuring plans, now with clear performance targets. And implementation is well under way, though uncertainties remain.

Our first half results, as we had clearly warned, are poor with a net attributable loss of £1,042 million. However, they highlight well our core business potential, the hard work of our people in difficult times, the strength of our customer franchises and the vulnerabilities and economic headwinds we grapple with."

Stephen Hester, Group Chief Executive

Pro-forma

- **Group financial performance**
  - Group pre-tax profit* of £15 million.
  - Gain of £3.8 billion on debt exchange.
  - Net attributable loss of £1,042 million, after minority interests and preference dividends.
  - Impairments rising across the Group to £7.5 billion.

- **Core Bank**
  - Core Bank recovery with operating profit of £6.3 billion.
  - Strong income growth to £17.8 billion, with GBM benefiting from favourable market conditions.
  - Resilient performance in Core retail and commercial banking pre-impairments, despite margin attrition from higher deposit and funding costs.
  - Cost saving programme delivers £0.6bn, with adjusted Group cost:income ratio improving.
  - Market positions sustained in chosen markets, with good growth in customer numbers.

- **Financial restructuring**
  - o

Total assets reduced by £574 billion, or 26%, since December 2008.

- o New Non-Core Division begins run-off; £94 billion reduction in third party assets.
- o Non-Core run-off plan targets c.£230 billion reduction by 2013.
- o Core Tier 1 ratio improves to 6.4% - + >5% pro-forma for Asset Protection Scheme.†
- o APS key to RBS's short-term ability to withstand stressed scenarios, though important issues remain to be confirmed.
- o Loan:deposit ratio improved to 144% from 152% in December 2008.
- o Liquidity and funding positions steadily improving since December 2008.

* Excluding write-down of goodwill. Operating loss before tax of £244 million on a statutory basis. See appendix 1 for a reconciliation between pro forma and statutory basis.

† See page 17 for conditionality

Results summary - statutory

Highlights

- · Income up 58% to £21.8 billion.
- · Pre-tax loss of £244 million.
- · Core Tier 1 ratio 7.0%

	First half	First half		Full year
	2009	2008	Change	2008
	£m	£m	%	£m
Total income	**21,841**	13,842	58	25,868
Operating expenses	**(11,891)**	(10,719)	11	(54,202)
Operating profit/(loss) before impairment losses	**7,816**	934	-	(32,764)
Impairment	**(8,060)**	(1,661)	-	(8,072)
Operating loss before tax	**(244)**	(727)	(66)	(40,836)
Loss attributable to ordinary shareholders	**(1,042)**	(827)	26	(24,306)

Chief Executive's letter to shareholders

This has been a tumultuous half year for RBS, which started with our share price falling to 10 pence per share on full disclosure of the damage sustained by RBS from the "credit crunch" and our vulnerability to it. With this "call to action" as backdrop, we have devised and now set out restructuring plans and targets to rebuild RBS whilst serving customers well. We are putting those plans into action. At the same time we are sustaining our businesses and operating through unprecedented pressures, challenges and change. The "new RBS" will be a very different bank than before, in both what we do and the way we do it, and rightly so.

Let me be clear, I am optimistic for RBS's future. We can restore the Bank to standalone strength and viability. We will thereby rebuild attractive, sustainable shareholder value and, I believe, allow Government support to be recouped in full. But there will be no miracle cures. Our task is no less than one of the largest bank restructurings ever done, in the face of strong economic headwinds. Overall results may not substantially improve until 2011 and full recovery will take time. Along the way we will still need the Government support that gives us time and strength to restructure. We will repay that with results and responsible support to the communities who in turn are supporting us.

Given the agenda before us and the high levels of customer, shareholder and public interest, I attempt to set out herein, what we are doing, why and how we propose to be measured.

Building the new RBS on strong foundations

We have a strong plan in place that I believe can get us to where we need to be by 2013. To achieve the goals of our different stakeholders we need to remake RBS as one of the world's most admired, valuable and stable universal banks powered by market-leading businesses in large customer-driven markets. We will target a sustainable 15% plus return on equity with an AA category risk profile and well capitalised balance sheet. The business mix should produce an attractive blend of profitability, stability and sustainable growth. Anchored in the UK and in retail and commercial banking, we will retain strong but more focused global capabilities in the areas required to serve our customers well.

We are not starting from scratch. The foundations of RBS derive from the rock of our customer franchises around the world. Our first half performance demonstrates this in the face of every possible contrary reason, with customer numbers steady or growing in each of our major businesses. This tells me that we provide services and products that matter to our customers. And that our people, despite all their own challenges and disappointments, are hard at work serving our customers well. Our new strategy will build on these important realities.

Understanding what went wrong

While the banking crisis has many roots, its economic foundations lie in a long era of easy money. As a bank with deep exposures in economies which are structurally indebted, we were more exposed to the crisis than many. The balance between saving and borrowing remains out of step in many parts of our core markets, and it is the same with the banks, which generally mirror the economies they serve. The answer to our collective problem is not to go back to lending or borrowing too much.

That said, it would be a serious error to suggest that RBS merely reflected the macro-economic context in which it operated. RBS made mistakes and had vulnerabilities of its own doing. We set these out clearly in February and the plans we confirm today are designed to address each and every aspect.

Chief Executive's letter to shareholders

Strategy and Performance Targets

Our strategy has three interlocking elements.

- **Financial Restructuring**

We plan to radically restructure RBS's balance sheet, reducing management stretch and risk exposures. We target a c.£500bn gross reduction in "funded" assets (which we are over halfway through). This will be achieved primarily through the run-down and sale of assets placed in our newly established Non-Core Division. This is a big and vital task. We have disclosed today for the first time the targeted profile of that asset run-off, with milestones along the way and subject to the important risk factors I identify later in this letter. The Non-Core Division also helps protect the Group's core customer-facing businesses by freeing up their management to focus on delivery for customers.

- **Core Business Restructuring**

As I have said, at the heart of RBS are inherently strong and valuable businesses driven by enduring customer franchises. Every one of these businesses can and must be made better. Along the way we will refocus on serving customers well, restructure to cure past vulnerabilities and retool to meet the changed market realities likely to prevail in future. This is also a major endeavour. Like every other business, major efficiency improvements are a survival necessity but so too is renewed investment to revitalise our customer proposition and service levels.

- **Cross Cutting Management and Cultural Change**

Throughout all we do, these binding disciplines will be implemented: Careful long-term strategic thinking over short-term opportunism. Empowerment of our people with corresponding accountability. Combining the "make it happen" drive for results with a new found (but enduring) humility, transparency and openness. A realisation that our customers' health and our own are interdependent, and a fundamental change to risk sensitivity, with business growth focused on quality, achieved organically and facilitated but not driven by balance sheet and risk resources.

To show we are both serious and accountable, we set out clear targets today for our return to financial viability and the rebuild of sustainable shareholder value.

