

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
August 06, 2010

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

**Report of Foreign Private Issuer**

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

For August 6, 2010

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

Form 40-F

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

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

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

Yes

No

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

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

## Divisional performance

The operating profit/(loss) of each division before amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, Asset Protection Scheme credit default swap - fair value changes and write-down of goodwill and other intangible assets is shown below.

	Quarter ended		Half year ended		
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
<b>Operating profit/(loss) before impairment losses by division</b>					
UK Retail	576	527	490	1,103	861
UK Corporate	588	504	535	1,092	956
Wealth	88	66	134	154	234
Global Banking & Markets	1,245	1,498	1,018	2,743	4,755
Global Transaction Services	282	233	269	515	509
Ulster Bank	104	81	78	185	149
US Retail & Commercial	273	183	136	456	318
RBS Insurance	(203)	(50)	142	(253)	223
Central items	337	201	(311)	538	175
Core	3,290	3,243	2,491	6,533	8,180
Non-Core	66	145	(1,361)	211	(4,013)
<b>Group operating profit before impairment losses</b>	<b>3,356</b>	<b>3,388</b>	<b>1,130</b>	<b>6,744</b>	<b>4,167</b>
Included in the above are movements in fair value of own debt:					
Global Banking & Markets	331	(32)	(482)	299	165
Central items	288	(137)	(478)	151	(94)
	619	(169)	(960)	450	71
<b>Impairment losses by division</b>					
UK Retail	300	387	470	687	824
UK Corporate	198	186	450	384	550
Wealth	7	4	16	11	22
Global Banking & Markets	164	32	(31)	196	238

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Global Transaction Services	<b>3</b>	-	4	<b>3</b>	13
Ulster Bank	<b>281</b>	218	90	<b>499</b>	157
US Retail & Commercial	<b>144</b>	143	146	<b>287</b>	369
RBS Insurance	-	-	1	-	6
Central items	-	1	1	<b>1</b>	(2)
Core	<b>1,097</b>	971	1,147	<b>2,068</b>	2,177
Non-Core	<b>1,390</b>	1,704	3,516	<b>3,094</b>	5,344
<b>Group impairment losses</b>	<b>2,487</b>	2,675	4,663	<b>5,162</b>	7,521





**Divisional performance** (continued)**Key points**

- Operating profit before impairment losses, adjusted for the movement in the fair value of own debt, was £2,737 million, down 23% compared with the first quarter of 2010 but up 31% compared with the second quarter of 2009. Pre-impairment profits grew in every Core division except GBM and RBS Insurance.
- Core Retail & Commercial generated good growth in pre-impairment operating profit during the second quarter, but this was offset by weaker GBM performance in more difficult conditions and by operating losses due to prior year reserve increases in RBS Insurance.

	Quarter ended			Half year ended	
	<b>30 June</b>	31 March	30 June	<b>30 June</b>	30 June
	<b>2010</b>	2010	2009	<b>2010</b>	2009
	<b>£m</b>	£m	£m	<b>£m</b>	£m
<b>Operating profit/(loss) by division</b>					
UK Retail	<b>276</b>	140	20	<b>416</b>	37
UK Corporate	<b>390</b>	318	85	<b>708</b>	406
Wealth	<b>81</b>	62	118	<b>143</b>	212
Global Banking & Markets	<b>1,081</b>	1,466	1,049	<b>2,547</b>	4,517
Global Transaction Services	<b>279</b>	233	265	<b>512</b>	496
Ulster Bank	<b>(177)</b>	(137)	(12)	<b>(314)</b>	(8)
US Retail & Commercial	<b>129</b>	40	(10)	<b>169</b>	(51)
RBS Insurance	<b>(203)</b>	(50)	141	<b>(253)</b>	217
Central items	<b>337</b>	200	(312)	<b>537</b>	177
Core	<b>2,193</b>	2,272	1,344	<b>4,465</b>	6,003
Non-Core	<b>(1,324)</b>	(1,559)	(4,877)	<b>(2,883)</b>	(9,357)
<b>Group operating profit/(loss)</b>	<b>869</b>	713	(3,533)	<b>1,582</b>	(3,354)

	Quarter ended			Half year ended	
	<b>30 June</b>	31 March	30 June	<b>30 June</b>	30 June

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	<b>2010</b>	2010	2009	<b>2010</b>	2009
	<b>%</b>	%	%	<b>%</b>	%
<b>Net interest margin by division</b>					
UK Retail	<b>3.88</b>	3.66	3.69	<b>3.77</b>	3.57
UK Corporate	<b>2.50</b>	2.38	2.17	<b>2.44</b>	2.03
Wealth	<b>3.36</b>	3.38	4.82	<b>3.37</b>	4.65
Global Banking & Markets	<b>1.01</b>	1.11	1.48	<b>1.06</b>	1.73
Global Transaction Services	<b>6.47</b>	7.97	9.23	<b>7.11</b>	8.74
Ulster Bank	<b>1.92</b>	1.77	2.03	<b>1.84</b>	1.95
US Retail & Commercial	<b>2.78</b>	2.69	2.32	<b>2.73</b>	2.32
Non-Core	<b>1.22</b>	1.25	0.45	<b>1.24</b>	0.54
Group	<b>2.03</b>	1.92	1.70	<b>1.97</b>	1.74







**Divisional performance** (continued)

	<b>30 June</b>	31 March		31	
	<b>2010</b>	2010		December	
	<b>£bn</b>	£bn	Change	2009	Change
				£bn	
<b>Risk-weighted assets by division</b>					
UK Retail	<b>49.1</b>	49.8	(1%)	51.3	(4%)
UK Corporate	<b>87.6</b>	91.3	(4%)	90.2	(3%)
Wealth	<b>12.0</b>	11.7	3%	11.2	7%
Global Banking & Markets	<b>141.3</b>	141.8	-	123.7	14%
Global Transaction Services	<b>19.4</b>	20.4	(5%)	19.1	2%
Ulster Bank	<b>30.5</b>	32.8	(7%)	29.9	2%
US Retail & Commercial	<b>65.5</b>	63.8	3%	59.7	10%
Other	<b>16.9</b>	9.6	76%	9.4	80%
Core	<b>422.3</b>	421.2	-	394.5	7%
Non-Core	<b>175.0</b>	164.3	7%	171.3	2%
	<b>597.3</b>	585.5	2%	565.8	6%
Benefit of Asset Protection Scheme	<b>(123.4)</b>	(124.8)	(1%)	(127.6)	(3%)

<b>Total</b>	<b>473.9</b>	460.7	3%	438.2	8%
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**UK Retail**

	Quarter ended		Half year ended		
	30 June	31 March	30 June	30 June	
	2010	2010	2009	2010	
	£m	£m	£m	£m	
<b>Income statement</b>					
Net interest income	<b>1,001</b>	933	868	<b>1,934</b>	1,665
Net fees and commissions - banking	<b>263</b>	259	321	<b>522</b>	658
Other non-interest income (net of insurance claims)	<b>56</b>	56	69	<b>112</b>	122
Non-interest income	<b>319</b>	315	390	<b>634</b>	780
Total income	<b>1,320</b>	1,248	1,258	<b>2,568</b>	2,445
Direct expenses					
- staff	<b>(203)</b>	(198)	(214)	<b>(401)</b>	(428)
- other	<b>(111)</b>	(105)	(102)	<b>(216)</b>	(217)
Indirect expenses	<b>(430)</b>	(418)	(452)	<b>(848)</b>	(939)
	<b>(744)</b>	(721)	(768)	<b>(1,465)</b>	(1,584)
Operating profit before impairment losses	<b>576</b>	527	490	<b>1,103</b>	861
Impairment losses	<b>(300)</b>	(387)	(470)	<b>(687)</b>	(824)
Operating profit	<b>276</b>	140	20	<b>416</b>	37
<b>Analysis of income by product</b>					
Personal advances	<b>236</b>	234	311	<b>470</b>	616
Personal deposits	<b>277</b>	277	354	<b>554</b>	751
Mortgages	<b>478</b>	422	273	<b>900</b>	480
Bancassurance	<b>58</b>	59	69	<b>117</b>	121
Cards	<b>239</b>	229	212	<b>468</b>	416
Other	<b>32</b>	27	39	<b>59</b>	61
Total income	<b>1,320</b>	1,248	1,258	<b>2,568</b>	2,445

**Analysis of impairment by sector**

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Mortgages	<b>44</b>	48	41	<b>92</b>	63
Personal	<b>168</b>	233	299	<b>401</b>	494
Cards	<b>88</b>	106	130	<b>194</b>	267
Total impairment	<b>300</b>	387	470	<b>687</b>	824

**Loan impairment charge as % of  
gross customer loans and advances  
by sector**

Mortgages	<b>0.2%</b>	0.2%	0.2%	<b>0.2%</b>	0.2%
Personal	<b>5.3%</b>	7.1%	8.3%	<b>6.3%</b>	6.9%
Cards	<b>5.9%</b>	7.1%	8.5%	<b>6.5%</b>	8.8%
	<b>1.1%</b>	1.5%	1.9%	<b>1.3%</b>	1.7%







**UK Retail** (continued)**Key metrics**

	Quarter ended		30 June 2009	Half year ended	
	30 June	31 March		30 June	30 June
	2010	2010		2010	2009
<b>Performance ratios</b>					
Return on equity (1)	<b>18.8%</b>	9.4%	1.2%	<b>14.2%</b>	1.1%
Net interest margin	<b>3.88%</b>	3.66%	3.69%	<b>3.77%</b>	3.57%
Cost:income ratio	<b>57%</b>	56%	60%	<b>57%</b>	64%
Adjusted cost:income ratio (2)	<b>56%</b>	58%	61%	<b>57%</b>	65%

	30 June	31 March	Change	31	Change
	2010	2010		December	
	£bn	£bn		2009 £bn	
<b>Capital and balance sheet</b>					
Loans and advances to customers (gross)					
- mortgages	<b>86.9</b>	84.8	2%	83.2	4%
- personal	<b>12.8</b>	13.2	(3%)	13.6	(6%)
- cards	<b>6.0</b>	6.0	-	6.2	(3%)
Customer deposits (excluding bancassurance)	<b>90.0</b>	89.4	1%	87.2	3%
Assets under management (excluding deposits)	<b>5.4</b>	5.3	2%	5.3	2%
Risk elements in lending	<b>4.8</b>	4.7	2%	4.6	4%
Loan:deposit ratio (excluding repos)	<b>114%</b>	113%	100bp	115%	(100bp)
Risk-weighted assets	<b>49.1</b>	49.8	(1%)	51.3	(4%)

Notes:

- (1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).
- (2) Adjusted cost:income ratio is based on total income after netting insurance claims and operating expenses.

## **Key points**

### **Q2 2010 compared with Q1 2010**

- Operating profit of £276 million in Q2 2010 was £136 million higher than in the previous quarter. Impairment losses fell £87 million to £300 million. Growth in income of 6% (£72 million) was partly offset by increased costs. Return on equity was 18.8%, compared with 9.4% in Q1 2010.
- UK Retail continues to focus on the delivery of its strategic plan and is benefiting from investment in process improvements and automation. The division launched its customer charter during Q2 2010, which has been well received by customers and staff.





