ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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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 2006

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

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Edinburgh EH12 1HQ, DEPOT CODE: 045

(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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Yes ¨ No x

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THE ROYAL BANK OF SCOTLAND GROUP plc

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2006 FIRST HALF HIGHLIGHTS

Income up 10% to £13,642 million.

Group operating profit* up 15% to £4,603 million.

Profit before tax up 23% to £4,511 million.

Profit after tax up 21% to £3,124 million.

Basic earnings per ordinary share up 17% to 93.1p.

Adjusted earnings per ordinary share up 10% to 95.2p.

Interim dividend 24.2p, representing one third of last year s total dividend.

Customer growth in all divisions.

Average loans and advances to customers up 17%.

Average customer deposits up 14%.

UK income up 7% to £9,821 million.

International income up 17% to £3,821 million.

Cost:income ratio down to 41.9% from 42.2%.

Overall credit quality strong.

Tier 1 capital ratio stable at 7.6%.

Total capital ratio up to 11.9%.

£800 million share buyback in the second half.

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* profit before tax, purchased intangibles amortisation and integration costs.

THE ROYAL BANK OF SCOTLAND GROUP plc

RESULTS SUMMARY

	First half 2006	First half 2005	Full year	
			Increase	2005
	£m	£m	£m	£m
Total income (1)	**13,642**	12,454	**1,188**	25,569
Operating expenses (2)	**5,948**	5,485	**463**	11,298
Operating profit before impairment losses (1,2)	**5,490**	4,847	**643**	9,958
Group operating profit (3)	**4,603**	4,000	**603**	8,251
Purchased intangibles amortization	**49**	42	**7**	97
Integration costs	**43**	281	**(238)**	458
Net gain on sale of strategic investments and subsidiaries				240
Profit before tax	**4,511**	3,677	**834**	7,936
Cost:income ratio (4)	**41.9%**	42.2%		42.4%
Basic earnings per ordinary share	**93.1p**	79.5p	**13.6p**	169.4p
Adjusted earnings per ordinary share (5)	**95.2p**	86.5p	**8.7p**	175.9p

(1) *excluding gain on sale of strategic investments.*
(2) *excluding purchased intangibles amortisation, integration costs and loss on sale of subsidiaries.*
(3) *profit before purchased intangibles amortisation, integration costs and net gain on sale of strategic investments and subsidiaries.*
(4) *the cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above, and after netting operating lease depreciation against rental income.*
(5) *adjusted earnings per ordinary share is based on earnings adjusted for purchased intangibles amortisation, integration costs and net gain on sale of strategic investments and subsidiaries.*

Sir Fred Goodwin, Group Chief Executive, said:

We have always placed great emphasis on organic income growth, operating efficiency and risk management, and these are again visible hallmarks of the Group s results. When coupled with growing customer numbers, increasing geographic diversity and strong capital discipline, the results demonstrate the strength of our business model for market conditions now, and its sustainability in the future .

THE ROYAL BANK OF SCOTLAND GROUP plc

GROUP CHIEF EXECUTIVE S REVIEW

Strong income growth, combined with disciplined control of both costs and credit quality, has enabled us to deliver another excellent set of results, with Group operating profit increasing by 15% to £4,603 million in the first half of 2006. Basic earnings per share increased by 17% to 93.1p and adjusted earnings per share by 10% to 95.2p.

Income increased by 10% to £13,642 million, maintaining the momentum that has been generated over the last five years; the growth is entirely organic demonstrating the strength of our business platform. All divisions have grown their income in challenging trading conditions, with particularly strong performances from Corporate Markets, Ulster Bank and Wealth Management. 46% of our income growth in the first half came from outwith the UK which underlines the growing importance of our international business. The Group net interest margin was 2.45%, down slightly from 2.50% in the second half of 2005.

Expense control has been excellent, with the Group cost:income ratio falling to 41.9%, from 42.4% for the full year in 2005. This result shows the success of our Manufacturing model, which has harnessed the benefits of scale and specialisation to achieve enhanced efficiency while the Group continues to invest in growth opportunities and in customer service improvements. Manufacturing costs increased by only 3%.

Our credit metrics remain strong, with the impairment charge as a percentage of loans and advances falling slightly. This performance reflects the continuation of good credit conditions in the corporate sector, offset by a further rise in provisions for personal lending. We have achieved strong growth in both average lending, up 17%, and average deposits, up 14%. Average risk-weighted assets, however, have grown by just 12%, reflecting careful balance sheet management, including a number of securitisations. Internal capital generation continues to support asset growth, investment in a range of profitable growth opportunities and the return of capital to shareholders, while also enabling us to hold our Tier 1 ratio steady at 7.6%. We have also improved our return on equity to 18.5%.

We continue to make good progress in working with Bank of China on various areas of business co-operation, including credit cards, wealth management, corporate banking and general insurance. During the first half of 2006, Bank of China successfully completed IPOs in Hong Kong and Shanghai. The unrealised gain on our investment is not reflected in our consolidated income statement and has no impact on our capital ratios.

In line with our established policy we will be paying an interim dividend representing one third of the previous year s total dividend. We commenced the £1 billion share buyback programme we announced in February, and by 30 June 2006 had repurchased £200 million of shares.

Our businesses

We continue to manage costs where they arise, with customer-facing divisions controlling their direct expenses while Manufacturing is responsible for shared costs. We do not allocate these shared costs between divisions in the day-to-day management of our business, and the way in which we have presented our financial results reflects this. However, we have shown separately in this announcement an allocation of Manufacturing costs to the customer-facing divisions on a basis we believe to be reasonable.

Corporate Markets has delivered a strong performance in the first half, with operating profit up 21% to £2,719 million. Total income rose by 16% and total expenses by the same percentage. Global Banking & Markets has produced excellent results and is continuing to improve its global platform, with more than 40% of its income coming from outside the UK. UK Corporate Banking has achieved good growth. Credit conditions for Corporate Markets have remained benign, and we have managed our balance sheet carefully, growing average risk-weighted assets by 14% and achieving a small improvement in returns as a percentage of risk-weighted assets.

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GROUP CHIEF EXECUTIVE S REVIEW (continued)

Retail Markets has made good progress in rebalancing its activities in line with changing UK customer priorities, achieving a 6% increase in operating profit to £1,262 million, with income up 6% and total expenses up by only 2%. We have optimised our cost base and have used our range of brands to address markets flexibly, achieving good growth in sales of savings products and mortgages to core branch customers. Impairment losses have increased, largely in line with previous growth in unsecured lending. Wealth Management has performed strongly.

Ulster Bank has maintained its strong growth record, with operating profit up 20% to £182 million, benefiting from the continued strength of lending demand in Ireland. We are making good progress with Ulster s integration onto the Group IT platform.

