ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 30, 2011

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

30 August 2011

The Royal Bank of Scotland Group plc

Gogarburn
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Scotland
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(File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Explanatory Note

The Royal Bank of Scotland Group plc is filing this Form 6-K to add note 21 (Consolidating financial information) to its results for the six months ended 30 June 2011, which were previously filed with the Securities and Exchange Commission on a separate Form 6-K on 12 August 2011. Note 21 contains condensed consolidating financial information in accordance with Rule 3-10 of Regulation S-X for:

- RBSG plc on a stand-alone basis as guarantor ("RBSG Company")
- RBS plc on a stand-alone basis as Issuer ("RBS Company")
- Non-guarantor Subsidiaries of RBSG Company on a combined basis ("Subsidiaries")
- Consolidation adjustments; and
- RBSG plc consolidated amounts ("RBSG Group").

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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’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘obje ‘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, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; certain ring-fencing proposals; the Group’s future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; 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 economic and financial market conditions and other geopolitical risks, 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, including any adverse consequences of a failure to transfer, or delay in transferring, certain businesses, assets and liabilities from RBS Bank N.V. to RBS plc; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; 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, equity prices and basis, volatility and correlation risks; 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 or legal changes (including those requiring any restructuring of the Group’s operations) 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 central banks and other government and regulatory bodies; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the recommendations made by the UK Independent Commission on Banking and their potential implications; 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.

Presentation of information

RFS Holdings is the entity that acquired ABN AMRO and is now 98% owned by RBS and is 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 non-controlling interests. Following legal separation on 1 April 2010, the interests of other Consortium Members in RFS Holdings relate only to shared assets.

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 as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "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.

Net interest margin

The basis of calculating the net interest margin (NIM) was refined in Q1 2011 and reflects the actual number of days in each quarter. Group and divisional NIMs for 2010 have been re-computed on the new basis.

Condensed consolidated income statement
for the half year ended 30 June 2011

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Interest receivable	5,404	5,401	5,888	10,805	11,580
Interest payable	(2,177)	(2,100)	(2,212)	(4,277)	(4,362)
Net interest income	3,227	3,301	3,676	6,528	7,218
Fees and commissions receivable	1,700	1,642	2,053	3,342	4,104
Fees and commissions payable	(323)	(260)	(579)	(583)	(1,151)
Income from trading activities	1,147	835	2,110	1,982	3,876
Gain on redemption of own debt	255	-	553	255	553
Other operating income (excluding insurance premium income)	1,142	391	346	1,533	793
Insurance net premium income	1,090	1,149	1,278	2,239	2,567
Non-interest income	5,011	3,757	5,761	8,768	10,742
Total income	8,238	7,058	9,437	15,296	17,960
Staff costs	(2,210)	(2,399)	(2,365)	(4,609)	(5,054)
Premises and equipment	(602)	(571)	(547)	(1,173)	(1,082)
Other administrative expenses	(1,752)	(921)	(1,022)	(2,673)	(2,033)
Depreciation and amortisation	(453)	(424)	(519)	(877)	(1,001)
Operating expenses	(5,017)	(4,315)	(4,453)	(9,332)	(9,170)
Profit before other operating charges and impairment losses	3,221	2,743	4,984	5,964	8,790
Insurance net claims	(793)	(912)	(1,323)	(1,705)	(2,459)
Impairment losses	(3,106)	(1,947)	(2,487)	(5,053)	(5,162)
Operating (loss)/profit before tax	(678)	(116)	1,174	(794)	1,169
Tax charge	(222)	(423)	(825)	(645)	(932)
(Loss)/profit from continuing operations	(900)	(539)	349	(1,439)	237
Profit/(loss) from discontinued operations, net of tax	21	10	(1,019)	31	(706)
Loss for the period	(879)	(529)	(670)	(1,408)	(469)
Non-controlling interests	(18)	1	946	(17)	602
Preference share and other dividends	-	-	(19)	-	(124)

(Loss)/profit attributable to ordinary and B shareholders	(897)	(528)	257	(1,425)	9

Comment

Stephen Hester, Group Chief Executive, commented:

“RBS’s second quarter results show the Group’s restructuring momentum continues whilst Core business performance is resilient in challenging market conditions.

I am pleased with progress across key aspects of the RBS Strategic Plan. The run-down of Non-Core assets is ahead of schedule and c.60% below our starting point. The large improvements in balance sheet structure and funding that we have accomplished particularly show their value in turbulent debt markets such as those of recent months. In our Core businesses important turnarounds in RBS Insurance and Citizens continue. New provisioning in Ireland has shown its first quarterly decline.

Service to customers remains at the heart of our mission. It is even more important with economic recovery slower than had been hoped for which will also affect the speed of our own recovery. However, the Bank’s principal businesses remain solidly profitable, though results in GBM have been impacted by difficult markets.

There is no shortcut to achieving our goals. We seek excellence in support of customers; a strong risk profile with the past accounted for; and the improved shareholder returns important to all. This is our focus. Economic and regulatory headwinds may be challenging but the momentum that our people and restructuring actions have sustained thus far in the RBS recovery plan should continue to stand us in good stead.”

Highlights

Second quarter results summary

The Royal Bank of Scotland Group (RBS or the Group) reported an operating loss before tax of £678 million in the second quarter of 2011, compared with a loss of £116 million in the first quarter of 2011 and a profit of £1,174 million in Q2 2010.

Excluding the impact of Payment Protection Insurance costs of £850 million, Sovereign debt impairment of £733 million and interest rate hedge adjustments on impaired available-for-sale Greek government bonds of £109 million, the Group reported a profit of £818 million in the second quarter of 2011, 22% lower than in Q1 2011 but up from £250 million in Q2 2010.

The results reflect steady momentum in the Core Retail & Commercial (R&C) businesses, with further progress in the US and reduced losses in Ulster Bank, but lower revenue in Global Banking & Markets (GBM), where weaker client activity across all trading desks and active risk reduction within the business reflected the uncertain market environment. RBS Insurance continued its recovery.

Non-Core continued its risk reduction programme, with funded assets falling by £12 billion during the quarter as the division worked through its pipeline of disposals. Non-Core remains on track to meet its target of reducing third party assets to below £100 billion by the end of the year.

A charge of £850 million, previously announced, was booked during the second quarter for Payment Protection Insurance claims. In addition a provision for impairment of £733 million was booked against Greek government bonds. If the proposed restructuring of Greek government debt announced in July is effected, RBS could recognise a credit of c.£275 million in the second half of 2011, partially offsetting this charge. A liability management exercise in Ulster Bank resulted in a gain of £255 million on the purchase of own asset securitisation debt during the quarter.

A gain of £339 million was recorded on movements in the fair value of own debt, as credit spreads widened, compared with a charge of £480 million in Q1 2011 and a gain of £619 million in Q2 2010. A further charge of £168 million (compared with £469 million in the first quarter) was booked in respect of the Asset Protection Scheme (APS), which is accounted for as a derivative. The cumulative APS charge now stands at £2,187 million.

After these and other charges, RBS recorded a pre-tax loss of £678 million. After tax and minority interests, the attributable loss was £897 million, compared with a loss of £528 million in Q1 2011 and a profit of £257 million in Q2 2010.

Income

Group income totalled £8,238 million, up 17% from Q1 2011. Excluding movements in the fair value of own debt of £339 million, a charge in respect of the APS credit default swap of £168 million, strategic disposals of £50 million, gain on redemption of own debt of £255 million and other adjustments totalling a loss of £5 million, Group income totalled £7,767 million, down 3% from Q1 2011. Retail & Commercial (R&C) revenues were up 1% while GBM revenues fell back from a strong first quarter result, as the uncertain trading environment dampened client activities across all trading desks. GBM income in the first half, at £3,930 million, was broadly in line with previous guidance on annual run rates. However, fixed income and currency flows are inherently volatile, and in current difficult market conditions we have reduced risk exposures in the division, which is likely to result in lower run rates until customer confidence improves. On the same basis, Group income was down 5% compared with the second quarter of 2010.

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Second quarter results summary (continued)

Non-Core income performance, on the other hand, was strong, up from £486 million in the first quarter to £978 million in the second quarter, reflecting gains on a number of securities arising from restructured assets.

Net interest income was 2% lower than in the first quarter, with Group net interest margin narrowing to 1.96% from 2.04%, reflecting a Q1 2011 non-recurring item in UK Corporate of £50 million, as well as precautionary liquidity and funding strategies given the environment. Non-interest income increased 33% to £5,011 million from £3,757 million. Excluding movements in the fair value of own debt of £339 million, a charge on the APS credit default swap of £168 million, strategic disposals of £50 million, gain on redemption of own debt of £255 million and other adjustments of £1 million, non-interest income fell by 4% from Q1 2011, reflecting principally the decline in trading income in GBM. This was partially offset by the strong performance in Non-Core.

Expenses

Group second quarter costs totalled £5,017 million, up 16% from Q1 2011 and down 13% from Q2 2010. Excluding Payment Protection Insurance costs of £850 million, integration and restructuring costs of £209 million, amortisation of purchased intangible assets of £56 million and other adjustments of £10 million, Group second quarter costs totalled £3,892 million, down 6% from Q1 2011 and down 5% from Q2 2010. This was principally driven by reduced staff costs in GBM, reflecting the division’s lower income levels, as well as overall tight expense discipline.

The Group cost:income ratio was 61%, compared with 61% in Q1 2011 and 47% in Q2 2010. The Core cost:income ratio was 52%, compared with 50% in Q1 2011 and 48% in Q2 2010.

Impairments

Impairments were £1,159 million higher at £3,106 million in Q2 2011. Excluding sovereign debt impairment of £733 million and interest rate hedge adjustments on available-for-sale Greek government bonds of £109 million, impairments were £317 million higher at £2,264 million in Q2 2011, driven principally by additional provisions in respect of development land values in Non-Core’s Irish portfolios and a small number of impairments relating to large corporates. Core impairments were 2% lower than in Q1 2011 at £853 million and 22% down from Q2 2010, with more stable trends in Core Ulster Bank and US loan books partially offset by a number of single name corporate impairments. Core impairments represented 0.8% of loans and advances to customers, compared with 0.8% in Q1 2011 and 1.0% in Q2 2010.

