

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 05, 2011

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

Report of Foreign Private Issuer

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

For August 5, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X

Form 40-F ___

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

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-

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

Divisional performance

The operating profit/(loss)(1) of each division is shown below.

| | Quarter ended | | | Half year ended | |
|--|---------------|-------|---------|-----------------|---------|
| | 30 June | March | 30 June | 30 June | 30 June |
| | 2011 | 2011 | 2010 | 2011 | 2010 |
| | £m | £m | £m | £m | £m |
| Operating profit/(loss) before impairment losses by division | | | | | |
| UK Retail | 731 | 702 | 576 | 1,433 | 1,103 |
| UK Corporate | 563 | 598 | 588 | 1,161 | 1,092 |
| Wealth | 77 | 85 | 88 | 162 | 154 |
| Global Transaction Services | 218 | 207 | 282 | 425 | 515 |
| Ulster Bank | 80 | 84 | 104 | 164 | 185 |
| US Retail & Commercial | 193 | 190 | 273 | 383 | 456 |
| Retail & Commercial | 1,862 | 1,866 | 1,911 | 3,728 | 3,505 |
| Global Banking & Markets | 483 | 1,074 | 914 | 1,557 | 2,444 |
| RBS Insurance | 139 | 67 | (203) | 206 | (253) |
| Central items | 45 | (42) | 49 | 3 | 387 |
| Core | 2,529 | 2,965 | 2,671 | 5,494 | 6,083 |
| Non-Core | 553 | 35 | 66 | 588 | 211 |
| Group operating profit before impairment losses | 3,082 | 3,000 | 2,737 | 6,082 | 6,294 |
| 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 |
| Group impairment losses | 2,264 | 1,947 | 2,487 | 4,211 | 5,162 |

Note:

(1) Operating profit/(loss) before movements in the fair value of own debt, Asset Protection Scheme credit default swap - fair value changes, Payment Protection Insurance costs, sovereign debt impairment and related interest rate hedge adjustments, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax and RFS Holdings minority interest.

Divisional performance (continued)

| | Quarter ended | | | Half year ended | |
|-------------------------------------|-----------------|---------------|-----------------|-----------------|-----------------|
| | 31 | | | 30 June 2011 | 30 June 2010 |
| | 30 June 2011 | March 2011 | 30 June 2010 | | |
| | £m | £m | £m | £m | £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) |
| Group operating profit | 818 | 1,053 | 250 | 1,871 | 1,132 |

| | Quarter ended | | | Half year ended | |
|---------------------------------|-----------------|---------------|-----------------|-----------------|-----------------|
| | 31 | | | 30 June 2011 | 30 June 2010 |
| | 30 June 2011 | March 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 |

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| | | | | | |
|---------------------------|------|------|------|------|------|
| Non-Core | 0.87 | 0.90 | 1.23 | 0.89 | 1.25 |
| Group net interest margin | 1.97 | 2.03 | 2.03 | 2.00 | 1.99 |

Divisional performance (continued)

| | 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.

| | 30 June 2011 | 31 March 2011 | December 2010 |
|--|-----------------|------------------|------------------|
| Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred) | | | |
| 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 |

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| | | | |
|--------------------------|---------|---------|---------|
| 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 | |
|---|-----------------|---------------|-----------------|-----------------|-----------------|
| | 31 | | | 30 June 2011 | 30 June 2010 |
| | 30 June 2011 | March 2011 | 30 June 2010 | | |
| | £m | £m | £m | £m | £m |
| Income statement | | | | | |
| Net interest income | 1,086 | 1,076 | 1,001 | 2,162 | 1,934 |
| Net fees and commissions | 295 | 270 | 263 | 565 | 522 |
| Other non-interest income (net of insurance claims) | 38 | 34 | 59 | 72 | 117 |
| Non-interest income | 333 | 304 | 322 | 637 | 639 |
| Total income | 1,419 | 1,380 | 1,323 | 2,799 | 2,573 |
| 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) |
| Operating profit before impairment losses | 731 | 702 | 576 | 1,433 | 1,103 |
| Impairment losses | (208) | (194) | (300) | (402) | (687) |
| Operating profit | 523 | 508 | 276 | 1,031 | 416 |

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| | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| 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% |
| Adjusted cost:income ratio (2) | 48% | 49% | 56% | 49% | 57% |
| | 30 June 2011 | 31 March 2011 | Change | 31 December 2010 | Change |
| | £bn | £bn | | £bn | |

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% |

Notes:

(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).

(2) Adjusted cost:income ratio is based on total income after netting insurance claims and operating expenses.

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 136.

UK Retail (continued)

Key points (continued)

Q2 2011 compared with Q2 2010

- Operating profit increased by £247 million, with income up 7%, 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 56% 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

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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 | |
|---|-----------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | 31 | | | | |
| | 30 June 2011 £m | March 2011 £m | 30 June 2010 £m | 30 June 2011 £m | 30 June 2010 £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) |
| Operating profit before impairment losses | 563 | 598 | 588 | 1,161 | 1,092 |
| 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) |

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| | | | | | |
|--|-----|-------|-----|-------|-------|
| 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 |

UK Corporate (continued)

| | Quarter ended | | | Half year ended | |
|---|-----------------|---------------|-----------------|-----------------|-----------------|
| | 30 June 2011 | 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 | 30 June | 30 June | 30 June |

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| | 2011 | 31 March 2011 | 2010 | 2011 | 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 work, recreational and community services | 8.8 | 8.9 | (1%) | 9.0 | (2%) |
| - 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.