Citizens operating profit rose by 8% to £812 million. Citizens has delivered good growth in business volumes, with especially strong performances in business banking and credit cards, but the flattening of the yield curve and its effects on customer behaviour have led to margin compression.

RBS Insurance maintained its customer base in the competitive UK motor insurance market, and has made further progress in Europe. We have continued to take a disciplined approach to motor insurance pricing to maximise long-term value. Better risk profiling is producing improvements in claims. Operating profit grew by 4% to £349 million.

Manufacturing s costs increased by just 3% to £1,389 million despite a substantial increase in business supported. We held technology and customer support and operations costs almost flat, but continued to develop the Group s property portfolio, with investment both in our branch networks and in major business centres in the UK and Asia.

Outlook

The major economies in which we operate continue to cope well with higher energy prices and rising interest rates and we expect them to achieve good growth, close to their long-term trend, over the next year. We have built a strong platform through our range of businesses and through our efficient Manufacturing model, and our priority is to leverage that platform. Our diversity enables us to respond flexibly to changing opportunities and challenges, and we believe that the Group is well positioned to continue to deliver good organic growth.

Sir Fred Goodwin

Group Chief Executive

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SUMMARY CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2006 (unaudited)

In the income statement set out below, amortisation of purchased intangible assets, integration costs and net gain on sale of strategic investments and subsidiaries are shown separately. In the statutory income statement on page 32, these items are included in non-interest income and operating expenses as appropriate.

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income	5,194	4,786	9,918
Non-interest income (excluding insurance net premium income)	5,468	4,839	9,872
Net insurance premium income	2,980	2,829	5,779
Non-interest income	8,448	7,668	15,651
Total income	13,642	12,454	25,569
Operating expenses	5,948	5,485	11,298
Profit before other operating charges	7,694	6,969	14,271
Insurance net claims	2,204	2,122	4,313
Operating profit before impairment losses	5,490	4,847	9,958
Impairment losses	887	847	1,707
Profit before tax, intangible assets amortisation, integration costs and net gain on sale of strategic investments and subsidiaries	4,603	4,000	8,251
Amortisation of purchased intangible assets	49	42	97
Integration costs	43	281	458
Net gain on sale of strategic investments and subsidiaries			240
Operating profit before tax	4,511	3,677	7,936
Tax	1,387	1,092	2,378
Profit for period	3,124	2,585	5,558
Minority interests	55	34	57
Preference dividends	91	25	109
Profit attributable to ordinary shareholders	2,978	2,526	5,392
Basic earnings per ordinary share (Note 4)	93.1p	79.5p	169.4p
Adjusted earnings per ordinary share (Note 4)	95.2p	86.5p	175.9p

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FINANCIAL REVIEW

Profit

Profit before tax, purchased intangibles amortisation and integration costs increased by 15% or £603 million, from £4,000 million to £4,603 million.

Profit before tax was up 23%, from £3,677 million to £4,511 million, reflecting strong organic income growth in all divisions and lower integration costs.

Total income

The Group achieved strong growth in income during the first half of 2006. Total income was up 10% or £1,188 million to £13,642 million.

Net interest income increased by 9% to £5,194 million and represents 38% of total income (2005 - 38%). Average loans and advances to customers and average customer deposits grew by 17% and 14% respectively.

Non-interest income increased by 10% to £8,448 million and represents 62% of total income (2005 - 62%).

Net interest margin

The Group s net interest margin at 2.45% was down from 2.50% in the second half of 2005, due mainly to the business mix effect of growth in corporate and mortgage lending and the impact of the flatter US dollar yield curve.

Operating expenses

Operating expenses, excluding purchased intangibles amortisation and integration costs, rose by 8% to £5,948 million.

Cost:income ratio

The Group s cost:income ratio was 41.9% compared with 42.2% for the half year in 2005.

Net insurance claims

Bancassurance and general insurance claims, after reinsurance, increased by 4% to £2,204 million reflecting volume growth.

Impairment losses

Impairment losses were £887 million compared with £847 million in 2005, an increase of 5%.

Risk elements in lending and potential problem loans represented 1.64% of gross loans and advances to customers excluding reverse repos at 30 June 2006 (31 December 2005 - 1.60%).

Provision coverage of risk elements in lending and potential problem loans was 63% compared with 65% at 31 December 2005.

Integration

Integration costs were £43 million compared with £281 million in the first half of 2005. Included are costs relating to the integration of First Active and Charter One, which was acquired in August 2004, as well as the amortisation of software costs relating to the integration of Churchill, which was completed in September 2005. In the first half of 2005 integration costs also included £140 million of software costs relating to the acquisition of NatWest which were previously written-off as incurred under UK GAAP but under IFRS were capitalised and amortised. All such software was fully amortised by the end of 2005.

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FINANCIAL REVIEW (continued)

Earnings and dividends

Basic earnings per ordinary share increased by 17%, from 79.5p to 93.1p. Earnings per ordinary share adjusted for intangibles amortisation and integration costs increased by 10%, from 86.5p to 95.2p.

An interim dividend of 24.2p per ordinary share, representing one third of last year s total dividend will be paid on 6 October 2006 to shareholders registered on 18 August 2006. The interim dividend is covered 3.9 times by earnings before intangibles amortisation and integration costs.

Balance sheet

Total assets were £839.3 billion at 30 June 2006, 8% higher than total assets of £776.8 billion at 31 December 2005.

Lending to customers at 30 June 2006, excluding repurchase agreements and stock borrowing (reverse repos) increased by 5% or £17.1 billion to £385.5 billion compared with 31 December 2005. Customer deposits, excluding repurchase agreements and stock lending (repos), grew by 6% or £17.5 billion to £311.7 billion in the same six month period.

Lending to customers at 30 June 2006, excluding reverse repos, was 10% or £34.2 billion higher than at 30 June 2005. Customer deposits, excluding repos, were 11% or £32.0 billion higher.

Average loans and advances to customers for the six months to 30 June 2006 increased by 17% or £50.0 billion, to £352.5 billion, compared with the six months to 30 June 2005. Average customer deposits increased by 14% or £34.9 billion over the same period. The increase in average loans and advances to 30 June 2006 is higher than the increase in period-end balances because of the above-trend spike in customer lending at the end of the first half of 2005.

Capital ratios at 30 June 2006 were 7.6% (Tier 1) and 11.9% (Total).

Profitability

The adjusted after-tax return on ordinary equity, which is based on profit attributable to ordinary shareholders before purchased intangibles amortisation and integration costs, and average ordinary equity, was 18.5% compared with 18.2% in the first half of 2005.

RESTATEMENTS

Divisional results for 2005 have been restated to reflect transfers of businesses between divisions in the second half of 2005 and the first half of 2006. These changes do not affect the Group s results.