Measure	2008 Actual	2013 Targets
Risk and Viability		
Stand-alone Credit Rating (1)	BBB category	AA category
Core Tier 1 Capital Ratio	4%(2)	>8%
Loan:Deposit Ratio	156% (3)	c.100%
Wholesale funding reliance (4)	£343bn (5)	<£150bn
Liquidity reserves (6)	£90bn (7)	c.£150bn
Shareholder value		
Return on Equity (8)	(28%)	>15%
Cost/Income Ratio (C:I)	79%	<45% (9)
C:I Net of insurance claims	97%	<50% (9)

(1) Standard & Poors rating, ex HMG support (2) As at 1 January 2008 (3) As at October 2008 (4) Amount of unsecured wholesale funding under 1 year (£bn) (5) As at December 2008 (6) Eligible assets held for contingent liquidity purposes including cash, Government-issued securities and other securities eligible with central banks (7) As at December 2008 (8) After tax return on tangible equity normalised for APS in 2013 (9) Core Bank

Chief Executive's letter to shareholders (continued)

These targets are not forecasts. Events will ensure we either beat them or fall short. In particular the risks we flag herein remain real threats. But they are a serious statement of intent. Every Division has subsidiary targets we have also published today. And while 2013 seems a long way away, each year we intend to make measurable progress towards these goals.

First Half Results and Actions to date

Our first half results, as we had clearly warned, are poor with a net attributable loss of £1 billion. However, presented as they are now in alignment with the new strategy, they highlight well our core business potential, the hard work of our people in difficult times and the vulnerabilities and economic headwinds we grapple with.

Our Core Business Divisions reported an Operating Profit of £6.3 billion on revenues up 25% to £17.8 billion. This result was driven by a creditable rebound in GBM, our investment banking business, reversing the terrible losses of 2008, though this performance level is likely to weaken substantially in the second half. Nevertheless, the complementary balance to our retail and commercial banking businesses which were strong last year but now suffer the margin squeeze and rising credit costs of economic recession is helpful. However, across all our businesses, customers were served well, and steps taken to rebuild margins and efficiency ratios for future years. In fact, a strong start has been made to increasing efficiency, with £0.6 billion of savings so far, though these have been offset by foreign exchange movements making clear that more is needed.

We took important steps to reduce risk, whilst still early days. Our total balance sheet is down from a £2,219 billion peak in 2008 to £1,644 billion. Our gross funded assets are down £350 billion in constant currency terms, from their peak. Our important loan-to-deposit ratio has improved by 8 percentage points since the end of 2008 to 144% and vital steps have been made to a more secure liquidity and funding profile.

RBS's vulnerabilities and the harsh recessionary conditions also show through clearly. Our Non-Core Division shows an Operating Loss of £9.6 billion. Across the Group, impairments rose 409% to £7.5 billion and are set to stay high for a while.

In addition to intense business activity, the strategy and cultural moves described above have been fundamental changes for RBS. We have also achieved comprehensive renewal of Board and management (outlined below), are pressing ahead with all the implementation plans and a range of targeted disposals. And have made further strides in financial and business disclosure, evidence of the open, investor friendly approach we mean to take.

Asset Protection Scheme (APS)

The APS, agreed in principle with the UK Government (HMG) in February, has significant uncertainties though we still anticipate that it can be concluded in the autumn. APS remains essential to RBS to give us additional resilience during the time it will take to regain standalone strength. Without the combination of asset insurance and "B" share issuance, RBS would not pass the FSA-mandated stress tests and would be vulnerable to ratings downgrades and funding difficulties as a consequence.

Chief Executive's letter to shareholders (continued)

Notwithstanding APS's importance, it is by no means "free". Our central case estimates suggest that the cost to HMG of APS will be broadly recouped through the substantial fees and tax give-ups to be paid by RBS, although other more positive and negative outcomes remain very real. Additionally, EU approval for the "state aid" given to RBS is uncertain as to both timing and outcome. RBS's massive restructuring programme provides a comprehensive and rigorous path back to standalone viability which the EU needs to review. Additionally it seems likely to require weakening of our core UK banking franchise, especially for business customers. Negotiations are ongoing here and we are very cognisant of the business disruption risks to customers and our ability to serve them, as well as to our own prospects of successful recovery.

The APS itself, while conceptually straightforward, has enormous operational complexity which is taking time to resolve. For example, HMG has requested regular reporting on up to one billion lines of data covering assets in the scheme and our own systems and data quality are not well designed for the APS purpose. The principal commercial aspects of the APS announced in February remain in place including coverage and pricing on the basis of asset evaluation as from 1 January, 2009. The overall economic impact of the APS, in conjunction with RBS's own extensive restructuring measures laid out herein, is expected to enable RBS to meet the FSA stress tests during its restructuring period. However, issues still outstanding include the final sign-off of assets to be covered, confirmation of the price of the coverage in the light of completed due diligence and state aid requirements and some detailed aspects of the structure of the scheme. Accordingly until these issues can be confirmed and state aid approval has been received care must be taken in assessing the complete economic impact on RBS of the APS. Discussion on these points continues and we will provide updates when we can. APS's merits will be more fully assessed at the time a general meeting is necessary for shareholder approval.

In the Limelight

We are in the limelight - understandably but uncomfortably so.

Everyone at RBS is acutely aware of the fact that we are in a fortunate position to be able to restructure the Bank with the support of the UK Government behind us. This support exists because of our central position in the fabric of society and the economy, both in the UK and internationally. With that come responsibilities large and small to our shareholders, customers, staff and the communities where we do business. Our mission is to fulfil them all and remake RBS as a premier financial institution by serving our customers better. This will enable us to restore our financial strength, allowing the UK Government to sell down its investment in us, at a profit.

And it would be wrong not to acknowledge the effectiveness of UKFI - our new majority shareholder - in treading a constructive and commercial but demanding and engaged path. "Fidelity with nuclear weapons" they are dubbed in the press - an apposite if colourful description.

However, we especially, but all banks too, have become regrettably high profile. We sometimes feel as if commentators variously want us to go back to over-lending, to operate on a 'not-for-profit' basis, to never entertain a client and to offer employment conditions that deter the best and brightest. Oh yes, and at the same time to pull off a recovery enabling taxpayers to recoup the support given. Thankfully, our serious engagement with Government, Central Banks, Regulators, customers and other political parties is generally more balanced and insightful.

Chief Executive's letter to shareholders (continued)

Fulfilling lending commitments

One of the fundamental changes in the wider economic environment is a shift in power from borrowers to savers following the end of the credit boom. This means banks' borrowing costs are often much higher than reference rates like the Bank of England Base Rate. We need to charge borrowers higher margins in return to simply do no more than stay even, though customers' absolute cost of borrowing is generally much reduced. Borrowers have found this a difficult transition and there is understandably much public discourse on the issue. But today's results make crystal clear, that RBS is making less profit from banking customers than before, not more, and currently not enough to return to the financial stability that is necessary.

Against a recessionary backdrop we face a challenge of finding enough credit worthy borrowers wishing to take on new debt when their own business prospects and customer demand is weaker. This is, of course, normal in a recession as most prudent households and companies aim to reduce debt levels. And indeed, without increased saving overall, soundly based economic recovery will be difficult.

Our UK lending performance in the first half of the year reflects these factors and is detailed fully on page 20 herein. I am pleased to report that we have made new loans totalling £36 billion to UK homeowners and businesses in the first half. This includes a healthy proportion of mortgage loans to first time buyers and 100,000 loans to businesses, representing an 85% acceptance rate in the SME sector.