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- 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 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 | |
|---------------------------|-----------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | 31 | | | | |
| | 30 June 2011 £m | 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) |

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| | | | | | |
|---|-------|-------|-------|-------|-------|
| | (220) | (196) | (178) | (416) | (367) |
| Operating profit before impairment losses | 77 | 85 | 88 | 162 | 154 |
| 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 | 31 | 30 June | 30 June | 30 June |
| | 2011 | March 2011 | 2010 | 2011 | 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 | 31 | Change | 31 | Change |
|--|---------|------------|--------|---------------|--------|
| | 2011 | March 2011 | | December 2010 | |
| | £bn | £bn | | £bn | |

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.
- 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) |
| Operating profit before impairment losses | 218 | 207 | 282 | 425 | 515 |
| 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 | |
|----------------------|---------------|-------|---------|-----------------|---------|
| | 31 | | | 31 | |
| | 30 June | March | 30 June | 30 June | 30 June |
| | 2011 | 2011 | 2010 | 2011 | 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% |

| | 31 | | | 31 | |
|--|---------|-------|--------|----------|--------|
| | 30 June | March | Change | December | Change |
| | 2011 | 2011 | | 2010 | |
| | £bn | £bn | | £bn | |

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).

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

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- 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, 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, income was up 9% reflecting strong deposit volumes in domestic and international cash management together with an improved performance in trade and commercial cards.
- Excluding GMS, 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 | |
|---------------|-------|---------|-----------------|---------|
| 31 | | | | |
| 30 June | March | 30 June | 30 June | 30 June |
| 2011 | 2011 | 2010 | 2011 | 2010 |
| £m | £m | £m | £m | £m |

Income statement

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| | | | | | |
|--|-------|-------|-------|-------|-------|
| 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) |
| Operating profit before impairment losses | 80 | 84 | 104 | 164 | 185 |
| 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% |

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Total 2.9% 5.0% 3.1% 3.9% 2.8%

Ulster Bank (continued)

Key metrics

| | Quarter ended | | | Half year ended | |
|----------------------|---------------|---------|---------|-----------------|---------|
| | 30 June | March | 30 June | 30 June | 30 June |
| | 2011 | 2011 | 2010 | 2011 | 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% |

| | 31 | | | 31 | |
|---|---------|-------|---------|----------|---------|
| | 30 June | March | Change | December | Change |
| | 2011 | 2011 | | 2010 | |
| | £bn | £bn | | £bn | |
| 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 | |

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 fell by 2% in constant currency terms, largely due to the income drag of the impaired loan book. Net interest margin fell by 3 basis points to 1.69%.
- Loans and advances to customers fell by 1% over the quarter on a constant currency basis due to continued amortisation. 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 in constant currency terms, 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 (13% on a constant currency basis), reflecting the continued weak credit environment and resultant impact on credit risk metrics.

Q2 2011 compared with Q2 2010

- Net interest income fell by 14% on a constant currency basis, reflecting higher funding costs, partly offset by loan repricing initiatives. Non interest income fell by 5% largely reflecting the loss of income from the merchant services business, disposed of in Q4 2010.
- Loans to customers fell by 5% on a constant currency basis, reflecting subdued demand for new business. 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 in constant currency terms, as expense reductions over the period largely offset the property write-down in Q2 2011.
- Risk-weighted assets increased by £5.8 billion (11% on a constant currency basis) driven by worsened portfolio risk metrics.

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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% in constant currency terms, reflecting higher funding costs and the high cost of deposit gathering.
- Expenses decreased by 8% on a constant currency basis 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 | March 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
| | £m | £m | £m | £m | £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) |
| Operating profit before impairment losses | 193 | 190 | 273 | 383 | 456 |
| 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 |

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| | | | | | |
|--|-------------|-------------|-------------|--------------|--------------|
| 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 | 31 March 2011 | Change | 31 December 2010 | 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%) |

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| | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|
| - 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 | March 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
| | \$m | \$m | \$m | \$m | \$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) |

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| | | | | | |
|--|-------|-------|-------|-------|-------|
| Operating profit before impairment losses | 313 | 306 | 409 | 619 | 696 |
| 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 | 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% |

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| | 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

