ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 13, 2010

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

Report of Foreign Private Issuer

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

August 13, 2010

The Royal Bank of Scotland Group plc

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United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F

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

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

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

Yes No X

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believes’, ‘should’, ‘intend’, ‘plan’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objecti ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group’s restructuring plans, capitalisation, portfolios, capital ratios, liquidity, risk weighted assets, return on equity, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; the Group’s future financial performance; the level and extent of future impairments and write-downs; the protection provided by the Asset Protection Scheme (APS); and the Group’s potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the global economy and instability in the global financial markets, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group’s counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain non-core assets and assets and businesses required as part of the EC State Aid restructuring plan; organisational restructuring; the ability to access sufficient funding to meet liquidity needs; cancellation, change or withdrawal of, or failure to renew, governmental support schemes; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices and equity prices; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; HM Treasury exercising influence over the operations of the Group; the ability of the Group to attract or retain senior management or other key employees; regulatory change in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; general geopolitical and economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the ability to achieve revenue benefits and cost savings from the integration of certain of RBS Holdings N.V.’s (formerly ABN AMRO Holding N.V.) businesses and assets; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the participation of the Group in the APS and the effect of the APS on the Group’s financial and capital position; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

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Presentation of information

Statutory results

RFS Holdings is the entity that acquired ABN AMRO and is jointly owned by the Consortium Members. It is controlled by RBS and is therefore fully consolidated in its financial statements. The interests of Fortis, and its successor the State of the Netherlands, and Santander in RFS Holdings are included in minority interests. Following the legal separation of ABN AMRO Bank NV on 1 April 2010, RBS no longer consolidates the interests in ABN AMRO of its consortium partners in its results. Consortium partners results for the first quarter of 2010 are classified as discontinued operations. Prior periods have been restated accordingly.

Non-GAAP financial information

IFRS requires the Group to consolidate those entities that it controls, including RFS Holdings as described above. However, discussion of the Group's performance focuses on performance measures that exclude the RFS Holdings minority interest as the Group believes that such measures allow a more meaningful analysis of the Group's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

RBS has divided its operations into "Core" and "Non-Core" for internal reporting purposes. Certain measures disclosed in this document for Core operations and used by RBS management are non-GAAP financial measures. In addition, RBS has further divided parts of the Core business into "Core Retail & Commercial" consisting of UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure.

Comment

Stephen Hester, Group Chief Executive, commented:

"RBS second quarter results show that the Bank remains on track to meet the far-reaching goals of our five year restructuring plan which commenced last year. We are making good progress with disposals and overall business restructuring. Our customer base is solid and I believe that the future potential of RBS for all its constituencies becomes increasingly visible.

The rebuilding of RBS is a marathon and not a sprint. I am pleased with the steady momentum in our Core customer-facing businesses. However, our path to the sustainable profitability and other improvements we target will not be linear, given the scale of management action in our Core businesses, continuing risk reduction in Non-Core and the impact on both of a changeable economic and regulatory environment.

RBS's valuable Core business franchises provide the bedrock of our Plan. Our central focus is on retaining and enhancing our service to and support of our customers. Pleasingly, in most areas the key indicators of customer numbers and satisfaction ratings are showing progress. There is, of course, plenty left to do.

RBS's Retail and Commercial businesses make up nearly 70% of our underlying Core banking revenues. They continue to recover and respond to our restructuring efforts. This is welcome and key for our future growth. Progress will naturally be sensitive to interest rates and credit conditions normalising over time.

Global Banking & Markets had a more difficult quarter, reflecting negative capital markets sentiment, increased volatility and a resulting reduction in client activity. These conditions have not yet abated. Earnings volatility in this business line is a fact of life and on an underlying basis the business has been resilient, making an important contribution to RBS and our customers.

The task of restructuring and improving RBS's risk profile continues to go well. This is illustrated by strong stress test results in the recent EU-wide exercise, as well as the first upwards steps in underlying credit rating agency assessments. A central tenet of our five year plan is to make the Bank safer for all its stakeholders. We continue to meet or exceed our targets for reducing Non-Core assets, strengthening liquidity and funding profile.

So overall, RBS is on track for the ambitious goals set out in our Plan. Our strategy is reaffirmed and implementation to date gives encouragement. The economic and regulatory environment has the potential to delay or inhibit progress. However, we remain focused on what we can control: serving our customers better across our businesses and building mutually rewarding long term relationships with each of them. This is the ultimate source of our value and will drive the improvements in financial performance we aspire to."

Condensed consolidated income statement
for the half year ended 30 June 2010 (unaudited)

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Interest receivable	5,888	5,692	7,191	11,580	14,641
Interest payable	(2,212)	(2,150)	(3,906)	(4,362)	(7,792)
Net interest income	3,676	3,542	3,285	7,218	6,849
Fees and commissions receivable	2,053	2,051	2,190	4,104	4,466
Fees and commissions payable	(579)	(572)	(660)	(1,151)	(1,351)
Income from trading activities	2,110	1,766	298	3,876	1,964
Gain on redemption of own debt	553	-	3,790	553	3,790
Other operating income (excluding insurance premium income)	346	447	(104)	793	646
Insurance net premium income	1,278	1,289	1,301	2,567	2,657
Non-interest income	5,761	4,981	6,815	10,742	12,172
Total income	9,437	8,523	10,100	17,960	19,021
Staff costs	(2,365)	(2,689)	(2,375)	(5,054)	(5,136)
Premises and equipment	(547)	(535)	(617)	(1,082)	(1,278)
Other administrative expenses	(1,022)	(1,011)	(1,043)	(2,033)	(2,203)
Depreciation and amortisation	(519)	(482)	(472)	(1,001)	(1,032)
Write-down of goodwill and other intangible assets	-	-	(311)	-	(311)
Operating expenses	(4,453)	(4,717)	(4,818)	(9,170)	(9,960)
Profit before other operating charges and impairment losses	4,984	3,806	5,282	8,790	9,061
Insurance net claims	(1,323)	(1,136)	(925)	(2,459)	(1,891)
Impairment losses	(2,487)	(2,675)	(4,663)	(5,162)	(7,521)
Operating profit/(loss) before tax	1,174	(5)	(306)	1,169	(351)
Tax (charge)/credit	(825)	(107)	666	(932)	456
Profit/(loss) from continuing operations	349	(112)	360	237	105
Loss on distribution of ABN AMRO Bank NV to the State of the Netherlands and Santander	(1,019)	-	-	(1,019)	-
Other profits/(losses) from discontinued operations, net of	-	313	80	313	30

tax					
(Loss)/profit from discontinued operations, net of tax	(1,019)	313	80	(706)	30
(Loss)/profit for the period	(670)	201	440	(469)	135
Minority interests	946	(344)	(148)	602	(631)
Other owners' dividends	(19)	(105)	(432)	(124)	(546)
Profit/(loss) attributable to ordinary and B shareholders	257	(248)	(140)	9	(1,042)

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Second quarter 2010 results summary

The Royal Bank of Scotland Group plc recorded an operating profit of £1,174 million in the second quarter of 2010, compared with a loss of £5 million the first quarter. Net profit attributable to shareholders was £257 million, compared with a loss of £248 million in the first quarter.

Operating performance

The Core bank (see page 25) achieved an operating profit of £2,193 million in the second quarter of 2010, down 3% from the first quarter.