**UK Retail** (continued)

**Key points** (continued)

**Q2 2010 compared with Q1 2010** (continued)

- UK Retail continued to achieve its growth targets for secured lending while building customer deposits.
  - o Mortgage balances were up 2% on Q1 2010, with continued retention of existing customers and new business sourced predominantly from the existing customer base. Gross lending increased 41% on Q1 2010, which saw low levels of business activity, driven by seasonality and removal of stamp duty relief at the end of 2009. Market share of new mortgage lending was 12%, still well above the Group's 7% share of stock. The Group considers mortgages to be a critical customer need and will continue to make lending available for both new and existing customers.
  - o Unsecured lending fell 2% in the quarter, as repayments continued to exceed new borrowing, which remained subdued in line with trends in the economy.
  - o Deposit growth continued albeit at a slower rate than previously with 1% growth in the quarter. This growth was despite a challenging market place, continued low interest rates and significant maturities of earlier fixed-term products.
  - o The loan to deposit ratio at 30 June 2010 was 114%, 1 percentage point higher than Q1 2010 as a result of continued strong growth in mortgage balances.
- Net interest income increased by 7%, with net interest margin increasing by 22 basis points. Asset margins continued to widen across all products, while liability margins in Q2 2010 were slightly lower than in Q1 2010. Savings margins remained stable, but swap rates on current account hedges declined.
- Non-interest income increased by 1%, with transaction-based fee income remaining stable as growth in the current economic climate remained challenging.
- Costs increased by 3% in the quarter reflecting marketing expenses associated with the launch of the customer charter as well as the impact of annual pay awards. Adjusted for insurance claims, the cost:income ratio improved by 2 percentage points to 56%.
- Impairment losses declined by 22% in Q2 2010. The impairment outlook is expected to remain steady and may improve slightly, subject to economic conditions remaining stable.
  - o Mortgage impairment losses decreased 8% in the quarter due to a reduction in customer default volumes, with performance continuing to benefit from the low interest rate environment.

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- o The unsecured portfolio impairment charge fell 24% to £ 256 million, on a book of £19 billion, due to lower default volumes together with improved collections performance.

- Risk-weighted assets fell marginally in the quarter as the impacts of mortgage volume growth and a retiring cards securitisation were more than offset by lower unsecured balances. Portfolio credit metrics remain stable.







**UK Retail** (continued)

**Key points** (continued)

**Q2 2010 compared with Q2 2009**

- Operating profit increased significantly, with income up 5% and costs down 3%, while impairments were 36% lower than in the previous year, primarily reflecting lower volumes of arrears on the unsecured portfolio.
- Net interest income was 15% higher than Q2 2009, with widening asset margins across all products. Liability margins came under pressure during 2009, with savings margin sacrificed to support balance growth.
- Non interest income decreased 18% versus prior year primarily as a result of changes to the structure of overdraft charges which took effect from Q4 2009.
- Deposit balances were up 8% on Q2 2009. Savings balances grew by 9%, significantly outperforming the market, which remains intensely competitive. Personal current account balances were up 5%, with 2% growth in accounts.
- Mortgage balances at 30 June 2010 were up 13%. UK Retail continues to take proactive steps to support and retain existing customers.
- Costs were 3% lower than in Q2 2009, driven by process re-engineering efficiencies within the branch network and operational centres. The adjusted cost:income ratio fell from 61% to 56%.
- Impairment losses dropped by 36% compared with Q2 2009, primarily reflecting lower arrears volumes on the unsecured portfolio and stabilisation of recovery expectations.

**H1 2010 compared with H1 2009**

- Net interest income was 16% higher, with net interest margin increasing 20 basis points. Widening asset margins across all products and an increasing number of mortgage customers choosing to remain on standard variable rate were the key drivers. Liability margins, however, fell as a result of lower interest rates, a competitive market place and our focus on saving balance growth.
- Total customer lending grew 9% from H1 2009 with mortgage balances increasing 13%, whilst unsecured balances reduced 8%. Deposit balances grew 8% with savings deposits up 9% and current account balances up 5% on H1 2009.

- Costs decreased by 8%, as process re-engineering helped to deliver lower staff costs and operational efficiencies.
- Impairment losses fell 17% in H1 2010 as improved economic conditions favourably impacted unsecured impairments, which declined by £166 million whilst secured impairments grew by £29 million.





**UK Corporate**

	Quarter ended		Half year ended		
	30 June	31 March	30 June	30 June	
	2010	2010	2009	2010	
	£m	£m	£m	£m	
<b>Income statement</b>					
Net interest income	<b>647</b>	610	560	<b>1,257</b>	1,059
Net fees and commissions	<b>233</b>	224	219	<b>457</b>	413
Other non-interest income	<b>107</b>	105	109	<b>212</b>	226
Non-interest income	<b>340</b>	329	328	<b>669</b>	639
Total income	<b>987</b>	939	888	<b>1,926</b>	1,698
Direct expenses					
- staff	<b>(189)</b>	(205)	(182)	<b>(394)</b>	(367)
- other	<b>(78)</b>	(100)	(46)	<b>(178)</b>	(120)
Indirect expenses	<b>(132)</b>	(130)	(125)	<b>(262)</b>	(255)
	<b>(399)</b>	(435)	(353)	<b>(834)</b>	(742)
Operating profit before impairment losses	<b>588</b>	504	535	<b>1,092</b>	956
Impairment losses	<b>(198)</b>	(186)	(450)	<b>(384)</b>	(550)
Operating profit	<b>390</b>	318	85	<b>708</b>	406
<b>Analysis of income by business</b>					
Corporate and commercial lending	<b>660</b>	630	520	<b>1,290</b>	996
Asset and invoice finance	<b>154</b>	134	123	<b>288</b>	232
Corporate deposits	<b>185</b>	176	264	<b>361</b>	554
Other	<b>(12)</b>	(1)	(19)	<b>(13)</b>	(84)
Total income	<b>987</b>	939	888	<b>1,926</b>	1,698
<b>Analysis of impairment by sector</b>					
Banks and financial institutions	<b>(9)</b>	2	3	<b>(7)</b>	5
Hotels and restaurants	<b>12</b>	16	36	<b>28</b>	51
Housebuilding and construction	<b>8</b>	14	55	<b>22</b>	61
Manufacturing	<b>2</b>	6	17	<b>8</b>	21
Other	<b>83</b>	37	88	<b>120</b>	107

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Private sector education, health, social work, recreational and community services	-	8	32	<b>8</b>	40
Property	<b>61</b>	66	149	<b>127</b>	160
Wholesale and retail trade, repairs	<b>28</b>	18	23	<b>46</b>	37
Asset and invoice finance	<b>13</b>	19	47	<b>32</b>	68
Total impairment	<b>198</b>	186	450	<b>384</b>	550





## UK Corporate (continued)

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010*	2009*	2010*	2009*
<b>Loan impairment charge as % of gross customer loans and advances</b>					
<b>(excluding reverse repurchase agreements) by sector</b>					
Banks and financial institutions	<b>(0.6%)</b>	0.1%	0.3%	<b>(0.2%)</b>	0.2%
Hotels and restaurants	<b>0.7%</b>	1.0%	2.2%	<b>0.8%</b>	1.6%
Housebuilding and construction	<b>0.7%</b>	1.3%	4.8%	<b>1.0%</b>	2.7%
Manufacturing	<b>0.1%</b>	0.4%	1.2%	<b>0.3%</b>	0.7%
Other	<b>1.0%</b>	0.5%	1.1%	<b>0.7%</b>	0.7%
Private sector education, health, social work, recreational and community services	-	0.4%	2.0%	<b>0.2%</b>	1.3%
Property	<b>0.8%</b>	0.8%	1.8%	<b>0.8%</b>	0.9%
Wholesale and retail trade, repairs	<b>1.1%</b>	0.7%	0.9%	<b>0.9%</b>	0.7%
Asset and invoice finance	<b>0.6%</b>	0.8%	2.2%	<b>0.7%</b>	1.6%
	<b>0.7%</b>	0.7%	1.6%	<b>0.7%</b>	1.0%

## Key metrics

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
<b>Performance ratios</b>					
Return on equity (1)	<b>15.0%</b>	11.6%	3.2%	<b>13.6%</b>	7.6%
Net interest margin	<b>2.50%</b>	2.38%	2.17%	<b>2.44%</b>	2.03%
Cost:income ratio	<b>40%</b>	46%	40%	<b>43%</b>	44%

30 June 31 March 31 December

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	<b>2010 £bn</b>	2010* £bn	Change	2009* £bn	Change
<b>Capital and balance sheet</b>					
Total third party assets	<b>118.4</b>	117.4	1%	114.9	3%
Loans and advances to customers (gross)					
- banks and financial institutions	<b>6.5</b>	6.5	-	6.3	3%
- hotels and restaurants	<b>7.0</b>	6.6	6%	6.7	4%
- housebuilding and construction	<b>4.6</b>	4.3	7%	4.3	7%
- manufacturing	<b>5.5</b>	5.9	(7%)	5.9	(7%)
- other	<b>32.6</b>	31.1	5%	29.9	9%
- private sector education, health, social			7%		
work, recreational and community services	<b>9.1</b>	8.5		6.5	40%
- property	<b>30.3</b>	32.0	(5%)	33.0	(8%)
- wholesale and retail trade, repairs	<b>10.4</b>	10.4	-	10.2	2%
- asset and invoice finance	<b>9.2</b>	9.0	2%	8.8	5%
Customer deposits	<b>95.4</b>	91.4	4%	87.8	9%
Risk elements in lending	<b>2.9</b>	2.5	16%	2.3	26%
Loan:deposit ratio (excluding repos)	<b>119%</b>	124%	(500bp)	126%	(700bp)
Risk-weighted assets	<b>87.6</b>	91.3	(4%)	90.2	(3%)

\* Revised to reflect improvement in data quality to more accurately reflect Standard Industrial Classification.

Note:

- (1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).





**UK Corporate** (continued)

**Key points**

**Q2 2010 compared with Q1 2010**

- Operating profit increased by 23% to £390 million, driven by good income growth and reduced costs.
- Net interest income increased by 6%. Loans and advances to customers were broadly in line with previous quarter, despite robust levels of gross new lending; margins continue to recover from the low levels reached in 2008 and 2009. Customer deposits grew by £4 billion, with deposit-gathering initiatives continuing through the quarter. Deposit margins remained tight. Net interest margin increased by 12 basis points.
- Non-interest income increased 3%, driven by GBM cross sales and money transmission fees.
- Staff costs were £16 million lower due to phasing of staff compensation. Excluding the £29 million Office of Fair Trading (OFT) penalty taken in Q1 2010, total expenses were 2% lower.
- Impairments were broadly in line with the previous three quarters and continue to reflect the delicate financial condition of many clients, especially in the property and SME sectors.
- Although nominal assets increased by 1%, risk-weighted assets decreased by 4%, primarily reflecting improvements in risk metrics.

**Q2 2010 compared with Q2 2009**

- Operating profits increased by £305 million, reflecting income growth and significantly lower impairments.
- Net interest income increased by 16%, driven by the recovery in lending margins. Non-interest income increased by 4%, from small increases across most fee and product lines.
- Staff expenses increased by £7 million, with changes to the phasing of staff costs partially offset by reduced redundancy costs. Other expenses increased £32 million, partly as a result of a £19 million legal recovery in Q2 2009. Adjusting for this, total expenses were up 7%.
- Impairments decreased by £252 million compared with Q2 2009, which included a higher charge taken to reflect potential losses in the portfolio not yet specifically identified.