However, customers have also been actively paying down existing debt and have not been increasing overdraft borrowing. And despite our lending successes, loan applications by small businesses in the half were 37% down on the prior year. As a result, while we are on track to grow net mortgage lending by £9 billion as planned, achieving the business lending targets remains challenging.

But we are only four months into the period of our lending commitments. We will continue doing everything we can to make loans available to creditworthy customers at fair rates. Let there be no doubt we want to support our customers and are ready, willing and able to increase lending in line with our undertakings if the demand is there.

Our People

At the heart of all we need to do lie our people. Those with accountability for past mistakes have gone. Looking forward, however, if we are to change, recover and to serve customers well it will be because we can retain, attract and motivate good people - for whom there are always alternative jobs.

Our people have also suffered - financially, in their job security, dented pride in RBS and from relentless media hostility and controversy. I would like to be clear. They are doing a great job overall. Without their efforts, enthusiasm, dedication and resilience we would surely fail in our recovery mission.

We have needed to make important changes. We are doing this swiftly to minimise uncertainty.

Chief Executive's letter to shareholders (continued)

People represent half of our operating costs so it is deeply regrettable but inevitable that job losses are happening. We will continue to put communication with staff and their representatives first and be as transparent and open in the process as we can be. We believe this approach is the most appropriate for the position we are in and intend to stick to it. I am pleased that fewer than 25% of the job cuts we have made to date in our UK banking businesses have resulted in compulsory redundancy. We want to keep this figure as low as we can.

Our new Chairman, Philip Hampton, has made substantial progress in restructuring our Board to be smaller, more focused and with a new composition. Since October 2008, 12 members have left and five have joined. Today I am also very pleased to welcome our new Finance Director, Bruce Van Saun. His recruitment completes our new Executive Committee line up, all 9 members of which are new to role over the last 18 months.

One of the most difficult issues we face is balancing our need to attract, retain and reward talented staff whilst making reforms to pay in a way that recognises the reality of the position we are in and how society views our sector. For right or for wrong, in all walks of life, the pay levels people are offered for doing similar jobs elsewhere are a key benchmark. We know to our cost, having suffered significant resignations of valuable staff members this year, that we cannot ignore competitor pay practices or we will fail as a business. However, we can and have led in the way that we structure our rewards to staff and we hope that the rest of the industry follows this lead. Unusually among banks, bonuses across the RBS Group where merited are now subject to deferral and clawback as standard.

The risks we face

The magnitude and urgency of the change we need to bring about is a major additional challenge to delivering 'business as usual'. This has its risks and opportunities. These range from how good we prove to be at delivering our plans, to the pace of economic recovery and impact of unforeseen events. The five main risk factors I believe that we need to be alert to are:

- the economic environment,
- our ability to sell or run down those businesses that we are seeking to exit,
- how long it takes us to get to a position whereby we lend only what we take in deposits, and the stability of funding along the way,
-

regulatory pressure and requirements from the EU, from HMG (especially around the APS) and from regulators, in particular the Financial Services Authority, and

- our own ability to implement the plans we have set out.

There is much that we can and are getting on with now and although I cannot be certain how long it will take us to achieve our vision, or how difficult the journey will be, I am confident that we have the right people and the right roadmap to get there.

Chief Executive's letter to shareholders (continued)

Towards the new RBS

There is every sign that our financial performance over the next two years, at a Group level, will be poor due to the severe economic downturn in 2008 and 2009 and consequent impact on impairments and funding costs. But, once successfully restructured, each of our businesses will be highly attractive and valuable in its own right. Each will have a strong customer base, offer shareholders a sustainable return and potential for growth, and each will be disciplined in its use of capital and funding.

We will have businesses that are connected and that work together; sharing costs and expertise to improve the service they provide to customers, and doing so more efficiently. In addition, across RBS as a whole, our businesses will 'complement' each other so that we have a balanced mix of funding sources, ways of generating income, stable earnings and options for growth.

This combination of operational synergy and a balanced portfolio means that each business will have a greater value as part of RBS than it does standing alone. But we will continue to be rational in assessing our business mix and changes may occur where so merited.

There is a lot of hard work to be done before we know the level of success and therefore the ultimate value of the restructuring plan and of RBS. But I am heartened and encouraged by the effort, determination and commitment that I see from colleagues across the Group. They are rising to what is probably the greatest professional challenge we will ever face. At the end of it, I believe we will have earned our way back to the respect, self and otherwise, that our company so badly needs.

Stephen Hester

Group Chief Executive

Gogarburn, Edinburgh

7 August 2009

Business and strategic update

Financial performance - pro forma results

Group organisational structure

Following the conclusion of the Strategic Review, the Group has realigned its Core divisions, including in particular the separation of RBS UK into UK Retail and UK Corporate. A Non-Core division has also been established to manage and run off or dispose of a number of assets and businesses that do not meet the Group's target criteria. Further details of the new divisional structure are on page 27. The initial discussion of Group performance relates to both Core and Non-Core operations. Commentary on divisional performance on pages 31-55 relates to Core activities only.

Group operating performance

The Group delivered strong income generation, up 27% to £14,791 million, with expenses up 4% to £8,733 million to yield operating profit before impairment losses of £4,167 million in the first half of 2009, compared with £1,331 million in the first half of 2008. At constant exchange rates, income rose by 21% while costs declined by 5%, with Group operating profit before impairment losses up 270%. Impairments, however, rose sharply to £7,521 million, compared with £1,479 million in the first half of 2008. Over 70% of the impairment costs arose in the Non-Core division, but the Group also experienced a significant rise in credit costs in all core divisions, reflecting the continuing deterioration in economic conditions. Approximately 70% of the impairments and write-downs incurred in the first half are attributable to assets covered by the Asset Protection Scheme, subject to any changes to the Scheme, where some important issues remain open.

After a gain of £3,790 million on the redemption of a number of outstanding debt securities, the Group recorded profit before tax, excluding the write-down of goodwill and other intangible assets, of £15 million, compared with a loss of £726 million in the same period of 2008. After tax, minority interests and preference share dividends the loss attributable to ordinary shareholders was £1,042 million, up 26% from the loss recorded in the first half of 2008. This represents a basic loss per ordinary share of 2.2p, including discontinued operations.

Group margin

Group net interest margin fell to 1.69%, compared with 2.07% in the first half of 2008 and 2.08% for the full year 2008. While new business asset margins have improved, these will take some time to feed through to the back book and have so far fallen well short of the increase in funding costs. In the very low interest rate environment prevailing in all the Group's major markets, deposit pricing floors and active competition have compressed liability margins. In addition, markedly increased costs of term funding and of increasing our stock of liquid assets have contributed to the reduction in net interest margin.

In these prevailing conditions, margins in the core banking divisions are expected to remain under pressure in the second half.

Business and strategic update (continued)

Group credit and risk metrics

Loan impairments increased to £6,796 million in the first half, representing 2.25% of gross loans and advances excluding reverse repos, on an annualised basis, compared with 0.83% in the first half of 2008 and 1.33% in the second half of 2008. Impairments continued to increase in the second quarter, particularly in the Group's UK retail and corporate banking divisions, and included an incremental provision on our UK corporate book, to reflect the materially increased flow of companies into restructuring during the period. While a degree of stabilisation has occurred in financial markets, the impact of economic recession continues to feed through into the Group's credit portfolios.