The combined Ulster Bank (Core and Non-Core) impairment charge of £1,251 million for Q2 2011 was £49 million lower than Q1 2011. This reflected a decrease in defaulting loans and a stabilisation of mortgage loan loss metrics, offset by deteriorating collateral values in our development portfolios.

Balance sheet

RBS’s balance sheet remained stable in the second quarter, with Group third party assets (excluding derivatives) of £1,051 billion, compared with £1,052 billion at 31 March 2011.

Second quarter results summary (continued)

Non-Core third party assets fell by £12 billion to £113 billion during the second quarter, driven by £7 billion of disposals and £5 billion of portfolio run-off. Over the 12 months ending 30 June 2011, Non-Core assets declined by £61 billion (35%), including £36 billion of disposals and £26 billion of run-off.

Core third party assets grew by £11 billion during the quarter, with strong asset growth in Global Transaction Services (GTS) and increased cash balances held with central banks.

Funding and liquidity
The Group funding gap fell by £5 billion to £61 billion in the quarter, as the Group loan:deposit ratio (LDR) improved to 114% versus 115% in Q1 2011 and 128% in Q2 2010. The Core LDR was 96%, flat to the first quarter and down from 102% in Q2 2010.

Short term wholesale funding, excluding derivative collateral, increased slightly, reflecting the approaching maturity of medium term notes issued under the Credit Guarantee Scheme, which are on track to be repaid in full by Q2 2012. The liquidity portfolio remained above target at £155 billion and increased £18 billion year on year.

RBS issued £8 billion of term funding during the second quarter, taking total term issuance for the first half to £18 billion, compared with a full year target of £23 billion. Issuance was principally in euros and US dollars.

Capital
The Core Tier 1 ratio remained strong at 11.1%. The movement in the ratio from the first quarter reflected a small reduction in Core Tier 1 capital driven by the loss in the quarter partially offset by a small decline in gross risk-weighted assets, excluding the benefit provided by the APS. During the second quarter RWAs fell in GBM and Non-Core, but rose in Ulster Bank, where the continuing weak credit environment led to increased risk weightings. Compared with Q2 2010, gross Group RWAs have fallen by £9.4 billion. The APS provided a benefit to the Core Tier 1 ratio of approximately 1.3%, unchanged in the quarter.

Regulation
The international regulatory reform agenda has continued to progress in recent months, including the announcement of draft proposals from the European Commission for the implementation of the Basel III capital and liquidity framework, publication by the Basel Committee of increased loss absorbency requirements for banks deemed to be of global systemic importance and consultation by the Financial Stability Board on measures to enable the effective resolution of systemically important financial institutions.

In the UK, RBS has responded to the Interim Report of the Independent Commission on Banking, welcoming the Commission’s support for the far-reaching programme of international reform. This programme in RBS’s view will bring about a substantial reduction in both the probability of bank failure and the impact of such failure and thereby effectively tackle the issue of implicit state subsidies.

Highlights (continued)

Second quarter results summary (continued)

RBS continues to engage with the Commission and with regulators on the Commission's proposals for ring-fencing certain activities. In RBS's view, ring-fencing is unlikely to meet the tests set out in the Commission's terms of reference. We believe it might actually result in increased risk whilst costs to banks and the broader economy could be significant. The case for going further than the international reform under way is unproven. The economic and market backdrop also suggest that further change may be ill-timed.

RBS's analysis of these issues and constructive proposals regarding a ring-fence are set out in the above referenced response to the Commission, available on the RBS website.

Customer franchises

Central to the Group's strategic plan is the objective of serving our customers well and better. Throughout the last two years our businesses have demonstrated their commitment to making this a firm reality. We continue to execute previously announced programmes and the first half of 2011 saw further examples of that commitment.

Key to all of our businesses is ensuring that customers have access to the products and services they require, where and when they require them. In working to achieve this, many of our businesses have focused on how they can work together to improve the customer experience.

GBM, GTS and UK Corporate have established a cross-business committee to work with customers to develop and deepen the relationships already in place and ensure that customers receive a truly joined-up service from the Group.

During H1 2011 GTS also worked in partnership with Citizens in the US to provide a new, all-in-one, cash management tool to SME customers. The tool is accessed online from a computer or mobile device and was developed as a result of direct feedback from Citizens customers, allowing smaller businesses to improve the efficiency and effectiveness of their everyday cash transactions.

In the UK, UK Corporate's newly launched "Ahead for Business" campaign brings together the services provided by its own relationship managers but also some of those provided by GTS, GBM and UK Retail. For instance, GTS can provide advice and support for UK businesses looking to expand internationally, GBM can carry out foreign exchange transactions on behalf of smaller clients and UK Retail provide the branch network and online capabilities which allow many of UK Corporate's customers to interact with the RBS Group.

Developments in technology have also helped meet our goal of improving the customer experience; the development of an updated iPhone application by UK Retail in H1 2011 allowed customers sight of all their accounts held with RBS or NatWest and provided the capability to make transfers between them. Wealth's continuing use of social media in increasing public awareness of the Coutts brand, and of the products and services on offer was another example. GBM also improved its online research and trading portal in the quarter with innovative tools such as the application for the BlackBerry PlayBook, which provides tailored research to clients on the move.

The Group recognises that there is still progress to be made, but remains committed to improving standards of customer service in all its businesses.

Second quarter results summary (continued)

UK Lending

RBS is committed to supporting its UK customers and the UK economy as a whole. Lending to UK businesses is one way in which the Group provides this support, and in H1 2011 the Group provided a total of £44.2 billion of new lending to UK business customers. This comprised £16.7 billion of gross new loans and facilities to mid and large corporates, £7.2 billion of mid-corporate overdraft renewals, £15.5 billion of gross new loans and facilities to SMEs and £4.8 billion of SME overdraft renewals. RBS continues to make available lending facilities considerably in excess of its market share of UK corporate and SME relationships, highlighting the effectiveness of the Group's efforts to support business customers.

The Group recognised the importance of the overdraft as a source of finance for SMEs when it introduced its Overdraft Price Promise in 2008. Since then, the overdraft price promise has been a significant driver of lending volumes, and over a quarter of gross new lending to SMEs in H1 2011 represented an overdraft renewal or new overdraft facility. Over 90% of SME customers have had their overdrafts renewed at the same or a lower margin, representing a total saving to customers of £250 million.

Demand from mid and large corporates remained robust in the second quarter, with the attractive rates available in the market encouraging many businesses to refinance. This led to strong gross new lending volumes, though repayments were also high. Mid and large corporate drawn balances totalled £52.8 billion at 30 June 2011, compared with £54.5 billion at the end of Q1 2011.

Repayments also continued at elevated levels in the SME segment in Q2 2011, with the result that drawn balances declined during the quarter. In the manufacturing and public administration sectors, however, drawn balances increased, reflecting stronger demand in these sectors. Core SME drawn balances totalled £52.3 billion at 30 June 2011, compared with £53.5 billion at 31 March 2011. Excluding real estate and construction, balances were 1% lower.

Demand for credit from SMEs remains well below pre-crisis levels. The independent SME Finance Monitor survey showed that 81% of SMEs had no plans to borrow in the following three months and only 2% of SMEs cited lack of external finance as the main obstacle to running their business over the same time period. This is reflected in the continued low volumes of applications for new lending received from businesses - 139,000 in H1 2011, down 20% from H1 2010. Approval rates remained above 85% in H1 2011, but overdraft utilisation rates also fell away from the seasonal high in Q1 2011.

The Group is committed to fostering demand and has launched a number of new initiatives, under the banner of "Ahead for Business", designed to ensure that SME customers banking with the Group can be confident in realising their potential. Specific activities include reinforcing the "open for business" message through the provision of funds targeted at specific segments including renewables and franchises. The Group has invested in increasing relationship managers' skills, with over 4,000 relationship managers completing accredited qualifications.

Highlights (continued)

Second quarter results summary (continued)

Outlook
RBS targets continued progress in implementing its restructuring plans. The trajectory of economic recovery and interest rates will influence the pace of R&C profit improvement. GBM seems likely to experience activity levels below those targeted while markets remain anxious. The pattern of regulatory change will also impact industry outlook. Despite these factors the bank will remain focussed on supporting customers, reducing risk and building sustainable profitability.

Analysis of results

Net interest income	Quarter ended 30 June 2011 £m	Quarter ended 31 March 2011 £m	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Net interest income	3,227	3,301	6,528	7,218
Average interest-earning assets	660,548	657,610	658,887	709,910
Net interest margin				
- Group	1.96%	2.04%	2.00%	2.05%
- Core				
- Retail & Commercial (1)	3.22%	3.27%	3.25%	3.06%
- Global Banking & Markets	0.70%	0.76%	0.73%	1.07%
- Non-Core	0.87%	0.90%	0.89%	1.25%

Notes:
(1) Retail & Commercial comprises the UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions.

Key points

Q2 2011 compared with Q1 2011

· Net interest income (NII) fell 2% from Q1 2011, primarily reflecting an income recognition adjustment in UK Corporate in Q1 2011 and higher funding costs, along with the continued run-down of Non-Core assets.

· Group NIM narrowed to 1.96% from 2.04% in the first quarter, or 4 basis points adjusting for the UK Corporate income recognition adjustment of £50 million in Q1 2011. This reflected some tightening of margins in GBM and precautionary Group liquidity and funding strategies given the environment.

· Core Retail & Commercial NIM decreased 5 basis points from Q1 2011 to 3.22%. Excluding the one-off adjustment in UK Corporate of £50 million, Core R&C NIM was stable, 3.22% in Q2 2011 compared with 3.21% underlying in Q1 2011. Asset margins in UK Retail were stable as higher quality, lower loan to value, mortgage lending continued to increase as a proportion of total lending, curtailing further margin expansion. Overall deposit margins held broadly flat quarter on quarter.

H1 2011 compared with H1 2010

· First half net interest income was 10% lower than in 2010, with Group NIM down 5 basis points to 2.00%. Excluding one-off adjustments of £200 million, first half net interest income was 7% lower than in 2010 reflecting lower interest earning assets. Group NIM was stable with strengthening asset margins in Retail & Commercial offsetting a decline in Non-Core and GBM, driven by a reduction in margin on the lending portfolio combined with higher costs of funding and liquidity.