### **H1 2010 compared with H1 2009**

- Operating profit increased by £302 million or 74% compared with H1 2009, driven by strong income performance (up 13%) and significantly lower impairments.
- Net interest income increased by £198 million, 19%, and net interest margin recovered, rising by 41 basis points, reflecting repricing of the loan portfolio and a better funding cost environment than in the prior year, offset by adverse deposit floor impacts. Deposit-gathering initiatives delivered balance growth of 11% and the loan:deposit ratio improved to 119%, compared with 130% at H1 2009.
- Non-interest income increased by 5%, reflecting good refinancing activity levels.
- Total expenses increased £92 million, 12%, or 2% after excluding the OFT penalty and legal recovery and normalising for phasing of staff compensation and 2009 redundancy costs.
- Impairments were £166 million lower, primarily a result of higher charges taken in H1 2009 to reflect potential losses in the portfolio not yet specifically identified.







**Wealth**

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Net interest income	150	143	176	293	334
Net fees and commissions	97	95	90	192	180
Other non-interest income	19	17	21	36	42
Non-interest income	116	112	111	228	222
Total income	266	255	287	521	556
Direct expenses					
- staff	(92)	(99)	(78)	(191)	(168)
- other	(34)	(30)	(34)	(64)	(67)
Indirect expenses	(52)	(60)	(41)	(112)	(87)
	(178)	(189)	(153)	(367)	(322)
Operating profit before impairment losses	88	66	134	154	234
Impairment losses	(7)	(4)	(16)	(11)	(22)
Operating profit	81	62	118	143	212
<b>Analysis of income</b>					
Private Banking	216	204	242	420	461
Investments	50	51	45	101	95
Total income	266	255	287	521	556

**Key metrics**

Quarter ended

Half year ended

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	<b>30 June</b>	31 March	30 June	<b>30 June</b>	30 June
	<b>2010</b>	2010	2009	<b>2010</b>	2009
<b>Performance ratios</b>					
Net interest margin	<b>3.36%</b>	3.38%	4.82%	<b>3.37%</b>	4.65%
Cost:income ratio	<b>67%</b>	74%	53%	<b>70%</b>	58%

	<b>30 June</b>	31 March		31 December	
	<b>2010</b>	2010	Change	2009	Change
	<b>£bn</b>	£bn		£bn	
<b>Capital and balance sheet</b>					
Loans and advances to customers (gross)					
- mortgages	<b>6.9</b>	6.8	1%	6.5	6%
- personal	<b>6.4</b>	6.2	3%	4.9	31%
- other	<b>1.6</b>	1.5	7%	2.3	(30%)
Customer deposits	<b>36.2</b>	36.4	(1%)	35.7	1%
Assets under management (excluding deposits)	<b>30.2</b>	31.7	(5%)	30.7	(2%)
Risk elements in lending	<b>0.2</b>	0.2	-	0.2	
Loan:deposit ratio (excluding repos)	<b>41%</b>	40%	100bp	38%	300bp
Risk-weighted assets	<b>12.0</b>	11.7	3%	11.2	7%

**Wealth** (continued)

**Key points**

**Q2 2010 compared with Q1 2010**

- Operating profit rose 31% to £81 million, mostly reflecting increased net interest income and a reduction in expenses.
- Competition in the deposit market remains intense. Deposits showed a slight decline from Q1 2010, with continued growth in the UK offset by reductions in the international businesses. At constant exchange rates deposits were flat.
- Loans and advances grew in response to client demand, increasing 3% over the prior quarter with margins continuing to improve.
- Assets under management were affected by adverse market conditions, with balances declining 5%. Assets under management outflows continued in the international businesses, where competition for private bankers has resulted in client attrition.
- Total expenses decreased 6% on the previous quarter reflecting the phasing of compensation accruals. On an underlying basis, total expenses were flat with a reduction in indirect expenses offsetting the impact of the annual pay round and increased investment in staff.

**Q2 2010 compared with Q2 2009**

- Operating profit decreased by 31% reflecting significant margin pressure, particularly on the deposit book. Net interest income fell 15%, with a marked reduction in net interest margin partly offset by growth in client deposit and loan balances.
- Client deposits grew 3% with increases most evident in the UK as new products attracted funds. Deposit outflows occurred in the international businesses where competition for private bankers has resulted in client attrition.
- Lending margins widened by 22 basis points and loans and advances grew by 20%, reflecting the strong client demand evident during 2009 and 2010.
- Total expenses rose 16% reflecting changes to compensation structures and to indirect expense allocations.

**H1 2010 compared with H1 2009**

- Trends in the first half were consistent with those exhibited in the second quarter.
- The economic backdrop and highly competitive deposit market have left the division tracking behind its deposit growth targets. As a consequence the loan:deposit ratio has deteriorated to 41%.





**Global Banking & Markets**

	Quarter ended		Half year ended		
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Net interest income from banking activities	335	379	660	714	1,472
Net fees and commissions receivable	314	345	412	659	709
Income from trading activities	1,563	1,995	1,132	3,558	5,213
Other operating income (net of related funding costs)	66	73	(101)	139	(199)
Non-interest income	1,943	2,413	1,443	4,356	5,723
Total income	2,278	2,792	2,103	5,070	7,195
Direct expenses					
- staff	(634)	(891)	(680)	(1,525)	(1,568)
- other	(237)	(229)	(204)	(466)	(478)
Indirect expenses	(162)	(174)	(201)	(336)	(394)
	(1,033)	(1,294)	(1,085)	(2,327)	(2,440)
Operating profit before impairment losses	1,245	1,498	1,018	2,743	4,755
Impairment losses	(164)	(32)	31	(196)	(238)
Operating profit	1,081	1,466	1,049	2,547	4,517
<b>Analysis of income by product</b>					
Rates - money markets	4	88	466	92	1,319
Rates - flow	471	699	536	1,170	1,833
Currencies & Commodities	179	295	416	474	955
Equities	238	314	364	552	735
Credit markets	474	959	690	1,433	1,548
Portfolio management and origination	581	469	113	1,050	640
Fair value of own debt	331	(32)	(482)	299	165
Total income	2,278	2,792	2,103	5,070	7,195



**Analysis of impairment by sector**

Manufacturing and infrastructure	<b>(12)</b>	(7)	23	<b>(19)</b>	39
Property and construction	<b>56</b>	8	4	<b>64</b>	50
Banks and financial institutions	<b>110</b>	16	39	<b>126</b>	43
Other	<b>10</b>	15	(97)	<b>25</b>	106
Total impairment	<b>164</b>	32	(31)	<b>196</b>	238

**Loan impairment charge as % of gross customer loans and advances****(excluding reverse repurchase**

<b>agreements)</b>	<b>0.7%</b>	0.1%	(0.1%)	<b>0.4%</b>	0.4%
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**Global Banking & Markets** (continued)**Key metrics**

	Quarter ended			Half year ended	
	<b>30 June</b>	31 March	30 June	<b>30 June</b>	30 June
	<b>2010</b>	2010	2009	<b>2010</b>	2009
<b>Performance ratios</b>					
Return on equity (1)	<b>20.1%</b>	28.4%	24.8%	<b>23.7%</b>	53.3%
Net interest margin	<b>1.01%</b>	1.11%	1.48%	<b>1.06%</b>	1.73%
Cost:income ratio	<b>45%</b>	46%	52%	<b>46%</b>	34%

	<b>30 June</b>	31 March	Change	31 December	Change
	<b>2010</b>	2010		2009	
	<b>£bn</b>	£bn		£bn	
<b>Capital and balance sheet</b>					
Loans and advances (including banks)	<b>128.9</b>	133.5	(3%)	127.8	1%
Reverse repos	<b>85.6</b>	93.1	(8%)	73.3	17%
Securities	<b>109.8</b>	116.6	(6%)	106.0	4%
Cash and eligible bills	<b>41.2</b>	61.9	(33%)	74.0	(44%)
Other	<b>34.5</b>	38.6	(11%)	31.1	11%
Total third party assets (excluding derivatives)	<b>400.0</b>	443.7	(10%)	412.2	(3%)

mark to market)

Net derivative assets (after netting)	<b>52.1</b>	66.9	(22%)	68.0	(23%)
Customer deposits (excluding repos)	<b>45.6</b>	47.0	(3%)	46.9	(3%)
Risk elements in lending	<b>1.8</b>	1.2	50%	1.8	
Loan:deposit ratio (excluding repos)	<b>195%</b>	195%	-	194%	100bp
Risk-weighted assets	<b>141.3</b>	141.8	-	123.7	14%

Note:

- (1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 10% of divisional risk-weighted assets, adjusted for capital deductions).

## Key points

### Q2 2010 compared with Q1 2010

- Excluding the movement in fair value of own debt, revenue fell 31% from the strong first quarter, which included excellent performances in credit markets and rates-flow. All fixed income and currency products saw a reduction in revenue during Q2 2010, reflecting a drop in market liquidity as customer flows declined on increased risk aversion. Equities revenue also fell, with lower global equity capital markets volumes and subdued investor confidence.
- Operating profit fell 26% in the quarter, in line with lower revenues. While headline return on equity (RoE) was 20%, adjusting for the fair value of own debt RoE was 14%, still broadly in line with the 2011 strategic plan target of c.15%, in spite of the tough market conditions.





**Global Banking & Markets** (continued)

**Key points** (continued)

**Q2 2010 compared with Q1 2010** (continued)

- Total costs fell by 20% as a result of lower incentive compensation accruals, with non-staff costs held flat. Excluding the impact of fair value own debt, the compensation ratio was 33%, while the cost:income ratio of 53% remains below 55%, the 2013 strategic plan target.
- Higher impairments reflect a small number of individual provisions.
- Balance sheet management remained tight in Q2 2010, with reverse repos and securities lower than in the prior quarter. Holdings of cash and Treasury bills were reduced at the divisional level, offset by greater holdings of term liquidity instruments at the Group level.
- Risk-weighted assets remained flat over the period, reflecting tight management of underlying risks and regulatory charges.

**Q2 2010 compared with Q2 2009**

- Operating profit increased by 3% benefitting from an £813 million swing in the fair value of own debt. Excluding this, operating profit fell 51% due to lower revenue and higher impairment losses.
- Excluding the movement in fair value of own debt, revenue fell 25%. Money markets revenue fell sharply from the levels achieved during the exceptional market conditions experienced during the first half of 2009. Credit markets revenue also fell as the trading environment deteriorated in response to uncertainty in the eurozone, although the largely US-based mortgage trading business continued to perform well and has maintained its revenue over the period.
- Portfolio management revenue was boosted by a swing in market derivative values and by lower costs associated with credit risk and balance sheet management trades.
- The widening of the Group credit spreads contrasted with a narrowing in Q2 2009, generating a £331 million credit from the movement in the fair value of own debt compared with a £482 million debit in Q2 2009.