In the second half of 2005 the Group adopted the amendment to IAS 39 The Fair Value Option issued by the IASB in June 2005 with effect from 1 January 2005. The results for the first half of 2005 have been restated. This restatement reduces Group profit and the Centre by £11 million for the half year ended 30 June 2005.

A divisional analysis of these restatements is set out on pages 53 and 54.

The balance sheet as at 30 June 2005 has been restated to conform to the presentation applied at 31 December 2005.

The cash flow statement for the year ended 31 December 2005 has been restated (see Note 11, page 44).

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DESCRIPTION OF BUSINESS

Corporate Markets is focused on the provision of debt and risk management services to medium and large businesses and financial institutions in the UK and around the world. Corporate Banking and Financial Markets was renamed Corporate Markets on 1 January 2006 when we reorganised our activities into two businesses, Global Banking & Markets and UK Corporate Banking, in order to enhance our focus on the distinct needs of these two customer segments.

Global Banking & Markets is a leading banking partner to major corporations and financial institutions around the world, providing a full range of debt financing, risk management and investment services to its customers.

UK Corporate Banking is the largest provider of banking, finance and risk management services to UK corporate customers. Through its network of relationship managers across the country it distributes the full range of Corporate Markets products and services to companies.

Retail Markets was established in June 2005 to lead co-ordination and delivery of our multi-brand retail strategy across our product range, and comprises Retail Banking, Direct Channels and Wealth Management.

Retail Banking comprises both The Royal Bank of Scotland and NatWest retail brands. It offers a full range of banking products and related financial services to the personal, premium and small business markets (SMEs) through the largest network of branches and ATMs in the UK, as well as through telephone and internet banking. Retail Banking is the UK market leader in small business banking.

Direct Channels (formerly Retail Direct) issues a comprehensive range of credit and charge cards and other financial products through The Royal Bank of Scotland, NatWest and other brands, including MINT, First Active UK and Tesco Personal Finance. It is the leading merchant acquirer in Europe and ranks 4th globally.

Wealth Management provides private banking and investment services to its global clients through Coutts Group, Adam & Company, The Royal Bank of Scotland International and NatWest Offshore.

Ulster Bank, including First Active, provides a comprehensive range of retail and wholesale financial services in Northern Ireland and the Republic of Ireland. Retail Banking has a network of branches throughout Ireland and operates in the personal, commercial and wealth management sectors. Corporate Markets provides a wide range of services in the corporate and institutional markets.

Citizens is engaged in retail and corporate banking activities through its branch network in 13 states in the United States and through non-branch offices in other states. Citizens was ranked the 8th largest commercial banking organisation in the US based on deposits as at 31 March 2006. Citizens Financial Group includes the seven Citizens Banks, Charter One, RBS National Bank, our US credit card business, RBS Lynk, our merchant acquiring business, and Kroger Personal Finance, our credit card joint venture with the second largest US supermarket group.

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DESCRIPTION OF BUSINESS (continued)

RBS Insurance sells and underwrites retail, SME and wholesale insurance over the telephone and internet, as well as through brokers and partnerships. The Retail Divisions of Direct Line, Churchill and Privilege sell general insurance products direct to the customer. Through its International Division, RBS Insurance sells motor insurance in Spain, Germany and Italy. The Intermediary and Broker Division sells general insurance products through its network of 5,000 independent brokers.

Manufacturing 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 optimum efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group s purchasing power and has become the centre of excellence for managing large-scale and complex change.

The expenditure incurred by Manufacturing relates to costs principally in respect of the Group s banking and insurance operations in the UK and Ireland. These costs reflect activities that are shared between the various customer-facing divisions and consequently cannot be directly attributed to individual divisions. Instead, the Group monitors and controls each of its customer-facing divisions on revenue generation and direct costs whilst in Manufacturing such control is exercised through appropriate efficiency measures and targets. For financial reporting purposes the Manufacturing costs have been allocated to the relevant customer-facing divisions on a basis management considers to be reasonable.

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

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DIVISIONAL PERFORMANCE

The profit before amortisation of purchased intangible assets, integration costs and net gain on sale of strategic investments and subsidiaries and after allocation of Manufacturing costs where appropriate of each division is detailed below. These allocations are shown separately in the results for each division.

	First half 2006 £m	First half 2005 £m	Increase %	Full year 2005 £m
Corporate Markets				
- Global Banking & Markets	1,812	1,456	24	3,033
- UK Corporate Banking	907	798	14	1,633
Total Corporate Markets Retail Markets	2,719	2,254	21	4,666
- Retail Banking	864	842	3	1,704
- Direct Channels	219	211	4	515
- Wealth Management	179	141	27	272
Total Retail Markets	1,262	1,194	6	2,491
Ulster Bank	182	152	20	323
Citizens	812	750	8	1,575
RBS Insurance	349	334	4	719
Manufacturing				
Central items	(721)	(684)	(5)	(1,523)
Group operating profit	4,603	4,000	15	8,251

Risk-weighted assets of each division were as follows:

	30 June 2006 £bn	31 December 2005 £bn	30 June 2005 £bn
Corporate Markets			
- Global Banking & Markets	127.7	120.0	121.5
- UK Corporate Banking	88.0	82.6	80.3
Total Corporate Markets Retail Markets	215.7	202.6	201.8
- Retail Banking	52.4	54.0	53.3
- Direct Channels	20.9	20.5	22.0
- Wealth Management	6.6	6.1	6.1
Total Retail Markets	79.9	80.6	81.4
Ulster Bank	26.3	22.4	20.2
Citizens	60.3	61.8	57.8
Other	3.3	3.6	4.7
	385.5	371.0	365.9

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CORPORATE MARKETS

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income from banking activities	1,852	1,688	3,461
Non-interest income	3,109	2,605	5,355
Total income	4,961	4,293	8,816
Direct expenses			
- staff costs	1,219	980	2,006
- other	274	254	524
- operating lease depreciation	374	351	733
	1,867	1,585	3,263
Contribution before impairment Losses	3,094	2,708	5,553
Impairment losses	97	185	335
Contribution	2,997	2,523	5,218
Allocation of Manufacturing costs	278	269	552
Operating profit	2,719	2,254	4,666

	£bn	£bn	£bn
Total assets*	470.0	412.9	409.2
Loans and advances to customers - gross*			
- banking book	172.1	150.8	158.7
- trading book	11.5	13.9	11.8
Rental assets	13.6	12.4	13.2
Customer deposits*	122.7	108.0	111.1
Risk-weighted assets	215.7	201.8	202.6

* excluding reverse repos and repos

Corporate Markets was established on 1 January 2006 following the reorganisation of our activities into two businesses, Global Banking & Markets (GBM) and UK Corporate Banking (UKCB).