Net interest margin, which had fallen to trough levels in 2009, improved during the period to 2.03%. This primarily reflects the roll-off of older business written at lower margins, with front book margins higher, but stabilising. Profit before other operating charges and impairment losses improved to £4,984 million compared with £3,806 million in the first quarter.

GBM showed relative resilience in significantly more difficult market conditions, as revenues, excluding a credit on fair value of own debt of £331 million (Q1 2010 - £32 million debit), totalled £1,947 million, down 31% from the first quarter. Expenses were 20% lower, with reduced performance-linked accruals in line with lower revenue, and profit before impairment losses, again excluding fair value of own debt, declined by 40%.

RBS Insurance experienced a further deterioration in the observed severity of bodily injury claims, which led to a significant increase in reserving in respect of business written in prior years. As a result, the motor business recorded further operating losses. Substantial repricing continues, in conjunction with steps to tighten underwriting criteria and reposition the business towards acceptable profitability and return levels. The home insurance book continued to make good progress and has now established itself as market leader within the UK.

Non-Core operating income reflects a number of volatile market factors. During the second quarter trading losses declined as widening credit spreads increased the value of the credit protection portfolio and gains were realised on the selective disposal of trading assets. Partially offsetting these positives, losses were incurred on real estate and equity finance positions held in the banking book. Net interest income declined in line with run-off in the division’s loan book.

Second quarter 2010 results summary (continued)

Efficiency

Group operating costs declined by 6% to £4,453 million, with Core expenses down 7% and Non-Core down 10%. This was principally driven by a reduction in staff costs in line with lower revenue, but also reflected continued efficiency gains from Business Services, which provides technology, property and operational services to the Group's customer-facing divisions. Within Business Services costs, which are allocated to the relevant divisions, totalled £1,204 million in the second quarter, down 1% from Q1 2010 and down 9% from Q2 2009. Property costs decreased by 16% from Q2 2009 principally as a result of efficiency programme savings, while technology and operations costs fell by 5%.

The Group cost:income ratio improved to 47% from 55% in Q1 2010 and 48% in Q2 2009. The Core cost:income ratio improved to 44% in the quarter compared with 47% in Q1 2010.

While the Group has already taken a number of difficult restructuring decisions that have affected its staff, further steps are planned in pursuit of establishing an efficient and competitive cost base. As with all such decisions to date, the focus will be on ensuring that the impact on staff is handled appropriately and that everything possible is done to minimise compulsory redundancies.

Impairments

Core impairments totalled £1,097 million, up £126 million from the previous quarter, primarily reflecting a small number of single name impairments in GBM and further deterioration in the Ulster Bank commercial property portfolio.

UK Retail impairments fell by 22% in the quarter, while UK Corporate and US Retail & Commercial impairments were stable as a percentage of loans and advances.

Non-Core impairments declined by 18% to £1,390 million, reflecting a significant single name reserve reversal and continued improvements in the corporate sector, partially offset by further impairments in relation to UK and Irish commercial property exposures.

Balance sheet management

The Group's funded balance sheet, excluding derivatives of £523 billion, fell by £244 billion during the second quarter to £1,059 billion. Adjusting for the disposal of RFS Holdings minority interest, the Group's funded balance sheet, excluding derivatives of £523 million, fell by £63 billion during the second quarter to £1,058 billion. This reflects a £44 billion reduction in the GBM balance sheet and a £20 billion fall in Non-Core, which has made good progress in its run-off plan, driven by the successful completion of a number of business disposals during the quarter. These were partially offset by modest growth in UK retail and corporate lending.

Highlights (continued)

Second quarter 2010 results summary (continued)

Balance sheet management (continued)
Despite volatile market conditions, the Group maintained a strong term funding programme, with over £5 billion of public and private unguaranteed issuance during the second quarter. As the Group shrinks its balance sheet, its overall wholesale funding requirement continues to decline, and a greater proportion of this requirement is being funded longer term. Debt instruments with more than one year to maturity increased to 57% of wholesale funding at 30 June 2010, compared with 47% a year earlier.

Liquidity reserves remained substantial at £137 billion, including a Group Treasury government portfolio of £25 billion. Cash balances held at central banks, which had increased in preparation for the demerger and legal separation of RBS NV and ABN AMRO in April, have now been reduced as planned to more normal levels.

Capital
The Group's Core Tier 1 ratio was 10.5% compared with 9.5% at 31 March 2010. Excluding RFS Holdings minority interest, the Group’s Core Tier 1 ratio was 10.5% at 30 June 2010, compared with 10.6% at 31 March 2010, reflecting higher risk-weighted assets. Partial offset was provided by the liability management exercise completed during the quarter, through which the Group repurchased certain Tier 1 securities and exchanged selected Upper Tier 2 securities for new senior debt securities, generating a profit for the Group and strengthening the Group’s Core Tier 1 capital base.

Highlights (continued)

Second quarter 2010 results summary (continued)

Customer franchises
A key element of the Group's strategic progress involves strengthening and improving its Core businesses through a dedicated focus on serving customers well. RBS customer franchises have come through the turmoil of the last three years with resilience, demonstrating the solidity of their foundations. Good early progress is being made across the Group in further restoring and developing these franchises.

· UK Retail expanded its customer base during the quarter, with 12.9 million current accounts in the NatWest and RBS brands – an increase of 267,000 from Q2 2009. The division continues to grow its market share in current accounts, making net gains in the switching market, as well as in savings accounts and mortgages. NatWest's "helpful banking" message has achieved some success, with overall customer satisfaction rising over the last year. The recent launch of the Retail Customer Charter has also won customer support.

· UK Corporate has maintained its market share among corporate and institutional customers and in the first half of 2010 provided banking services to more than 54,000 start-up businesses, up 6% from the same period of 2009. The SME Customer Charter, launched in 2009, provided customers with increased transparency on fees and extended the Group's overdraft price promise for a further year.

· GBM was recognised as the best debt house in the UK and Netherlands by Euromoney magazine, and ranked first in all sterling categories in the 2010 Total Derivatives deal rankings.

· Global Transaction Services added 13,000 electronic banking customers over the last year, while winning awards for its trade finance and supply chain finance services.

· Wealth has maintained its strong position among global wealth managers and has grown its UK customer base, with Coutts customer numbers up by 3,000 or 4% year on year.

· Ulster Bank increased customer numbers by 49,000 or 3% over the last year, winning a particularly strong share of new personal and business current accounts.

· In the US, Citizens launched a new brand platform built around the message "Good Banking is Good Citizenship." The bank has focused on active, profitable customer relationships, resulting in good growth in multi-service checking accounts, with four out of ten checking account customers now active users of online banking and one in seven active users of the electronic bill payment service. Citizens has also substantially improved its mortgage market penetration.

· RBS Insurance has now established itself as the largest home insurance provider in the UK. Direct Line, the division's flagship brand, was rated best for customer service by Consumer Intelligence and has been voted most trusted insurance brand.

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Highlights (continued)

Second quarter 2010 results summary (continued)

UK Lending

The Group grew net UK mortgage balances by £2.4 billion in Q2 2010, up 20% from Q1 2010 and with gross new lending of £4.9 billion. In the second quarter the Group helped more than 10,000 customers to move into their first home, 52% more than in the corresponding period of 2009. With net lending of £3.2 billion in the four months March-June 2010, RBS remains on course to achieve its £8 billion mortgage lending target for the March 2010 to February 2011 period.