**H1 2010 compared with H1 2009**

- Operating profit fell 44%. Although Q1 2010 was a strong quarter, Q2 2010 saw weakening investor confidence and subdued deal volumes. This was in contrast to H1 2009 when markets rebounded and revenues were enhanced by wide spreads and volatility.
- Money markets revenue fell sharply as rapidly falling short term interest rates generated exceptional revenue opportunities last year. Rates-flow and Currencies & Commodities also fell meaningfully compared with H1 2009 as the exceptional volatility and wide bid-offer spreads were not repeated in 2010. Credit markets declined a more modest 7% as the mortgage trading business enjoyed both a buoyant market and strong customer demand in H1 2010.
- Growth in portfolio management revenues reflects lower costs incurred on credit risk / balance sheet management trades. The underlying origination and lending business remained flat. A strong finish to Q1 2010 gave way to a subdued Q2 2010 as investor confidence waned following uncertainty in the eurozone.





**Global Transaction Services**

	Quarter ended		Half year ended	
	30 June	31 March	30 June	30 June
	2010	2010	2009	2010
	£m	£m	£m	£m
<b>Income statement</b>				
Net interest income	<b>237</b>	217	225	<b>454</b>
Non-interest income	<b>411</b>	390	398	<b>801</b>
Total income	<b>648</b>	607	623	<b>1,255</b>
Direct expenses				
- staff	<b>(102)</b>	(104)	(87)	<b>(206)</b>
- other	<b>(37)</b>	(33)	(38)	<b>(70)</b>
Indirect expenses	<b>(227)</b>	(237)	(229)	<b>(464)</b>
	<b>(366)</b>	(374)	(354)	<b>(740)</b>
Operating profit before impairment losses	<b>282</b>	233	269	<b>515</b>
Impairment losses	<b>(3)</b>	-	(4)	<b>(3)</b>
Operating profit	<b>279</b>	233	265	<b>512</b>
<b>Analysis of income by product</b>				
Domestic cash management	<b>201</b>	194	204	<b>395</b>
International cash management	<b>193</b>	185	179	<b>378</b>
Trade finance	<b>76</b>	71	77	<b>147</b>
Merchant acquiring	<b>133</b>	115	126	<b>248</b>
Commercial cards	<b>45</b>	42	37	<b>87</b>
Total income	<b>648</b>	607	623	<b>1,255</b>

**Key metrics**

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	Quarter ended			Half year ended	
	<b>30 June</b>	31 March	30 June	<b>30 June</b>	30 June
	<b>2010</b>	2010	2009	<b>2010</b>	2009
<b>Performance ratios</b>					
Net interest margin	<b>6.47%</b>	7.97%	9.23%	<b>7.11%</b>	8.74%
Cost:income ratio	<b>56%</b>	62%	57%	<b>59%</b>	59%

	<b>30 June</b>	31 March	Change	31 December	Change
	<b>2010</b>	2010		2009	
	<b>£bn</b>	£bn		£bn	
<b>Capital and balance sheet</b>					
Total third party assets	<b>25.7</b>	25.6	-	18.4	40%
Loans and advances	<b>15.6</b>	14.3	9%	12.7	23%
Customer deposits	<b>62.7</b>	64.6	(3%)	61.8	1%
Risk elements in lending	<b>0.2</b>	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	<b>25%</b>	22%	300bp	21%	400bp
Risk-weighted assets	<b>19.4</b>	20.4	(5%)	19.1	2%





## Global Transaction Services (continued)

### Key points

#### Q2 2010 compared with Q1 2010

- Operating profit increased 20%, or 18% at constant foreign exchange rates, driven by increased deposit income and lower expenses.
- Income increased by 7%, or 6% at constant foreign exchange rates, reflecting higher domestic and international average deposit balances and improving merchant acquiring volumes.
- Expenses fell by 2% and were 1% lower at constant foreign exchange rates. Direct costs were broadly flat, with lower staff compensation offset by increased investment.
- Customer deposits at 30 June were 3% lower than at 31 March, principally as a result of adverse currency movements (down 1% at constant exchange rates). Average balances for the quarter increased by 4%.
- Risk-weighted assets decreased by £1.0 billion as a result of RBS NV moving to advanced status under Basel II.

#### Q2 2010 compared with Q2 2009

- Operating profit increased 5%, driven by higher income from deposits (average balances were 27% higher), partially offset by expense growth.
- Income was up 4%, reflecting improved deposit volumes, higher transactional foreign exchange income and increased commercial cards activity.
- Expenses increased by 3%, with higher staff compensation partially offset by lower indirect costs.

#### H1 2010 compared with H1 2009



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- Operating profit increased by 3%, or 5% at constant foreign exchange rates with higher income and lower impairments partially offset by increased expenses.
- Income increased by 2%, or 3% at constant foreign exchange rates, with higher deposit volumes, improved transactional foreign exchange income and strong growth in commercial cards.
- Expenses increased by 3%, as a result of changes to the phasing of staff compensation.
- Customer spot deposit balances at £62.7 billion were up 16% (average balances up 19%) with growth in both the UK and international cash management (ICM) businesses.
- Third party assets increased by £6.3 billion, of which £3.8 billion was due to the bringing of yen clearing activities in-house. Loans and advances to customers increased by 16%, reflecting higher trade finance volumes.
- Risk-weighted assets increased £2.7 billion across the trade and ICM businesses partially offset by some benefits from the completion of the Basel II advanced implementation.







**Ulster Bank**

	Quarter ended		Half year ended		
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Net interest income	<b>194</b>	188	208	<b>382</b>	410
Net fees and commissions	<b>43</b>	35	39	<b>78</b>	85
Other non-interest income	<b>10</b>	18	12	<b>28</b>	23
Non-interest income	<b>53</b>	53	51	<b>106</b>	108
Total income	<b>247</b>	241	259	<b>488</b>	518
Direct expenses					
- staff	<b>(60)</b>	(66)	(81)	<b>(126)</b>	(170)
- other	<b>(17)</b>	(18)	(25)	<b>(35)</b>	(47)
Indirect expenses	<b>(66)</b>	(76)	(75)	<b>(142)</b>	(152)
	<b>(143)</b>	(160)	(181)	<b>(303)</b>	(369)
Operating profit before impairment losses	<b>104</b>	81	78	<b>185</b>	149
Impairment losses	<b>(281)</b>	(218)	(90)	<b>(499)</b>	(157)
Operating loss	<b>(177)</b>	(137)	(12)	<b>(314)</b>	(8)
<b>Analysis of income by business</b>					
Corporate	<b>134</b>	145	138	<b>279</b>	300
Retail	<b>105</b>	112	101	<b>217</b>	194
Other	<b>8</b>	(16)	20	<b>(8)</b>	24
Total income	<b>247</b>	241	259	<b>488</b>	518
<b>Analysis of impairment by sector</b>					
Mortgages	<b>33</b>	33	10	<b>66</b>	24
Corporate					
- property	<b>117</b>	82	63	<b>199</b>	75
- other corporate	<b>118</b>	91	3	<b>209</b>	31
Other lending	<b>13</b>	12	14	<b>25</b>	27

Total impairment	<b>281</b>	218	90	<b>499</b>	157
<b>Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector</b>					
Mortgages	<b>0.9%</b>	0.8%	0.2%	<b>0.9%</b>	0.3%
Corporate					
- property	<b>4.9%</b>	3.3%	2.7%	<b>4.2%</b>	1.6%
- other corporate	<b>4.8%</b>	3.5%	0.1%	<b>4.2%</b>	0.5%
Other lending	<b>2.7%</b>	2.0%	3.5%	<b>2.6%</b>	3.4%
	<b>3.1%</b>	2.3%	0.9%	<b>2.8%</b>	0.8%







**Ulster Bank** (continued)**Key metrics**

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
<b>Performance ratios</b>					
Return on equity (1)	<b>(21.7%)</b>	(16.0%)	(1.8%)	<b>(19.2%)</b>	(0.6%)
Net interest margin	<b>1.92%</b>	1.77%	2.03%	<b>1.84%</b>	1.95%
Cost:income ratio	<b>58%</b>	66%	70%	<b>62%</b>	71%

	30 June	31 March	Change	31 December	Change
	2010	2010		2009	
	£bn	£bn		£bn	
<b>Capital and balance sheet</b>					
Loans and advances to customers (gross)					
- mortgages	<b>14.9</b>	16.1	(7%)	16.2	(8%)
- corporate					
- property	<b>9.5</b>	9.9	(4%)	10.1	(6%)
- other corporate	<b>9.9</b>	10.4	(5%)	11.0	(10%)
- other lending	<b>1.9</b>	2.4	(21%)	2.4	(21%)
Customer deposits	<b>22.7</b>	23.7	(4%)	21.9	4%
Risk elements in lending					
- mortgages	<b>0.7</b>	0.7	-	0.6	17%
- corporate					
- property	<b>1.3</b>	1.0	30%	0.7	86%
- other corporate	<b>1.3</b>	1.1	18%	0.8	63%
- other lending	<b>0.2</b>	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	<b>154%</b>	159%	(500bp)	177%	(2,300bp)
Risk-weighted assets	<b>30.5</b>	32.8	(7%)	29.9	2%

Note:

- (1) Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

## Key points

### Q2 2010 compared with Q1 2010

- Operating loss totalled £177 million for the quarter, a deterioration of £40 million from the previous quarter, driven by higher impairment losses. Operating profit before impairment losses increased by 38% on a constant currency basis, with favourable movements on both income and expenses.
- Net interest income increased by 6% in constant currency terms largely driven by higher income on capital. Although the deposit market remained competitive, placing continued pressure on liability spreads, loan margins continued on an upward trend, benefiting from the impact of ongoing pricing actions. As a result, net interest margin increased by 15 basis points to 192 basis points.
- Loans to customers remain broadly unchanged in the quarter in constant currency terms. Customer deposit balances increased by 2% on the same basis, reflecting an ongoing focus on growing the core customer deposit base.





**Ulster Bank** (continued)

**Key points** (continued)

**Q2 2010 compared with Q1 2010** (continued)

- Total expenses decreased by 10% on a constant currency basis reflecting strong cost discipline across both direct and indirect cost bases.
- Impairment losses increased by £63 million in the quarter. Economic conditions remain challenging with a continued downward pressure on asset values and a resultant impact on the credit quality of customers. The bank continues to support customers through a range of debt management initiatives.

**Q2 2010 compared with Q2 2009**

- Net interest income reduced by 7% on a constant currency basis with continued pressure on deposit margins partly offset by positive loan pricing actions.
- Loans to customers decreased by 4% in constant currency terms as levels of new business activity remain muted. Customer deposits increased by 23% at constant currency from Q2 2009 driven by a significant uplift in both retail and wholesale customer balances.
- Non-interest income has remained broadly flat over the period reflecting subdued activity levels across most business lines. The bank continues to focus on developing new product lines and diversifying its income base.
- Total expenses declined by 20% in constant currency terms, largely driven by the restructuring programme, which commenced in 2009. The rollout of the programme has resulted in a downward trend in direct expenses throughout 2009 and is a key driver in the reduction in the cost:income ratio from 70% to 58% over the period.
- Impairment losses increased significantly over the period reflecting the deterioration in the Irish economic environment and the resultant impact on customer repayment capacity.
- Risk-weighted assets increased by 20% on a constant currency basis reflecting the continued weak credit environment and consequent procyclical impact.