Analysis of results (continued)

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	1,377	1,382	1,474	2,759	2,953
Income from trading activities					
- Asset Protection Scheme credit default swap - fair value charges	(168)	(469)	500	(637)	-
- movements in the fair value of own debt	111	(186)	104	(75)	145
- other	1,204	1,490	1,506	2,694	3,731
Gain on redemption of own debt	255	-	553	255	553
Other operating income					
- strategic disposals	50	(23)	(411)	27	(358)
- movements in the fair value of own debt	228	(294)	515	(66)	305
- other	864	708	242	1,572	846
Non-interest income (excluding insurance net premium income)	3,921	2,608	4,483	6,529	8,175
Insurance net premium income	1,090	1,149	1,278	2,239	2,567
Total non-interest income	5,011	3,757	5,761	8,768	10,742

Key points

Q2 2011 compared with Q1 2011

- Non-interest income increased 33% to £5,011 million. Excluding movements in the fair value of own debt of £339 million, a charge on the APS credit default swap of £168 million, strategic disposals of £50 million, gain on redemption of own debt of £255 million and other adjustments of £1 million, non-interest income fell by 4%, principally reflecting the decline in trading income in GBM after the strong results recorded in Q1 2011. Non-Core, however, recorded gains on a number of securities arising from restructured assets. A gain of £108 million was also recorded on the sale of Group Treasury's remaining shares in Visa.

- A £255 million gain on purchase of own asset securitisation debt was booked in the quarter arising from a liability management exercise by Ulster Bank.

- The decline in insurance net premium income principally reflects the run-off of the legacy insurance book in Non-Core.

Q2 2011 compared with Q2 2010

- Non-interest income decreased by 13% to £5,011 million, principally reflecting lower income from trading activities in GBM, partially offset by the increase in Non-Core gains recognised in the quarter.

- Net premium income in RBS Insurance declined by 8%, reflecting the earned impact of the reduction in the risk of the book and pricing action taken last year, together with the exit of unprofitable partnerships and personal lines broker business.

H1 2011 compared with H1 2010

- Lower non-interest income was driven by the 31% fall in GBM trading income, reflecting buoyant market conditions experienced during the first half of 2010, contrasting with increased client risk aversion as a result of concerns over the Eurozone sovereign debt situation experienced in H1 2011.

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Analysis of results (continued)

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Operating expenses	£m	£m	£m	£m	£m
Staff costs	2,210	2,399	2,365	4,609	5,054
Premises and equipment	602	571	547	1,173	1,082
Other					
- Payment Protection Insurance costs	850	-	-	850	-
- other	902	921	1,022	1,823	2,033
Administrative expenses	4,564	3,891	3,934	8,455	8,169
Depreciation and amortisation					
- amortisation of purchased intangible assets	56	44	85	100	150
- other	397	380	434	777	851
Operating expenses	5,017	4,315	4,453	9,332	9,170
General insurance	793	912	1,348	1,705	2,455
Bancassurance	-	-	(25)	-	4
Insurance net claims	793	912	1,323	1,705	2,459
Staff costs as a % of total income	27%	34%	25%	30%	28%

Key points

Q2 2011 compared with Q1 2011

- Group second quarter costs were up 16%. Excluding Payment Protection Insurance costs of £850 million, amortisation of purchased intangible assets of £56 million, integration and restructuring costs of £209 million and other adjustments of £10 million. Group second quarter costs were down 6%, principally driven by reduced staff costs in GBM, reflecting the division's lower income levels. Retail & Commercial costs were 2% higher, reflecting the phasing of technology project expenditure.

- As previously announced, an £850 million Payment Protection Insurance provision was taken in the quarter. This provision is in addition to an existing provision of £100 million, as well as £100 million already paid out to customers as at 30 June 2011.

Q2 2011 compared with Q2 2010

- Group costs were 13% higher than in Q2 2010, with staff costs 7% lower.

- Insurance net claims fell 40% from the high levels recorded in Q2 2010, which included increased bodily injury reserving.

- The Group cost:income ratio was 61% compared with 61% in Q2 2010. The Core cost:income ratio was 52% compared with 50% in the prior quarter, driven by a fall in GBM income.

H1 2011 compared with H1 2010

- Total expenses were 2% higher than in H1 2010, with Core expenses stable and Non-Core 46% down.

- The Group's Cost Reduction Programme is running ahead of its target to deliver annual savings of £2.5 billion by 2011, as announced in February 2009. Further opportunities to reduce costs and make headroom for new investment continue to be pursued. Savings totalled £1.4 billion in H1 2011 compared with £1.1 billion in H1 2010. The underlying run rate achieved was £2.9 billion per annum.

Analysis of results (continued)

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Impairment losses	£m	£m	£m	£m	£m
Loan impairment losses	2,237	1,898	2,479	4,135	5,081
Securities impairment losses					
- sovereign debt impairment (1)	733	-	-	733	-
- interest rate hedge adjustments on impaired available-for-sale Greek government bonds	109	-	-	109	-
- other	27	49	8	76	81
Group impairment losses	3,106	1,947	2,487	5,053	5,162
Loan impairment losses - customers					
- latent	(188)	(107)	(76)	(295)	(45)
- collectively assessed	591	720	752	1,311	1,593
- individual assessed	1,834	1,285	1,803	3,119	3,533
Loan impairment losses	2,237	1,898	2,479	4,135	5,081
Core	810	852	1,096	1,662	2,046
Non-Core	1,427	1,046	1,383	2,473	3,035
Loan impairment losses	2,237	1,898	2,479	4,135	5,081
Customer loan impairment charge as a % of gross loans and advances (2)					
Group	1.8%	1.5%	1.8%	1.6%	1.8%
Core	0.8%	0.8%	1.0%	0.8%	1.0%
Non-Core	6.0%	4.0%	4.4%	5.2%	4.8%

Notes:

(1) The Group holds Greek government bonds with a notional amount of £1.45 billion. In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of these bonds as a result of Greece's continuing fiscal difficulties. This charge (c.50% of notional) wrote the bonds down to their market price as at 30 June 2011.

The bonds are classified as available-for-sale financial assets and measured at fair value. Under IFRS, when an available-for-sale financial asset is impaired, cumulative losses in other comprehensive income are recycled to profit or loss as an impairment charge. This mark was taken as of 30 June 2011, as called for under IFRS, and does not reflect subsequent events.

On 21 July 2011 proposals to restructure Greek government debt were announced by the Heads of State or Government of the Euro area and EU institutions. These proposals include a voluntary programme of debt exchange for bonds that mature in 2020 or earlier and a buyback plan developed by the Greek government. There are four different instruments in the exchange programme but each will be priced to produce a c.21% net present value loss based on an assumed discount rate of 9%; the Group holds bonds with a notional amount of £941 million that would be eligible for the exchange programme. If the proposals go ahead, the Group could recognise a credit of c.£275 million.

(2) Gross loans and advances to customers include disposal groups and exclude reverse repurchase agreements.

Analysis of results (continued)

Key points

Q2 2011 compared with Q1 2011

- Impairments were £1,159 million higher at £3,106 million. Excluding sovereign debt impairment of £733 million and interest rate hedge adjustments on available-for sale Greek government bonds of £109 million, impairments were £317 million higher at £2,264 million driven by a significant increase in Non-Core, with higher provisions associated with development land values in Ireland and impairments relating to a small number of large corporates. Core impairments were 2% lower than in Q1 2011, with greater stability in Core Ulster Bank and US loan books partially offset by a number of single name corporate impairments in the UK.

- Greece's continuing fiscal difficulties during Q2 2011 drove impairment on the Greek government AFS bond portfolio, resulting in the recycling of £733 million cumulative losses included within the available-for-sale reserve, in the quarter.

- Combined Ulster Bank (Core and Non-Core) impairments, though still elevated, declined slightly to £1,251 million.

Q2 2011 compared with Q2 2010

- Core R&C impairments were 12% lower, with marked improvements in credit metrics for UK and US Retail & Commercial but increased provisions on single corporate exposures.

- The Group impairment charge remained stable as a percentage of loans and advances at 1.8%.

H1 2011 compared with H1 2010

- Group impairment losses were down 2%, with reductions in both Core and Non-Core impairments, partially offset by the impairment on the Greek government AFS bond portfolio.

- The Group impairment charge as a percentage of loans and advances was 20 basis points lower at 1.6%.

Analysis of results (continued)

Capital resources and ratios	30 June 2011	31 March 2011	31 December 2010
Core Tier 1 capital	£48bn	£49bn	£50bn
Tier 1 capital	£58bn	£60bn	£60bn
Total capital	£62bn	£64bn	£65bn
Risk-weighted assets			
- gross	£529bn	£538bn	£571bn
- benefit of the Asset Protection Scheme	(£95bn)	(£98bn)	(£106bn)
Risk-weighted assets	£434bn	£440bn	£465bn
Core Tier 1 ratio (1)	11.1%	11.2%	10.7%
Tier 1 ratio	13.5%	13.5%	12.9%
Total capital ratio	14.4%	14.5%	14.0%

Note:
(1) The benefit of APS in Core Tier 1 ratio is 1.3% at 30 June 2011 (31 March 2011 - 1.3%; 31 December 2010 - 1.2 %).

Key points

- The Core Tier 1 ratio remained strong at 11.1%. The movement in the ratio reflects a small reduction in Core Tier 1 capital driven by the loss in the quarter, partially offset by a modest decline in gross risk-weighted assets, excluding the benefit provided by the APS.

- The APS scheme provided relief equivalent to 1.3% of Core Tier 1.

- GBM risk-weighted assets fell by £7.5 billion from Q1 2011, largely driven by a decrease in market risk as the division managed down its risk positions. Non-Core risk-weighted assets decreased by £3.8 billion as a result of further run-off and disposals in the quarter. These reductions were partially offset by an increase of £4.6 billion in Ulster Bank reflecting the impact of a weak economic environment on credit risk metrics.

Analysis of results (continued)

Balance sheet	30 June 2011	31 March 2011	31 December 2010
Total assets	£1,446bn	£1,413bn	£1,454bn
Funded balance sheet	£1,051bn	£1,052bn	£1,026bn
Loans and advances to customers (1)	£490bn	£494bn	£503bn
Customer deposits (2)	£429bn	£428bn	£429bn
Loan:deposit ratio - Core (3)	96%	96%	96%
Loan:deposit ratio - Group (3)	114%	115%	117%

Notes:
(1) Excluding reverse repurchase agreements and stock borrowing.
(2) Excluding repurchase agreements and stock lending.
(3) Net of provisions.