The mortgage market showed some signs of weakness in the quarter, with application volumes 21% lower than a year earlier, although acceptance rates remain high at circa 90%. Redemptions have increased, reflecting the roll-off of a large number of customers from fixed term mortgage deals, as well as greater competition in the market.

During Q2 2010, the Group extended £12.7 billion of gross new facilities to UK businesses. This was 22% higher than the previous quarter and a 27% rise from Q2 2009. While this represents an improved performance, overall activity levels remain somewhat subdued, with many businesses continuing to reduce their existing borrowings. Net repayments by businesses totalled £1.4 billion in the quarter. Additionally, businesses have access to £45 billion of undrawn facilities extended by RBS, and available for when credit demand increases.

Within the overall business lending total, gross new facilities of £7.0 billion were extended to SMEs during Q2 2010. Although up 15% year-on-year, this represented a decline of 5% from Q1 2010.

RBS continued its strong national and regional advertising campaigns to promote the Group's "Open for Business" message and launched a further range of innovative lending initiatives. Despite this, the volume of new credit applications was 7% lower in Q2 2010 than in the previous quarter and 8% lower than in Q2 2009. The Group continues to approve 17 out of every 20 credit applications. The average price of new loans to SMEs during the second quarter was 3.33%, 16 basis points lower than in Q2 2009.

In the mid and large corporate segments, £5.7 billion of gross new facilities were extended during Q2 2010. This was noticeably higher than the £3.0 billion of facilities provided during the previous quarter and 46% higher than Q2 2009. Much of the activity in the quarter was a result of corporates deciding to bring forward refinancings due to longer-term concerns over loan markets liquidity and funding costs.

Gross new facilities extended to businesses in the four months March-June 2010 totalled £17.1 billion, of which £9.9 billion was to SMEs, so at this early stage, the Group is on plan to achieve its £50 billion gross business lending target for the March 2010 to February 2011 period.

Highlights (continued)

Second quarter 2010 results summary (continued)

Disposals
Good progress has been made during the quarter, with momentum building on both the disposal programme mandated by the European Commission and disposals of Non-Core businesses, notably in Asia.

The disposal programme mandated by the European Commission has achieved concrete progress, including the announcement earlier this week of the sale of the Group's RBS England and Wales and NatWest Scotland branches to Santander UK plc. This sale remains subject to regulatory and other approvals and is expected to complete by the end of 2011. The sale of RBS Sempra Commodities' Metals, Oil and European Energy business lines to J.P. Morgan was completed in July.

During the second quarter, four transactions in Asia and the US were completed, resulting in a reduction of £2.4 billion in third party assets. In June a further four small country exit transactions were signed, with completion expected in the second half, while the sale of the Indian retail and commercial banking operations was announced in July.

Taken together, these transactions will on completion reduce the Group’s balance sheet by more than £30 billion and reinforce its strong capital position. The positive results achieved on disposals further strengthen the Group’s strategic progress, as execution risk is reduced and the Group can intensify its focus on the Core business activities.

The Group has also agreed to restructure its bancassurance distribution agreement with Aviva, which will improve the future profitability of this business and ensure full control over the product set delivered to RBS customers.

Outlook
Gradual improvement in net interest margin is targeted in the second half, while markets-related revenues are likely to continue to reflect changes in economic confidence and seasonality.

Subject to the economic environment, underlying credit quality is expected to continue recent trends overall. Our pipeline on Non-Core disposals is strong, and we expect continued progress on asset run-down targets. The ultimate level of asset sales will impact associated gains/losses. Headline results will also reflect the impact of any market and accounting movements on fair value of own debt and APS related expense.

While cautious over the near-term economic backdrop, the Group remains confident of its ability to deliver against its 2009-13 Strategic Plan, and anticipates good medium-term prospects for the business.

Condensed consolidated balance sheet
at 30 June 2010 (unaudited)

	30 June 2010 £m	31 March 2010 £m	31 December 2009 £m
Assets			
Cash and balances at central banks	29,591	42,008	52,261
Net loans and advances to banks	54,489	56,528	56,656
Reverse repurchase agreements and stock borrowing	47,663	43,019	35,097
Loans and advances to banks	102,152	99,547	91,753
Net loans and advances to customers	539,375	553,905	687,353
Reverse repurchase agreements and stock borrowing	39,396	52,906	41,040
Loans and advances to customers	578,771	606,811	728,393
Debt securities	236,260	252,116	267,254
Equity shares	17,326	21,054	19,528
Settlement balances	20,718	24,369	12,033
Derivatives	522,871	462,272	441,454
Intangible assets	14,482	14,683	17,847
Property, plant and equipment	17,608	18,248	19,397
Deferred taxation	5,839	6,540	7,039
Prepayments, accrued income and other assets	14,095	14,534	20,985
Assets of disposal groups	22,340	203,530	18,542
Total assets	1,582,053	1,765,712	1,696,486
Liabilities			
Bank deposits	96,710	98,294	104,138
Repurchase agreements and stock lending	44,165	48,083	38,006
Deposits by banks	140,875	146,377	142,144
Customer deposits	420,890	425,102	545,849
Repurchase agreements and stock lending	70,655	81,144	68,353
Customer accounts	491,545	506,246	614,202
Debt securities in issue	217,317	239,212	267,568
Settlement balances and short positions	62,724	70,632	50,876
Derivatives	508,966	444,223	424,141
Accruals, deferred income and other liabilities	24,867	28,466	30,327
Retirement benefit liabilities	2,611	2,682	2,963
Deferred taxation	2,195	2,295	2,811
Insurance liabilities	6,521	7,711	10,281
Subordinated liabilities	27,523	31,936	37,652
Liabilities of disposal groups	17,615	196,892	18,890
Total liabilities	1,502,759	1,676,672	1,601,855

Equity			
Minority interests	2,492	10,364	16,895
Owners' equity*			
Called up share capital	15,029	15,031	14,630
Reserves	61,773	63,645	63,106
Total equity	79,294	89,040	94,631
Total liabilities and equity	1,582,053	1,765,712	1,696,486
* Owners' equity attributable to:			
Ordinary and B shareholders	72,058	70,830	69,890
Other equity owners	4,744	7,846	7,846
	76,802	78,676	77,736

Commentary on condensed consolidated balance sheet

Total assets of £1,582.1 billion at 30 June 2010 were down £114.4 billion, 7%, compared with 31 December 2009.

Cash and balances at central banks were down £22.7 billion, 43% to £29.6 billion principally due to reduced placings of short-term cash surpluses.

Loans and advances to banks increased by £10.4 billion, 11%, to £102.2 billion. Adjusting for the disposal of the RFS minority interest the increase was £18.3 billion. Reverse repurchase agreements and stock borrowing ('reverse repos') were up £12.6 billion, 36% to £47.7 billion and bank placings rose £5.7 billion, 12%, to £54.5 billion, largely as a result of increased wholesale funding activity.