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- US Retail & Commercial posted an operating profit of \$206 million compared with \$129 million in the prior quarter, an increase of \$77 million, or 60%. 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 \$41 million, or 6%, 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 \$12 million, or 3%, 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 \$46 million, or 6%, 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 \$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 rose to \$206 million from \$195 million, an increase of \$11 million, or 6%. Excluding a \$113 million credit related to changes to the defined benefit pension plan in Q2 2010, operating profit was up \$124 million, or 151%, substantially driven by lower impairments.
- Net interest income was up \$16 million, or 2%, on an average balance sheet that was \$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 \$3 billion, or 3%, 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 \$12 million, or 3%, 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.
- Total expenses were lower by \$13 million, or 2%, 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 \$107 million, or 50%, 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 \$335 million was up \$77 million, or 30%, from H1 2010. Excluding a \$113 million credit related to changes to the defined benefit plan in Q2 2010, operating profit was up \$190 million, or 131%, 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 \$42 million, or 2%, 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 | 178 | 193 | 335 | 371 | 714 |
| Net fees and commissions receivable | 363 | 390 | 314 | 753 | 659 |
| Income from trading activities | 922 | 1,752 | 1,232 | 2,674 | 3,259 |
| Other operating income (net of related funding costs) | 87 | 45 | 66 | 132 | 139 |
| Non-interest income | 1,372 | 2,187 | 1,612 | 3,559 | 4,057 |
| 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) |
| Operating profit before impairment losses | 483 | 1,074 | 914 | 1,557 | 2,444 |
| 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 |

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| | | | | | |
|--|-------|--------|-------|-------|-------|
| 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% |

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% |

| | 31 | | | 31 | |
|---------------------------------|--------------|------------|--------|---------------|--------|
| | 30 June 2011 | March 2011 | Change | December 2010 | Change |
| | £bn | £bn | | £bn | |
| 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.

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.

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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.
- Portfolio Management suffered the most significant decline in revenue, from £1,050 million in H1 2010 to £666 million in H1 2011. The reduction was due to a declining balance sheet and reduced levels of origination activity as clients increased cash holdings. This was exacerbated by a swing in market derivative values over the period.
- Increased costs primarily reflect higher levels of investment and expense related to regulatory changes, both at a divisional and Group level.
- During H1 2011 impairments benefited from a low level of specific charges and a latent loss provision release.

RBS Insurance

| | 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 | | | | | |
| Earned premiums | 1,056 | 1,065 | 1,118 | 2,121 | 2,248 |
| Reinsurers' share | (60) | (54) | (38) | (114) | (72) |
| Net premium income | 996 | 1,011 | 1,080 | 2,007 | 2,176 |
| Fees and commissions | (81) | (75) | (91) | (156) | (181) |
| Instalment income | 35 | 35 | 40 | 70 | 82 |
| Other income | 27 | 35 | 40 | 62 | 78 |
| Total income | 977 | 1,006 | 1,069 | 1,983 | 2,155 |
| Net claims | (704) | (784) | (1,126) | (1,488) | (2,092) |
| Underwriting profit/(loss) | 273 | 222 | (57) | 495 | 63 |
| Staff expenses | (70) | (76) | (73) | (146) | (143) |
| Other expenses | (79) | (87) | (85) | (166) | (171) |
| Total direct expenses | (149) | (163) | (158) | (312) | (314) |
| Indirect expenses | (54) | (56) | (62) | (110) | (127) |
| | (203) | (219) | (220) | (422) | (441) |
| Technical result | 70 | 3 | (277) | 73 | (378) |
| Investment income | 69 | 64 | 74 | 133 | 125 |

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| | | | | | |
|--|-----|-------|-------|-------|-------|
| Operating profit/(loss) | 139 | 67 | (203) | 206 | (253) |
| Analysis of income by product | | | | | |
| Personal lines motor excluding broker | | | | | |
| - own brands | 438 | 440 | 451 | 878 | 907 |
| - partnerships | 57 | 73 | 86 | 130 | 170 |
| Personal lines home excluding broker* | | | | | |
| - own brands | 118 | 117 | 118 | 235 | 234 |
| - partnerships | 90 | 98 | 96 | 188 | 195 |
| Personal lines other excluding broker* | | | | | |
| - own brands | 46 | 46 | 45 | 92 | 96 |
| - partnerships | 48 | 46 | 54 | 94 | 109 |
| Other | | | | | |
| - commercial | 80 | 74 | 79 | 154 | 160 |
| - international | 80 | 80 | 76 | 160 | 155 |
| - other (1) | 20 | 32 | 64 | 52 | 129 |
| Total income | 977 | 1,006 | 1,069 | 1,983 | 2,155 |

* Home response own brands and partnerships income has been restated from personal lines other to personal lines home.

Note:

(1) Other is predominantly made up of the discontinued personal lines broker business.

RBS Insurance (continued)

Key metrics

| | Quarter ended | | | Half year ended | |
|--|---------------|------------|--------------|-----------------|--------------|
| | 30 June 2011 | March 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
| In-force policies (000's) | | | | | |
| Personal lines motor excluding broker | | | | | |
| - own brands | 3,931 | 4,071 | 4,424 | 3,931 | 4,424 |
| - partnerships | 474 | 559 | 755 | 474 | 755 |
| Personal lines home excluding broker* | | | | | |
| - own brands | 1,844 | 1,775 | 1,818 | 1,844 | 1,818 |
| - partnerships | 2,524 | 2,501 | 2,535 | 2,524 | 2,535 |
| Personal lines other excluding broker* | | | | | |
| - own brands | 1,932 | 1,972 | 2,147 | 1,932 | 2,147 |
| - partnerships | 7,577 | 7,909 | 6,526 | 7,577 | 6,526 |
| Other** | | | | | |