Key points

· The Group's funded balance sheet remained stable over the quarter at £1,051 billion. Non-Core's funded assets fell by £12 billion in the quarter; the division remains on track to meet the year end target of under £100 billion of funded assets. GBM's funded assets declined £4 billion in the quarter and remain in the middle of the division's target range. Offsetting these decreases was an increase in the holding of Government bonds and increased cash balances held at Central Banks. Liquid assets increased, with the liquidity portfolio now £155 billion.

· Loans and advances to customers fell by £4 billion in the quarter, reflecting further progress in the run-down of Non-Core assets. In Core, loan growth returned to the US Retail & Commercial franchise and balance sheet momentum continued in GTS. Retail & Commercial overall saw a £2 billion (1%) increase in loans and advances.

· The Group loan:deposit ratio was 114% in Q2 2011, improving by 1% from the first quarter and down from 128% in Q2 2010. The Core loan:deposit ratio was 96% in Q2 2011, compared with 96% in Q1 2011 and 102% in Q2 2010.

Further discussion of the Group's funding and liquidity position is included on pages 125 to 133.

Divisional performance

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Operating profit/(loss) by division					
UK Retail	523	508	276	1,031	416
UK Corporate	345	493	390	838	708
Wealth	74	80	81	154	143
Global Transaction Services	164	187	279	351	512
Ulster Bank	(189)	(377)	(177)	(566)	(314)
US Retail & Commercial	127	80	129	207	169
Retail & Commercial	1,044	971	978	2,015	1,634
Global Banking & Markets	446	1,098	750	1,544	2,248
RBS Insurance	139	67	(203)	206	(253)
Central items	47	(43)	49	4	386
Core	1,676	2,093	1,574	3,769	4,015
Non-Core	(858)	(1,040)	(1,324)	(1,898)	(2,883)
	818	1,053	250	1,871	1,132
Reconciling items:					
Fair value of own debt	339	(480)	619	(141)	450
Asset Protection Scheme credit default swap - fair value changes	(168)	(469)	500	(637)	-
Payment Protection Insurance costs	(850)	-	-	(850)	-
Sovereign debt impairment and related interest rate hedge adjustments	(842)	-	-	(842)	-
Amortisation of purchased intangible costs	(56)	(44)	(85)	(100)	(150)
Integration and restructuring costs	(208)	(145)	(254)	(353)	(422)
Gain on redemption of own debt	255	-	553	255	553
Strategic disposals	50	(23)	(411)	27	(358)
Other	(16)	(8)	2	(24)	(36)
Group operating (loss)/profit	(678)	(116)	1,174	(794)	1,169

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Impairment losses/(recoveries) by division					
UK Retail	208	194	300	402	687

UK Corporate	218	105	198	323	384
Wealth	3	5	7	8	11
Global Transaction Services	54	20	3	74	3
Ulster Bank	269	461	281	730	499
US Retail & Commercial	66	110	144	176	287
Retail & Commercial	818	895	933	1,713	1,871
Global Banking & Markets	37	(24)	164	13	196
Central items	(2)	1	-	(1)	1
Core	853	872	1,097	1,725	2,068
Non-Core	1,411	1,075	1,390	2,486	3,094
Impairment losses	2,264	1,947	2,487	4,211	5,162
Reconciling item:					
Sovereign debt impairment and related interest rate hedge adjustments	842	-	-	842	-
Group impairment losses	3,106	1,947	2,487	5,053	5,162

Divisional performance (continued)

	Quarter ended			Half year ended	
	30 June 2011 %	31 March 2011 %	30 June 2010 %	30 June 2011 %	30 June 2010 %
Net interest margin by division					
UK Retail	4.00	4.04	3.89	4.02	3.80
UK Corporate	2.55	2.73	2.51	2.64	2.46
Wealth	3.61	3.45	3.37	3.53	3.40
Global Transaction Services	5.63	5.91	6.49	5.77	7.16
Ulster Bank	1.69	1.72	1.92	1.71	1.86
US Retail & Commercial	3.11	3.01	2.79	3.06	2.76
Retail & Commercial	3.22	3.27	3.11	3.25	3.06
Global Banking & Markets	0.70	0.76	1.01	0.73	1.07
Non-Core	0.87	0.90	1.23	0.89	1.25
Group net interest margin	1.96	2.04		2.00	2.05

	30 June 2011 £bn	31 March 2011 £bn	Change	31 December 2010 £bn	Change
Risk-weighted assets by division					
UK Retail	49.5	50.3	(2%)	48.8	1%
UK Corporate	77.9	79.3	(2%)	81.4	(4%)
Wealth	12.9	12.6	2%	12.5	3%
Global Transaction Services	18.8	18.2	3%	18.3	3%
Ulster Bank	36.3	31.7	15%	31.6	15%
US Retail & Commercial	54.8	53.6	2%	57.0	(4%)
Retail & Commercial	250.2	245.7	2%	249.6	-
Global Banking & Markets	139.0	146.5	(5%)	146.9	(5%)
Other	11.8	14.5	(19%)	18.0	(34%)
Core	401.0	406.7	(1%)	414.5	(3%)
Non-Core	124.7	128.5	(3%)	153.7	(19%)
Group before benefit of Asset Protection Scheme	525.7	535.2	(2%)	568.2	(7%)
Benefit of Asset Protection Scheme	(95.2)	(98.4)	(3%)	(105.6)	(10%)
Group before RFS Holdings minority interest	430.5	436.8	(1%)	462.6	(7%)
RFS Holdings minority interest	3.0	2.9	3%	2.9	3%

Group	433.5	439.7	(1%)	465.5	(7%)

For the purposes of the divisional return on equity ratios, notional equity has been calculated as a percentage of the monthly average of divisional risk-weighted assets, adjusted for capital deductions. Currently, 9% has been applied to the Retail & Commercial divisions and 10% to Global Banking & Markets. However, these will be subject to modification as the final Basel III rules and ICB recommendations are considered.

Divisional performance (continued)

Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)	30 June 2011	31 March 2011	31 December 2010
UK Retail	27,900	28,100	28,200
UK Corporate	13,400	13,100	13,100
Wealth	5,500	5,400	5,200
Global Transaction Services	2,700	2,700	2,600
Ulster Bank	4,300	4,300	4,200
US Retail & Commercial	15,200	15,400	15,700
Retail & Commercial	69,000	69,000	69,000
Global Banking & Markets	19,000	18,700	18,700
RBS Insurance	14,600	14,900	14,500
Group Centre	5,100	4,800	4,700
Core	107,700	107,400	106,900
Non-Core	6,300	6,700	6,900
	114,000	114,100	113,800
Business Services	33,500	34,100	34,400
Integration	800	300	300
Group	148,300	148,500	148,500

UK Retail

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Income statement					
Net interest income	1,086	1,076	1,001	2,162	1,934
Net fees and commissions	295	270	280	609	553
Other non-interest income	38	34	17	28	90
Non-interest income	333	304	297	637	643
Total income	1,419	1,380	1,298	2,799	2,577
Direct expenses					
- staff	(218)	(215)	(230)	(433)	(455)
- other	(106)	(113)	(142)	(219)	(275)
Indirect expenses	(364)	(350)	(375)	(714)	(740)
	(688)	(678)	(747)	(1,366)	(1,470)
Insurance net claims	-	-	25	-	(4)
Impairment losses	(208)	(194)	(300)	(402)	(687)
Operating profit	523	508	276	1,031	416
Analysis of income by product					
Personal advances	278	275	236	553	470
Personal deposits	257	254	277	511	554
Mortgages	581	543	478	1,124	900
Cards	243	238	239	481	468
Other, including bancassurance	60	70	93	130	181
Total income	1,419	1,380	1,323	2,799	2,573
Analysis of impairments by sector					
Mortgages	55	61	44	116	92
Personal	106	95	168	201	401
Cards	47	38	88	85	194
Total impairment losses	208	194	300	402	687

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.2%	0.3%	0.2%	0.2%	0.2%
Personal	3.9%	3.3%	5.3%	3.7%	6.3%
Cards	3.4%	2.7%	5.9%	3.0%	6.5%
Total	0.8%	0.7%	1.1%	0.7%	1.3%

UK Retail (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	27.6%	26.2%	14.3%	26.9%	10.7%
Net interest margin	4.00%	4.04%	3.89%	4.02%	3.80%
Cost:income ratio	48%	49%	58%	49%	57%

	30 June 2011 £bn	31 March 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	94.0	93.0	1%	90.6	4%
- personal	10.8	11.4	(5%)	11.7	(8%)
- cards	5.6	5.6	-	6.1	(8%)
	110.4	110.0	-	108.4	2%
Customer deposits (excluding bancassurance)	95.9	96.1	-	96.1	-
Assets under management (excluding deposits)	5.8	5.8	-	5.7	2%
Risk elements in lending	4.6	4.6	-	4.6	-
Loan:deposit ratio (excluding repos)	112%	112%	-	110%	200bp
Risk-weighted assets	49.5	50.3	(2%)	48.8	1%

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points
During Q2 2011, UK Retail continued to focus on becoming the most helpful and sustainable bank in the UK. Specifically, the division increased its online functionality and developed the first iPad Banking application by a UK high-street bank and an enhanced iPhone application based on direct customer feedback. The division also simplified the overall product offering to more effectively meet the needs of customers.

Improved customer satisfaction metrics over the first half of 2011 suggest that progress is being made, but the division recognises that there is still more to do.

UK Retail also recognises the need to support improvements in customer service with internal business improvements and, during the first half of 2011, continued with a major investment programme aimed at providing staff with the training and tools necessary to achieve the strategic goals of the division.

UK Retail (continued)

Key points (continued)

Q2 2011 compared with Q1 2011

- Operating profit of £523 million in Q2 2011 was £15 million higher than in the previous quarter. Growth in income of 3%, £39 million was partly offset by an increase in costs of 1% (£10 million) and impairment losses of 7%, £14 million. Return on equity was 27.6% compared with 26.2% in Q1 2011.

- UK Retail continued to drive growth in secured lending.

  o Mortgage balances increased 1% on Q1 2011. RBS's share of gross new lending remained strong at 10% in the quarter and continues to perform above our share of stock at 8%.

  o Unsecured lending fell 4% in the quarter, in line with the Group's continued focus on lower risk secured lending.

  o Total deposits remained flat in the quarter due to continued strong competition in the marketplace.

  o The loan to deposit ratio at 30 June 2011 remained flat at 112%.