Loans and advances to customers decreased £149.6 billion, 21%, to £578.8 billion. Excluding the disposal of the RFS minority interest, lending to customers was down £17.0 billion, 3%. Reverse repurchase agreements were down £1.6 billion, 4% to £39.4 billion. Customer lending decreased by £15.3 billion to £539.3 billion or by £14.3 billion before impairment provisions. This reflected planned reductions in Non-Core of £21.8 billion together with declines in Global Banking & Markets, £2.6 billion, US Retail & Commercial, £1.4 billion and Ulster Bank, £1.2 billion. These were offset by growth in UK Corporate, £3.6 billion, Global Transaction Services, £3.0 billion, UK Retail, £2.7 billion and Wealth, £1.2 billion, together with the effect of exchange rate movements, £2.4 billion.

Settlement balances rose £8.7 billion, 72%, to £20.7 billion as a result of increased customer activity from seasonal year end lows.

Movements in the value of derivative assets, up £81.4 billion, 18%, to £522.9 billion, and liabilities, up £84.8 billion, 20%, to £509.0 billion, primarily reflect changes in interest rates, currency fluctuations, with the weakening of Sterling against the US dollar, offset in part by strengthening against the Euro and growth in trading volumes.

Assets of disposal groups have risen by £3.8 billion, 20% to £22.3 billion principally due to the inclusion of the Life Assurance business and Global Merchant Services, together with reduced assets in RBS Sempra Commodities. This is partly offset by completion of disposals of certain of the Group's Asian and Latin American businesses.

Deposits by banks declined £1.3 billion, 1%, to £140.9 billion or £12.9 billion, 8% following the disposal of the RFS minority interest. Reduced inter-bank deposits, down £19.0 billion, 16%, to £96.6 billion, were offset in part by increased repurchase agreements and stock lending ('repos'), up £6.1 billion, 16%, to £44.2 billion.

Commentary on condensed consolidated balance sheet

Customer accounts decreased £122.7 billion, 20%, to £491.5 billion but were up £8.9 billion, 2% excluding the disposal of the RFS minority interest. Within this, repos increased £2.3 billion, 3%, to £70.7 billion. Excluding repos, customer deposits were up £6.6 billion, 2%, to £420.9 billion, reflecting growth in UK Corporate, £7.6 billion, Ulster Bank, £2.0 billion, Global Transaction Services, £1.0 billion (£1.8 billion before transfer of Global Merchant Services to disposal groups), UK Retail, £0.9 billion (£2.7 billion excluding the transfer of the Life Assurance business to disposal groups) and Wealth, £0.5 billion, together with exchange rate movements of £3.8 billion. This was partially offset by reductions in Non-Core, £5.5 billion, US Retail & Commercial, £2.8 billion and Global Banking & Markets, £1.5 billion.

Debt securities in issue were down £50.3 billion, 19% to £217.3 billion. Excluding the RFS minority interest disposal, they declined £29.0 billion, 12% with reductions in Global Banking & Markets partially offset by new issuances of £1.9 billion as part of the liability management exercise completed in May.

Subordinated liabilities reduced by £10.1 billion, 27% to £27.5 billion or £4.0 billion, 13% excluding the disposal of the RFS minority interest. This reflected the redemption of £2.6 billion undated loan capital, debt preference shares and trust preferred securities under the liability management exercise completed in May, together with the conversion of £0.6 billion non-cumulative US dollar preference shares, the redemption of £0.5 billion of other dated and undated loan capital and the effect of exchange rate movements and other adjustments of £0.3 billion.

Liabilities of disposal groups declined £1.3 billion, 7% to £17.6 billion. Disposals of certain of the Group’s Asian and Latin American businesses together with reduced liabilities in RBS Sempra Commodities, have more than offset the inclusion of the Life Assurance business, Global Merchant Services and some residual RFS minority interest liabilities.

Equity minority interests decreased by £14.4 billion reflecting the disposal of the RFS minority interest.

Owners' equity reduced by £0.9 billion, 1% to £76.8 billion. The partial redemption of preference shares and paid in equity, £3.1 billion, less related gains of £0.6 billion, together with an increase in own shares held of £0.7 billion were offset by the issue of £0.6 billion ordinary shares on conversion of the US dollar non-cumulative preference shares classified as debt, exchange rate movements of £1.2 billion and reduced losses in available for sale reserves, £0.3 billion.

Results summary

Key metrics	Quarter ended						Half year ended			
	30 June 2010		31 March 2010		30 June 2009		30 June 2010		30 June 2009	
Performance ratios										
Group										
- Net interest margin							2.03	%	1.78	%
- Cost:income ratio	47	%	55	%	48	%	51	%	52	%
Non-Core										
- Net interest margin	1.22	%	1.25	%	0.45	%	1.24	%	0.54	%
- Cost:income ratio	68	%	70	%	(78	%)	69	%	(50	%)
Continuing operations:										
Basic earnings/(loss) per ordinary and B share							0.6	p	(1.7p	)

	30 June 2010	31 March 2010	Change		31 December 2009	Change	
Capital and balance sheet							
Total assets	£1,582bn	£1,766bn	(10	%)	£1,696bn	(7	%)
Funded balance sheet (1)	£1,059bn	£1,303bn	(19	%)	£1,255bn	(16	%)
Risk-weighted assets - gross	£600bn	£692bn	(13	%)	£669bn	(10	%)
Benefit of Asset Protection Scheme	(£123bn)	(£125bn)	(2	%)	(£128bn)	(4	%)
Risk-weighted assets	£477bn	£567bn	(16	%)	£541bn	(12	%)
Total equity	£79bn	£89bn	(11	%)	£95bn	(17	%)
Core Tier 1 ratio	10.5%	9.5%	100	bp	11.0%	(50	bp)
Tier 1 ratio	12.8%	12.5%	30	bp	14.1%	(130	bp)

Note:
(1) Funded balance sheet is defined as total assets less derivatives.

Results summary

Net interest income	Half year ended 30 June 2010 £m	Half year ended 30 June 2009 £m
Net interest income	7,218	6,849
Net interest margin		
- Group	2.03 %	1.78 %
- UK Retail	3.77 %	3.57 %
- Global Banking & Markets	1.06 %	1.73 %
- Non-Core	1.24 %	0.54 %
Selected average balances		
Loans and advances to banks	47,508	49,666
Loans and advances to customers	522,651	601,933
Debt securities	139,751	119,756
Interest earning assets	709,910	771,355
Deposits by banks	90,189	141,778
Customer accounts	342,651	363,726
Subordinated liabilities	30,413	34,889
Interest bearing liabilities	604,288	669,908
Non-interest bearing deposits	46,937	42,086
Selected average yields (%)		
Loans and advances to banks	1.14	1.94
Loans and advances to customers	3.62	3.97
Debt securities	2.66	3.69
Interest earning assets	3.26	3.80
Deposits by banks	1.59	2.50
Customer accounts	1.07	1.50
Subordinated liabilities	1.56	4.20
Interest bearing deposits	1.44	2.33
Non-interest bearing deposits as a percentage of interest earning assets	6.61	5.46

Key points

· Group NIM recovered to 2.03%, up 25 basis points from the trough of 1.78% reached in the first half of 2009 with improved asset margins offsetting continued pressure on liability margins.