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| | | | | | |
|---|--------|--------|---------|--------|---------|
| - commercial | 393 | 383 | 344 | 393 | 344 |
| - international | 1,302 | 1,234 | 1,037 | 1,302 | 1,037 |
| - other (1) | 211 | 418 | 988 | 211 | 988 |
| Total in-force policies (2) | 20,188 | 20,822 | 20,574 | 20,188 | 20,574 |
| Gross written premium (£m) | 1,034 | 1,037 | 1,092 | 2,071 | 2,182 |
| Performance ratios | | | | | |
| Return on equity (3) | 15.4% | 7.0% | (21.8%) | 11.4% | (13.6%) |
| Loss ratio (4) | 71% | 77% | 104% | 74% | 96% |
| Commission ratio (5) | 8% | 7% | 8% | 8% | 8% |
| Expense ratio (6) | 20% | 22% | 20% | 21% | 20% |
| Combined operating ratio (7) | 99% | 106% | 132% | 103% | 124% |
| Balance sheet | | | | | |
| General insurance reserves - total (£m) | 7,484 | 7,541 | 7,326 | 7,484 | 7,326 |

* Home response own brands and partnerships in-force policies (IFPs) have been restated from personal lines other to personal lines home.

** 30 June 2010 comparatives have been restated to reflect the switch of commercial van new business and renewal IFPs from other to commercial.

Notes:

- (1) Other is predominantly made up of the discontinued personal lines broker business.
- (2) Total in-force policies include travel and creditor policies sold through RBS Group. These comprise travel policies included in bank accounts e.g. Royalties Gold Account, and creditor policies sold with bank products including mortgage, loan and card repayment payment protection.
- (3) Return on equity is based on annualised divisional operating profit/(loss) after tax divided by divisional average notional equity (based on regulatory capital).
- (4) Loss ratio is based on net claims divided by net premium income.
- (5) Commission ratio is based on fees and commissions divided by gross written premium.
- (6) Expense ratio is based on expenses excluding fees and commissions divided by gross written premium.
- (7) Combined operating ratio is the sum of the loss, expense and commission ratios.

RBS Insurance (continued)

Key points

RBS Insurance continues to undertake a significant programme of investment, designed to achieve a substantial improvement in financial and operational performance ahead of its planned divestment from the Group. This programme has three phases - recovering profitability; building competitive advantage and driving profitable growth. These results mark significant progress towards the completion of the first phase, with H1 2011 underwriting profit of £495 million, up £432 million versus H1 2010, primarily driven by an improvement in net claims.

The elements of the programme which focus on building competitive advantage have also progressed well in the first half of the year, and are on track to deliver significant benefits in future periods. In H1 2011 RBS Insurance continued to refine and enhance its pricing systems and introduced the first phase of a new claims system. These investments will enable greater pricing sophistication and further improve the control of claims costs, whilst also providing enhanced customer experience. Implementation of the plan, announced in 2010, to rationalise the number of sites occupied is underway. Progress to simplify the legal entity structure, and to ensure compliance with Solvency 2,

continues.

RBS Insurance is positioning itself for profitable growth in the future and announced a five-year partnership, on personal lines motor, with Sainsbury's Finance. RBS Insurance will provide the underwriting, sales, service and claims management support to Sainsbury's customers. The agreement with Sainsbury's Finance is an important addition to the partnership channel.

Q2 2011 compared with Q1 2011

- Operating profit has doubled to £139 million from the previous quarter. This was driven by continuing improvement in the profitability seen in Q1 2011, coupled with the normal seasonal patterns for income and claims, and benign weather conditions in the quarter.
- Net premium income was down 1%, reflecting the earned impact of the reduction in the risk of the book and pricing action taken last year, together with the exit from unprofitable partnerships and personal lines broker business.
- Total expenses were down 7% on the prior quarter primarily due to phasing of marketing and indirect expenses.
- Other income was down £8 million primarily as a result of Tesco Personal Finance run-off and sale of Devitt Insurance Services Limited, the motorcycle insurance broker business, in May 2011.
- Commercial gross written premium grew 8% in Q2 2011 compared with Q1 2011.
- Motor income in Q2 2011 was down 4% against Q1 2011, the result of continuing risk reduction. However, the rate of reduction in income has slowed, and in Q2 2011 motor gross written premium grew by 4% compared with Q1 2011. Home gross written premium increased 1% in Q2 2011 in comparison with Q1 2011 and Q2 2010, while home in-force policies grew 2% in Q2 2011 over the previous quarter in a challenging market.
- An increase in investment income of £5 million in the quarter was due to realised gains, a favourable balance sheet mix and cashflow.

RBS Insurance (continued)

Key points (continued)

Q2 2011 compared with Q2 2010

- Operating profit was £139 million compared with a loss of £203 million for Q2 2010. The loss in 2010 included reserve strengthening for bodily injury including £241 million related to prior years. The improvement in profit was also attributable to the reduction in the risk of the book, selected business line exits, and pricing action taken.
- Total expenses were down 8% on last year primarily due to phasing of marketing and indirect expenses.

H1 2011 compared with H1 2010

- Operating profit was £206 million compared with a loss of £253 million for H1 2010, driven by a £604 million improvement in net claims. The loss in 2010 included reserve strengthening for bodily injury, a significant proportion of which related to prior years and has not been repeated in 2011. The remainder of the improvement is attributable to the reduction in the risk of the book, selected business line exits and pricing action.
- H1 2011 underwriting profit of £495 million improved by £432 million versus H1 2010, for the reasons noted above.