The GBM and UKCB businesses parallel the Global Banking & Markets and Mid-Corporate and Commercial customer groupings which formed the basis of the presentation of our 2005 full year results. The establishment of these businesses as operating units has entailed some slight differences from that customer segmentation and this is reflected in the presentation of the comparative financial data in this announcement.

Corporate Markets achieved a strong performance in the first half of 2006, with good results across our activities. Total income, after deducting operating lease depreciation, rose by 16% to £4,587 million and operating profit by 21% to £2,719 million. Contribution rose by 19% to £2,997 million.

Corporate Markets is responsible for portfolio and risk management across the GBM and UKCB businesses. We achieved strong growth in average loans and advances, which increased by 22%. Our portfolio is well balanced, and its increasing geographic spread has increased its diversity and so reduced risk, while its distribution by credit grade has remained stable.

Our commercial property portfolio has grown, particularly as a consequence of our expansion in Europe. This is a high quality portfolio; the average loan-to-value ratio of our core UK property portfolio remains unchanged at 65%, while interest cover remains strong. The proportion of this portfolio lent for speculative property development is well under 3%.

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CORPORATE MARKETS (continued)

We remain a leader in leveraged finance. While the amounts we underwrite have risen substantially, we continue to increase our focus on distribution, resulting in a reduction in the amounts we hold as a proportion of underwriting. Overall leveraged commitments were lower in absolute terms at the end of the first half of 2006 than at the end of 2005, and represented less than 10% of Corporate Markets loans and advances.

As a result of careful balance sheet management, including the issue of a £3.5 billion synthetic collateralised loan obligation in June 2006, average risk-weighted assets rose by 14%. Risk-weighted assets at 30 June 2006 increased by 7%, from their above-trend spike in balances at 30 June 2005.

The ratio of income, after deducting operating lease depreciation, to average risk-weighted assets was stable at 4.2%, while the ratio of operating profit to risk-weighted assets improved slightly.

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CORPORATE MARKETS - GLOBAL BANKING & MARKETS

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income from banking activities	796	733	1,486
Net fees and commissions receivable	482	355	781
Income from trading activities	1,211	1,057	1,949
Net income from rental assets (net of related funding costs)	349	296	622
Other operating income (net of related funding costs)	410	282	744
Non-interest income	2,452	1,990	4,096
Total income	3,248	2,723	5,582
Direct expenses			
- staff costs	951	740	1,517
- other	189	180	357
- operating lease depreciation	207	190	398
	1,347	1,110	2,272
Contribution before impairment losses	1,901	1,613	3,310
Impairment losses	19	90	139
Contribution	1,882	1,523	3,171
Allocation of Manufacturing costs	70	67	138
Operating profit	1,812	1,456	3,033

	£bn	£bn	£bn
Total assets*	384.3	337.4	330.9
Loans and advances to customers - gross*			
- banking book	87.9	76.7	82.0
- trading book	11.5	13.9	11.8
Rental assets	12.0	11.0	11.9
Customer deposits*	48.5	45.6	44.7
Risk-weighted assets	127.7	121.5	120.0

* excluding reverse repos and repos

Global Banking & Markets delivered another strong performance as it continued to build its position in international financing and risk management markets. Total income, after deducting operating lease depreciation, rose by 20% to £3,041 million, operating profit rose by 24% to £1,812 million and contribution was up by 24% to £1,882 million. Contribution before impairment losses rose by 18% to £1,901 million.

GBM continued to build its market share and improved its rankings in international debt capital markets. We ranked for the first time among the top five bookrunners of all bonds and all loans globally, reflecting our strong performance in arranging bank lending and in sterling, euro and dollar bonds. In the US we became the leading bookrunner of mortgage-backed securities and the second largest bookrunner of asset-backed securities. While our UK activities have performed robustly, the strongest progress has been made in Continental Europe, where income grew by 40% and in North America, where income rose by 22%. More than 40% of GBM s total income now comes from outside the UK.

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CORPORATE MARKETS - GLOBAL BANKING & MARKETS (continued)

Net interest income from banking activities rose by 9% to £796 million, representing 25% of total GBM income. Average interest-earning assets increased by 10%, including growth in average loans and advances to customers of 24%. Careful balance sheet management has resulted in a reduction in banking book holdings of low margin debt securities and in interbank lending.

Non-interest income, which accounts for 75% of total GBM income, grew by 23% to £2,452 million. Within this, net fee income rose by 36% to £482 million, driven in part by our leadership of a number of the most significant financings in the UK and Europe. Our strong performance in arranging bonds also contributed to fee income growth.

Income from trading activities increased by 15% to £1,211 million, driven by credit, interest rate and foreign exchange business for our customers. Average trading value-at-risk remained modest at £13 million.

Net income from rental assets (net of related funding costs) grew by 18% to £349 million, reflecting our continuing success in aircraft, train and ship leasing, and property finance. Realisations from our structured finance activities, included in other operating income (net of related funding costs), rose from £282 million to £410 million.

Total expenses, excluding operating lease depreciation, grew by 23% to £1,210 million, reflecting continued investment in extending our geographical footprint and our product range, including the recruitment of new staff in Asia. Variable performance-related compensation, which accounts for over 60% of total staff costs, also contributed to this increase.

Credit metrics remained favourable, resulting in impairment losses net of recoveries of £19 million, compared with £90 million in 2005.

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CORPORATE MARKETS - UK CORPORATE BANKING

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income from banking activities	1,056	955	1,975
Non-interest income	657	615	1,259
Total income	1,713	1,570	3,234
Direct expenses			
- staff costs	268	240	489
- other	85	74	167
- operating lease depreciation	167	161	335
	520	475	991
Contribution before impairment losses	1,193	1,095	2,243
Impairment losses	78	95	196
Contribution	1,115	1,000	2,047
Allocation of Manufacturing costs	208	202	414
Operating profit	907	798	1,633
	£bn	£bn	£bn
Total assets*	85.7	75.5	78.3
Loans and advances to customers - gross*	84.2	74.1	76.7
Customer deposits*	74.2	62.4	66.4
Risk-weighted assets	88.0	80.3	82.6

* excluding reverse repos and repos

UK Corporate Banking produced a strong first half performance with high levels of new business activity across all its operations. Total income grew by 9% to £1,713 million. Operating profit was up 14% to £907 million and contribution rose by 12% to £1,115 million. Contribution before impairment losses increased by 9% to £1,193 million.

Net interest income from banking activities increased by 11% to £1,056 million. Average loans and advances to customers increased by 19%, and we have led a number of the most significant UK financings in the first half of the year. Average customer deposits rose by 22%, with significant inflows into our attractively priced range of deposit products. There has been some pressure on margins resulting from continuing intense competition, notably in the commercial market segment.

Non-interest income rose by 7% to £657 million, with good growth in fees and international trade commissions, and strong cross-sales of interest rate derivative and foreign exchange products.