Results summary (continued)

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	1,474	1,479	1,530	2,953	3,115
Income from trading activities					
- Asset Protection Scheme credit default swap – fair value changes	500	(500)	-	-	-
- Other	1,610	2,266	298	3,876	1,964
Gain on redemption of own debt	553	-	3,790	553	3,790
Other operating income					
- Strategic disposals	(411)	53	212	(358)	453
- Other	757	394	(316)	1,151	193
Non-interest income (excluding insurance net premium income)*	4,483	3,692	5,514	8,175	9,515
Insurance net premium income	1,278	1,289	1,301	2,567	2,657
Total non-interest income	5,761	4,981	6,815	10,742	12,172
* Includes fair value of own debt impact:					
Income/(loss) from trading activities	104	41	(159)	145	131
Other operating income	515	(210)	(801)	305	(60)
Fair value of own debt	619	(169)	(960)	450	71

Key points

Q2 2010 compared with Q1 2010

- The Asset Protection Scheme is structured as a credit derivative, with movements in the fair value of the contract taken as a credit of £500 million in the second quarter, compared with £500 million charged in Q1 2010. This reflects widening credit spreads across the portfolio of covered assets.

- Other income from trading activities decreased by £656 million to £1,610 million. Excluding movements in the fair value of own debt of £63 million, other income from trading activities declined by £719 million, with economic uncertainty leading to weak capital market conditions, thereby reducing GBM trading volumes from the strong first quarter. Non-Core trading results improved, however, as banking book hedges benefited from spread widening.

- The Group's credit spreads widened during the quarter, resulting in a gain of £619 million on the fair value of own debt, compared with a charge of £169 million in the first quarter.

- A gain of £553 million was booked associated with the liability management exercise undertaken during the second quarter, through which the Group strengthened its Core Tier 1 capital base by repurchasing existing Tier 1 securities and exchanging selected existing Upper Tier 2 securities for new senior debt securities. Note that a further gain of £651 million was booked directly to equity in Q2 2010.

- Losses booked on strategic disposals during the second quarter reflect the momentum in the Group's restructuring programme, including a number of country exits, primarily in Latin America and Asia. In addition, the Group recognised a loss of £235 million in relation to the restructuring of its bancassurance distribution arrangements with Aviva.

- Other operating income includes losses of £105 million booked on the disposal of a portfolio of lower-rated sovereign debt securities, including Portugal and Greece.

Results summary (continued)

Q2 2010 compared with Q2 2009

- Non-Core trading results are inevitably volatile, with gains booked on single name credit default swaps, compared with losses booked on the same positions in Q2 2009.

- UK Retail non-interest income fell, reflecting the reduction in overdraft administration charges following changes to the pricing structure introduced in Q4 2009.

- The gain of £619 million on the fair value of own debt contrasts with a charge of £960 million in the second quarter of 2009, during which the Group's credit spreads tightened sharply.

H1 2010 compared with H1 2009

- Lower revenues in GBM were offset by a £3.7 billion increase in Non-Core trading income as conditions improved and risk continued to be reduced.

Results summary (continued)

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
Operating expenses	£m	£m	£m	£m	£m
Staff costs	2,365	2,689	2,375	5,054	5,136
Premises and equipment	547	535	617	1,082	1,278
Other	1,022	1,011	1,043	2,033	2,203
Administrative expenses	3,934	4,235	4,035	8,169	8,617
Depreciation and amortisation	519	482	472	1,001	1,032
Write-down of goodwill and other intangible assets	-	-	311	-	311
Operating expenses	4,453	4,717	4,818	9,170	9,960
General insurance	1,348	1,107	895	2,455	1,865
Bancassurance	(25)	29	30	4	26
Insurance net claims	1,323	1,136	925	2,459	1,891
Staff costs as a percentage of total income	25%	32%	24%	28%	27%

Key points

Q2 2010 compared with Q1 2010

- Staff costs fell, driven by the reduction in GBM performance-related pay accruals in line with reduced revenue and a £74 million credit relating to changes to the US defined benefit pension plan. This was partially offset by the effects of the annual salary award.

- Insurance net claims rose by 16%, reflecting higher reserves for bodily injury claims relating to prior years, partially offset by lower weather-related claims.

Q2 2010 compared with Q2 2009

- Administrative expenses were broadly flat compared with a year ago.

- Insurance claims increased by £398 million, largely as a result of the increased bodily injury reserving.

H1 2010 compared with H1 2009

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Lower first half costs reflect more than £600 million of benefits from the Group's cost reduction programme, partially offset by increased investment activity across the core businesses.

· US deposit insurance levies were lower than in the first half of 2009, which included a one-off FDIC assessment.

Results summary (continued)

Impairment losses	Quarter ended 30 June 2010 £m	31 March 2010 £m	30 June 2009 £m	Half year ended 30 June 2010 £m	30 June 2009 £m
Division					
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
Global Transaction Services	3	-	4	3	13
Ulster Bank	281	218	90	499	157
US Retail & Commercial	144	143	146	287	369
RBS Insurance	-	-	1	-	6
Central items	-	1	1	1	(2)
Core	1,097	971	1,147	2,068	2,177
Non-Core	1,390	1,704	3,516	3,094	5,344
	2,487	2,675	4,663	5,162	7,521
Asset category					
Loan impairment losses	2,479	2,602	4,520	5,081	6,796
Securities impairment losses	8	73	143	81	725
	2,487	2,675	4,663	5,162	7,521
Loan impairment charge as % of gross loans and advances (excluding reverse repurchase agreements)	1.8%	1.8%	3.0%	1.8%	2.2%

Key points

Q2 2010 compared with Q1 2010

- Core Retail & Commercial impairments, which compise UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial, were flat on Q1 2010, with improvements in UK Retail offset by increased impairments in Ulster Bank commercial property portfolios. UK Corporate and US Retail & Commercial impairments were stable as a percentage of loans and advances. GBM had a small number of individual impairments in Q2 2010.

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The improvement in Non-Core impairments was largely driven by a provision recovery of £270 million on a significant single name exposure.

Q2 2010 compared with Q2 2009

- The reduction in impairments stemmed principally from Non-Core, where impairments have now fallen for four consecutive quarters.

H1 2010 compared with H1 2009

- First half impairments were lower than in H1 2009 in every division except Ulster Bank. However, impairment levels remain sensitive to the economic environment and many of the Group's customers still face challenging financial circumstances.

Results summary (continued)

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
Credit and other market losses (1)	£m	£m	£m	£m	£m
Monoline exposures	139	-	26	139	1,671
CDPCs (2)	56	32	371	88	569
Asset-backed products	(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	183	140	(2)	323	(85)
Net credit and other market losses	93	259	1,389	352	4,253

Notes:
(1) Included in 'Income from trading activities', significantly all in Non-Core.
(2) Credit derivative product companies.

Key points

Q2 2010 compared with Q1 2010

Total net losses were significantly lower than in Q1 2010 reflecting the widening of corporate credit spreads (benefiting banking book hedges) while other asset prices continued to improve and sterling strengthened.

Losses on monoline exposures reflect widening credit spreads which more than offset reductions in exposures and gains on restructuring.

In Q2 2010, widening corporate credit spreads resulted in a higher exposure to CDPCs leading to an increase in CVA.

Gains on asset-backed products in Q2 2010 included gains on disposals as well as price improvements, compared with a more mixed outcome in Q1 2010.

The gain on other credit exotics principally reflects lower reserving as a result of risk reduction.

Gains on banking book hedges in Q2 2010 compared with losses in Q1 2010 resulted from the widening of corporate credit spreads and the continued roll off of capital relief trades.