- Net interest income increased marginally in the quarter with slower volume growth and net interest margin declining 4 basis points to 4.00%. The overall asset margin remained stable as higher quality, lower loan to value, mortgage lending continued to increase as a proportion of total lending, curtailing further margin expansion in the quarter. The liability margin continued to contract modestly due to continued lower long-term swap rate returns on current account balances.

- Non-interest income increased by 10% on Q1 2011 driven by an increase in transactional fees and investment related sales partly due to seasonal factors.

- Overall expenses increased by 1%, £10 million quarter on quarter. Direct costs fell by 1%, £4 million due to reductions in fraud charges in the quarter and efficiency benefits partly offset by an annual wage award increasing staff costs. Indirect costs were up 4%, £14 million due to increased investment and the additional cost of regulatory requirements.

- Impairment losses increased by 7%, £14 million during the period.

  o Mortgage impairment losses were £55 million on a total book of £94 billion, a £6 million reduction quarter on quarter. The charge included £35 million on the already defaulted book reflecting continued difficult market conditions for cash recovery, and also customer forbearance(1). Arrears rates were stable and remained below the Council of Mortgage Lenders industry average.

  o The unsecured portfolio impairment charge increased 15% to £153 million, on a book of £16 billion. Underlying default levels remained broadly flat quarter on quarter; however, a provision surplus release in Q2 2011 was lower than in Q1 2011. Industry benchmarks for cards arrears remain stable, with RBS continuing to perform better than the market.

- Risk-weighted assets decreased 2% in the quarter, primarily reflecting improved quality and lower volume within the unsecured portfolio partly offset by volume growth in lower risk secured mortgages.

Note:
(1) For further details see page 139.

UK Retail (continued)

Key points (continued)

Q2 2011 compared with Q2 2010

- Operating profit increased by £247 million, with income up 9%, costs down 8% and impairments 31% lower than in Q2 2010.
- Net interest income was 8% higher than Q2 2010, with strong mortgage balance growth and recovering asset margins across all products, partially offset by continued competitive pressure on liability margins.
- Costs were 8% lower than in Q2 2010 due to continued implementation of process efficiencies throughout the branch network and operational centres. The cost:income ratio improved from 58% to 48%.
- Impairment losses decreased by 31% on Q2 2010, primarily reflecting the impact of risk appetite tightening and unsecured book contraction as well as a more stable economic environment.
- Savings balances were up 10% on Q2 2010, outperforming the market which remains highly competitive.

H1 2011 compared with H1 2010

- Net interest income was 12% higher, with net interest margin increasing by 22 basis points. This was driven by stronger asset margins seen across all products. Liability margins, however, fell as a result of a competitive marketplace, a decline in long-term swap rates and a focus on savings balance growth.
- Total customer lending grew 4% from H1 2010 with mortgage balances increasing 8%, whilst unsecured balances reduced 13%. Deposit balances grew 7% with savings deposits up 10%.
- Costs decreased by 7%, with the majority of savings coming from a reduction in direct costs as a result of operational efficiencies.
- Impairment losses fell 41% in H1 2011, again reflecting the impact of risk appetite tightening and a more stable economic environment.

UK Corporate

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income	641	689	647	1,330	1,257
Net fees and commissions	231	244	233	475	457
Other non-interest income	94	88	107	182	212
Non-interest income	325	332	340	657	669
Total income	966	1,021	987	1,987	1,926
Direct expenses					
- staff	(199)	(202)	(189)	(401)	(394)
- other	(71)	(90)	(82)	(161)	(185)
Indirect expenses	(133)	(131)	(128)	(264)	(255)
	(403)	(423)	(399)	(826)	(834)
Impairment losses	(218)	(105)	(198)	(323)	(384)
Operating profit	345	493	390	838	708
Analysis of income by business					
Corporate and commercial lending	666	729	660	1,395	1,290
Asset and invoice finance	163	152	154	315	288
Corporate deposits	171	170	185	341	361
Other	(34)	(30)	(12)	(64)	(13)
Total income	966	1,021	987	1,987	1,926
Analysis of impairments by sector					
Banks and financial institutions	13	3	(9)	16	(7)
Hotels and restaurants	13	8	12	21	28
Housebuilding and construction	15	32	8	47	22
Manufacturing	6	6	2	12	8
Other	89	1	83	90	120
Private sector education, health, social work, recreational and community services	1	11	-	12	8
Property	51	18	61	69	127

Wholesale and retail trade, repairs	16	16	28	32	46
Asset and invoice finance	14	10	13	24	32
Total impairment losses	218	105	198	323	384

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UK Corporate (continued)

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Banks and financial institutions	0.9%	0.2%	(0.6%)	0.5%	(0.2%)
Hotels and restaurants	0.8%	0.5%	0.7%	0.6%	0.8%
Housebuilding and construction	1.4%	2.8%	0.7%	2.2%	0.9%
Manufacturing	0.5%	0.5%	0.1%	0.5%	0.3%
Other	1.1%	-	1.0%	0.6%	0.7%
Private sector education, health, social work, recreational and community services	-	0.5%	0.2%	0.3%	0.2%
Property	0.7%	0.2%	0.8%	0.5%	0.8%
Wholesale and retail trade, repairs	0.7%	0.7%	1.1%	0.7%	0.9%
Asset and invoice finance	0.6%	0.4%	0.6%	0.5%	0.7%
Total	0.8%	0.4%	0.7%	0.6%	0.7%

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	12.3%	15.8%	12.5%	14.0%	11.2%
Net interest margin	2.55%	2.73%	2.51%	2.64%	2.46%
Cost:income ratio	42%	41%	40%	42%	43%

	30 June 2011 £bn	31 March 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	113.6	115.0	(1%)	114.6	(1%)
Loans and advances to customers (gross)					
- banks and financial institutions	5.9	6.0	(2%)	6.1	(3%)
- hotels and restaurants	6.5	6.7	(3%)	6.8	(4%)
- housebuilding and construction	4.2	4.5	(7%)	4.5	(7%)
- manufacturing	4.9	5.1	(4%)	5.3	(8%)
- other	32.2	31.8	1%	31.0	4%
- private sector education, health, social	8.8	8.9	(1%)	9.0	(2%)

work, recreational and community services					
- property	29.2	30.2	(3%)	29.5	(1%)
- wholesale and retail trade, repairs	9.2	9.5	(3%)	9.6	(4%)
- asset and invoice finance	9.9	9.8	1%	9.9	-
	110.8	112.5	(2%)	111.7	(1%)
Customer deposits	99.5	100.6	(1%)	100.0	(1%)
Risk elements in lending	4.8	4.6	4%	4.0	20%
Loan:deposit ratio (excluding repos)	109%	110%	(100bp)	110%	(100bp)
Risk-weighted assets	77.9	79.3	(2%)	81.4	(4%)

Note:
(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

UK Corporate (continued)

Key points
UK Corporate continues to improve the ways it adds value for its customers, while building solid business foundations for sustainable growth.

Q2 2011 saw the launch of ‘Ahead for Business’, underpinning the division’s SME customer promise: “by doing business with us our customers can be confident that they can realise their ambitions”.

Specific activities supporting the delivery of the initiative include all SME relationship managers (RMs) undergoing formal accreditation to enable them to better support the division’s customers. RMs will also spend two days a year working in SME customers’ businesses, amounting to over 5,000 visits this year.

In addition, UK Corporate reinforced the ‘open for business’ message through the launch of a number of lending initiatives, including the Franchise Fund and the Renewable Energy Fund.

The division’s launch of propositions tailored to the needs of specific customer groups continues to deliver success in start-ups, with over 50,000 new start-ups added as customers in H1 2011, and in businesses run by women. In addition, the recently launched partnership with Smarta means customers can now access a suite of business tools at low or no cost.

Furthermore, UK Corporate’s expanded investment programme is focused on strengthening the business overall while also delivering tangible benefits to its customers. For example, the recent launch of automatic credit decisioning strengthens risk disciplines and shortens the time it takes to make lending decisions.

Q2 2011 compared with Q1 2011

- Operating profit of £345 million was 30% lower, predominantly driven by the one-off favourable impact of the revision of deferred fee income recognition assumptions in Q1 2011 (£50 million) and the release of latent provisions of £108 million in the same period.

- Net interest income fell by 7%, significantly impacted by the revision of income deferral assumptions in Q1 2011, leading to a reduction in net interest margin of 18 basis points. Adjusting for the impact of this change in assumptions in Q1 2011, lending income in Q2 2011 increased 1% while net interest margin improved by 1 basis point.

- Non-interest income declined 2% with increased operating lease activity and profit on sale of assets partially offsetting lower Global Banking & Markets revenue share income.

- Total costs decreased 5% primarily driven by a successful recovery of an operating loss exposure provided for in Q1 2011.

- Impairments increased £113 million as a result of lower releases of latent provisions and higher specific impairments, albeit limited to a small number of exposures.

UK Corporate (continued)

Key points (continued)

Q2 2011 compared with Q2 2010

- Operating profit decreased 12% to £345 million, with improved lending margins offset by higher funding costs and impairments.

- Net interest income remained broadly in line with Q2 2010, whilst the net interest margin increased 4 basis points as a result of re-pricing of the loan portfolio. The net funding position improved £8 billion, reflecting successful deposit-gathering initiatives.

- Non-interest income decreased by £15 million, reflecting lower GBM revenue share income partially offset by asset disposal gains.

- Impairments increased £20 million, reflecting higher specific impairments partially offset by an improvement in collectively assessed balances.

H1 2011 compared with H1 2010

- Operating profit increased by £130 million, 18%, driven by re-pricing of the lending portfolio, revised deferred income recognition and lower impairments partially offset by higher costs of funding.

- Excluding the deferred fee impact of £50 million recognised in H1 2011, net interest income increased £23 million and net interest margin improved 7 basis points with gains from re-pricing only partially offset by deposit margin pressure. The loan to deposit ratio improved from 119% to 109% due to strong growth in customer deposits.

- Non-interest income decreased by 2%. Investment disposal gains and increased operating lease activity were offset by lower GBM revenue share income.

- Total costs decreased £8 million, 1%, but increased 3% excluding the £29 million OFT penalty in Q1 2010, reflecting the investment in strategic initiatives and increased operating lease activity in H1 2011.