Non-performing and potential problem loans at 30 June 2009 totalled £31.0 billion, an increase of 246% from 30 June 2008, or 236% at constant exchange rates, and of 63% from 31 December 2008, or 69% at constant exchange rates. These categories represented 5.08% of gross loans and advances, excluding reverse repos, compared with 1.47% at 30 June 2008 and 2.69% at 31 December 2008.

Provision coverage was 44%, a decrease of 12% compared with 30 June 2008 and a decrease of 6% compared with 31 December 2008. The declining trend is mainly attributable to the increasingly secured composition of the Group's non performing loan portfolio. In addition, during the first half of 2009, a small number of large corporate exposures assessed as requiring limited provisions, because of the structure of the transactions and the expected restructuring outcomes, moved into the non-performing category.

The availability of equity funding in the capital markets has provided some relief to companies, particularly in the UK, but corporate default rates have continued to rise. While personal unsecured lending has been reduced, arrears on these exposures have continued to increase, in line with rising unemployment trends. Arrears on residential mortgage lending have risen more modestly, with the arrears rate on the NatWest and RBS UK mortgage portfolio increasing to 1.8% at 30 June 2009 from 1.16% at 30 June 2008 and 1.5% at December 2008. The average loan-to-value for new business was 65% in the first half of 2009 versus 67% for 2008.

The Group has made good progress in strengthening its risk management practices, with the implementation of updated limit frameworks for credit and market risk and further refinement of the credit approval process.

Business and strategic update (continued)

Group balance sheet, capital and funding

The Group made good progress in its financial restructuring during the first six months of 2009, achieving a reduction of £574 billion in total assets to £1,644 billion - a fall of 26%. Excluding mark-to-market derivative assets, third party assets were reduced by £139 billion to £1,089 billion, principally reflecting substantial repayments of loans to banks and customers and a reduction of 17%, or 13% in constant currency terms, in trading assets. Mark-to-market derivative assets fell by 44% to £556 billion, with a corresponding fall in derivative liabilities.

Group risk-weighted assets totalled £547.3 billion at 30 June 2009, an increase of £55.6 billion from June 2008 but a decrease of £30.5 billion from December 2008. Although the Group has continued to reduce its balance sheet throughout the half year, the pro-cyclical effects of the Basel 2 methodology have resulted in higher risk-weightings. Undrawn facilities and other commitments to lend have been reduced to £296.6 billion, down 6% from June 2008 and 15% from December 2008. The effect of currency movements during the latter half of 2008, in particular the marked weakening of sterling against the dollar, has been partially reversed during the first half of 2009. On a constant currency basis RWAs were up 4% from June 2008 and flat compared with December 2008.

The Group's Core Tier 1 ratio at 30 June 2009 was 6.4%, compared with 5.3% a year earlier, reflecting the preference share conversion and debt exchange carried out earlier this year, as well as 2008 equity issuance.

In April, the Group concluded a series of exchange offers and tender offers with the holders of a number of Tier 1 and Upper Tier 2 securities which resulted in an aggregate pre-tax gain of £4.6 billion, of which approximately £3.8

billion was taken through income and the remainder through equity.

The Asset Protection Scheme announced in February and related capitalisations, when concluded, is expected to further strengthen the Group's capital ratios, as the assets covered by the Scheme will carry lower risk weightings as a result of UK Government asset insurance. This augments the impact of RBS's own extensive restructuring measures. The scheme is currently expected to provide approximately £150 billion of risk-weighted asset relief. In addition, HM Treasury will subscribe to a total of £19.5 billion of new B Shares qualifying as capital on implementation of the APS, with a further £6 billion as a contingent reserve. The APS should strengthen Core Tier 1 by more than 5% pro forma. This figure is RBS's current estimate and subject to finalisation of the detailed terms and conditions, confirmation of asset eligibility and pricing (all of which require state aid approval) and without taking account of the £6 billion contingent tranche of B share issuance outlined in February.

Business and strategic update (continued)

While the quantum of funding available in the markets has increased, funding costs remain high compared with pre-crisis levels. Money market conditions have improved, with spreads between Libor and overnight indexed swap rates narrowing somewhat, though they remain substantially in excess of average levels experienced in previous years. The short and medium end of the yield curve remains steep.

The Group's average credit spreads in the first half were significantly higher than in the same period of 2008 but spreads have now narrowed from their peaks. During the period the Group was able to resume issuance of term debt without the requirement for a government guarantee and has made significant progress towards extending the maturity profile of its funding. It has also made good progress in building up its liquidity portfolio, although this has been at the expense of margins.

The Group's loan:deposit ratio improved from 152% at December 2008 to 144% at June 2009. Each division has been set targets for further improvements in this ratio over the next five years, and these are outlined on page 22.

Core Bank

The Core Bank achieved a good recovery in operating performance in the first half, with underlying operating profit before tax, purchased intangibles amortisation, gain on redemption of own debt, strategic disposals, write-down of goodwill and other intangibles, integration and restructuring costs, up 33% to £6,294 million.

Operating income grew strongly, reflecting favourable trading conditions during the first half, with strong volumes and volatility benefiting Global Banking & Markets. There were more modest improvements in Wealth and Global Transaction Services, offset to a significant degree by increased funding costs. The core UK retail and corporate banking businesses put in a resilient performance, with severe margin attrition from higher deposit and funding costs but some improvement in new asset margins. Non-interest income was also affected by slower economic conditions. Total income rose by 25%, or 16% on a constant currency basis, to £17,793 million, with net interest income 8% lower at £6,043 million and non-interest income 54% higher at £11,750 million.

Expense discipline remained good, both in the customer-facing divisions and in Manufacturing operations, with total expenses up 7% to £7,745 million. On a constant currency basis, expenses were reduced by 2%. Operating profit before impairment losses increased by 57% to £8,471 million, or by 45% at constant exchange rates. The Group has made good progress in its £2.5 billion expense reduction programme, with £0.6 billion of cost savings delivered in the first half.

Impairments increased markedly across all banking divisions, totalling £2,177 million, an increase of 225% from the first half of 2008. Impairments in the second quarter were 11% higher than in the first, with a small net recovery in GBM but incremental impairments taken to reflect the accelerating flow of credit problems in the UK corporate sector, and a further increase in personal delinquencies in the UK and US, in line with the continuing deterioration in economic conditions and the rising level of unemployment.

Business and strategic update (continued)

Non-Core Division

Non-Core division third party assets at 30 June 2009, including derivatives, totalled £231.1 billion, down from £324.7 billion at 31 December 2008. The division recorded an operating loss of £9,648 million in the first half, driven largely by credit market and other write-downs of £4.2 billion and impairments of £5.3 billion. Approximately 44% of the assets of the Non-Core division are expected to be covered by the Asset Protection Scheme.

The Group has established targets for a reduction of approximately £230 billion in Non-Core's third party assets, excluding derivatives mark to market, by 2013, as compared with December 2008. This includes asset run-off of approximately £200 billion as well as £50 billion to £60 billion of asset sales, offset by rollovers and additional drawings. Achieving this run-off profile will depend on sufficient recovery in market conditions to allow assets to be disposed of at acceptable valuations, and on the securitisation or sale of some APS assets in the outer years of the five year plan, for which HM Treasury's permission may be needed.