Q2 2010 compared with Q2 2009

Losses decreased in Q2 2010 due to the continued reduction in underlying exposures.

H1 2010 compared with H1 2009

The losses on monolines decreased by £1.5 billion, due to management actions to reduce the monoline exposures as a result of improved underlying asset prices.

Similarly, CDPC losses declined by £0.5 billion as exposures have been reduced and losses on hedges incurred in 2009 subsided. Exposures to CDPCs have declined over the course of 2009 and the first half of 2010, accounting for the lower losses.

In H1 2009, losses were experienced on ABS due to price deterioration, principally in Q1 2009. However, in H1 2010 prices have improved and some net gains were realised.

Gains on banking book hedges in H1 2010 compared with losses in H1 2009 reflect the combination of unwinding during 2010 and movements in credit spreads, both direction and extent.

Results summary (continued)

Capital resources and ratios	30 June 2010	31 March 2010	31 December 2009
Core Tier 1 capital	£50bn	£54bn	£60bn
Tier 1 capital	£61bn	£71bn	£76bn
Total capital	£66bn	£82bn	£87bn
Risk-weighted assets – gross	£600bn	£692bn	£669bn
Benefit of Asset Protection Scheme	(£123bn)	(£125bn)	(£128bn)
Risk-weighted assets	£477bn	£567bn	£541bn
Core Tier 1 ratio	10.5 %	9.5 %	11.0 %
Tier 1 ratio	12.8 %	12.5 %	14.1 %
Total capital ratio	13.9 %	14.5 %	16.1 %

Key points

· The Core Tier 1 ratio increased by one percentage point during the second quarter. Excluding the impact of RFS Holdings minority interest of 110 basis points, the Core Tier 1 ratio declined by 10 basis points during the second quarter, largely driven by an increase in risk-weighted assets, partially offset by the benefits of the liability management exercise.

· RWAs were down £90 billion to £477 billion. Excluding the impact of RFS Holdings minority interest of £103 billion, RWAs were up £13 billion to £474 billion due to a new market risk-related event risk charge and an increase in RBS NV as historic capital relief trades rolled off.

· The transition of RBS NV to the Basel II approach was successfully completed during the quarter. This resulted in an increase in Non-Core and Group Centre RWAs which was largely offset by reductions across other divisions.

· Capital relief from the Asset Protection Scheme declined by £1 billion to £123 billion, reflecting run-off and the withdrawal of certain assets from the Scheme.

· The Tier 1 capital ratio increased by 30 basis points to 12.8% during the second quarter, Excluding the impact of RFS Holdings minority interest of 120 basis points, the Tier 1 capital ratio declined by 90 basis points to 12.8%, reflecting the increase in RWAs as well as the liability management exercise completed in the second quarter. The movement in the total capital ratio reflects the same drivers.

Balance sheet	30 June 2010	31 March 2010	31 December 2009
Funded balance sheet	£1,059bn	£1,303bn	£1,255bn
Total assets	£1,582bn	£1,766bn	£1,696bn
Loans and advances to customers (excluding reverse repurchase agreements and stock borrowing)	£539bn	£554bn	£687bn
Customer accounts (excluding repurchase agreements and stock lending)	£421bn	£425bn	£546bn

Key points

· The funded balance sheet decreased by £244 million. Excluding RFS Holdings minority interest of £181 million, the funded balance sheet decreased by £63 billion during the second quarter, including £44 billion asset reduction in GBM and £20 billion in Non-Core, of which £8 billion was from disposals.

· Compared with 30 June 2009, loans and advances have fallen by £29 billion in GBM and by £36 billion in Non-Core.

Further discussion of the Group's funding and liquidity positions is included on pages 167 to 171.

Divisional performance

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Operating profit/(loss) by division					
UK Retail	276	140	20	416	37
UK Corporate	390	318	85	708	406
Wealth	81	62	118	143	212
Global Banking & Markets	1,081	1,466	1,049	2,547	4,517
Global Transaction Services	279	233	265	512	496
Ulster Bank	(177)	(137)	(12)	(314)	(8)
US Retail & Commercial	129	40	(10)	169	(51)
RBS Insurance	(203)	(50)	141	(253)	217
Central items	337	200	(312)	537	177
Core	2,193	2,272	1,344	4,465	6,003
Non-Core	(1,324)	(1,559)	(4,877)	(2,883)	(9,357)
	869	713	(3,533)	1,582	(3,354)
Reconciling items					
RFS Holdings minority interest	17	16	(54)	33	(55)
Amortisation of purchased intangible assets	(85)	(65)	(55)	(150)	(140)
Write-down of goodwill	-	-	(311)	-	(311)
Integration and restructuring costs	(254)	(168)	(355)	(422)	(734)
Gain on redemption of own debt	553	-	3,790	553	3,790
Strategic disposals	(411)	53	212	(358)	453
Bonus tax	(15)	(54)	-	(69)	-
Asset Protection Scheme credit default swap – fair value changes	500	(500)	-	-	-
Group operating profit/(loss)	1,174	(5)	(306)	1,169	(351)
Impairment losses by division					
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
Global Transaction Services	3	-	4	3	13
Ulster Bank	281	218	90	499	157
US Retail & Commercial	144	143	146	287	369
RBS Insurance	-	-	1	-	6
Central items	-	1	1	1	(2)

Core	1,097	971	1,147	2,068	2,177
Non-Core	1,390	1,704	3,516	3,094	5,344
Group impairment losses	2,487	2,675	4,663	5,162	7,521

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Divisional performance (continued)

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	%	%	%	%	%
Net interest margin by division					
UK Retail	3.88	3.66	3.69	3.77	3.57
UK Corporate	2.50	2.38	2.17	2.44	2.03
Wealth	3.36	3.38	4.82	3.37	4.65
Global Banking & Markets	1.01	1.11	1.48	1.06	1.73
Global Transaction Services	6.47	7.97	9.23	7.11	8.74
Ulster Bank	1.92	1.77	2.03	1.84	1.95
US Retail & Commercial	2.78	2.69	2.32	2.73	2.32
Non-Core	1.22	1.25	0.45	1.24	0.54
Group				2.03	1.78

	30 June 2010	31 March 2010	31 December 2009
	£bn	£bn	£bn
Risk-weighted assets by division			
UK Retail	49.1	49.8	51.3
UK Corporate	87.6	91.3	90.2
Wealth	12.0	11.7	11.2
Global Banking & Markets	141.3	141.8	123.7
Global Transaction Services	19.4	20.4	19.1
Ulster Bank	30.5	32.8	29.9
US Retail & Commercial	65.5	63.8	59.7
Other	16.9	9.6	9.4
Core	422.3	421.2	394.5
Non-Core	175.0	164.3	171.3
	597.3	585.5	565.8
Benefit of Asset Protection Scheme	(123.4)	(124.8)	(127.6)
	473.9	460.7	438.2
RFS Holdings minority interest	3.1	106.5	102.8
Total	477.0	567.2	541.0