Total expenses grew by 8% to £728 million, reflecting continued investment in customer-facing staff to support income growth. By moving our Lombard and Invoice Finance teams into the same locations as our commercial and corporate banking operations we have been able to improve delivery of our full range of services to customers. We have also invested in the further development of our electronic banking services.

Impairment losses were 18% lower than in 2005 at £78 million, reflecting the benign economic conditions.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL MARKETS

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income	2,296	2,185	4,510
Non-interest income	1,925	1,795	3,714
Total income	4,221	3,980	8,224
Direct expenses			
- staff costs	791	743	1,566
- other	414	441	841
	1,205	1,184	2,407
Insurance net claims	242	226	486
Contribution before impairment losses	2,774	2,570	5,331
Impairment losses	680	570	1,185
Contribution	2,094	2,000	4,146
Allocation of Manufacturing costs	832	806	1,655
Operating profit	1,262	1,194	2,491
	£bn	£bn	£bn
Total banking assets	116.4	110.6	114.4
Loans and advances to customers - gross			
- mortgages	66.0	62.0	64.6
- personal	21.3	21.4	21.5
- cards	9.3	9.2	9.6
- business	17.7	16.5	16.7
Customer deposits*	109.6	100.6	105.3
Investment management assets - excluding deposits	32.3	28.6	31.4
Risk-weighted assets	79.9	81.4	80.6

* customer deposits exclude bancassurance.

Total income increased by 6% to £4,221 million and operating profit by 6% to £1,262 million, with good discipline on costs helping to offset higher impairment losses on unsecured lending. Contribution increased by 5% to £2,094 million, and contribution before impairment losses by 8% to £2,774 million.

We have continued to make good progress with our strategy of focusing on sales of savings and investment products, while carefully managing lending growth. Customer recruitment has been centred on our branch channels, where we have achieved good growth in savings accounts while maintaining the trend of growth in current accounts. Our commitment to customer service, through the largest network of branches and ATMs in the UK, is reflected in our excellent customer satisfaction ratings. Good service quality has also helped us to achieve strong growth in our share of customers switching current accounts from other banks.

Since we established Retail Markets, we have optimised our cost base and have used our full range of brands to address markets flexibly, focusing on the most appropriate products and channels in the light of prevailing market conditions.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL MARKETS

Net interest income grew by 5% to £2,296 million, fuelled by a 9% increase in average customer deposits, along with 8% growth in average lending. Average risk-weighted assets rose by only 2%, reflecting higher mortgage lending and securitisations. Net interest margin was slightly lower, partly as a result of the business mix impact of higher mortgage lending.

Average mortgage balances grew by 10% over the comparable period last year, partly as a result of strong growth from First Active UK during 2005. In the first half of 2006 we focused primarily on our branch channels, and our offset mortgage product again performed strongly. Intermediaries are an important distribution channel for mortgage products in the UK and we are an active participant in this channel, although there can be significant swings in volumes based on competitive pricing. In the first half of 2006 we stepped back from this market since, at the prevailing pricing, we considered the risk-reward equation unattractive relative to other opportunities.

Our unsecured personal lending and credit card recruitment has, similarly, targeted lower-risk segments, including existing NatWest and RBS customers, with limited emphasis on acquisition through direct marketing.

We have invested in the development of our business banking franchise, recruiting more relationship managers and upgrading the technology platform that supports them. We have also extended our Businessline 24/7 telephony service for business customers. Average business lending grew steadily in the first half, while deposit growth has accelerated, with an increase in recruitment of business customers switching from other banks.

Non-interest income increased by 7% to £1,925 million, with excellent growth in bancassurance income and in investment fees from Wealth Management.

We kept costs under tight control, with total expenses growing by just 2% to £2,037 million. We have continued to invest to develop our businesses, including targeted spending on customer service improvements, the recruitment of more financial planning managers in bancassurance and further developments in Wealth Management s key growth markets.

Impairment losses rose by 19% to £680 million. Mortgage arrears remain very low and small business credit quality remains stable. The increase in impairment losses relates to unsecured borrowing on personal loans and credit cards, reflecting strong growth in volumes in previous years. There has been a modest increase in arrears, but at a slower rate than the increase reported for the end of 2004 and beginning of 2005.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL MARKETS - RETAIL BANKING

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income	1,621	1,546	3,186
Non-interest income	1,145	1,082	2,258
Total income	2,766	2,628	5,444
Direct expenses			
- staff costs	523	499	1,074
- other	153	161	338
	676	660	1,412
Insurance net claims	242	226	486
Contribution before impairment losses	1,848	1,742	3,546
Impairment losses	360	295	601
Contribution	1,488	1,447	2,945
Allocation of Manufacturing costs	624	605	1,241
Operating profit	864	842	1,704
	£bn	£bn	£bn
Total banking assets	77.3	75.8	77.1
Loans and advances to customers - gross			
- mortgages	47.2	46.5	47.3
- personal	13.9	13.6	13.7
- business	16.6	16.1	16.3
Customer deposits*	80.6	73.8	77.1
Risk-weighted assets	52.4	53.3	54.0

* customer deposits exclude bancassurance.

Retail Banking achieved 5% growth in total income to £2,766 million and operating profit was up by 3% to £864 million. Contribution was up 3% to £1,488 million, reflecting a good performance in savings and investment products combined with effective cost control. Contribution before impairment losses increased by 6% to £1,848 million.

Overall customer numbers have increased, and our personal current accounts have grown by 262,000 (2%) over the last 12 months. Good service quality has also helped us to achieve strong growth in our share of customers switching current accounts from other banks. Bancassurance performed strongly with Annualised Premium Equivalent almost doubling to £138 million. During the first half of 2006, we made further progress in improving customer service. Among the high street banks, The Royal Bank of Scotland remains in first place with NatWest in joint second place for customers who rate themselves extremely satisfied , which is central to driving further sales and recommendations.

As highlighted at the end of 2005, we have focused on sales of savings and investment products against the backdrop of slowing consumer borrowing.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL MARKETS - RETAIL BANKING (continued)

Net interest income increased by 5% to £1,621 million. Average customer deposits were up 9%, with good growth in personal savings balances and in business deposits. Average loans and advances grew by 4%, reflecting growth in mortgages and business lending. Average mortgage lending through our NatWest and RBS branches grew by 9%, and our offset mortgage product now accounts for more than a third of new business through this channel. NatWest and RBS have written much lower volumes in the intermediary market during the first half of 2006, since pricing has been unattractive. Average personal unsecured lending was up by 1% over the year, but 1% lower than during the second half of 2005, reflecting the slower UK consumer credit market.

Net interest margin was stable and broadly in line with both the first half of 2005 and the full year, helped by a slower pace of growth in mortgage lending and the strong growth in deposit balances.