Disposals

In January the Group announced that it had disposed of its 4.26% equity stake in Bank of China for a net consideration of £1.6 billion.

In April 2009 the Group disposed of its 50% stake in Linea Directa Aseguradora to its joint venture partner, Bankinter, for a cash consideration of €426 million. This disposal is consistent with the Group strategy announced on 26 February 2009. As a 50/50% joint venture, Linea Directa Aseguradora had operated as a largely independent Spanish insurance operation with limited connection to the Group.

RBS announced on 4 August 2009 that it had reached agreement with ANZ on the sale of a number of its Asian assets, and remains in advanced discussions on the sale of its remaining Asian retail and commercial businesses.

Asset Protection Scheme

Although full documentation of the Asset Protection Scheme has not yet been finalised, the key terms of the APS were agreed in principle and announced in February. RBS's most recent APS submission is for coverage of assets with a gross value of £316 billion and a carrying value, net of impairments and write-downs incurred before 1 January 2009, of £294 billion. These assets are individually identified and documented and comprise primarily corporate loans, bonds and mortgages, as well as more complex credit exposures such as collateralised debt obligations and derivative transactions with monoline insurers.

Subject to the detailed terms and conditions of the Scheme and state aid approval, RBS will bear the first loss on these specified assets up to £19.5 billion, plus historical impairments and write-downs. Once this first loss is exceeded, HMT will bear 90% of further losses, while the remaining 10% of the losses will remain with RBS. The APS applies to losses incurred on or after 1 January 2009 in respect of assets held on RBS's balance sheet as at 31 December 2008.

Business and strategic update (continued)

The Group will pay a fee of £6.5 billion for this protection. In addition, it has agreed to forgo certain tax reliefs, including the ability to carry back 2008 losses to 2007. RBS's agreement to forfeit these tax reliefs will continue until 31 December 2013 when the Group returns to profitability, whichever occurs earlier. The cost of this tax agreement will depend on results but is currently estimated at £9-11 billion.

Before RBS's participation in the APS can begin, state aid clearance must also be received by the UK Government from the European Commission in respect of all aspects of the scheme including asset coverage and pricing. As referenced in the Chief Executive's letter on page 10, both the terms of the APS announced in February and the asset coverage outlined above remain open and may change as negotiations continue with HM Treasury and the European Commission regarding the Scheme. This remains an important risk factor for RBS.

UK Lending Commitments

In February, as a result of the APS, the Group agreed to make available an additional £25 billion of lending to creditworthy customers on commercial terms, and subject to market demand, over the ensuing 12 months, and a similar amount over the following year. In the first four months since entering into this commitment RBS has achieved strong results in the mortgage market, with gross lending over £7 billion despite generally weak demand, and remains on track to achieve its targets. UK mortgage balances, including Ulster at 30 June 2009 totalled £80.8 billion, up 9% year on year and 5% higher than at the end of 2008.

In business markets, RBS has achieved gross new lending of £28.6 billion. However, demand has been comparatively muted, with companies cutting inventories and expansion plans and reducing their bank borrowing requirements. Additionally, the anticipated withdrawal of non-UK and wholesale-funded lenders which has characterised the mortgage market has not occurred in corporate markets, and the anticipated "gap" in the market for creditworthy corporate borrowers has not emerged. After taking account of loan repayments and overdraft movements, RBS's UK business lending, including Ulster, at 30 June 2009 totalled £155.1 billion, a decrease of 1% from 30 June 2008 and a decline of 4% since the end of 2008.

In the SME segment of business markets, gross lending in the first half totalled £17 billion notwithstanding weaker demand. However, repayments have been accelerating since the third quarter of 2008, leaving balances at the end of June of £66.6 billion, up 2% from June 2008. As a result of RBS's price pledge, 94% of customers who renewed their overdrafts in the second quarter of 2009 did so at the same margin or lower and in June, the average interest rate paid by customers on term loans was half its level a year earlier. Total credit applications in the first half were down 22% on the same period of 2008. While there has been some recovery in recent months in the number of applications for term loans, the average size of each application has fallen, reflecting, among other factors, falling property values. As a result, term loan applications by value were 37% lower. The acceptance rate across all categories of SME credit remains stable at 85%.

Among larger corporates, RBS advanced £12 billion of gross new lending in the first half. However, many larger companies are actively deleveraging, and RBS has helped many of its clients to raise new finance in the equity and bonds markets, which has been used to reduce bank borrowing substantially. Demand for acquisition finance remains minimal.

Business and strategic update (continued)

RBS has undertaken a range of initiatives aimed at demonstrating that it remains open for business, and is determined to do its part in meeting demand for lending from creditworthy homeowners and businesses. There have been some recent signs of a modest increase in demand in certain segments of the market, but in the absence of a more general recovery in borrowing appetite the targets will remain challenging.

	30 June 2008 £bn	31 December 2008 £bn	Gross lending during H1 2009 £bn	Net lending during H1 2009 £bn	30 June 2009 £bn
Mortgages	74.2	76.7	7.2	4.1	80.8
Total Business	156.8	162.4	28.6	(7.3)	155.1
SME	65.0	66.9	17.0	(0.3)	66.6
Mid-corporate	47.3	49.4	7.3	(2.6)	46.8
Large corporate	44.5	46.1	4.3	(4.4)	41.7
Total Lending	231.0	239.1	35.8	(3.2)	235.9

Lending figures represent drawn balances, with the exception of Large Corporate figures, which are committed lending (as per RBS's Lending Commitments agreement). Wealth lending balances, unsecured personal lending and non-UK lending are not included in the above data.

Customer Franchises

Crucial to the Group's prospects for future success and return to standalone health is the resilience of its customer franchises. It was, therefore, significant that, excepting the extensive activities earmarked for restructuring, run-off or exit, RBS generally sustained its customer market positions during the first half despite the headwinds of reputational damage and financial weakness. In the UK personal sector, the RBS and NatWest banking brands made good headway, increasing the number of current account customers to 12.6 million, up 3% from June 2008, and the number of savings accounts to 9.7 million, up 18%. Our mortgage business has also made particularly good progress despite weak market demand, driven by the requirement to fulfil our lending commitments with market share increased from historically modest levels as wholesale-funded lenders have pulled out of the market. UK Corporate maintained its market-leading position among businesses, ranking first in customer satisfaction. Ulster Bank increased consumer accounts by 5%, while Citizens achieved good success in converting mortgage customers into checking account customers, with checking accounts up 2% to 4.1 million, and increased the number of business checking account customers by 3%. In GBM, good progress was made in chosen market positions, moving from fifth to fourth in the Euromoney global foreign exchange rankings and sustaining top 3 positions in key government bond markets. A number of other market shares slipped back, reflecting deliberate strategy and business disruption. RBS Insurance achieved a strong performance, with own-brand motor policies up 8% and own-brand non-motor policies also up 8%.

Business and strategic update (continued)

Core Bank - divisional targets

As part of the Group's strategic plan, targets have been established for each division. These targets do not constitute forecasts, but it is the Group's intention to make measurable progress towards these goals during the period covered.