- Impairments of £323 million were 16% lower than H1 2010, the result of improved book quality and credit metrics slightly offset by a small number of specific provisions.

Wealth

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Income statement					
Net interest income	182	167	150	349	293
Net fees and commissions	94	97	97	191	192
Other non-interest income	21	17	19	38	36
Non-interest income	115	114	116	229	228
Total income	297	281	266	578	521
Direct expenses					
- staff	(111)	(100)	(92)	(211)	(191)
- other	(51)	(44)	(39)	(95)	(74)
Indirect expenses	(58)	(52)	(47)	(110)	(102)
	(220)	(196)	(178)	(416)	(367)
Impairment losses	(3)	(5)	(7)	(8)	(11)
Operating profit	74	80	81	154	143
Analysis of income					
Private banking	245	231	216	476	420
Investments	52	50	50	102	101
Total income	297	281	266	578	521

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	17.4%	19.0%	20.1%	18.2%	18.1%
Net interest margin	3.61%	3.45%	3.37%	3.53%	3.40%
Cost:income ratio	74%	70%	67%	72%	70%

	30 June 2011	31 March	31 December

		2011		2010	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.2	7.8	5%	7.8	5%
- personal	7.0	7.0	-	6.7	4%
- other	1.6	1.7	(6%)	1.6	-
	16.8	16.5	2%	16.1	4%
Customer deposits	37.3	37.5	(1%)	36.4	2%
Assets under management (excluding deposits)	34.3	34.4	-	32.1	7%
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	45%	44%	100bp	44%	100bp
Risk-weighted assets	12.9	12.6	2%	12.5	3%

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Wealth (continued)

Key points
Following the Q1 2011 announcement of a new set of goals and strategic plans, Wealth advanced the execution of these plans during the second quarter with significant changes implemented.

The global market footprint has been adjusted to increase focus on territories where Wealth has scale or the opportunity for strategic future growth while, in the UK, the business has focused on ensuring services provided more closely meet the specific needs of different client groups and remain of a consistently high quality. On the product side new product propositions are being developed to meet the needs of UK and international clients with more sophisticated investment and credit requirements. Internally, Wealth continues with a programme to develop talent at all levels of the organisation. The division is also putting in place a launch plan to bring the Coutts business in the UK, and RBS Coutts, under one global 'Coutts' brand.

The division is increasing its focus on technology innovation, with implementation of a new IT platform in the UK continuing. The business is exploring additional opportunities to bring new innovation to the client interface with a view to improving the client experience, enhance the interaction between clients and the bank and provide advisers with improved ability to collaborate and serve client needs.

Q2 2011 compared with Q1 2011

- Operating profit in the second quarter declined £6 million on the prior quarter as good income growth was more than offset by an increase in expenses, largely reflecting the continued investment programme within the division.

- Income increased £16 million quarter on quarter with a 9% rise in net interest income. There was significant growth in treasury income and lending margins continued their upward trajectory with a further 6 basis point improvement. Deposit margins made a slight recovery and average deposit balances grew by 3%. These contributed to a 16 basis point increase in net interest margin.

- Expenses increased 12% to £220 million, primarily driven by continued investment in strategic initiatives, including technology development and implementation, as well as by investment in regulatory programmes and further recruitment of private bankers.

- Lending volumes maintained impetus with a 2% growth in loans. Assets under management were stable quarter on quarter as 2% growth in net new business was offset by adverse market and foreign exchange movements. Deposits were also stable quarter on quarter although average balances were higher.

Q2 2011 compared with Q2 2010

- Q2 2011 operating profit declined 9% on prior year to £74 million. An increase in expenses was only partially offset by increased income and a reduction in impairments.

- Income increased by £31 million, with a 24 basis point improvement in net interest margin. Lending volumes and margins continued to grow whilst deposit margin compression was offset by a 3% growth in deposit volumes and increased internal reward for the divisional funding surplus.

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Expenses rose £42 million with a 10% increase in headcount reflecting continued recruitment following previous private banker attrition and significant investment in strategic initiatives. Changes in the phasing of bonus expense accounted for £7 million of the increase in the expense base.

Wealth (continued)

Key points (continued)

Q2 2011 compared with Q2 2010 (continued)

· Client assets and liabilities managed by the division increased by 9%. The division has managed to significantly increase assets under management with balances, adjusted for definitional changes, growing 8%.

H1 2011 compared with H1 2010

· H1 2011 operating profit of £154 million increased 8% on H1 2010 reflecting strong growth in client assets and liabilities managed by the division and improved net interest margin.

· Income, at £578 million, was 11% higher, reflecting strong growth in treasury income and sustained improvements in lending margin and volume.

· Expenses increased by £49 million to £416 million reflecting additional strategic investment and headcount growth to service the increased revenue base.

· Lending volumes maintained strong growth momentum and the deposit base increased despite the continued competitive markets for deposits.

Global Transaction Services

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Income statement					
Net interest income	263	260	237	523	454
Non-interest income	297	282	411	579	801
Total income	560	542	648	1,102	1,255
Direct expenses					
- staff	(95)	(96)	(102)	(191)	(206)
- other	(32)	(29)	(37)	(61)	(70)
Indirect expenses	(215)	(210)	(227)	(425)	(464)
	(342)	(335)	(366)	(677)	(740)
Impairment losses	(54)	(20)	(3)	(74)	(3)
Operating profit	164	187	279	351	512
Analysis of income by product					
Domestic cash management	217	212	201	429	395
International cash management	215	211	193	426	378
Trade finance	78	73	76	151	147
Merchant acquiring	4	3	133	7	248
Commercial cards	46	43	45	89	87
Total income	560	542	648	1,102	1,255

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	27.0%	30.8%	45.0%	28.9%	40.3%
Net interest margin	5.63%	5.91%	6.49%	5.77%	7.16%
Cost:income ratio	61%	62%	56%	61%	59%

30 June 2011	31 March	31 December 2010

		2011			
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Total third party assets	30.2	27.1	11%	25.2	20%
Loans and advances	19.2	17.2	12%	14.4	33%
Customer deposits	73.3	69.3	6%	69.9	5%
Risk elements in lending	0.3	0.2	50%	0.1	200%
Loan:deposit ratio (excluding repos)	26%	25%	100bp	21%	500bp
Risk-weighted assets	18.8	18.2	3%	18.3	3%

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

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Global Transaction Services (continued)

Key points

Global Transaction Services (GTS) maintained momentum during Q2 2011 delivering a strong deposit gathering performance and growth across all product areas, demonstrating the division's commitment to deliver working capital solutions for customers.

Building on the successes of the first quarter, GTS has enhanced its online trade capability MaxTrad to streamline workflows and simplify the process for clients. The ongoing support to UK companies, helping them to trade internationally, has been enhanced through the launch of a new international website and participation in UK Government-backed joint initiatives.

Q2 2011 compared with Q1 2011

- Operating profit decreased 12%, driven by a single name impairment provision recognised in Q2 2011.

- Income increased by 3% with good performance across all product lines.

- Expenses increased by 2%, largely due to investment in technology and support infrastructure.

- Q2 2011 impairment losses of £54 million largely related to a single provision.

- Third party assets increased by £3.1 billion, driven mainly by strong growth in trade financing combined with an uplift in short-term international cash management overdrafts.

Q2 2011 compared with Q2 2010

- Operating profit fell 41%, in part reflecting the sale of Global Merchant Services (GMS), which completed on 30 November 2010. Adjusting for the disposal operating profit decreased 24%, driven by a single name provision recognised in Q2 2011.

- Excluding GMS (£130 million), income increased by 8% supported by the strengthening of deposit gathering initiatives.

- Customer deposits increased by 17% to £73.3 billion reflecting strong deposit volumes in domestic and international cash management, despite a challenging competitive environment.

- Third party assets increased by £5 billion due to strong growth in trade financing.

- During Q2 2010, GMS recorded income of £130 million, total expenses of £66 million and an operating profit of £64 million.

H1 2011 compared with H1 2010

- Operating profit decreased 31%, primarily due to the sale of GMS in November 2010. Adjusting for the disposal operating profit fell 12% driven by a single name provision recognised in H1 2011.

- Excluding GMS (£243 million), income was up 9% reflecting strong deposit volumes in domestic and international cash management together with an improved performance in trade and commercial cards.

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Excluding GMS (£128 million), expenses increased by 11%, due to business improvement initiatives and investment in technology and support infrastructure.

· During H1 2010, GMS recorded income of £243 million, total expenses of £128 million and an operating profit of £115 million.

Ulster Bank

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Income statement					
Net interest income	171	169	194	340	382
Net fees and commissions	37	36	43	73	78
Other non-interest income	14	15	10	29	28
Non-interest income	51	51	53	102	106
Total income	222	220	247	442	488
Direct expenses					
- staff	(57)	(56)	(60)	(113)	(126)
- other	(17)	(18)	(20)	(35)	(39)
Indirect expenses	(68)	(62)	(63)	(130)	(138)
	(142)	(136)	(143)	(278)	(303)
Impairment losses	(269)	(461)	(281)	(730)	(499)
Operating loss	(189)	(377)	(177)	(566)	(314)
Analysis of income by business					
Corporate	117	113	134	230	279
Retail	98	113	105	211	217
Other	7	(6)	8	1	(8)
Total income	222	220	247	442	488
Analysis of impairments by sector					
Mortgages	78	233	33	311	66
Corporate					
- property	66	97	117	163	199
- other corporate	103	120	118	223	209
Other lending	22	11	13	33	25
Total impairment losses	269	461	281	730	499

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	1.4%	4.3%	0.9%	2.9%	0.9%
Corporate					
- property	5.0%	7.2%	4.9%	6.2%	4.2%
- other corporate	4.7%	5.5%	4.8%	5.1%	4.2%
Other lending	5.5%	2.8%	2.7%	4.1%	2.6%
Total	2.9%	5.0%	3.1%	3.9%	2.8%

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Ulster Bank (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	(19.7%)	(41.9%)	(19.3%)	(30.5%)	(17.1%)
Net interest margin	1.69%	1.72%	1.92%	1.71%	1.86%
Cost:income ratio	64%	62%	58%	63%	62%

	30 June 2011 £bn	31 March 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	21.8	21.5	1%	21.2	3%
- corporate					
- property	5.3	5.4	(2%)	5.4	(2%)
- other corporate	8.7	8.8	(1%)	9.0	(3%)
- other lending	1.6	1.5	7%	1.3	23%
	37.4	37.2	1%	36.9	1%
Customer deposits	24.3	23.8	2%	23.1	5%
Risk elements in lending					
- mortgages	2.0	1.8	11%	1.5	33%
- corporate					
- property	1.1	1.0	10%	0.7	57%
- other corporate	1.8	1.6	13%	1.2	50%
- other lending	0.2	0.2	-	0.2	-
	5.1	4.6	11%	3.6	42%
Loan:deposit ratio (excluding repos)	144%	147%	(300bp)	152%	(800bp)
Risk-weighted assets	36.3	31.7	15%	31.6	15%
Spot exchange rate - €/£	1.106	1.131		1.160	

Note:
(1) Divisional return on equity is based on divisional operating loss after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points

Macroeconomic conditions continue to be the key driver of Ulster Bank's results. However, further progress is being made on economic, political and regulatory reform in the Republic of Ireland and recent trends suggest a more positive medium-term outlook, although key risks remain.