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UK Retail

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	1,001	933	868	1,934	1,665
Net fees and commissions	280	273	343	553	699
Other non-interest income	14	71	77	85	107
Non-interest income	294	344	420	638	806
Total income	1,295	1,277	1,288	2,572	2,471
Direct expenses					
- staff	(203)	(198)	(214)	(401)	(428)
- other	(111)	(105)	(102)	(216)	(217)
Indirect expenses	(430)	(418)	(452)	(848)	(939)
	(744)	(721)	(768)	(1,465)	(1,584)
Insurance net claims	25	(29)	(30)	(4)	(26)
Impairment losses	(300)	(387)	(470)	(687)	(824)
Operating profit	276	140	20	416	37
Analysis of income by product					
Personal advances	236	234	311	470	616
Personal deposits	277	277	354	554	751
Mortgages	478	422	273	900	480
Bancassurance and insurance net claims	33	88	99	121	147
Cards	239	229	212	468	416
Other	32	27	39	59	61
Total income	1,295	1,277	1,288	2,572	2,471
Analysis of impairment by sector					
Mortgages	44	48	41	92	63
Personal	168	233	299	401	494
Cards	88	106	130	194	267

Total impairment	300		387		470		687		824	
Loan impairment charge as % of gross customer loans and advances by sector										
Mortgages	0.2	%	0.2	%	0.2	%	0.2	%	0.2	%
Personal	5.3	%	7.1	%	8.3	%	6.3	%	6.9	%
Cards	5.9	%	7.1	%	8.5	%	6.5	%	8.8	%
	1.1	%	1.5	%	1.9	%	1.3	%	1.7	%

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UK Retail (continued)

Key metrics

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

	30 June 2010 £bn	31 March 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	86.9	84.8	2%	83.2	4%
- personal	12.8	13.2	(3%)	13.6	(6%)
- cards	6.0	6.0	-	6.2	(3%)
Customer deposits (excluding bancassurance)	90.0	89.4	1%	87.2	3%
Assets under management (excluding deposits)	5.4	5.3	2%	5.3	2%
Risk elements in lending	4.8	4.7	2%	4.6	4%
Loan:deposit ratio (excluding repos)	114%	113%	100bp	115%	(100bp)
Risk-weighted assets	49.1	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 1% (£18 million) was 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.
  - 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.
  - Unsecured lending fell 2% in the quarter, as repayments continued to exceed new borrowing, which remained subdued in line with trends in the economy.
  - 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.
  - 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 decreased by 15%, 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.
  - 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.
  - 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 1% 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 30% 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.

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UK Corporate

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	647	610	560	1,257	1,059
Net fees and commissions	233	224	219	457	413
Other non-interest income	107	105	109	212	226
Non-interest income	340	329	328	669	639
Total income	987	939	888	1,926	1,698
Direct expenses					
- staff	(189)	(205)	(182)	(394)	(367)
- other	(78)	(100)	(46)	(178)	(120)
Indirect expenses	(132)	(130)	(125)	(262)	(255)
	(399)	(435)	(353)	(834)	(742)
Impairment losses	(198)	(186)	(450)	(384)	(550)
Operating profit	390	318	85	708	406
Analysis of income by business					
Corporate and commercial lending	660	630	520	1,290	996
Asset and invoice finance	154	134	123	288	232
Corporate deposits	185	176	264	361	554
Other	(12)	(1)	(19)	(13)	(84)
Total income	987	939	888	1,926	1,698
Analysis of impairment by sector					
Banks and financial institutions	(9)	2	3	(7)	5
Hotels and restaurants	12	16	36	28	51
Housebuilding and construction	8	14	55	22	61
Manufacturing	2	6	17	8	21
Other	83	37	88	120	107
Private sector education, health, social work,	-	8	32	8	40

recreational and community services					
Property	61	66	149	127	160
Wholesale and retail trade, repairs	28	18	23	46	37
Asset and invoice finance	13	19	47	32	68
Total impairment	198	186	450	384	550

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UK Corporate (continued)

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

Key metrics

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

	30 June 2010 £bn	31 March 2010* £bn	Change	31 December 2009* £bn	Change
Capital and balance sheet					
Total third party assets	118.4	117.4	1%	114.9	3%
Loans and advances to customers (gross)					
- banks and financial institutions	6.5	6.5	-	6.3	3%
- hotels and restaurants	7.0	6.6	6%	6.7	4%
- housebuilding and construction	4.6	4.3	7%	4.3	7%
- manufacturing	5.5	5.9	(7%)	5.9	(7%)
- other	32.6	31.1	5%	29.9	9%

- private sector education, health, social work, recreational and community services	9.1		8.5		7	%	6.5		40	%
- property	30.3		32.0		(5	%)	33.0		(8	%)
- wholesale and retail trade, repairs	10.4		10.4		-		10.2		2	%
- asset and invoice finance	9.2		9.0		2	%	8.8		5	%
Customer deposits	95.4		91.4		4	%	87.8		9	%
Risk elements in lending	2.9		2.5		16	%	2.3		26	%
Loan:deposit ratio (excluding repos)	119	%	124	%	(500	bp)	126	%	(700	bp)
Risk-weighted assets	87.6		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).

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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 2010 £m	31 March 2010 £m	30 June 2009 £m	30 June 2010 £m	30 June 2009 £m
Income statement					
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)
Impairment losses	(7)	(4)	(16)	(11)	(22)
Operating profit	81	62	118	143	212
Analysis of income					
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	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
Performance ratios					
Net interest margin	3.36%	3.38%	4.82%	3.37%	4.65%
Cost:income ratio	67%	74%	53%	70%	58%

	30 June 2010 £bn	31 March 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	6.9	6.8	1%	6.5	6%
- personal	6.4	6.2	3%	4.9	31%
- other	1.6	1.5	7%	2.3	(30%)
Customer deposits	36.2	36.4	(1%)	35.7	1%
Assets under management (excluding deposits)	30.2	31.7	(5%)	30.7	(2%)
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	41%	40%	100bp	38%	300bp
Risk-weighted assets	12.0	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 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income from banking activities	329	382	704	711	1,523
Funding costs of rental assets	(9)	(9)	(12)	(18)	(27)
Net interest income	320	373	692	693	1,496
Net fees and commissions receivable	262	286	359	548	598
Income from trading activities	1,618	2,054	1,185	3,672	5,324
Other operating income	78	79	(133)	157	(223)
Non-interest income	1,958	2,419	1,411	4,377	5,699
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)
Impairment losses	(164)	(32)	31	(196)	(238)
Operating profit	1,081	1,466	1,049	2,547	4,517

Analysis of income by product					
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	(12)	(7)	23	(19)	39
Property and construction	56	8	4	64	50
Banks and financial institutions	110	16	39	126	43
Other	10	15	(97)	25	106
Total impairment	164	32	(31)	196	238
Loan impairment charge as % of gross customer loans and advances(excluding reverse repurchase agreements)	0.7%	0.1%	(0.1%)	0.4%	0.4%

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Global Banking & Markets (continued)