Return on equity for the banking divisions is defined as divisional operating profit (after tax) divided by divisional notional equity (based on 7% of divisional risk-weighted assets (except for Global Banking & Markets, 10% and UK Corporate, 8% of RWAs) adjusted for regulatory capital deductions.

UK Retail

	Return on equity %	**Cost:income %**	**Loans:deposits %**
2011	>1	<60	<120
2013	>15	c.50	<105

UK Corporate

	Return on equity %	**Cost:income %**	**Loans:deposits %**
2011	>5	<45	<135
2013	>15	<35	<130

GBM

	Return on equity %	**Cost:income %**
2011	c15	<65
2013	15-20	c.55

GTS

	Return on equity %	**Cost:income %**	**Loans:deposits %**
2011	n.m.	c.55	<25
2013	n.m.	<50	<20

Wealth

	Return on equity %	**Cost:income %**	**Loans:deposits %**
2011	n.m.	<60	<35
2013	n.m.	<50	<30

Ulster Bank

	Return on equity %	**Cost:income %**	**Loans:deposits %**
2011	>0	<75	<175
2013	>15	c.50	<150

US Retail & Commercial

	Return on equity %	Cost:income %	Loans:deposits %
2011	c.10	<70	<90
2013	>15	<55	<90

Insurance

	Return on equity %	Cost:income less claims %
2011	>15	<70
2013	>20	<60

Outlook

The exceptionally favourable market conditions from which GBM benefited in the first half of 2009 are not expected to continue in the second half, and this is likely to have a material effect on Core Bank operating income. In the retail and corporate banking divisions, income is expected to be more stable. Costs are expected to remain well controlled, while impairments are expected to remain at elevated levels. Restructuring charges will continue to be a feature over the next three years.

Summary consolidated income statement

for the half year ended 30 June 2009 - pro forma (unaudited)

In the income statements set out below, amortisation of purchased intangible assets, gain on redemption of own debt, strategic disposals, write-down of goodwill and other intangible assets and integration and restructuring costs are shown separately. In the statutory condensed consolidated income statement on page 147, these items are included in income and operating expenses as appropriate. First half 2008 and full year 2008 have been restated for the amendment to IFRS 2 'Share-based payment'.

	First half	First half		Full Year
	2009	2008	Change	2008
	£m	£m	%	£m
Core				
Net interest income	**6,043**	6,581	(8)	13,587
Non-interest income (excluding insurance net premium income)	**9,533**	5,235	82	6,127
Insurance net premium income	**2,217**	2,376	(7)	4,723
Non-interest income	**11,750**	7,611	54	10,850

Total income (1)	**17,793**	14,192	25	24,437
Operating expenses (2)	**(7,745)**	(7,218)	7	(13,856)
Profit before other operating charges	**10,048**	6,974	44	10,581
Insurance net claims	**(1,577)**	(1,589)	(1)	(3,217)
Operating profit before impairment losses	**8,471**	5,385	57	7,364
Impairment losses	**(2,177)**	(670)	-	(2,512)
Operating profit (3)	**6,294**	4,715	33	4,852
Non-Core				
Net interest income	**612**	920	(33)	2,177
Non-interest income (excluding insurance net premium income)	**(4,054)**	(3,946)	3	(7,001)
Insurance net premium income	**440**	485	(9)	986
Non-interest income	**(3,614)**	(3,461)	4	(6,015)
Total income (1)	**(3,002)**	(2,541)	18	(3,838)
Operating expenses (2)	**(988)**	(1,175)	(16)	(2,332)
Operating loss before other operating charges and impairment losses	**(3,990)**	(3,716)	7	(6,170)
Insurance net claims	**(314)**	(338)	(7)	(700)
Impairment losses	**(5,344)**	(809)	-	(4,920)
Operating loss (3)	**(9,648)**	(4,863)	98	(11,790)

For definitions of the notes see page 26.

Summary consolidated income statement

for the half year ended 30 June 2009 - pro forma (unaudited) (continued)

	First half	First half		Full Year
Summary consolidated income statement	**2009**	2008	Change	2008
	£m	£m	%	£m
Total				
Net interest income	**6,655**	7,501	(11)	15,764
Non-interest income (excluding insurance net premium income)	**5,479**	1,289	-	(874)

Insurance net premium income	**2,657**	2,861	(7)	5,709
Non-interest income	**8,136**	4,150	96	4,835
Total income (1)	**14,791**	11,651	27	20,599
Operating expenses (2)	**(8,733)**	(8,393)	4	(16,188)
Profit before other operating charges	**6,058**	3,258	86	4,411
Insurance net claims	**(1,891)**	(1,927)	(2)	(3,917)
Operating profit before impairment losses (3)	**4,167**	1,331	-	494
Impairment losses	**(7,521)**	(1,479)	-	(7,432)
Operating loss (3)	**(3,354)**	(148)	-	(6,938)
Amortisation of purchased intangible assets	**(140)**	(262)	(47)	(443)
Integration and restructuring costs	**(734)**	(316)	132	(1,357)
Gain on redemption of own debt	**3,790**	-	-	-
Strategic disposals	**453**	-	-	442
Operating profit/(loss) before tax (4)	**15**	(726)	-	(8,296)
Tax	**412**	303	36	1,280
Profit/(loss) from continuing operations	**427**	(423)	-	(7,016)
Loss from discontinued operations, net of tax	**(58)**	(41)	41	(86)
Profit/(loss) for the period	**369**	(464)	180	(7,102)
Minority interests	**(554)**	(148)	-	(412)
Preference share and other dividends	**(546)**	(215)	154	(596)
Loss attributable to ordinary shareholders before write-down of goodwill and other intangible assets	**(731)**	(827)	(12)	(8,110)
Write-down of goodwill and other intangible assets	**(311)**	-	-	(16,196)
Loss attributable to ordinary shareholders	**(1,042)**	(827)	26	(24,306)

For definitions of the notes see page 26.

Condensed consolidated statement of comprehensive income

for the half year ended 30 June 2009 (unaudited) - pro forma

	First half	First half	Full year
	2009	2008	2008
	£m	£m	£m
Profit/(loss)/ for the period	**58**	(464)	(23,298)

Other comprehensive income:			
Available-for-sale financial assets	**(1,633)**	(1,615)	(7,270)
Cash flow hedges	**521**	(123)	(405)
Currency translation	**(2,447)**	733	7,327
Actuarial losses on defined benefit plans	**-**	-	(1,807)
Tax on other comprehensive income	**408**	491	2,572
Other comprehensive income for the period, net of tax	**(3,151)**	(514)	417
Total comprehensive income for the period	**(3,093)**	(978)	(22,881)
Attributable to:			
Equity shareholders	**(3,146)**	(936)	(23,148)
Minority interests	**53**	(42)	267
	(3,093)	(978)	(22,881)

Summary consolidated balance sheet

at 30 June 2009 (unaudited) - pro forma

	30 June 2009 £m	31 December 2008 £m
Loans and advances to banks	**83,700**	129,499
Loans and advances to customers	**640,762**	731,265
Debt securities and equity shares	**243,279**	275,357
Derivatives and settlement balances	**579,134**	1,009,307
Other assets	**97,570**	73,265
Total assets	**1,644,445**	2,218,693
Owners' equity	**55,666**	58,879
Minority interests	**2,123**	5,436
Subordinated liabilities	**32,106**	43,678
Deposits by banks	**179,743**	262,609
Customer accounts	**490,282**	518,461
Derivatives, settlement balances and short positions	**594,914**	1,023,673
Other liabilities	**289,611**	305,957
Total liabilities and equity	**1,644,445**	2,218,693