Non-interest income rose by 6% to £1,145 million, principally as a result of a strong performance in investment products including bancassurance. Recruitment of additional financial planning managers has supported our strong performance in the full spectrum of savings and investment products. Our attractive range of guaranteed capital investment bonds has performed particularly strongly. Fee income from core personal and small business banking services continued to grow in line with overall business volumes, and we made good progress in our private banking and investment businesses.

Total expense growth was contained to 3%, despite investments for future growth. Staff costs increased by 5% to £523 million as a result of continued investment in customer service and expansion of our bancassurance and investment businesses. We continue to make efficiency gains, resulting in a 5% decrease in other costs to £153 million.

Net claims in bancassurance were £242 million compared with £226 million in the first half of 2005, reflecting increases in liabilities to policyholders.

Impairment losses rose by 22% to £360 million. Mortgage arrears remain very low - the average loan-to-value ratio of Retail Banking s mortgages was 46% overall and 60% on new mortgages written in the first half of 2006. Small business credit quality remains stable. The increase in arrears principally relates to unsecured personal lending, reflecting strong growth in volumes in previous years. Arrears on loans granted over recent years are currently showing signs of greater stability, but are continuing to rise on older loans. We continue to monitor the arrears situation carefully.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL MARKETS - DIRECT CHANNELS

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income	436	425	882
Non-interest income	558	533	1,084
Total income	994	958	1,966
Direct expenses			
- staff costs	125	117	234
- other	193	218	370
	318	335	604
Contribution before impairment losses	676	623	1,362
Impairment losses	318	278	571
Contribution	358	345	791
Allocation of Manufacturing costs	139	134	276
Operating profit	219	211	515
	£bn	£bn	£bn
Total assets	28.0	25.7	27.2
Loans and advances to customers - gross			
- mortgages	14.9	12.0	13.8
- cards	9.2	9.1	9.5
- other	4.0	4.3	4.0
Customer deposits	2.6	2.7	2.7
Risk-weighted assets	20.9	22.0	20.5

Total income rose by 4% to £994 million and operating profit was also up 4% to £219 million. With rigorous cost control helping to offset higher impairment losses, contribution increased by 4% to £358 million. Contribution before impairment losses increased by 9% to £676 million.

Against the background of much slower growth in UK consumer credit markets, Direct Channels continued to grow its credit card portfolio in lower risk segments, with customer recruitment focused on our core brands. Our credit card account base has grown by 321,000, 3%, since June 2005. First Active UK has continued to add mortgage customers although at a slower pace than in the second half of 2005.

Our merchant acquiring businesses performed well, with customer numbers up 4%, and our commercial cards business also made good progress, increasing balances by 18%.

Net interest income rose by 3% to £436 million. Average loans and advances rose by 17%, reflecting higher mortgage balances at First Active UK and The One account in the first half, despite reduced volumes in the intermediary mortgage channel and a reduction in average unsecured loan balances. Net interest margin narrowed, principally because of the increased proportion of low risk mortgage lending in our business mix.

Non-interest income was 5% higher at £558 million, as a result of good volumes in our acquiring businesses, as well as increased income from balance transfer fees. Income also benefited from continued growth in Tesco Personal Finance s ATM estate.

Stringent cost control led to a 3% reduction in total expenses to £457 million.

Impairment losses were 14% higher at £318 million, reflecting growth in unsecured lending on credit cards in previous years. There has been a modest further increase in arrears, but at a much slower rate than the increase reported for the end of 2004 and the beginning of 2005.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL MARKETS - WEALTH MANAGEMENT

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income	239	214	442
Non-interest income	222	180	372
Total income	461	394	814
Direct expenses			
- staff costs	143	127	258
- other	68	62	133
	211	189	391
Contribution before impairment losses	250	205	423
Impairment losses/(recoveries)	2	(3)	13
Contribution	248	208	410
Allocation of Manufacturing costs	69	67	138
Operating profit	179	141	272
	£bn	£bn	£bn
Loans and advances to customers - gross	8.5	7.5	7.8
Investment management assets - excluding deposits	26.0	23.1	25.4
Customer deposits	26.4	24.1	25.5
Risk-weighted assets	6.6	6.1	6.1

Wealth Management performed strongly in the first half of 2006 with total income rising by 17% to £461 million and operating profit by 27% to £179 million. Contribution grew by 19% to £248 million. Increased revenue has been driven primarily by good organic growth and by strategic investment in our key markets.

Net interest income rose by 12% to £239 million, driven by continued strong growth in banking volumes. Average lending was up by 14% and average customer deposits rose by 12%, with net interest margin maintained at the same level as in 2005.

Non-interest income grew by 23% to £222 million, reflecting a strong increase in market-driven investment management fees and performance fees, and strong new business volumes, particularly in the UK. Assets under management at the end of June were £26.0 billion, a year on year increase of 13%.

Total expenses rose by 9% to £280 million as a result of continued investment in our key growth markets, particularly in Asia, as well as higher performance-related remuneration.

Impairment losses totalled £2 million, compared with the net release of £3 million recorded in the first half of 2005.

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THE ROYAL BANK OF SCOTLAND GROUP plc

ULSTER BANK

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Net interest income	363	306	655
Non-interest income	108	102	203
Total income	471	408	858
Direct expenses			
- staff costs	107	90	191
- other	41	35	79
	148	125	270
Contribution before impairment losses	323	283	588
Impairment losses	37	30	58
Contribution	286	253	530
Allocation of Manufacturing costs	104	101	207
Operating profit	182	152	323
Average exchange rate - /£	1.456	1.458	1.463

	£bn	£bn	£bn
Total assets	40.4	30.3	35.9
Loans and advances to customers - gross			
- mortgages	14.2	11.3	13.2
- corporate	16.8	12.6	14.2
- other	1.5	1.0	0.8
Customer deposits	17.6	14.0	15.9
Risk-weighted assets	26.3	20.2	22.4
Spot exchange rate - /£	1.446	1.482	1.457

Ulster Bank maintained its strong growth record, with total income increasing by 15% to £471 million and operating profit by 20% to £182 million. Contribution grew by 13% to £286 million.

Net interest income increased by 19% to £363 million. Average loans and advances grew by 27%, while average customer deposits also showed good growth, rising by 21%. Good progress was made in mortgages, where average loans and advances rose by 30%, and in business lending, where we achieved 23% growth in average lending. A lower net interest margin reflected changes in business mix and some competitive pressure on non-mortgage asset pricing.

Non-interest income rose by 6% to £108 million, reflecting good growth in investment products, card fees and sales of treasury products. Growth in non-interest income was limited by the successful introduction in both the Republic of Ireland and Northern Ireland of Ulster Bank s new range of current accounts, which are free of transaction fees.