**H1 2010 compared with H1 2009**

- An increase in impairment losses of £342 million from H1 2009 has resulted in a significant deterioration in financial performance and an operating loss of £314 million for the period.
- Ulster Bank customer numbers increased by 3% over the period with strong flow trends particularly in retail current and deposit accounts.







**US Retail & Commercial (£ Sterling)**

	Quarter ended		30 June 2009 £m	Half year ended	
	30 June 2010 £m	31 March 2010 £m		30 June 2010 £m	30 June 2009 £m
<b>Income statement</b>					
Net interest income	<b>502</b>	468	448	<b>970</b>	942
Net fees and commissions	<b>203</b>	177	209	<b>380</b>	407
Other non-interest income	<b>72</b>	75	45	<b>147</b>	97
Non-interest income	<b>275</b>	252	254	<b>527</b>	504
Total income	<b>777</b>	720	702	<b>1,497</b>	1,446
Direct expenses					
- staff	<b>(151)</b>	(215)	(184)	<b>(366)</b>	(402)
- other	<b>(163)</b>	(134)	(188)	<b>(297)</b>	(331)
Indirect expenses	<b>(190)</b>	(188)	(194)	<b>(378)</b>	(395)
	<b>(504)</b>	(537)	(566)	<b>(1,041)</b>	(1,128)
Operating profit before impairment losses	<b>273</b>	183	136	<b>456</b>	318
Impairment losses	<b>(144)</b>	(143)	(146)	<b>(287)</b>	(369)
Operating profit/(loss)	<b>129</b>	40	(10)	<b>169</b>	(51)
Average exchange rate - US\$/£	<b>1.492</b>	1.560	1.551	<b>1.525</b>	1.494
<b>Analysis of income by product</b>					
Mortgages and home equity	<b>124</b>	115	130	<b>239</b>	272
Personal lending and cards	<b>122</b>	114	113	<b>236</b>	220
Retail deposits	<b>248</b>	226	202	<b>474</b>	433
Commercial lending	<b>152</b>	142	140	<b>294</b>	281
Commercial deposits	<b>86</b>	81	89	<b>167</b>	193
Other	<b>45</b>	42	28	<b>87</b>	47
Total income	<b>777</b>	720	702	<b>1,497</b>	1,446
<b>Analysis of impairment by sector</b>					
Residential mortgages	<b>22</b>	19	12	<b>41</b>	35
Home equity	<b>38</b>	6	43	<b>44</b>	72

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Corporate and commercial	<b>76</b>	49	61	<b>125</b>	169
Other consumer	<b>7</b>	56	30	<b>63</b>	93
Securities impairment losses	<b>1</b>	13	-	<b>14</b>	-
Total impairment	<b>144</b>	143	146	<b>287</b>	369

**Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector**

Residential mortgages	<b>1.3%</b>	1.1%	0.7%	<b>1.2%</b>	1.0%
Home equity	<b>0.9%</b>	0.1%	1.1%	<b>0.5%</b>	0.9%
Corporate and commercial	<b>1.5%</b>	1.0%	1.2%	<b>1.2%</b>	1.6%
Other consumer	<b>0.3%</b>	2.8%	1.4%	<b>1.6%</b>	2.2%
	<b>1.1%</b>	1.0%	1.1%	<b>1.1%</b>	1.4%





## US Retail &amp; Commercial (£ Sterling) (continued)

## Key metrics

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
<b>Performance ratios</b>					
Return on equity (1)	6.4%	2.0%	(0.6%)	4.2%	(1.5%)
Net interest margin	2.78%	2.69%	2.32%	2.73%	2.32%
Cost:income ratio	65%	74%	81%	69%	78%

	30 June	31 March	Change	31 December	Change
	2010 £bn	2010 £bn		2009 £bn	
<b>Capital and balance sheet</b>					
Total third party assets (excluding derivatives)	77.4	78.2	(1%)	74.8	3%
Loans and advances to customers (gross)					
- residential mortgages	6.6	6.7	(1%)	6.5	2%
- home equity	16.3	16.2	1%	15.4	6%
- corporate and commercial	20.7	20.5	1%	19.5	6%
- other consumer	8.0	8.0	-	7.5	7%
Customer deposits (excluding repos)	62.3	62.5	-	60.1	4%
Risk elements in lending					
- retail	0.4	0.4	-	0.4	-
- commercial	0.5	0.3		0.2	150%

67%

Loan:deposit ratio (excluding repos)	<b>81%</b>	81%	-	80%	100bp
Risk-weighted assets	<b>65.5</b>	63.8	3%	59.7	10%
Spot exchange rate - US\$/£	<b>1.498</b>	1.517		1.622	

Note:

- (1) Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

### Key points

- Sterling continued to weaken over the course of the second quarter, with the average exchange rate declining by 4% compared with Q1 2010.
- Performance is described in full in the US dollar-based financial statements set out on pages 43 and 44.







**US Retail & Commercial (US Dollar)**

	Quarter ended		Half year ended		
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	\$m	\$m	\$m	\$m	\$m
<b>Income statement</b>					
Net interest income	<b>748</b>	730	696	<b>1,478</b>	1,407
Net fees and commissions	<b>303</b>	276	324	<b>579</b>	608
Other non-interest income	<b>110</b>	116	69	<b>226</b>	144
Non-interest income	<b>413</b>	392	393	<b>805</b>	752
Total income	<b>1,161</b>	1,122	1,089	<b>2,283</b>	2,159
Direct expenses					
- staff	<b>(223)</b>	(335)	(287)	<b>(558)</b>	(600)
- other	<b>(246)</b>	(207)	(289)	<b>(453)</b>	(495)
Indirect expenses	<b>(283)</b>	(293)	(301)	<b>(576)</b>	(589)
	<b>(752)</b>	(835)	(877)	<b>(1,587)</b>	(1,684)
Operating profit before impairment losses	<b>409</b>	287	212	<b>696</b>	475
Impairment losses	<b>(214)</b>	(224)	(231)	<b>(438)</b>	(551)
Operating profit/(loss)	<b>195</b>	63	(19)	<b>258</b>	(76)
<b>Analysis of income by product</b>					
Mortgages and home equity	<b>185</b>	180	203	<b>365</b>	407
Personal lending and cards	<b>182</b>	178	174	<b>360</b>	328
Retail deposits	<b>372</b>	351	315	<b>723</b>	647
Commercial lending	<b>226</b>	222	217	<b>448</b>	419
Commercial deposits	<b>128</b>	126	138	<b>254</b>	288
Other	<b>68</b>	65	42	<b>133</b>	70
Total income	<b>1,161</b>	1,122	1,089	<b>2,283</b>	2,159
<b>Analysis of impairment by sector</b>					
Residential mortgages	<b>33</b>	30	19	<b>63</b>	52
Home equity	<b>56</b>	10	65	<b>66</b>	107
Corporate and commercial	<b>113</b>	77	99	<b>190</b>	253
Other consumer	<b>10</b>	87	48	<b>97</b>	139

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Securities impairment losses	<b>2</b>	20	-	<b>22</b>	-
Total impairment	<b>214</b>	224	231	<b>438</b>	551

**Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector**

Residential mortgages	<b>1.3%</b>	1.2%	0.6%	<b>1.3%</b>	0.9%
Home equity	<b>0.9%</b>	0.2%	1.0%	<b>0.5%</b>	0.8%
Corporate and commercial	<b>1.5%</b>	1.0%	1.2%	<b>1.2%</b>	1.5%
Other consumer	<b>0.3%</b>	2.9%	1.4%	<b>1.6%</b>	2.0%
	<b>1.1%</b>	1.1%	1.1%	<b>1.1%</b>	1.3%





## US Retail &amp; Commercial (US Dollar) (continued)

## Key metrics

	Quarter ended		30 June 2009	Half year ended	
	30 June 2010	31 March 2010		30 June 2010	30 June 2009
<b>Performance ratios</b>					
Return on equity (1)	6.5%	2.1%	(0.7%)	4.3%	(1.3%)
Net interest margin	2.78%	2.69%	2.32%	2.73%	2.32%
Cost:income ratio	65%	74%	81%	69%	78%

	30 June	31 March	Change	31 December	Change
	2010 \$bn	2010 \$bn		2009 \$bn	
<b>Capital and balance sheet</b>					
Total third party assets (excluding derivatives)	115.9	118.6	(2%)	121.3	(4%)
Loans and advances to customers (gross)					
- residential mortgages	9.9	10.1	(2%)	10.6	(7%)
- home equity	24.4	24.6	(1%)	25.0	(2%)
- corporate and commercial	30.9	31.1	(1%)	31.6	(2%)
- other consumer	12.0	12.1		12.1	(1%)

(1%)

Customer deposits (excluding repos)	<b>93.3</b>	94.8	(2%)	97.4	(4%)
Risk elements in lending					
- retail	<b>0.6</b>	0.6	-	0.6	-
- commercial	<b>0.7</b>	0.5	40%	0.4	75%
Loan:deposit ratio (excluding repos)	<b>81%</b>	81%	-	80%	100bp
Risk-weighted assets	<b>98.1</b>	96.8	1%	96.9	1%

Note:

- (1) Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

## Key points

### Q2 2010 compared with Q1 2010

- US Retail & Commercial returned a profit for the second consecutive quarter, posting an operating profit of \$195 million compared with \$63 million in the prior quarter. Excluding a \$113 million credit related to changes to the defined benefit pension plan, operating profit was up \$19 million, 30%, driven by growth in both net interest and non-interest income. However, economic conditions in the division's core regions remain difficult, with lingering high unemployment, a soft housing market and subdued consumer activity.
- Net interest income was up 2%, while loans and advances were down 1%, reflecting a lack of credit demand. Net interest margin improved by 9 basis points to 2.78%, substantially driven by a continuing change in deposit mix, with continued migration from lower margin time deposits to more favourably priced demand deposit accounts.
- Non-interest income was up 5% with an increase in deposit fees, debit card income and mortgage banking income more than offsetting a \$13 million reduction in securities gains.







**US Retail & Commercial (US Dollar)** (continued)

**Key points** (continued)

**Q2 2010 compared with Q1 2010** (continued)

- Expenses were down 10%, including the pension credit associated with changes to the defined benefit pension plan. This more than offset movements in mortgage servicing rights and marketing and communications costs partly related to a new brand launch.
- Impairment losses improved slightly as losses associated with other than temporary impairment related to securities were taken in Q1 2010. Loan impairments remained flat at 1.1% of loans and advances.

**Q2 2010 compared with Q2 2009**

- Operating profit increased to \$195 million from an operating loss of \$19 million.
- Net interest income was up 7%, with net interest margin improving by 46 basis points, driven by changes to deposit pricing and mix offset by lower loan volume.
- Non-interest income was up 5% reflecting higher gains on securities realisations and improved debit card income, but mortgage refinancing activity moderated in 2010, compared with the record levels reached in 2009.
- Expenses were down 14% reflecting the benefit associated with the changes to the defined benefit pension plan and lower deposit insurance costs, including a one-off FDIC assessment in Q2 2009, which more than offset an impairment of mortgage servicing rights, changes in compensation accrual methodology, and higher medical costs.
- Impairment losses declined 7%, following significant loan reserve building in 2009, and have stabilised at 1.1% of loans and advances.
- Customer deposits were down 5% reflecting pricing strategies on low margin term and time products but strong growth was achieved in checking balances. Over 31,000 consumer checking accounts and more than 13,500 small business checking accounts were added over the year. Consumer checking balances grew by 9% and small business balances by 9%.