Key metrics (pre-APS)

	First half 2009	First half 2008	Change	Full Year 2008
Performance ratios				
Return on equity (5)	**(18.1%)**	(2.0%)	(1610bp)	(13.9%)
Net interest margin	**1.69%**	2.07%	(38bp)	2.08%
Cost:income ratio (8)	**59.0%**	72.0%	(1,300bp)	78.6%
Adjusted cost:income ratio (9)	**67.7%**	86.3%	(1,860bp)	97.0%
Basic loss per ordinary share from continuing operations	**(2.1p)**	(6.4p)	4.3p	(146.2p)

	30 June 2009	30 June 2008		31 December 2008
Capital and balance sheet				
Funded balance sheet (10)	**£1,088.6bn**	£1,247.9bn	(13%)	£1,227.2bn
Risk-weighted assets	**£547.3bn**	£491.7bn	11%	£577.8bn
Core tier 1 ratio	**6.4%**	5.3%	110bp	5.9%
Tier 1 ratio	**9.0%**	8.6%	40bp	9.9%
Non-performing loans	**£30.7bn**	£8.8bn	-	£18.8bn
Non-performing loans as a % of loans and advances	**5.01%**	1.45%	356bp	2.67%
Provision balance as % of NPL/PPLs	**44%**	57%	(1,200bp)	50%
Loan:deposit ratio	**144.5%**	137.3%	720bp	152.4%
Tier 1 leverage ratio (6)	**21.7x**	28.7x	(24%)	21.2x
Tangible equity leverage ratio (7)	**3.0%**	2.1%	90bp	2.4%
Net tangible equity per share	**58.0p**	159.5p	(64%)	73.8p

Notes:

(1) Excluding gain on redemption of own debt and strategic disposals.

(2) Excluding purchased intangibles amortisation, write-down of goodwill and other intangible assets, integration and restructuring costs.

(3) (Loss)/profit before tax, purchased intangibles amortisation, gain on redemption of own debt, strategic disposals, write-down of goodwill and other intangible assets, integration and restructuring costs.

(4) Excluding write-down of goodwill and other intangible assets.

(5) Loss before tax, purchased intangibles amortisation, integration and restructuring costs, gain on redemption of own debt, strategic disposals and write-down of goodwill and other intangible assets divided by average ordinary shareholders equity.

(6) The Tier 1 leverage ratio is based on total tangible assets (after netting derivatives) divided by Tier 1 capital.

(7) The tangible equity leverage ratio is based on total tangible equity divided by total tangible assets (after netting derivatives).

(8) The cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above.

(9) The adjusted cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above and after netting insurance claims against income.

(10) Funded balance sheet is defined as total assets less derivatives.

Description of business

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through the RBS and NatWest networks of branches and ATMs in the United Kingdom, and also through telephone and internet channels.

UK Corporate is a provider of banking, finance, and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

Wealth provides private banking and investment services in the UK through Coutts & Co and Adam & Company, offshore banking through RBS International, NatWest Offshore and Isle of Man Bank, and international private banking through RBS Coutts.

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 division is organised along seven principal business lines: money markets; rates flow trading; currencies; commodities (including RBS Sempra Commodities LLP, the commodities-marketing joint venture between RBS and Sempra Energy); equities; credit markets and portfolio management & origination.

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, and 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.

Ulster Bank is the leading retail and commercial bank in Northern Ireland and the third largest banking group on the island of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division which has a network of branches and operates in the personal and bancassurance sectors, while its Corporate Markets division provides services to SME business customers, corporates and institutional markets.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states. It ranks among the top five banks in New England and the Mid Atlantic regions.

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 Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

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 is the Group's centre of excellence for managing large-scale and complex change.

Description of business (continued)

Central items comprises group and corporate functions, such as treasury, funding and 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.

Non-Core Division manages separately assets that the Group intends to run off or dispose of. The division contains a range of businesses and asset portfolios primarily from the GBM division, linked to proprietary trading, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of other portfolios and businesses including regional markets businesses that the Group has concluded are no longer strategic.

Divisional performance

The operating profit/(loss) of each division before amortisation of purchased intangible assets, write-down of goodwill and other intangible assets, integration and restructuring costs, gain on redemption of own debt and strategic disposals.

	First half 2009 £m	First half 2008 £m	Change %	Full Year 2008 £m
Operating profit before impairment losses				
UK Retail	**877**	954	(8)	1,772
UK Corporate	**872**	1,035	(16)	1,965
Wealth	**240**	190	26	377
Global Banking & Markets	**5,110**	1,132	-	(774)
Global Transaction Services	**509**	497	2	1,103
Ulster Bank	**149**	190	(22)	324
US Retail & Commercial	**318**	417	(24)	965
RBS Insurance	**223**	300	(26)	626
Central items	**173**	670	(74)	1,006
Core	**8,471**	5,385	57	7,364
Non-Core	**(4,304)**	(4,054)	(6)	(6,870)
Group operating profit before impairment losses	**4,167**	1,331	-	494
Included in the above are movements in fair value of own debt of:				
Global Banking & Markets	**164**	584	(72)	357
Central items	**(93)**	228	(141)	875
	71	812	(91)	1,232

Impairment losses by division				
UK Retail	**824**	440	87	1,019
UK Corporate	**551**	96	-	321
Wealth	**22**	5	-	16
Global Banking & Markets	**237**	17	-	541
Global Transaction Services	**13**	4	-	48
Ulster Bank	**157**	18	-	106
US Retail & Commercial	**369**	126	193	437
RBS Insurance	**6**	-	-	42
Central items	**(2)**	(36)	(94)	(18)
Core	**2,177**	670	-	2,512
Non-Core	**5,344**	809	-	4,920
Group impairment losses	**7,521**	1,479	-	7,432
Operating profit/(loss) by division				
UK Retail	**53**	514	(90)	753
UK Corporate	**321**	939	(66)	1,644
Wealth	**218**	185	18	361
Global Banking & Markets	**4,873**	1,115	-	(1,315)
Global Transaction Services	**496**	493	1	1,055
Ulster Bank	**(8)**	172	(105)	218
US Retail & Commercial	**(51)**	291	(118)	528
RBS Insurance	**217**	300	(28)	584
Central items	**175**	706	(75)	1,024
Core	**6,294**	4,715	33	4,852
Non-Core	**(9,648)**	(4,863)	98	(11,790)
Group operating loss	**(3,354)**	(148)	-	(6,938)

Divisional performance (continued)

	First half	First half		Full Year
	2009	2008	Change	2008
	£m	£m	%	£m
Analysis of impairment losses				
Loan impairment losses	**6,796**	1,406	-	6,478
Impairment losses on available-for-sale securities	**725**	73	-	954
Total impairment losses	**7,521**	1,479	-	7,432
	2.22%	0.46%	176bp	0.91%

Loan impairment charge as % of gross loans and advances
excluding reverse repurchase agreements