Total expenses increased by 12% to £252 million as we continued our investment programme to support the growth of the business. We have expanded our branch and business centre footprint and carried on with the branch improvement programme, upgrading 25 branches throughout Ireland during the first half of 2006. Branch improvements will continue this year and next. Ulster Bank is also continuing to install more ATMs in both the Republic of Ireland and Northern Ireland, where we now serve our customers through more than 1,000 ATMs. We are making good progress with the integration of Ulster Bank onto the Group s IT platform.

Impairment losses rose by £7 million to £37 million, in line with recent growth in lending.

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CITIZENS

	First half 2006	First half 2005	Full year 2005	First half 2006	First half 2005	Full year 2005
	£m	£m	£m	$m	$m	$m
Net interest income	1,075	1,030	2,122	1,924	1,929	3,861
Non-interest income	611	526	1,142	1,094	986	2,079
Total income	1,686	1,556	3,264	3,018	2,915	5,940
Direct expenses						
- staff costs	424	394	819	759	738	1,490
- other	379	351	739	677	658	1,344
	803	745	1,558	1,436	1,396	2,834
Contribution before impairment losses	883	811	1,706	1,582	1,519	3,106
Impairment losses	71	61	131	128	115	239
Operating profit	812	750	1,575	1,454	1,404	2,867
Average exchange rate - US$/£	1.790	1.874	1.820			

	$bn	$bn	$bn
Total assets	164.2	152.6	158.8
Loans and advances to customers - gross			
- mortgages	19.4	16.7	18.8
- other consumer	57.6	54.1	56.6
- corporate and commercial	32.2	28.6	29.2
Customer deposits	111.8	102.1	106.3
Risk-weighted assets	111.5	103.7	106.4
Spot exchange rate - US$/£	1.849	1.793	1.721

Citizens total income rose by 4% to $3,018 million and operating profit by 4% to $1,454 million. The stronger average US dollar exchange rate in the first half of 2006 meant that in sterling terms Citizens total income increased by 8% to £1,686 million while operating profit also rose by 8% to £812 million.

We grew our business customer base by 5% to 460,000, while co-operation between Citizens and Corporate Markets in the mid-market area continues to add new accounts. The number of credit card accounts rose by 23%. RBS Lynk, our merchant acquiring business, has significantly grown its customer base and now serves 17% more merchants than it did a year ago. We have also continued to expand our branch footprint, extending our supermarket banking franchise through a partnership agreement with Stop & Shop Supermarkets that will add 75 new in-store branches across New York State over the next three years.

Average loans and advances increased by 13%, with personal lending rising by 11% and business and corporate lending by 14% (excluding finance leases). We made good progress in our credit cards business while maintaining credit quality. Average customer deposits increased by 5%, but as interest rates have risen, personal and business customers have moved balances from liquid savings to higher cost deposits. The further flattening of the US yield curve and its impact on customer behaviour has led to margin compression, offsetting the good volumes of loans and deposits and leaving net interest income flat at $1,924 million.

THE ROYAL BANK OF SCOTLAND GROUP plc

CITIZENS (continued)

Non-interest income rose by 11% to $1,094 million, benefiting from higher core banking fee income, card fee income and gains. Business and corporate fee income rose across the board, especially in foreign exchange, interest rate derivatives and cash management.

Total expenses were up 3% to $1,436 million, as Citizens enhanced efficiency while supporting higher business volumes and investing for future growth, in areas such as mid-corporates, asset finance, credit cards and merchant acquiring, as well as in the core branch network.

Impairment losses increased by 11% to $128 million, in line with recent asset growth. Credit quality overall remains strong, both in absolute terms and relative to our peer group. Our consumer portfolios have an average FICO score in excess of 700, and 95% of our consumer lending is secured.

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RBS INSURANCE

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Earned premiums	2,834	2,778	5,641
Reinsurers share	(105)	(133)	(246)
Insurance premium income	2,729	2,645	5,395
Net fees and commissions	(248)	(230)	(449)
Other income	280	261	543
Total income	2,761	2,676	5,489
Direct expenses			
- staff costs	158	163	323
- other	188	182	413
	346	345	736
Gross claims	1,995	1,941	3,903
Reinsurers share	(33)	(45)	(76)
Net claims	1,962	1,896	3,827
Contribution	453	435	926
Allocation of Manufacturing costs	104	101	207
Operating profit	349	334	719
In-force policies (thousands)			
- motor: UK	8,680	8,555	8,687
- motor: Continental Europe	2,018	1,772	1,862
- non-motor (including home, rescue, SMEs, pet, HR24): UK	11,027	*11,062	11,110
General insurance reserves - total (£m)	7,942	7,635	7,776

* restated.

Total income rose by 3% to £2,761 million, with operating profit rising by 4% to £349 million. Contribution rose by 4% to £453 million.

Insurance premium income rose by 3% to £2,729 million. In UK motor insurance, claims inflation has been greater than premium inflation for several years but, despite this, competition in pricing remains strong. Against this background, RBS Insurance has sought to maximise long term value by maintaining a disciplined approach to pricing and by concentrating on more profitable customers acquired through RBS Insurance s direct brands. In Continental Europe, RBS Insurance grew its motor in-force policies across Spain, Italy and Germany by 14% to 2.0 million.

In non-motor insurance, the total number of in-force policies was broadly stable at 11.0 million. Within this total, our intermediary business achieved 11% growth in sales of commercial policies to SMEs, while in home insurance there was further attrition of some partner-branded books.

Net fees and commissions payable increased by 8% to £248 million, whilst other income rose by 7% to £280 million.

Total expenses rose by 1% to £450 million, with direct expenses held flat at £346 million. Staff costs were reduced through productivity improvements, while higher non-staff costs included increased marketing expenditure to support good growth in Continental Europe.

THE ROYAL BANK OF SCOTLAND GROUP plc

RBS INSURANCE (continued)

Net claims rose by 3% or £66 million to £1,962 million. The average UK motor claims cost increased by 5%.

The UK combined operating ratio for the first half, including Manufacturing costs, was 93.8%, against 93.3% in the first half of 2005.

THE ROYAL BANK OF SCOTLAND GROUP plc

MANUFACTURING

	First half 2006 £m	First half 2005 £m	Full year 2005 £m
Staff costs	368	365	722
Other costs	1,021	979	2,036
Total Manufacturing costs	1,389	1,344	2,758
Allocated to divisions	(1,389)	(1,344)	(2,758)
Analysis of Manufacturing costs:			
Group Technology	465	461	951
Group Purchasing and Property Operations	443	400	843
Customer Support and other operations	481	483	964
Total Manufacturing costs	1,389	1,344	2,758

Manufacturing s costs increased by only 3% to £1,389 million as the division benefited from previous investments in efficiency programmes while supporting business growth and maintaining high levels of customer satisfaction. Staff costs were less than 1% higher, at £368 million.