Ulster Bank continues to focus on the long-term recovery of the business. Deposit gathering, management of the cost base and capitalising on emerging market opportunities all remain priorities. Ulster Bank has also recently published the first, independently assured, report on progress made in achieving its Customer Commitments. Good progress has been made so far, with work ongoing to address areas that need further improvement.

Ulster Bank (continued)

Key points (continued)

Q2 2011 compared with Q1 2011

- Operating loss of £189 million in Q2 2011 decreased by £188 million compared with Q1 2011, primarily driven by a reduction in impairment losses.

- Net interest income increased by 1%, largely due to the income drag of the impaired loan book, offset by movements in exchange rates. Net interest margin fell by 3 basis points to 1.69%.

- Loans and advances to customers increased by 1% due to continued amortisation, offset by movements in exchange rates. Customer deposits remained largely stable despite challenging market conditions, reflecting the continued uncertainty around the Republic of Ireland's sovereign debt position.

- Expenses increased by 4% in the quarter, largely reflecting a write-down in the value of own property assets.

- Impairment losses for Q2 2011 of £269 million were £192 million lower than Q1 2011, which included an adjustment in respect of recalibration of credit metrics in relation to the mortgage portfolio. However, credit conditions in Ireland will remain challenging with continued downward pressure on asset values coupled with rising interest rates maintaining pressure on borrowers.

- Risk-weighted assets increased by £4.6 billion, reflecting the continued weak credit environment and resultant impact on credit risk metrics.

Q2 2011 compared with Q2 2010

- Net interest income fell by 12%, reflecting higher funding costs, partly offset by loan repricing initiatives. Non interest income fell by 4% largely reflecting the loss of income from the merchant services business, disposed of in Q4 2010.

- Loans to customers increased by 3%, reflecting subdued demand for new business, offset by movements in exchange rates. Customer deposits were flat over the period with strong growth in core franchise deposits offset by lower wholesale balances.

- Expenses were broadly flat over the period, as expense reductions over the period largely offset the property write-down in Q2 2011.

- Risk-weighted assets increased by £5.8 billion driven by worsened portfolio risk metrics.

H1 2011 compared with H1 2010

- Operating loss of £566 million was £252 million higher than H1 2010, largely driven by an increase in impairment losses reflecting the deterioration in customer credit quality.

- Total income fell by 9%, reflecting higher funding costs and the high cost of deposit gathering.

- Expenses decreased by 8% due to active management of the cost base with a focus on reducing discretionary expenditure.

US Retail & Commercial (£ Sterling)

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Income statement					
Net interest income	469	451	502	920	970
Net fees and commissions	185	170	203	355	380
Other non-interest income	61	73	72	134	147
Non-interest income	246	243	275	489	527
Total income	715	694	777	1,409	1,497
Direct expenses					
- staff	(205)	(197)	(151)	(402)	(366)
- other	(135)	(124)	(163)	(259)	(297)
Indirect expenses	(182)	(183)	(190)	(365)	(378)
	(522)	(504)	(504)	(1,026)	(1,041)
Impairment losses	(66)	(110)	(144)	(176)	(287)
Operating profit	127	80	129	207	169
Average exchange rate - US$/£	1.631	1.601	1.492	1.616	1.525
Analysis of income by product					
Mortgages and home equity	108	109	124	217	239
Personal lending and cards	108	107	122	215	236
Retail deposits	231	216	248	447	474
Commercial lending	147	137	152	284	294
Commercial deposits	72	69	86	141	167
Other	49	56	45	105	87
Total income	715	694	777	1,409	1,497
Analysis of impairments by sector					
Residential mortgages	13	6	22	19	41
Home equity	11	40	38	51	44
Corporate and commercial	22	17	76	39	125
Other consumer	9	20	7	29	63
Securities	11	27	1	38	14

Total impairment losses	66	110	144	176	287
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.9%	0.4%	1.3%	0.7%	1.2%
Home equity	0.3%	1.1%	0.9%	0.7%	0.5%
Corporate and commercial	0.4%	0.3%	1.5%	0.4%	1.2%
Other consumer	0.6%	1.3%	0.3%	0.9%	1.6%
Total	0.5%	0.7%	1.1%	0.6%	1.1%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	6.8%	4.4%	5.7%	5.6%	3.8%
Net interest margin	3.11%	3.01%	2.79%	3.06%	2.76%
Cost:income ratio	73%	72%	65%	73%	69%

	30 June 2011 £bn	31 March 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	70.9	70.6	-	71.2	-
Loans and advances to customers (gross)					
- residential mortgages	5.7	5.6	2%	6.1	(7%)
- home equity	14.6	14.7	(1%)	15.2	(4%)
- corporate and commercial	21.3	20.2	5%	20.4	4%
- other consumer	6.3	6.4	(2%)	6.9	(9%)
	47.9	46.9	2%	48.6	(1%)
Customer deposits (excluding repos)	56.5	56.7	-	58.7	(4%)
Risk elements in lending					
- retail	0.5	0.5	-	0.4	25%
- commercial	0.4	0.5	(20%)	0.5	(20%)
	0.9	1.0	(10%)	0.9	-
Loan:deposit ratio (excluding repos)	83%	81%	200bp	81%	200bp
Risk-weighted assets	54.8	53.6	2%	57.0	(4%)
Spot exchange rate - US$/£	1.607	1.605		1.552	

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points
- Sterling strengthened relative to the US dollar during the second quarter, with the average exchange rate increasing by 2% compared with Q1 2011.

- Performance is described in full in the US dollar-based financial statements set out on pages 41 to 42.

US Retail & Commercial (US Dollar)

	Quarter ended			Half year ended	
	30 June 2011 $m	31 March 2011 $m	30 June 2010 $m	30 June 2011 $m	30 June 2010 $m
Income statement					
Net interest income	764	723	748	1,487	1,478
Net fees and commissions	301	273	303	574	579
Other non-interest income	100	116	110	216	226
Non-interest income	401	389	413	790	805
Total income	1,165	1,112	1,161	2,277	2,283
Direct expenses					
- staff	(335)	(315)	(223)	(650)	(558)
- other	(220)	(198)	(246)	(418)	(453)
Indirect expenses	(297)	(293)	(283)	(590)	(576)
	(852)	(806)	(752)	(1,658)	(1,587)
Impairment losses	(107)	(177)	(214)	(284)	(438)
Operating profit	206	129	195	335	258
Analysis of income by product					
Mortgages and home equity	175	175	185	350	365
Personal lending and cards	176	171	182	347	360
Retail deposits	377	346	372	723	723
Commercial lending	240	219	226	459	448
Commercial deposits	118	110	128	228	254
Other	79	91	68	170	133
Total income	1,165	1,112	1,161	2,277	2,283
Analysis of impairments by sector					
Residential mortgages	21	9	33	30	63
Home equity	19	64	56	83	66
Corporate and commercial	35	28	113	63	190
Other consumer	16	33	10	49	97
Securities	16	43	2	59	22
Total impairment losses	107	177	214	284	438

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.9%	0.4%	1.3%	0.7%	1.3%
Home equity	0.3%	1.1%	0.9%	0.7%	0.5%
Corporate and commercial	0.4%	0.3%	1.5%	0.4%	1.2%
Other consumer	0.6%	1.3%	0.3%	1.0%	1.6%
Total	0.5%	0.7%	1.1%	0.6%	1.1%

US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	6.8%	4.4%	5.7%	5.6%	3.8%
Net interest margin	3.11%	3.01%	2.79%	3.06%	2.76%
Cost:income ratio	73%	72%	65%	73%	69%

	30 June 2011 $bn	31 March 2011 $bn	Change	31 December 2010 $bn	Change
Capital and balance sheet					
Total third party assets	113.9	113.2	1%	110.5	3%
Loans and advances to customers (gross)					
- residential mortgages	9.2	9.1	1%	9.4	(2%)
- home equity	23.5	23.6	-	23.6	-
- corporate and commercial	34.0	32.2	6%	31.7	7%
- other consumer	10.2	10.3	(1%)	10.6	(4%)
	76.9	75.2	2%	75.3	2%
Customer deposits (excluding repos)	90.7	91.0	-	91.2	(1%)
Risk elements in lending					
- retail	0.9	0.8	13%	0.7	29%
- commercial	0.6	0.8	(25%)	0.7	(14%)
	1.5	1.6	(6%)	1.4	7%
Loan:deposit ratio (excluding repos)	83%	81%	200bp	81%	200bp
Risk-weighted assets	88.1	86.0	2%	88.4	-

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of monthly average of divisional RWAs, adjusted for capital deductions).

Key points
US Retail & Commercial continued to focus on its “back-to-basics” strategy, with good progress made in developing the division’s customer franchise over the first half of 2011.

Consumer customer satisfaction improved significantly in Q2 2011, approaching the highest level in 24 months, and comparing well to the competitor average which declined in the same period.

US Retail & Commercial continued to re-energise the franchise through new branding, product development and competitive pricing.

Consumer Finance has continued to strengthen its alignment with branch banking, further increasing the penetration of products to deposit households. Consumer Finance has also launched a new branded programme targeting residential lending.