**H1 2010 compared with H1 2009**

- Operating profit increased to \$258 million from an operating loss of \$76 million with income up 6%, expenses down 6% and impairment losses down 21%. The drivers are consistent with Q2 2010 compared with Q2 2009.
- Loan impairments decreased as a proportion of loans and advances from 1.3% to 1.1%.





**RBS Insurance**

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Earned premiums	<b>1,118</b>	1,130	1,119	<b>2,248</b>	2,225
Reinsurers' share	<b>(38)</b>	(34)	(40)	<b>(72)</b>	(85)
Net premium income	<b>1,080</b>	1,096	1,079	<b>2,176</b>	2,140
Fees and commissions	<b>(91)</b>	(89)	(95)	<b>(180)</b>	(187)
Instalment income	<b>35</b>	35	35	<b>70</b>	67
Other income	<b>7</b>	6	6	<b>13</b>	13
Total income	<b>1,031</b>	1,048	1,025	<b>2,079</b>	2,033
Net claims	<b>(1,132)</b>	(974)	(758)	<b>(2,106)</b>	(1,551)
Underwriting (loss)/profit	<b>(101)</b>	74	267	<b>(27)</b>	482
Staff expenses	<b>(66)</b>	(63)	(69)	<b>(129)</b>	(139)
Other expenses	<b>(48)</b>	(47)	(54)	<b>(95)</b>	(121)
Total direct expenses	<b>(114)</b>	(110)	(123)	<b>(224)</b>	(260)

Indirect expenses	<b>(62)</b>	(65)	(65)	<b>(127)</b>	(131)
	<b>(176)</b>	(175)	(188)	<b>(351)</b>	(391)
Technical result	<b>(277)</b>	(101)	79	<b>(378)</b>	91
Impairment losses	-	-	(1)	-	(6)
Investment income	<b>74</b>	51	63	<b>125</b>	132
Operating (loss)/profit	<b>(203)</b>	(50)	141	<b>(253)</b>	217
<b>Analysis of income by product</b>					
Own-brand					
- motor	<b>476</b>	486	473	<b>962</b>	927
- household and life	<b>212</b>	212	199	<b>424</b>	395
Partnerships and broker					
- motor	<b>120</b>	126	133	<b>246</b>	263
- household and life	<b>77</b>	77	75	<b>154</b>	153
Other (international, commercial and central)	<b>146</b>	147	145	<b>293</b>	295
Total income	<b>1,031</b>	1,048	1,025	<b>2,079</b>	2,033







**RBS Insurance** (continued)**Key metrics**

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
<b>In-force policies (thousands)</b>					
Motor own-brand	4,513	4,715	4,789	4,513	4,789
Own-brand non-motor (home, pet, rescue, HR24)	6,309	6,367	5,890	6,309	5,890
Partnerships & broker (motor, home, pet, rescue, HR24)	4,945	5,185	5,609	4,945	5,609
Other (international, commercial and central)	1,322	1,411	1,210	1,322	1,210
Total in-force policies	17,089	17,678	17,498	17,089	17,498
Gross written premium (£m)	1,092	1,090	1,147	2,182	2,270
<b>Performance ratios</b>					
Return on equity (1)	(21.8%)	(5.4%)	17.7%	(13.6%)	13.6%
Cost:income ratio (2)	16%	16%	17%	16%	18%
Loss ratio (3)	106.3%	89.1%	69.1%	97.7%	71.7%
Combined operating ratio (4)	128.7%	111.9%	91.3%	120.2%	95.2%
<b>Balance sheet</b>					
General insurance reserves - total (£m)	7,326	7,101	6,601	7,326	6,601

## Notes:

- (1) Based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on regulatory capital).
- (2) Cost:income ratio is based on total income, including investment income and total expenses.
- (3) Loss ratio is based on net claims divided by net premium income for the UK businesses.
- (4)

Combined operating ratio is the expenses (including fees & commissions) divided by gross written premium income, added to the loss ratio, for the UK businesses.

## **Key points**

### **Q2 2010 compared with Q1 2010**

The performance of RBS Insurance was adversely impacted by a significant increase in bodily injury reserving, including adding £241 million to reserves relating to prior years. This resulted in an underwriting and operating loss in the motor book. Actions are in progress to tighten underwriting criteria and to restore the profitability of the business.

RBS Insurance's home insurance business has continued to make good progress and the division has now established itself as the largest home insurance provider within the UK.

As planned, total in-force policies have declined due to a reduction in motor policies following significant re-pricing as well as exiting less profitable partnership and broker business. This decline has been partly offset by growth in home and international policies. International policy numbers now exceed one million.

Total income declined, as the increase in pricing was more than offset by the reduction in in-force policies, mainly resulting from the elimination of higher premium, higher risk motor business.





**RBS Insurance** (continued)

**Key points**

**Q2 2010 compared with Q1 2010** (continued)

- Net claims were significantly higher than Q1 2010 due to a further need for increased reserves in respect of bodily injury, driven by deterioration in the observed severity of bodily injury claims. An overall adjustment of £320 million was posted in the quarter, of which £241 million was in respect of business written in prior years. Motor pricing continued to be increased in response to the development in this claims experience. In addition, significant progress has been made in removing higher risk business from the overall motor book by targeted rating actions.
- Expenses were flat in the quarter, with higher staff expenses off-set by lower indirect costs.

**Q2 2010 compared with Q2 2009**

- Net premium income was flat and direct expenses were cut by 7%, but claims costs increased sharply, primarily reflecting the uplift to bodily injury reserves.

**H1 2010 compared with H1 2009**

- Total in-force policies declined by 2%, driven by a fall of 6% in motor own brand motor policies partly offset by a 7% increase in own brand household and life policies. The partnership and broker segment declined by 12% in line with business strategy.
- Total income increased by 2% as a result of pricing actions, partially offset by a reduction in in-force policies, including the removal of higher premium, higher risk motor business.
- Net claims were 36% higher principally driven by an increase in claims reserves in respect of bodily injury and by adverse weather conditions. Significant motor price increases have been implemented to reflect the rising claims costs. In addition, initiatives are being introduced to adapt pricing models and enhance claims management.
- Direct expenses were reduced by 14% with wage inflation more than offset by a reduction in headcount and marketing expenditure. Recently announced plans regarding site rationalisation, off-shoring activity and further planned headcount reduction, will further drive down expenses,

delivering a more robust and cost-competitive platform for the business.

- Investment income was lower as a result of an impairment charge in the fixed income portfolio booked in Q1 2010, adjusting for this investment income increased reflecting higher gains realised on the sale of corporate bonds.
- The combined operating ratio, including indirect costs, was 120.2% compared with 95.2% in H1 2009, owing to the impact of increased reserving for bodily injury claims partially mitigated by expense ratio improvement. Excluding increased bodily injury reserving relating to prior years, the combined operating ratio was 108.3%.







**Central items**

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
Fair value of own debt	288	(137)	(478)	151	(94)
Other	49	337	166	386	271
Central items not allocated	337	200	(312)	537	177

**Key points**

- Funding and operating costs have been allocated to operating divisions, based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one division.
- Residual unallocated items relate to volatile corporate items that do not naturally reside within a division.

**Q2 2010 compared with Q1 2010**

- Movements in the fair value of own debt represented a net credit of £288 million in the quarter. The Group's credit spreads widened over the quarter, resulting in a decrease in the carrying value of own debt.
- Other items not allocated during the quarter amounted to a net credit of £49 million, a reduction of £288 million on Q1 2010. This movement was primarily driven by unallocated volatile Group Treasury items and a one-off VAT recovery in Q1 2010 of £170 million.

**Q2 2010 compared with Q2 2009**

- The credit for change in the fair value of own debt of £288 million, reflecting a marked widening in the Group's credit spreads, compares with a charge of £478 million in the second quarter of 2009.
- Other items not allocated during the quarter declined by £117 million relative to Q2 2009. This movement can primarily be attributed to unallocated volatile Group Treasury items.

### **H1 2010 compared with H1 2009**

- The change in the fair value of own debt was a net credit of £151 million in H1 2010. The Group's credit spreads widened in H1 2010, resulting in a decrease in the carrying value of own debt.
- Other items not allocated during H1 2010 amounted to a net credit of £386 million, compared with £271 million in H1 2009, driven by the items described above.





**Non-Core**

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	2009
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Net interest income from banking activities	<b>534</b>	568	274	<b>1,102</b>	669
Net fees and commissions receivable	<b>158</b>	104	79	<b>262</b>	251
Income from trading activities	<b>33</b>	(131)	(1,184)	<b>(98)</b>	(3,801)
Insurance net premium income	<b>173</b>	168	196	<b>341</b>	440
Other operating income					
- rental income	<b>181</b>	187	160	<b>368</b>	333
- other	<b>(206)</b>	38	(212)	<b>(168)</b>	(355)
Non-interest income	<b>339</b>	366	(961)	<b>705</b>	(3,132)
Total income	<b>873</b>	934	(687)	<b>1,807</b>	(2,463)
Direct expenses					
- staff	<b>(202)</b>	(252)	(153)	<b>(454)</b>	(454)
- other	<b>(269)</b>	(282)	(247)	<b>(551)</b>	(503)
Indirect expenses	<b>(121)</b>	(122)	(137)	<b>(243)</b>	(279)
	<b>(592)</b>	(656)	(537)	<b>(1,248)</b>	(1,236)
Operating profit/(loss) before other operating					
charges and impairment losses	<b>281</b>	278	(1,224)	<b>559</b>	(3,699)
Insurance net claims	<b>(215)</b>	(133)	(137)	<b>(348)</b>	(314)
Impairment losses	<b>(1,390)</b>	(1,704)	(3,516)	<b>(3,094)</b>	(5,344)
Operating loss	<b>(1,324)</b>	(1,559)	(4,877)	<b>(2,883)</b>	(9,357)
<b>Analysis of income</b>					
Banking & Portfolio	<b>239</b>	271	(973)	<b>510</b>	(1,104)
International Businesses & Portfolios	<b>606</b>	632	570	<b>1,238</b>	1,232
Markets	<b>28</b>	31	(284)	<b>59</b>	(2,591)
	<b>873</b>	934	(687)	<b>1,807</b>	(2,463)

**Key metrics**

**Performance ratios**

Net interest margin	<b>1.22%</b>	1.25%	0.45%	<b>1.24%</b>	0.54%
Cost:income ratio	<b>68%</b>	70%	(78%)	<b>69%</b>	(50%)

	<b>30 June</b>	31 March		31 December	
	<b>2010</b>	2010	Change	2009	Change
	<b>£bn</b>	£bn		£bn	
<b>Capital and balance sheet (1)</b>					
Total third party assets (including derivatives) (2)	<b>193.3</b>	212.6	(9%)	220.9	(12%)
Loans and advances to customers (gross)	<b>126.4</b>	141.2	(10%)	149.5	(15%)
Customer deposits	<b>7.4</b>	10.2	(27%)	12.6	(41%)
Risk elements in lending	<b>22.0</b>	24.0	(8%)	22.9	(4%)
Risk-weighted assets (3)	<b>175.0</b>	164.3	7%	171.3	2%

## Notes:

- (1) Includes disposal groups.
- (2) Derivatives were £19.4 billion at 30 June 2010 (31 March 2010 - £19.1billion; 31 December 2009 - £19.9 billion).
- (3) Includes Sempra: 30 June 2010 Third Party Assets (TPAs) £12.7 billion, RWAs £9.7 billion; (31 March 2010 TPAs £14.0 billion, RWAs £11.1 billion; 31 December 2009 TPAs £14.2 billion, RWAs £10.2 billion).