- Total income was £172 million lower, partially offsetting the claims movement, driven primarily by the exit from personal lines broker and unprofitable partnerships.
- Commercial income fell by £6 million year on year due to the run off of Finsure Premium Finance Limited.
- International continued its growth trend with a 35% increase in gross written premium for H1 2011 versus H1 2010, and a 26% increase in in-force policies, over the same period, driven by strong business performance in Italy, and a new partnership with Fiat. Based on the latest annual data published by ANIA (Italian Insurance Association) for the calendar year 2010, Direct Line Italy is now the leader in the direct motor market with a 27% share. The Italian business makes extensive use of reinsurance to control risk and manage capital.
- Total expenses were down 4% primarily due to phasing of marketing and indirect expenses.

Central items

| | 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 |
| Central items not allocated | 47 | (43) | 49 | 4 | 386 |

Note:

(1) Costs/charges are denoted by brackets.

Funding and operating costs have been allocated to operating divisions based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one division.

Residual unallocated items relate to volatile corporate items that do not naturally reside within a division.

Key points

Q2 2011 compared with Q1 2011

- Central items not allocated represented a credit of £47 million against a charge of £43 million in the previous quarter. This movement was driven by a gain of £108 million on the disposal of an investment in Visa as well as lower interest rate risk management costs in Group Treasury.

Q2 2011 compared with Q2 2010

- Central items not allocated represented a credit of £47 million, a decrease of £2 million on Q2 2010.

H1 2011 compared with H1 2010

- Central items not allocated represented a credit of £4 million, a decline of £382 million on H1 2010.
- H1 2010 benefited from a £170 million VAT recovery not repeated in H1 2011, as well as unallocated Group Treasury items, including the impact of economic hedges that do not qualify for IFRS hedge accounting.

Non-Core

| | 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 | 285 | 303 | 534 | 588 | 1,102 |
| Net fees and commissions | 47 | 47 | 158 | 94 | 262 |
| Income/(loss) from trading activities | 230 | (298) | 33 | (68) | (98) |
| Insurance net premium income | 95 | 138 | 173 | 233 | 341 |
| Other operating income | | | | | |
| - rental income | 206 | 192 | 181 | 398 | 368 |
| - other (1) | 115 | 104 | (223) | 219 | (202) |
| Non-interest income | 693 | 183 | 322 | 876 | 671 |
| Total income | 978 | 486 | 856 | 1,464 | 1,773 |
| Direct expenses | | | | | |
| - staff | (109) | (91) | (202) | (200) | (454) |
| - operating lease depreciation | (87) | (87) | (109) | (174) | (218) |
| - other | (68) | (69) | (143) | (137) | (299) |
| Indirect expenses | (71) | (76) | (121) | (147) | (243) |
| | (335) | (323) | (575) | (658) | (1,214) |
| Operating profit before other operating charges and impairment losses | | | | | |
| Insurance net claims | 643 | 163 | 281 | 806 | 559 |
| Impairment losses | (90) | (128) | (215) | (218) | (348) |
| | (1,411) | (1,075) | (1,390) | (2,486) | (3,094) |
| Operating loss | (858) | (1,040) | (1,324) | (1,898) | (2,883) |

Note:

(1) Includes losses on disposals (quarter ended 30 June 2011 - £20 million; quarter ended 31 March 2011 - £34 million; quarter ended 30 June 2010 - £4 million; half year ended 30 June 2011 - £54 million; half year ended 30 June 2010 - £5 million).

Non-Core (continued)

Quarter ended

Half year ended

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| | 31 | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| | 30 June | March | 30 June | 30 June | 30 June |
| | 2011 | 2011 | 2010 | 2011 | 2010 |
| | £m | £m | £m | £m | £m |
| Analysis of income by business | | | | | |
| Portfolios & banking | 830 | 598 | 606 | 1,428 | 1,236 |
| International businesses | 137 | 89 | 243 | 226 | 512 |
| Markets | 11 | (201) | 7 | (190) | 25 |
| Total income | 978 | 486 | 856 | 1,464 | 1,773 |
| Income/(loss) from trading activities | | | | | |
| Monoline exposures | (67) | (130) | (139) | (197) | (139) |
| Credit derivative product companies | (21) | (40) | (55) | (61) | (86) |
| Asset-backed products (1) | 36 | 66 | 97 | 102 | 42 |
| Other credit exotics | 8 | (168) | 47 | (160) | 58 |
| Equities | (2) | 1 | (6) | (1) | (13) |
| Banking book hedges | (9) | (29) | 147 | (38) | 111 |
| Other (2) | 285 | 2 | (58) | 287 | (71) |
| | 230 | (298) | 33 | (68) | (98) |
| Impairment losses | | | | | |
| Portfolios & banking | 1,405 | 1,058 | 1,332 | 2,463 | 2,911 |
| International businesses | 15 | 20 | 48 | 35 | 116 |
| Markets | (9) | (3) | 10 | (12) | 67 |
| Total impairment losses | 1,411 | 1,075 | 1,390 | 2,486 | 3,094 |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (3) | | | | | |
| Portfolios & banking | 6.1% | 4.1% | 4.6% | 5.3% | 4.9% |
| International businesses | 1.9% | 2.1% | 2.3% | 2.3% | 2.8% |
| Markets | (1.2%) | (0.1%) | 1.4% | (0.7%) | 12.9% |
| Total | 6.0% | 4.0% | 4.4% | 5.2% | 4.8% |

Notes:

- (1) Asset-backed products include super senior asset-backed structures and other asset-backed products.
- (2) Q2 2011 includes securities gains of £362 million and profits in RBS Sempra Commodities JV of £1 million (quarter ended 30 June 2010 - £nil and £125 million respectively).
- (3) Includes disposal groups.