The Commercial Banking business has also achieved good momentum through a refreshed sales training programme, improved product offering and further improvements in the cross-sell of Global Transaction Services (GTS) products to its customer base.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q2 2011 compared with Q1 2011

- US Retail & Commercial posted an operating profit of £127 million ($206 million) compared with £80 million ($129 million) in the prior quarter, an increase of £47 million ($77 million), or 59%. The Q2 2011 operating environment remained challenging, with low absolute interest rates, high but stable unemployment, a soft housing market and the continuing impact of legislative changes.

- Net interest income was up £18 million ($41 million), or 4%, and net interest margin increased by 10 basis points to 3.11%. The improvement was driven by the purchase of higher yielding securities, lower cost of funds and higher commercial loan volumes. Loans and advances were up from the previous quarter due to strong growth in commercial loan volumes partly offset by some continued planned run-off of long-term fixed rate consumer products.

- Non-interest income was up £3 million ($12 million), or 1%, reflecting higher deposit fees and ATM/debit card fees, as a result of new pricing initiatives, and an increase in commercial banking fee income partially offset by lower securities gains.

- Total expenses were up £18 million ($46 million), or 4%, driven by changes in the phasing of bonus expense, mortgage servicing rights impairment and costs related to the implementation of regulatory changes.

- Impairment losses were down £44 million ($70 million), or 40%, reflecting improved credit conditions across the loan portfolio and lower impairments related to securities. Loan impairments as a percentage of loans and advances improved to 0.5% from 0.7% in the quarter.

Q2 2011 compared with Q2 2010

- Operating profit fell to £127 million ($206 million) from £129 million ($195 million), a decrease of £2 million (increase of $11 million, due to movements in exchange rates), or 2%. Excluding a £74 million ($113 million) credit related to changes to the defined benefit pension plan in Q2 2010, operating profit was up £72 million ($124 million), or 56%, substantially driven by lower impairments.

- Net interest income was down £33 million (up $16 million due to movements in exchange rates), or 7%, on an average balance sheet that was £12 billion ($9 billion smaller). Net interest margin improved by 32 basis points to 3.11% reflecting changes in deposit mix and continued discipline around deposit pricing as well as the positive impact of the balance sheet restructuring programme carried out during Q3 2010 combined with strong commercial loan growth.

- Customer deposits were down £6 billion ($3 billion), or 9%, reflecting the impact of a changed pricing strategy on low margin term and time products offset by strong checking balance growth. Consumer checking balances grew by 5% while small business checking balances grew by 8% over the year.

- Non-interest income was down £29 million ($12 million), or 11%, reflecting lower deposit fees as a result of Regulation E legislative changes and lower mortgage banking income partially offset by higher commercial banking fee income.

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Total expenses were lower by £56 million ($13 million), or 10%, excluding the defined benefit plan credit booked in Q2 2010, primarily reflecting lower Federal Deposit Insurance Corporation (FDIC) deposit insurance levies.

- Impairment losses declined by £78 million ($107 million), or 54%, reflecting an improved credit environment partially offset by higher impairments related to securities. Loan impairments as a percent of loans and advances improved to 0.5% from 1.1%.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

H1 2011 compared with H1 2010

- Operating profit of £207 million ($335 million) was up £38 million ($77 million), or 22%, from H1 2010. Excluding a £74 million ($113 million) credit related to changes to the defined benefit plan in Q2 2010, operating profit was up £ 112 million ($190 million), or 118%, largely reflecting an improved credit environment. Income and impairment loss drivers are consistent with Q2 2011 compared with Q2 2010.

- Excluding the defined benefit plan credit booked in Q2 2010, total expenses were down £89 million ($42 million), or 8%, due to changes in the phasing of bonus expense and lower FDIC deposit insurance levies.

Global Banking & Markets

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Income statement					
Net interest income from banking activities	175	190	329	365	711
Funding costs of rental assets	(11)	(10)	(9)	(21)	(18)
Net interest income	164	180	320	344	693
Net fees and commissions receivable	301	338	262	639	548
Income from trading activities	891	1,558	1,517	2,449	3,527
Other operating income	194	304	(152)	498	3
Non-interest income	1,386	2,200	1,627	3,586	4,078
Total income	1,550	2,380	1,947	3,930	4,771
Direct expenses					
- staff	(605)	(863)	(631)	(1,468)	(1,518)
- other	(229)	(216)	(200)	(445)	(384)
Indirect expenses	(233)	(227)	(202)	(460)	(425)
	(1,067)	(1,306)	(1,033)	(2,373)	(2,327)
Impairment losses	(37)	24	(164)	(13)	(196)
Operating profit	446	1,098	750	1,544	2,248
Analysis of income by product					
Rates - money markets	(41)	(74)	4	(115)	92
Rates - flow	357	733	471	1,090	1,170
Currencies	234	224	179	458	474
Credit and mortgage markets	437	885	474	1,322	1,433
Fixed income & currencies	987	1,768	1,128	2,755	3,169
Portfolio management and origination	329	337	581	666	1,050
Equities	234	275	238	509	552
Total income	1,550	2,380	1,947	3,930	4,771
Analysis of impairments by sector					
Manufacturing and infrastructure	45	32	(12)	77	(19)
Property and construction	-	6	56	6	64

Banks and financial institutions	2	(23)	110	(21)	126
Other	(10)	(39)	10	(49)	25
Total impairment losses	37	(24)	164	13	196
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.2%	(0.1%)	0.7%	-	0.4%

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Global Banking & Markets (continued)

Key metrics

	Quarter ended			Half year ended	
	30 June 2011	31 March 2011	30 June 2010	30 June 2011	30 June 2010
Performance ratios					
Return on equity (1)	8.7%	20.8%	14.8%	14.8%	22.5%
Net interest margin	0.70%	0.76%	1.01%	0.73%	1.07%
Cost:income ratio	69%	55%	53%	60%	49%
Compensation ratio (2)	39%	36%	32%	37%	32%

	30 June 2011 £bn	31 March 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers	71.2	70.1	2%	75.1	(5%)
Loans and advances to banks	38.6	46.2	(16%)	44.5	(13%)
Reverse repos	97.5	105.1	(7%)	94.8	3%
Securities	141.5	132.2	7%	119.2	19%
Cash and eligible bills	32.8	33.9	(3%)	38.8	(15%)
Other	37.5	35.8	5%	24.3	54%
Total third party assets (excluding derivatives mark-to-market)	419.1	423.3	(1%)	396.7	6%
Net derivative assets (after netting)	32.2	34.5	(7%)	37.4	(14%)
Customer deposits (excluding repos)	35.7	36.6	(2%)	38.9	(8%)
Risk elements in lending	1.5	1.8	(17%)	1.7	(12%)
Loan:deposit ratio (excluding repos)	200%	191%	900bp	193%	700bp
Risk-weighted assets	139.0	146.5	(5%)	146.9	(5%)

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) Compensation ratio is based on staff costs as a percentage of total income.

Key points

The uncertain economic environment continued to dampen client activity within Global Banking & Markets (GBM). Weak investor confidence, seen late in Q1 2011, continued into Q2 2011 as European sovereign debt concerns and expectations of weaker global economic growth undermined risk appetite.

GBM has leading positions in its chosen fixed income, currencies and debt capital markets. Despite turbulent market conditions, the division continues to invest to support the existing franchise, improve connectivity and enhance the control infrastructure. In addition, GBM continues to focus on broadening capabilities in equities and emerging markets.

Our strategy is clear and focused, and GBM will continue to build on progress made in H1 2011 during the second half of the year.

Global Banking & Markets (continued)

Key points (continued)

Q2 2011 compared with Q1 2011

- Operating profit fell to £446 million following a marked decline in revenue, partially offset by a lower level of performance-related compensation.

- Revenue fell 35%, mirroring a similar quarter on quarter profile last year, albeit from a lower Q1 2011 base. The decline was driven by Fixed Income & Currencies, which fell 44% in challenging market conditions. A subdued market environment caused smaller declines in Equities and Portfolio Management and Origination.

  Average trading Value-at-Risk (VaR) in the Group's Core businesses decreased by 44% over the course of the second quarter as GBM managed down its risk positions given a volatile and risk averse environment. In addition, reduction in the volatility of the market data used in its calculation also impacted VaR.

  Money Market activity remained subdued as expectations of interest rate increases in the UK and US receded. Revenue from the underlying business was more than offset by the cost of the division's funding and liquidity activities.

  Rates Flow fell sharply, compared with a buoyant Q1 2011, reflecting decreased corporate activity in Europe and a subdued trading performance.

  Mortgage and Asset-Backed Security markets, although weaker than prior quarter, continued to be supported by healthy client demand. Revenues, however, fell in Q2 2011 reflecting difficult trading conditions.

  Equities declined as levels of client activity struggled in volatile and thin markets.

  Portfolio Management and Origination remained flat, with a slowdown in the Debt Capital Markets business offset by gains on market derivative values.

- Total costs fell £239 million, driven by lower performance-related pay following the weaker revenue performance in Q2 2011.

- Impairments, at £37 million, remained low and reflected a single specific provision.

- Third party assets were broadly flat and continued to be managed within the targeted range of £400 - £450 billion.

- Risk-weighted assets fell 5% as GBM carefully managed its risk levels and continued to focus on efficient capital deployment.

- Net interest margin continued to be depressed by the lengthening of the division's funding profile and lower margins in the Money Markets business.

· Return on equity of 9% was primarily impacted by the fall in revenue.

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Global Banking & Markets (continued)

Key points (continued)

Q2 2011 compared with Q2 2010

· Operating profit declined by 41% as a result of the fall in revenue.

· Lower revenue in the Rates businesses primarily stems from lower levels of client activity and reduced appetite for risk. Overall, Fixed Income & Currencies revenue fell by £141 million, or 13%.

· The fall in Portfolio Management and Origination revenue reflects a declining balance sheet as customer repayments outweighed new lending. This was compounded by the negative impact of changes in market derivative values.

· The increase in total costs reflects ongoing investment activities and higher levels of depreciation, driven by investment spend in earlier periods.

· Impairments improved due to a lower level of specific provisions in Q2 2011 compared with Q2 2010.

H1 2011 compared with H1 2010

· Both H1 2011 and H1 2010 began strongly before weakening as the period progressed. However, investor confidence has been more fragile in 2011 and operating profit is down 31% as a result.

· Revenue generation has slowed across a range of businesses as investors remained nervous, with Fixed Income & Currencies revenue 13% lower in the first half of 2011 compared with H1 2010.