## Non-Core (continued)

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010 £m	2010 £m	2009 £m	2010 £m	2009 £m
<b>Income/(loss) from trading activities</b>					
Monoline exposures	(139)	-	(26)	(139)	(1,671)
CDPCs	(55)	(31)	(371)	(86)	(569)
Asset backed products (1)	97	(55)	(165)	42	(541)
Other credit exotics	47	11	1	58	(536)
Equities	(6)	(7)	(17)	(13)	(25)
Banking book hedges	147	(36)	(813)	111	(996)
Other (2)	(58)	(13)	207	(71)	537
	33	(131)	(1,184)	(98)	(3,801)
<b>Impairment losses</b>					
Banking & Portfolio	256	697	1,155	953	1,973
International Businesses & Portfolios	1,124	951	1,638	2,075	2,358
Markets	10	56	723	66	1,013
	1,390	1,704	3,516	3,094	5,344
<b>Loan impairment charge as % of gross customer loans and advances (3)</b>					
Banking & Portfolio	1.8%	3.3%	4.7%	2.8%	4.0%
International Businesses & Portfolios	7.4%	5.7%	8.9%	6.8%	6.5%
Markets	3.6%	33.6%	301.2%	11.6%	95.8%
Total	4.4%	4.6%	8.2%	4.8%	5.6%

	31 March	31
30 June	2010	December
2010 £bn	£bn	2009 £bn

## Gross customer loans and advances

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Banking & Portfolio	<b>67.8</b>	78.6	82.0
International Businesses & Portfolios	<b>58.2</b>	62.3	65.6
Markets	<b>0.4</b>	0.3	1.9
	<b>126.4</b>	141.2	149.5
<b>Risk-weighted assets</b>			
Banking & Portfolio	<b>55.1</b>	57.2	58.2
International Businesses & Portfolios	<b>40.4</b>	45.4	43.8
Markets	<b>79.5</b>	61.7	69.3
	<b>175.0</b>	164.3	171.3

Notes:

- (1) Asset backed products include super senior asset backed structures and other asset backed products.
- (2) Includes profits in Sempra of £125 million (31 March 2010 - £127 million; 31 December 2009 - £161 million)
- (3) Includes disposal groups.





## Non-Core (continued)

## Third party assets (excluding derivatives)

## Quarter ended 31 March 2010

	31 December	Disposals/ Drawings/			31 March		
	2009 £bn	Run off restructuring £bn	roll overs £bn	Impairments £bn	FX £bn	2010 £bn	
Commercial Real							
Estate	51.3	(1.5)	-	0.2	(1.1)	0.6	<b>49.5</b>
Corporate	82.6	(4.6)	(1.2)	0.4	(0.4)	2.0	<b>78.8</b>
SME	3.9	-	-	-	-	0.1	<b>4.0</b>
Retail	19.9	(0.4)	(0.2)	0.1	(0.2)	0.6	<b>19.8</b>
Other	4.7	(1.6)	-	0.2	-	-	<b>3.3</b>
Markets	24.4	(1.2)	(0.3)	-	-	1.2	<b>24.1</b>
<b>Total (excluding derivatives)</b>	186.8	(9.3)	(1.7)	0.9	(1.7)	4.5	<b>179.5</b>
Markets - Sempra	14.2	(1.2)	-	-	-	1.0	<b>14.0</b>
<b>Total</b>	201.0	(10.5)	(1.7)	0.9	(1.7)	5.5	<b>193.5</b>

## Quarter ended 30 June 2010

	31 March	Disposals/ Drawings/			30 June		
	2010 £bn	Run off restructuring £bn	roll overs £bn	Impairments £bn	FX £bn	2010 £bn	
Commercial real							
estate	49.5	(5.3)	(0.3)	2.8	(1.1)	(1.5)	<b>44.1</b>
Corporate	78.8	(2.6)	(4.5)	0.6	0.1	(2.0)	<b>70.4</b>
SME	4.0	0.9	-	-	(0.1)	(0.1)	<b>4.7</b>
Retail	19.8	(0.5)	(1.7)	-	(0.2)	(0.6)	<b>16.8</b>
Other	3.3	(0.2)	(0.1)	-	-	-	<b>3.0</b>
Markets	24.1	(0.6)	(1.4)	0.6	(0.1)	(0.3)	<b>22.3</b>
<b>Total (excluding derivatives)</b>	179.5	(8.3)	(8.0)	4.0	(1.4)	(4.5)	<b>161.3</b>

<b>derivatives)</b>							
Markets - Sempra							
(1)	14.0	(1.4)	-	-	-	0.1	<b>12.7</b>
<b>Total</b>	<b>193.5</b>	<b>(9.7)</b>	<b>(8.0)</b>	<b>4.0</b>	<b>(1.4)</b>	<b>(4.4)</b>	<b>174.0</b>

**Half year ended 30 June 2010**

	31 December	Disposals/ Drawings/					30 June
	2009 £bn	Run off £bn	restructuring £bn	roll overs £bn	Impairments £bn	FX £bn	2010 £bn
Commercial real estate	51.3	(6.8)	(0.3)	3.0	(2.2)	(0.9)	<b>44.1</b>
Corporate	82.6	(7.2)	(5.7)	1.0	(0.3)	-	<b>70.4</b>
SME	3.9	0.9	-	-	(0.1)	-	<b>4.7</b>
Retail	19.9	(0.9)	(1.9)	0.1	(0.4)	-	<b>16.8</b>
Other	4.7	(1.8)	(0.1)	0.2	-	-	<b>3.0</b>
Markets	24.4	(1.8)	(1.7)	0.6	(0.1)	0.9	<b>22.3</b>
<b>Total (excluding</b>							
<b>derivatives)</b>	186.8	(17.6)	(9.7)	4.9	(3.1)	-	<b>161.3</b>
Markets - Sempra							
(1)	14.2	(2.6)	-	-	-	1.1	<b>12.7</b>
<b>Total</b>	<b>201.0</b>	<b>(20.2)</b>	<b>(9.7)</b>	<b>4.9</b>	<b>(3.1)</b>	<b>1.1</b>	<b>174.0</b>

Note:

(1) Includes £5.8 billion of derivatives classification.







**Non-Core** (continued)

	Quarter ended		30 June 2009 £m	Half year ended	
	30 June 2010 £m	31 March 2010 £m		30 June 2010 £m	30 June 2009 £m
<b>Loan impairment losses by donating</b>					
<b>division and sector</b>					
<b>UK Retail</b>					
Mortgages	-	3	2	<b>3</b>	3
Personal	-	2	17	<b>2</b>	31
<b>Total UK Retail</b>	<b>-</b>	<b>5</b>	<b>19</b>	<b>5</b>	<b>34</b>
<b>UK Corporate</b>					
Manufacturing and infrastructure	<b>21</b>	(5)	13	<b>16</b>	32
Property and construction	<b>150</b>	54	229	<b>204</b>	326
Transport	-	-	2	-	3
Banks and financials	-	-	99	-	101
Lombard	<b>29</b>	25	-	<b>54</b>	55
Other	<b>63</b>	81	544	<b>144</b>	576
<b>Total UK Corporate</b>	<b>263</b>	<b>155</b>	<b>887</b>	<b>418</b>	<b>1,093</b>
<b>Global Banking &amp; Markets</b>					
Manufacturing and infrastructure	<b>(281)</b>	29	709	<b>(252)</b>	1,011
Property and construction	<b>501</b>	472	568	<b>973</b>	589
Transport	-	1	17	<b>1</b>	168
Telecoms, media and technology	<b>11</b>	(11)	520	-	520
Banks and financials	<b>11</b>	161	117	<b>172</b>	253
Other	<b>24</b>	101	(53)	<b>125</b>	445
<b>Total Global Banking &amp; Markets</b>	<b>266</b>	<b>753</b>	<b>1,878</b>	<b>1,019</b>	<b>2,986</b>
<b>Ulster Bank</b>					
Mortgages	<b>23</b>	20	11	<b>43</b>	19
Commercial investment and development	<b>147</b>	110	19	<b>257</b>	27
Residential investment and development	<b>384</b>	351	240	<b>735</b>	343
Other	<b>137</b>	51	25	<b>188</b>	36
Other EMEA	<b>13</b>	20	34	<b>33</b>	59

<b>Total Ulster Bank</b>	<b>704</b>	552	329	<b>1,256</b>	484
<b>US Retail &amp; Commercial</b>					
Auto and consumer	<b>32</b>	15	32	<b>47</b>	60
Cards	<b>4</b>	14	45	<b>18</b>	71
SBO/home equity	<b>67</b>	102	142	<b>169</b>	298
Residential mortgages	<b>(10)</b>	12	18	<b>2</b>	21
Commercial real estate	<b>42</b>	63	65	<b>105</b>	88
Commercial and other	<b>6</b>	2	19	<b>8</b>	36
<b>Total US Retail &amp; Commercial</b>	<b>141</b>	208	321	<b>349</b>	574
<b>Other</b>					
Wealth	<b>16</b>	28	74	<b>44</b>	163
Global Transaction Services	<b>-</b>	3	8	<b>3</b>	10
<b>Total Other</b>	<b>16</b>	31	82	<b>47</b>	173
<b>Total impairment losses</b>	<b>1,390</b>	1,704	3,516	<b>3,094</b>	5,344





**Non-Core** (continued)

	<b>30 June</b>	31 March	31 December
	<b>2010</b>	2010	2009
	<b>£bn</b>	£bn	£bn
<b>Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector</b>			
<b>UK Retail</b>			
Mortgages	<b>1.8</b>	1.8	1.9
Personal	<b>0.5</b>	0.6	0.7
<b>Total UK Retail</b>	<b>2.3</b>	2.4	2.6
<b>UK Corporate*</b>			
Manufacturing and infrastructure	<b>0.4</b>	0.4	0.3
Property and construction	<b>12.9</b>	13.2	14.1
Lombard	<b>2.4</b>	2.7	2.9
Invoice finance	<b>-</b>	0.4	0.4
Other	<b>14.7</b>	16.0	17.2
<b>Total UK Corporate</b>	<b>30.4</b>	32.7	34.9
<b>Global Banking &amp; Markets</b>			
Manufacturing and infrastructure	<b>13.4</b>	17.2	17.5
Property and construction	<b>21.6</b>	23.4	25.7
Transport	<b>5.3</b>	6.0	5.8
Telecoms, media and technology	<b>2.0</b>	3.4	3.2
Banks and financials	<b>15.7</b>	16.1	16.0
Other	<b>9.4</b>	11.7	13.5
<b>Total Global Banking &amp; Markets</b>	<b>67.4</b>	77.8	81.7
<b>Ulster Bank</b>			
Mortgages	<b>5.6</b>	6.1	6.0
Commercial investment and development	<b>4.1</b>	4.4	3.0
Residential investment and development	<b>3.8</b>	4.1	5.6
Other	<b>1.3</b>	1.3	1.1
Other EMEA	<b>0.9</b>	1.1	1.0
<b>Total Ulster Bank</b>	<b>15.7</b>	17.0	16.7
<b>US Retail &amp; Commercial</b>			
Auto and consumer	<b>3.0</b>	3.2	3.2

Cards	<b>0.2</b>	0.2	0.5
SBO/home equity	<b>3.6</b>	3.7	3.7
Residential mortgages	<b>0.9</b>	1.2	0.8
Commercial real estate	<b>1.9</b>	2.0	1.9
Commercial and other	<b>0.7</b>	0.8	0.9
<b>Total US Retail &amp; Commercial</b>	<b>10.3</b>	11.1	11.0
<b>Other</b>			
Wealth	<b>0.9</b>	2.4	2.6
Global Transaction Services	<b>0.6</b>	0.8	0.8
RBS Insurance	<b>0.2</b>	0.2	0.2
Central items	<b>(2.1)</b>	(4.3)	(3.2)
<b>Total Other</b>	<b>(0.4)</b>	(0.9)	0.4
<b>Gross loans and advances to customers (excluding reverse repurchase agreements)</b>	<b>125.7</b>	140.1	147.3

\* Prior periods have been revised to reflect improvements in data quality to more accurately reflect Standard Industrial Classification.