Key metrics

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

	30 June 2010 £bn	31 March 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Loans and advances (including banks)	128.9	133.5	(3%)	127.8	1%
Reverse repos	85.6	93.1	(8%)	73.3	17%
Securities	109.8	116.6	(6%)	106.0	4%
Cash and eligible bills	41.2	61.9	(33%)	74.0	(44%)
Other	34.5	38.6	(11%)	31.1	11%
Total third party assets (excluding derivatives mark to market)	400.0	443.7	(10%)	412.2	(3%)
Net derivative assets (after netting)	52.1	66.9	(22%)	68.0	(23%)
Customer deposits (excluding repos)	45.6	47.0	(3%)	46.9	(3%)
Risk elements in lending	1.8	1.2	50%	1.8	-
Loan:deposit ratio (excluding repos)	195%	195%	-	194%	100bp
Risk-weighted assets	141.3	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 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	237	217	225	454	445
Non-interest income	411	390	398	801	783
Total income	648	607	623	1,255	1,228
Direct expenses					
- staff	(102)	(104)	(87)	(206)	(182)
- other	(37)	(33)	(38)	(70)	(73)
Indirect expenses	(227)	(237)	(229)	(464)	(464)
	(366)	(374)	(354)	(740)	(719)
Impairment losses	(3)	-	(4)	(3)	(13)
Operating profit	279	233	265	512	496
Analysis of income by product					
Domestic cash management	201	194	204	395	406
International cash management	193	185	179	378	348
Trade finance	76	71	77	147	152
Merchant acquiring	133	115	126	248	250
Commercial cards	45	42	37	87	72
Total income	648	607	623	1,255	1,228

Key metrics

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

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

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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

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

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

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Ulster Bank (continued)

Key metrics

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

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

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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			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	502	468	448	970	942
Net fees and commissions	203	177	209	380	407
Other non-interest income	72	75	45	147	97
Non-interest income	275	252	254	527	504
Total income	777	720	702	1,497	1,446
Direct expenses					
- staff	(151)	(215)	(184)	(366)	(402)
- other	(163)	(134)	(188)	(297)	(331)
Indirect expenses	(190)	(188)	(194)	(378)	(395)
	(504)	(537)	(566)	(1,041)	(1,128)
Impairment losses	(144)	(143)	(146)	(287)	(369)
Operating profit/(loss)	129	40	(10)	169	(51)
Average exchange rate – US$/£	1.492	1.560	1.551	1.525	1.494
Analysis of income by product					
Mortgages and home equity	124	115	130	239	272
Personal lending and cards	122	114	113	236	220
Retail deposits	248	226	202	474	433
Commercial lending	152	142	140	294	281
Commercial deposits	86	81	89	167	193
Other	45	42	28	87	47
Total income	777	720	702	1,497	1,446
Analysis of impairment by sector					
Residential mortgages	22	19	12	41	35
Home equity	38	6	43	44	72
Corporate and commercial	76	49	61	125	169

Other consumer	7	56	30	63	93
Securities impairment losses	1	13	-	14	-
Total impairment	144	143	146	287	369
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	1.3 %	1.1 %	0.7 %	1.2 %	1.0 %
Home equity	0.9 %	0.1 %	1.1 %	0.5 %	0.9 %
Corporate and commercial	1.5 %	1.0 %	1.2 %	1.2 %	1.6 %
Other consumer	0.3 %	2.8 %	1.4 %	1.6 %	2.2 %
	1.1 %	1.0 %	1.1 %	1.1 %	1.4 %

US Retail & 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
Performance ratios					
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 2010 £bn	31 March 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
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	67%	0.2	150%
Loan:deposit ratio (excluding repos)	81%	81%	-	80%	100bp
Risk-weighted assets	65.5	63.8	3%	59.7	10%
Spot exchange rate - US$/£	1.498	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 46 and 47.

US Retail & Commercial (US Dollar)

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	$m	$m	$m	$m	$m
Income statement					
Net interest income	748	730	696	1,478	1,407
Net fees and commissions	303	276	324	579	608
Other non-interest income	110	116	69	226	144
Non-interest income	413	392	393	805	752
Total income	1,161	1,122	1,089	2,283	2,159
Direct expenses					
- staff	(223)	(335)	(287)	(558)	(600)
- other	(246)	(207)	(289)	(453)	(495)
Indirect expenses	(283)	(293)	(301)	(576)	(589)
	(752)	(835)	(877)	(1,587)	(1,684)
Impairment losses	(214)	(224)	(231)	(438)	(551)
Operating profit/(loss)	195	63	(19)	258	(76)
Analysis of income by product					
Mortgages and home equity	185	180	203	365	407
Personal lending and cards	182	178	174	360	328
Retail deposits	372	351	315	723	647
Commercial lending	226	222	217	448	419
Commercial deposits	128	126	138	254	288
Other	68	65	42	133	70
Total income	1,161	1,122	1,089	2,283	2,159
Analysis of impairment by sector					
Residential mortgages	33	30	19	63	52
Home equity	56	10	65	66	107
Corporate and commercial	113	77	99	190	253
Other consumer	10	87	48	97	139
Securities impairment losses	2	20	-	22	-

Total impairment	214	224	231	438	551
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	1.3 %	1.2 %	0.6 %	1.3 %	0.9 %
Home equity	0.9 %	0.2 %	1.0 %	0.5 %	0.8 %
Corporate and commercial	1.5 %	1.0 %	1.2 %	1.2 %	1.5 %
Other consumer	0.3 %	2.9 %	1.4 %	1.6 %	2.0 %
	1.1 %	1.1 %	1.1 %	1.1 %	1.3 %

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US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
Performance ratios					
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 2010 $bn	31 March 2010 $bn	Change	31 December 2009 $bn	Change
Capital and balance sheet					
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	(1%)	12.1	(1%)
Customer deposits (excluding repos)	93.3	94.8	(2%)	97.4	(4%)
Risk elements in lending					
- retail	0.6	0.6	-	0.6	-
- commercial	0.7	0.5	40%	0.4	75%
Loan:deposit ratio (excluding repos)	81%	81%	-	80%	100bp
Risk-weighted assets	98.1	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 £129 million ($195 million) compared with £40 million ($63 million) in the prior quarter. Excluding a £74 million ($113 million) credit related to changes to the defined benefit pension plan, operating profit was up

£15 million ($19 million), 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 £7 million ($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 £129 million ($195 million) from an operating loss of £10 million ($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 £169 million ($258 million) from an operating loss of £51 million ($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 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
	£m	£m	£m	£m	£m
Income statement					
Earned premiums	1,118	1,130	1,119	2,248	2,225
Reinsurers' share	(38)	(34)	(40)	(72)	(85)
Net premium income	1,080	1,096	1,079	2,176	2,140
Fees and commissions	(91)	(89)	(95)	(180)	(187)
Other income	116	92	104	208	212
Total income	1,105	1,099	1,088	2,204	2,165
Direct expenses					
- staff	(66)	(63)	(69)	(129)	(139)
- other	(48)	(47)	(54)	(95)	(121)
Indirect expenses	(62)	(65)	(65)	(127)	(131)
	(176)	(175)	(188)	(351)	(391)
Net claims	(1,132)	(974)	(758)	(2,106)	(1,551)
Impairment losses	-	-	(1)	-	(6)
Operating (loss)/profit	(203)	(50)	141	(253)	217
Analysis of income by product					
Own-brand					
- motor	507	521	496	1,027	973
- household and life	219	224	210	442	415
Partnerships and broker					
- motor	125	136	144	262	287
- household and life	79	81	80	161	163
Other (international, commercial and central)	175	137	158	312	327
Total income	1,105	1,099	1,088	2,204	2,165

RBS Insurance (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2010	31 March 2010	30 June 2009	30 June 2010	30 June 2009
In-force policies (thousands)					
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)					