Non-Core (continued)

Key metrics

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| | Quarter ended | | | Half year ended | |
|----------------------------|---------------|-------|---------|-----------------|---------|
| | 31 | | | | |
| | 30 June | March | 30 June | 30 June | 30 June |
| | 2011 | 2011 | 2010 | 2011 | 2010 |
| Performance ratios | | | | | |
| Net interest margin | 0.87% | 0.90% | 1.23% | 0.89% | 1.25% |
| Cost:income ratio | 34% | 66% | 67% | 45% | 68% |
| Adjusted cost:income ratio | 38% | 90% | 90% | 53% | 85% |

| | 31 | | | 31 | |
|--|---------|-------|--------|----------|--------|
| | 30 June | March | Change | December | Change |
| | 2011 | 2011 | | 2010 | |
| | £bn | £bn | | £bn | |
| Capital and balance sheet (1) | | | | | |
| Total third party assets (excluding derivatives) (2) | 112.6 | 124.8 | (10%) | 137.9 | (18%) |
| Total third party assets (including derivatives) (2) | 134.7 | 137.1 | (2%) | 153.9 | (12%) |
| Loans and advances to customers (gross) | 94.9 | 101.0 | (6%) | 108.4 | (12%) |
| Customer deposits | 5.0 | 7.1 | (30%) | 6.7 | (25%) |
| Risk elements in lending | 24.9 | 24.0 | 4% | 23.4 | 6% |
| Risk-weighted assets (2) | 124.7 | 128.5 | (3%) | 153.7 | (19%) |

Notes:

(1) Includes disposal groups.

(2) Includes RBS Sempra Commodities JV (30 June 2011 Third party assets, excluding derivatives (TPAs) £1.1 billion, RWAs £1.9 billion; 31 March 2011 TPAs £3.9 billion, RWAs £2.4 billion; 31 December 2010 TPAs £6.7 billion, RWAs £4.3 billion).

| | 31 | | |
|-----------------------------------|---------|----------|----------|
| | 30 June | 31 March | December |
| | 2011 | 2011 | 2010 |
| | £bn | £bn | £bn |
| Gross customer loans and advances | | | |
| Portfolios & banking | 92.1 | 98.0 | 104.9 |
| International businesses | 2.7 | 2.9 | 3.5 |
| Markets | 0.1 | 0.1 | - |
| | 94.9 | 101.0 | 108.4 |
| Risk-weighted assets | | | |
| Portfolios & banking | 72.6 | 76.5 | 83.5 |
| International businesses | 5.2 | 5.1 | 5.6 |
| Markets | 46.9 | 46.9 | 64.6 |
| | 124.7 | 128.5 | 153.7 |

Non-Core (continued)

Third party assets (excluding derivatives)

Quarter ended 30 June 2011

| | 31 March 2011 £bn | Run-off £bn | Disposals/ restructuring £bn | Drawings/ roll overs £bn | Impairments £bn | FX £bn | 30 June 2011 £bn |
|---|-------------------------|----------------|------------------------------------|--------------------------------|--------------------|-----------|------------------------|
| Commercial real estate | 38.7 | (1.1) | (0.3) | 0.2 | (1.3) | 0.4 | 36.6 |
| Corporate | 56.0 | (2.6) | (4.0) | 0.6 | - | 0.4 | 50.4 |
| SME | 3.1 | (0.4) | - | - | - | - | 2.7 |
| Retail | 8.3 | (0.2) | - | - | (0.1) | - | 8.0 |
| Other | 2.5 | (0.2) | - | - | - | - | 2.3 |
| Markets | 12.3 | (0.7) | (0.4) | 0.3 | - | - | 11.5 |
| Total (excluding derivatives) | 120.9 | (5.2) | (4.7) | 1.1 | (1.4) | 0.8 | 111.5 |
| Markets - RBS Sempra Commodities JV | 3.9 | (0.5) | (2.2) | - | - | (0.1) | 1.1 |
| Total (1) | 124.8 | (5.7) | (6.9) | 1.1 | (1.4) | 0.7 | 112.6 |