#### Non-Core (continued)

#### Key points

#### Q2 2010 compared with Q1 2010

- Non-Core reduced its operating loss to £1,324 million in the second quarter, compared with £1,559 million in Q1 2010, with improved results from trading activities and a further reduction in impairment losses.
- Income from trading activities totalled £33 million, compared with a loss of £131 million in the first quarter. The improvement reflected continued widening of credit spreads over the period, generating £188 million of gains on single name credit protection purchased in previous periods. Structured credit and exotic credit losses declined.
- Net interest income fell by £34 million, principally reflecting a reduction of 10% in the loan book, including the completion of a number of business disposals. Markdowns on the value of real estate

and equity finance positions held in the banking book resulted in a loss of £206 million in other operating income, excluding rental income.

- Expenses declined by 10%, partly reflecting the successful completion of a number of business disposals in Asia.
- Impairment losses decreased by 18% to £1,390 million, reflecting a recovery of £270 million on a large single name exposure and the continued slowing of impairments in the corporate sector, offset by further impairments in relation to UK and Irish commercial property.
- Good progress was made in Non-Core's run-off programme, with third party assets (excluding derivatives) reduced by £20 billion to £174 billion. This was largely driven by the division's disposal programme (£8 billion), including the completion of the Asian retail and commercial sales, and portfolio run-off (£6 billion), as well as a favourable currency impact from the strengthening of sterling (£4 billion). The international business disposal plan has made good progress with a number of other transactions expected to close in the second half of 2010.
- RWAs increased by £11 billion to £175 billion, reflecting an increase of £14 billion in RBS NV due to the implementation of Basel II (which was largely offset at Group level by reductions in RBS NV RWAs in other divisions). A reduction of £7 billion in RWAs resulting from disposals and portfolio run-off was partially offset by a £ 5 billion increase in market risk charges.

### **Q2 2010 compared with Q2 2009**

- Operating losses were substantially reduced from the £4,877 million loss recorded in Q2 2009, with significant improvements in both trading income and impairments.
- Impairments were sharply lower than in Q2 2009, which saw a peak for Non-Core impairments. However, high charges continue to be incurred as a result of the continued decline in the UK and Irish commercial property sectors.
- Over the 12 months to 30 June 2010 third party assets (excluding derivatives) were cut by £34 billion, 16%, largely through a combination of disposals, portfolio run off and impairments.







**Non-Core** (continued)

**Key points** (continued)

**H1 2010 compared with H1 2009**

- Non-Core's operating loss improved to £2,883 million in the first half of 2010 from £9,357 million in H1 2009. The bulk of the improvement came from lower impairments (down 42% to £3,094 million) and reduced losses on trading activities (an improvement of £3,703 million compared with H1 2009).
- The reduction in impairments reflected the improving trend that began to emerge towards the end of 2009, particularly in the corporate sector, partly offset by higher provisions taken as a result of the continued decline in the UK and Irish commercial property sectors.
- RWAs increased by £1 billion to £175 billion. This reflects a number of movements, including the implementation of Basel II in RBS NV, largely offset by reductions in RWAs through credit grade changes along with disposals and banking portfolio run-off.







**Allocation methodology for indirect costs**

For the purposes of managing the operations of the Group, Business Services and Group Centre directly attributable costs have been allocated to the operating divisions, based on their service usage. Where services span more than one division, an appropriate measure is used to allocate the costs on a basis which management considers reasonable. Business Services costs are fully allocated and there are no residual unallocated costs. The residual unallocated costs remaining in the Group centre relate to volatile corporate items that do not naturally reside within a division.

Treasury costs are allocated to operating divisions as follows: term funding costs are allocated based on long-term funding gap or surplus; liquidity buffer funding costs are allocated based on share of overall liquidity buffer derived from divisional stresses; and capital cost or benefit is allocated based on share of divisional risk-adjusted RWAs.

	Quarter ended		Half year ended	
	30 June	31 March	30 June	30 June
	2010	2010	2009	2010
	£m	£m	£m	£m
<b>Business Services costs</b>				
Property	413	442	492	856
Operations	338	344	357	682
Technology services and support functions	453	435	474	887
	<b>1,204</b>	1,221	1,323	<b>2,425</b>
Allocated to divisions:				
UK Retail	(360)	(347)	(397)	(707)
UK Corporate	(104)	(103)	(109)	(207)
Wealth	(39)	(45)	(31)	(84)
Global Banking & Markets	(107)	(120)	(152)	(227)
Global Transaction Services	(214)	(221)	(215)	(435)
Ulster Bank	(55)	(64)	(66)	(119)
US Retail & Commercial	(170)	(168)	(179)	(338)
RBS Insurance	(48)	(49)	(57)	(97)
Non-Core	(107)	(104)	(117)	(211)
	-	-	-	-
<b>Group centre costs</b>	<b>238</b>	249	196	<b>487</b>
Allocated to divisions:				
UK Retail	(70)	(71)	(55)	(141)

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UK Corporate	<b>(28)</b>	(27)	(16)	<b>(55)</b>	(36)
Wealth	<b>(13)</b>	(15)	(10)	<b>(28)</b>	(26)
Global Banking & Markets	<b>(55)</b>	(54)	(49)	<b>(109)</b>	(117)
Global Transaction Services	<b>(13)</b>	(16)	(14)	<b>(29)</b>	(33)
Ulster Bank	<b>(11)</b>	(12)	(9)	<b>(23)</b>	(20)
US Retail & Commercial	<b>(20)</b>	(20)	(15)	<b>(40)</b>	(35)
RBS Insurance	<b>(14)</b>	(16)	(8)	<b>(30)</b>	(18)
Non-Core	<b>(14)</b>	(18)	(20)	<b>(32)</b>	(45)

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## Allocation methodology for indirect costs (continued)

	Quarter ended			Half year ended	
	30 June	31 March	30 June	30 June	30 June
	2010 £m	2010 £m	2009 £m	2010 £m	2009 £m
<b>Treasury funding costs</b>	<b>16</b>	97	150	<b>113</b>	390
Allocated to divisions:					
UK Retail	-	(6)	(2)	<b>(6)</b>	(24)
UK Corporate	-	9	9	<b>9</b>	(23)
Wealth	<b>12</b>	13	30	<b>25</b>	39
Global Banking & Markets	<b>10</b>	-	92	<b>10</b>	290
Global Transaction Services	<b>61</b>	54	38	<b>115</b>	59
Ulster Bank	<b>(19)</b>	(32)	5	<b>(51)</b>	(3)
US Retail & Commercial	<b>(9)</b>	(15)	(14)	<b>(24)</b>	(37)
RBS Insurance	-	-	(7)	-	(18)
Non-Core	<b>(71)</b>	(120)	(301)	<b>(191)</b>	(673)
	-	-	-	-	-







## Average balance sheet - pro forma

	Half year ended 30 June 2010			Half year ended 30 June 2009		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
<b>Assets</b>						
Loans and advances to banks	47,172	272	1.15	49,484	481	1.94
Loans and advances to customers	523,682	9,365	3.58	602,236	11,930	3.96
Debt securities	140,227	1,861	2.65	124,059	2,278	3.67
Interest-earning assets -						
banking business	711,081	11,498	3.23	775,779	14,689	3.79
Trading business	278,527			306,304		
Non-interest earning assets	645,050			929,398		
Total assets	1,634,658			2,011,481		
<b>Liabilities</b>						
Deposits by banks	90,189	715	1.59	141,778	1,771	2.50
Customer accounts	346,077	1,834	1.06	365,187	2,730	1.50
Debt securities in issue	202,673	1,713	1.69	222,999	3,141	2.82
Subordinated liabilities	31,634	347	2.19	36,234	732	4.04
Internal funding of trading business	(47,609)	(125)	0.53	(77,925)	(431)	1.11
Interest-bearing liabilities						
banking business	622,964	4,484	1.44	688,273	7,943	2.31
Trading business	301,816			352,953		
Non-interest-bearing liabilities						
- demand deposits	46,937			36,664		
- other liabilities	588,316			876,440		
Shareholders' equity	74,625			57,151		

Total liabilities and

shareholders' equity	<b>1,634,658</b>	2,011,481
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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 long-term assets and liabilities, attributable to policyholders, in view of their distinct nature. As a result, net interest income has been increased by £3 million (2009 - £15 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. In the average balance sheet above, interest includes increased interest income and interest expense related to these instruments of £5 million (2009 - £25 million) and £12 million (2009 - £154 million) respectively and the average balances have been adjusted accordingly.
- (4) Interest receivable has been reduced by £90 million in respect of a non-recurring receivable.
- (5) Interest payable has been increased by £110 million in respect of a non-recurring adjustment.







**Average balance sheet - pro forma** (continued)

	Half year ended	
	<b>30 June</b>	30 June
	<b>2010</b>	2009
	<b>%</b>	%
<b>Average yields, spreads and margins of the banking business</b>		
Gross yield on interest-earning assets of banking business	<b>3.23</b>	3.79
Cost of interest-bearing liabilities of banking business	<b>(1.44)</b>	(2.31)
<b>Interest spread of banking business</b>		
Benefit from interest-free funds	<b>0.18</b>	0.26
<b>Net interest margin of banking business</b>		
	<b>1.97</b>	1.74
<b>Average interest rates</b>		
The Group's base rate	<b>0.50</b>	0.79
London inter-bank three month offered rates		
- Sterling	<b>0.66</b>	1.73
- Eurodollar	<b>0.35</b>	1.05
- Euro	<b>0.62</b>	1.66

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**Signatures**

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

Date: August 6, 2010

THE ROYAL BANK OF SCOTLAND  
GROUP plc (Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill

Title: Deputy Secretary