Group Technology costs were less than 1% higher at £465 million, as we achieved significant improvements in efficiency while handling greater business volumes. Group Technology continued to make good progress with the integration of Ulster Bank onto the Group platform.

Group Purchasing and Property Operations costs increased by 11% to £443 million, reflecting the continuation of our branch network improvement programme and ongoing investment in our major operational centres, including Manchester and Glasgow.

Customer Support and other operations costs were slightly lower at £481 million. As in Group Technology, we achieved significant improvements in efficiency while supporting higher business volumes. We dispensed 10% more cash from our ATMs, for example, and processed more than one billion BACS payments, up 7% from the same period of 2005. We also handled 11% more personal deposit accounts and 2% more personal current accounts. At the same time we maintained our focus on meeting our customers needs, and our telephony centres continued to achieve market-leading customer satisfaction scores. The implementation of lean manufacturing approaches in our operational centres is delivering further improvements and efficiency.

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CENTRAL ITEMS

	First half 2006 £m	First half 2005 £m	Full year 2005 £m
Funding costs	366	403	823
Departmental and corporate costs	284	214	563
	650	617	1,386
Allocation of Manufacturing costs	71	67	137
Total central items	721	684	1,523

Total central items increased by 5%, £37 million, to £721 million.

Funding costs were £37 million lower at £366 million, largely due to IFRS related volatility. The Group aims to hedge its economic risks. So as not to distort divisional results, volatility attributable to derivatives in economic hedges that do not meet the criteria in IFRS for hedge accounting is transferred to the Group s central treasury function. This, together with the impact of hedge ineffectiveness under IFRS, resulted in a net credit of £31 million in the first half of 2006 compared with a net debit of £21 million in 2005.

Departmental and corporate costs at £284 million were £70 million or 33% higher than 2005. This is principally due to higher pension costs and regulatory projects such as Basel II.

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AVERAGE BALANCE SHEET

	First half 2006			First half 2005		
	Average Balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Treasury and other eligible bills	2,644	56	4.24	3,245	70	4.31
Loans and advances to banks	24,861	469	3.77	23,690	454	3.83
Loans and advances to customers	352,464	10,654	6.05	302,510	8,841	5.85
Debt securities	36,595	863	4.72	36,317	832	4.58
Interest-earning assets - banking business	416,564	12,042	5.78	365,762	10,197	5.58
Trading business	190,356			159,933		
Non-interest-earning assets	201,145			176,838		
Total assets	808,065			702,533		
Liabilities						
Deposits by banks	66,242	1,250	3.77	58,901	934	3.17
Customer accounts	251,274	4,184	3.33	216,637	3,144	2.90
Debt securities in issue	79,460	1,774	4.47	68,387	1,227	3.59
Subordinated liabilities	26,243	651	4.96	26,935	644	4.78
Internal funding of trading business	(47,355)	(917)	3.87	(37,151)	(516)	2.78
Interest-bearing liabilities -banking business	375,864	6,942	3.69	333,709	5,433	3.26
Trading business	191,913			159,883		
Non-interest-bearing liabilities						
- demand deposits	29,370			29,090		
- other liabilities	174,963			148,003		
Shareholders equity	35,955			31,848		
Total liabilities	808,065			702,533		

Notes:

1. Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

2. Interest-earning assets and interest-bearing liabilities exclude the Retail bancassurance assets and liabilities, in view of their distinct nature. As a result, interest income has been adjusted by £30 million (2005 - £30 million).

3.

Changes in the fair value of interest-bearing financial instruments designated as at fair value through profit or loss are recorded in other operating income in the consolidated income statement. For the purposes of the average balance sheet, interest income of £107 million (2005 - £103 million) and interest expense of £231 million (2005 - £155 million) have been recorded on these instruments and average balances adjusted accordingly.

THE ROYAL BANK OF SCOTLAND GROUP plc

AVERAGE INTEREST RATES, YIELDS, SPREADS AND MARGINS

Average rate	First half 2006 %	First half 2005 %
The Group s base rate	4.50	4.75
London inter-bank three month offered rates:		
- Sterling	4.64	4.91
- Eurodollar	4.99	3.06
- Euro	2.75	2.13

	First half 2006 %	First half 2005 %
Yields, spreads and margins of the banking business:		
Gross yield on interest-earning assets of banking business	5.78	5.58
Cost of interest-bearing liabilities of banking business	(3.69)	(3.26)
Interest spread of banking business	2.09	2.32
Benefit from interest-free funds	0.36	0.28
Net interest margin of banking business	2.45	2.60

THE ROYAL BANK OF SCOTLAND GROUP plc

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2006 (unaudited)

In the income statement below, net gain on sale of strategic investments and subsidiaries, amortisation of purchased intangible assets and integration costs are included in other non-interest income and operating expenses as appropriate.

	First half 2006	First half 2005	Full year 2005
	£m	£m	£m
Interest receivable	11,905	10,064	21,331
Interest payable	6,711	5,278	11,413
Net interest income	5,194	4,786	9,918
Fees and commissions receivable	3,543	3,262	6,750
Fees and commissions payable	(985)	(909)	(1,841)
Income from trading activities	1,453	1,222	2,343
Other operating income (excluding insurance premium income)	1,457	1,264	2,953
Insurance premium income	3,112	2,956	6,076
Reinsurers share	(132)	(127)	(297)
Non-interest income	8,448	7,668	15,984
Total income	13,642	12,454	25,902
Staff costs	3,233	2,872	5,992
Premises and equipment	668	643	1,313
Other administrative expenses	1,286	1,362	2,816
Depreciation and amortisation	853	931	1,825
Operating expenses*	6,040	5,808	11,946
Profit before other operating charges and impairment losses	7,602	6,646	13,956
Insurance claims	2,244	2,162	4,413
Reinsurers share	(40)	(40)	(100)
Impairment losses	887	847	1,707
Operating profit before tax	4,511	3,677	7,936
Tax	1,387	1,092	2,378
Profit for the period	3,124	2,585	5,558
Minority interests	55	34	57
Preference dividends	91	25	109
Profit attributable to ordinary shareholders	2,978	2,526	5,392
Basic earnings per ordinary share (Note 4)	93.1p	79.5p	169.4p
Diluted earnings per ordinary share (Note 4)	92.5p	79.0p	168.3p

	£m	£m	£m
* Operating expenses include:			
Integration costs:			
Administrative expenses	41	137	318
Depreciation and amortisation	2	144	140
	43	281	458
Amortisation of purchased intangible assets	49	42	97
	92	323	555

THE ROYAL BANK OF SCOTLAND GROUP plc

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006 (unaudited)

	30 June 2006
	£m