	30 June 2009 £bn	30 June 2008 £bn	31 December 2008 £bn
Risk-weighted assets by division			
UK Retail	**54.0**	44.7	45.7
UK Corporate	**85.1**	84.9	81.5
Wealth	**10.5**	10.4	11.0
Global Banking & Markets	**126.6**	137.7	166.5
Global Transaction Services	**16.7**	16.9	17.1
Ulster Bank	**26.2**	21.5	24.5
US Retail & Commercial	**55.6**	44.8	63.9
Other	**8.6**	8.2	7.0
Core	**383.3**	369.1	417.2
Non-Core	**164.0**	122.6	160.6
Total risk-weighted assets	**547.3**	491.7	577.8

UK Retail

	First half 2009 £m	First half 2008 £m	Change %	Full year 2008 £m
Net interest income	**1,684**	1,530	10	3,229
Net fees and commissions - banking	**658**	814	(19)	1,524
Other non-interest income (net of insurance claims)	**122**	139	(12)	227
Non-interest income	**780**	953	(18)	1,751
Total income	**2,464**	2,483	(1)	4,980
Direct expenses				
- staff	**(428)**	(445)	(4)	(924)
- other	**(221)**	(219)	1	(436)
Indirect expenses	**(938)**	(865)	8	(1,848)
	(1,587)	(1,529)	4	(3,208)

Operating profit before impairment losses	**877**	954	(8)	1,772
Impairment losses	**(824)**	(440)	87	(1,019)
Operating profit	**53**	514	(90)	753
Analysis of income by product:				
Personal advances	**609**	633	(4)	1,234
Mortgages	**480**	219	119	497
Personal deposits	**741**	998	(26)	2,013
Bancassurance	**122**	132	(8)	217
Cards	**416**	418	-	831
Other	**96**	83	16	188
Total income	**2,464**	2,483	(1)	4,980
Analysis of impairment by sector:				
Mortgages	**63**	13	-	31
Personal	**494**	255	94	568
Cards	**267**	172	55	420
	824	440	87	1,019
Loan impairment charge as % of gross customer loans and advances by sector				
Mortgages	**0.16%**	0.04%	12bp	0.04%
Personal	**7.01%**	3.29%	372bp	3.76%
Cards	**8.75%**	5.06%	369bp	6.67%
Total	**1.70%**	0.96%	74bp	1.09%

UK Retail (continued)

	First half 2009 £bn	First half 2008 £bn	Change %	Full year 2008 £bn
Performance ratios				
Return on equity (1)	**1.8%**	19.3%	(1,750bp)	13.7%
Net interest margin	**3.62%**	3.52%	10bp	3.62%
Cost:income ratio	**63.7%**	60.0%	370bp	62.1%

	30 June 2009	30 June 2008	Change	31 December 2008

	£bn	£bn	%	£bn
Capital and balance sheet				
Loans and advances to customers - gross				
- mortgages	**76.9**	69.7	10	72.4
- personal	**14.1**	15.5	(9)	15.1
- cards	**6.1**	6.8	(10)	6.3
Customer deposits (excluding bancassurance)	**83.4**	76.6	9	78.9
Assets under management - excluding deposits	**4.7**	6.6	(29)	5.7
Non-performing loans	**4.5**	3.3	36	3.8
Loan:deposit ratio (excluding repos)	**116.4%**	120.1%	(370bp)	118.9%
Risk-weighted assets	**54.0**	44.7	21	45.7

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

UK Retail banking income declined marginally with growth in net interest income offset by declining fees. However, impairment losses have continued to rise, reflecting the wider economic environment, and consequently the division reported a much reduced operating profit of £53 million in the first half.

Net interest income grew by 10% to £1,684 million, driven by growth in both loan and deposit balances. Net interest margin increased slightly to 3.62% (2008 - 3.52%), with improved asset pricing, primarily in mortgages, offsetting the impact of the low interest rate environment on savings margins. Continued competitive pressure on savings margins and reduced volumes in unsecured lending may put pressure on the net interest margin in coming periods.

Non-interest income declined 18% to £780 million. Of this decline, £117 million reflected the withdrawal of the single premium payment protection insurance product and lower related income due to higher claims, with the remainder being largely due to the impact of the weak economic environment on credit card, private banking and bancassurance fees.

Direct expenses were reduced by 2% to £649 million, with a 4% reduction in direct staff costs reflecting lower staff compensation and the benefits of cost saving initiatives. Indirect costs rose by 8% to £938 million, including the effect of an additional £61 million Financial Services Compensation Scheme Levy. Total costs increased by 4% and the cost:income ratio deteriorated to 63.7%.

UK Retail (continued)

Impairment losses increased by 87% to £824 million reflecting the deterioration in the economic environment, and its impact on customer finances. The mortgage impairment charge was £63 million (2008 - £13 million) on a total book of £76.9 billion, while the unsecured lending impairments charge was £761 million (2008 - £427 million) on a book of £20.2 billion. Impairment provisions have been increased to reflect the reduction in expected cash recoveries. In mortgages, arrears rates remain below the industry average as reported by the Council of Mortgage Lenders. Repossessions have not increased as RBS seeks to support its customers in difficult times wherever possible. Current expectations are for the upward pressure on impairments to continue for the remainder of this year and into 2010.

Loans and advances to customers increased by 6% with particularly strong growth in mortgage lending, which grew by 10%. The strong performance in mortgages reflects good volumes of new business delivered primarily through organic channels as well as very good customer retention resulting from a competitively priced product range. Gross mortgage lending market share increased to 10.5% (2008 - 6.5%) and the Group is on track to deliver its commitments to the Government on net lending. Unsecured lending has continued to slow reflecting reduced customer demand and rising risk.

Customer deposits have grown 9% reflecting the strength of the UK Retail customer franchise in an increasingly competitive environment and despite depressed market growth. This is essential in order to fund the increased lending. Personal current account customers increased 3% both year on year and annualised in the first half to 12.6 million. Personal savings accounts increased 18% year on year to 9.7 million. The division's loan:deposit ratio improved by 4 percentage points compared with June 2008 to 116%.

Risk-weighted assets increased 21% to £53.8 billion, reflecting the upward pressure from procyclicality, including the impact of rising default probability and reduced levels of expected recoveries reflecting house price declines.

RBS continues to progress towards a more convenient, lower cost operating model, with over 3.8 million active users of online banking. A record share of new sales was achieved through direct channels. In the first half 700,000 additional accounts switched to paperless statements, taking the total number of paperless accounts to 2.3 million. In support of this lower cost operating model there has also been a 6% FTE reduction year on year. In Branches, a significant number of 'Cash & Deposits Machines' (CDMs) have been rolled out, giving customers in 121 branches access to this technology. The machines can accept cheque, notes and coin deposits, and can provide an 'image' receipt for customer reassurance.

UK Corporate

	First half 2009 £m	First half 2008 £m	Change %	Full year 2008 £m
Net interest income	**1,006**	1,194	(16)	2,344
Net fees and commissions	**387**	377	3	791
Other non-interest income	**182**	218	(17)	388
Non-interest income	**569**	595	(4)	1,179
Total income	**1,575**	1,789	(12)	3,523
Direct expenses				
- staff	**(342)**	(368)	(7)	(752)
- other	**(106)**			