Quarter ended 31 March 2011

| | 31 December 2010 £bn | Run-off £bn | Disposals/ restructuring £bn | Drawings/ roll overs £bn | Impairments £bn | FX £bn | 31 March 2011 £bn |
|---|-------------------------------|----------------|------------------------------------|--------------------------------|--------------------|-----------|-------------------------|
| Commercial real estate | 42.6 | (3.0) | (0.4) | 0.2 | (1.0) | 0.3 | 38.7 |
| Corporate | 59.8 | (1.9) | (2.4) | 0.8 | - | (0.3) | 56.0 |
| SME | 3.7 | (0.6) | - | - | - | - | 3.1 |
| Retail | 9.0 | (0.4) | - | - | (0.1) | (0.2) | 8.3 |
| Other | 2.5 | - | - | - | - | - | 2.5 |
| Markets | 13.6 | (1.1) | - | 0.1 | - | (0.3) | 12.3 |
| Total (excluding derivatives) | 131.2 | (7.0) | (2.8) | 1.1 | (1.1) | (0.5) | 120.9 |
| Markets - RBS Sempra Commodities JV | 6.7 | (0.3) | (2.3) | - | - | (0.2) | 3.9 |
| Total (1) | 137.9 | (7.3) | (5.1) | 1.1 | (1.1) | (0.7) | 124.8 |

Quarter ended 30 June 2010

| | 31 March | | Disposals/ Drawings/ 2010 Run-off restructuring | | | FX £bn | 30 June 2010 £bn |
|-------------------------------|----------|-------|--|--------------------|-------|-----------|------------------------|
| | £bn | £bn | roll overs £bn | Impairments £bn | £bn | | |
| Commercial real estate | 49.5 | (5.3) | (0.3) | 2.8 | (1.1) | (1.5) | 44.1 |
| Corporate | 78.8 | (2.6) | (4.5) | 0.6 | 0.1 | (2.0) | 70.4 |
| SME | 4.0 | 0.9 | - | - | (0.1) | (0.1) | 4.7 |
| Retail | 19.8 | (0.5) | (1.7) | - | (0.2) | (0.6) | 16.8 |
| Other | 3.3 | (0.2) | (0.1) | - | - | - | 3.0 |
| Markets | 24.1 | (0.6) | (1.4) | 0.6 | (0.1) | (0.3) | 22.3 |
| Total (excluding derivatives) | 179.5 | (8.3) | (8.0) | 4.0 | (1.4) | (4.5) | 161.3 |
| Markets - RBS Sempra | | | | | | | |
| Commodities JV | 14.0 | (1.4) | - | - | - | 0.1 | 12.7 |
| Total (1) | 193.5 | (9.7) | (8.0) | 4.0 | (1.4) | (4.4) | 174.0 |

Note:

(1) £2 billion of disposals have been signed as at 30 June 2011 but are pending closing (31 March 2011 - £7 billion; 30 June 2010 - £2 billion).

Non-Core (continued)

| | 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 by donating division and sector | | | | | |
| UK Retail | | | | | |
| Mortgages | 1 | (3) | - | (2) | 3 |
| Personal | 3 | 3 | - | 6 | 2 |
| Total UK Retail | 4 | - | - | 4 | 5 |
| UK Corporate | | | | | |
| Manufacturing and infrastructure | 47 | - | 21 | 47 | 16 |
| Property and construction | 36 | 13 | 150 | 49 | 204 |
| Transport | 26 | 20 | (3) | 46 | (3) |

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| | | | | | |
|------------------------------------|-------|-------|-------|-------|-------|
| Banking and financial institutions | 1 | 3 | 2 | 4 | 26 |
| Lombard | 25 | 18 | 29 | 43 | 54 |
| Other | 46 | 11 | 64 | 57 | 121 |
| Total UK Corporate | 181 | 65 | 263 | 246 | 418 |
| Ulster Bank | | | | | |
| Mortgages | - | - | 23 | - | 43 |
| Commercial real estate | | | | | |
| - investment | 161 | 223 | 145 | 384 | 244 |
| - development | 810 | 503 | 386 | 1,313 | 748 |
| Other corporate | 6 | 107 | 137 | 113 | 188 |
| Other EMEA | 5 | 6 | 13 | 11 | 33 |
| Total Ulster Bank | 982 | 839 | 704 | 1,821 | 1,256 |
| US Retail & Commercial | | | | | |
| Auto and consumer | 12 | 25 | 32 | 37 | 47 |
| Cards | (3) | (7) | 4 | (10) | 18 |
| SBO/home equity | 58 | 53 | 67 | 111 | 169 |
| Residential mortgages | 6 | 4 | (10) | 10 | 2 |
| Commercial real estate | 11 | 19 | 42 | 30 | 105 |
| Commercial and other | (6) | (3) | 6 | (9) | 8 |
| Total US Retail & Commercial | 78 | 91 | 141 | 169 | 349 |
| Global Banking & Markets | | | | | |
| Manufacturing and infrastructure | (6) | (2) | (281) | (8) | (252) |
| Property and construction | 217 | 105 | 501 | 322 | 973 |
| Transport | (1) | (6) | - | (7) | 1 |
| Telecoms, media and technology | 34 | (11) | 11 | 23 | - |
| Banking and financial institutions | (39) | 1 | 11 | (38) | 172 |
| Other | (36) | (8) | 24 | (44) | 125 |
| Total Global Banking & Markets | 169 | 79 | 266 | 248 | 1,019 |
| Other | | | | | |
| Wealth | (1) | 1 | 16 | - | 44 |
| Global Transaction Services | (3) | - | - | (3) | 3 |
| Central items | 1 | - | - | 1 | - |
| Total Other | (3) | 1 | 16 | (2) | 47 |
| Total impairment losses | 1,411 | 1,075 | 1,390 | 2,486 | 3,094 |

Non-Core (continued)

30 June 31 March 31
2011 2011 December

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| | £bn | £bn | 2010 £bn |
|---|------|------|-------------|
| Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector | | | |
| UK Retail | | | |
| Mortgages | 1.5 | 1.6 | 1.6 |
| Personal | 0.3 | 0.3 | 0.4 |
| Total UK Retail | 1.8 | 1.9 | 2.0 |
| UK Corporate | | | |
| Manufacturing and infrastructure | 0.3 | 0.2 | 0.3 |
| Property and construction | 7.2 | 8.0 | 11.4 |
| Transport | 5.0 | 5.1 | 5.4 |
| Banking and financial institutions | 0.9 | 0.8 | 0.8 |
| Lombard | 1.4 | 1.5 | 1.7 |
| Invoice finance | - | - | - |
| Other | 6.8 | 7.5 | 7.4 |
| Total UK Corporate | 21.6 | 23.1 | 27.0 |
| Ulster Bank | | | |
| Commercial real estate | | | |
| - investment | 4.1 | 3.9 | 4.0 |
| - development | 9.0 | 8.9 | 8.4 |
| Other corporate | 1.8 | 2.0 | 2.2 |
| Other EMEA | 0.4 | 0.5 | 0.4 |
| Total Ulster Bank | 15.3 | 15.3 | 15.0 |
| US Retail & Commercial | | | |
| Auto and consumer | 2.2 | 2.4 | 2.6 |
| Cards | 0.1 | 0.1 | 0.1 |
| SBO/home equity | 2.7 | 2.9 | 3.2 |
| Residential mortgages | 0.7 | 0.7 | 0.7 |
| Commercial real estate | 1.2 | 1.4 | 1.5 |
| Commercial and other | 0.4 | 0.4 | 0.5 |
| Total US Retail & Commercial | 7.3 | 7.9 | 8.6 |
| Global Banking & Markets | | | |
| Manufacturing and infrastructure | 8.5 | 8.9 | 8.7 |
| Property and construction | 18.6 | 19.1 | 19.6 |
| Transport | 4.2 | 4.5 | 5.5 |
| Telecoms, media and technology | 0.8 | 1.1 | 0.9 |
| Banking and financial institutions | 8.8 | 11.1 | 12.0 |
| Other | 7.5 | 8.2 | 9.0 |

| | | | |
|---|-------|-------|-------|
| Total Global Banking & Markets | 48.4 | 52.9 | 55.7 |
| Other | | | |
| Wealth | 0.3 | 0.4 | 0.4 |
| Global Transaction Services | 0.3 | 0.2 | 0.3 |
| RBS Insurance | - | 0.1 | 0.2 |
| Central items | (0.3) | (1.0) | (1.0) |
| Total Other | 0.3 | (0.3) | (0.1) |
| Gross loans and advances to customers (excluding reverse repurchase agreements) | 94.7 | 100.8 | 108.2 |

Non-Core (continued)

Key points

Non-Core continues to make good progress. Third party assets (excluding derivatives) were down £12 billion to £113 billion and the division remains on track to meet its target of reducing third party assets to below £100 billion by the end of 2011.

Momentum continues in 2011 as Non-Core works through the £12 billion pipeline of transactions signed but not completed at the end of 2010. At the end of Q2 2011 £2 billion remained to be completed from last year's signed deals and the pipeline continues to build.

Headcount continues to fall, from 6,700 at the end of Q1 2011 to 6,300 at 30 June 2011.

Q2 2011 results demonstrate Non-Core's commitment to delivering results in what is a challenging and complex environment with significant regulatory headwinds.

As Non-Core continues to shrink, income and expenses are falling in line with expectations. The increase in impairments in Q2 2011 principally resulted from additional real estate charges, continuing difficulties in Ireland driven by development real estate values and impairments relating to a small number of large corporates.

Q2 2011 compared with Q1 2011

- Non-Core made further progress with third party assets (excluding derivatives) declining by £12 billion to £113 billion, driven by disposals of £7 billion and run-off of £5 billion.
- Risk weighted assets fell by £4 billion in Q2 2011. The reduction principally reflected continued asset sales, run-off and defaults, partially offset by foreign exchange rate movements.
- Non-Core operating loss was £858 million in the second quarter, compared with £1,040 million in Q1 2011. Non-interest income was higher, reflecting gains on a number of securities arising from restructured assets.
- Higher impairments in Q2 2011 resulted from additional real estate charges, continuing difficulties in Ireland driven by development real estate values and impairments relating to a small number of large corporates.

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Expenses increased 4% from Q1 2011. Excluding the impact of one-off changes to expense accruals, expenses were broadly flat in Q2 2011.

Q2 2011 compared with Q2 2010

- Third party assets (excluding derivatives) declined by £61 billion (35%) since Q2 2010 reflecting disposals (£36 billion) and run-off (£26 billion).
- Risk-weighted assets were £50 billion lower, driven principally by significant disposal activity combined with run-off.
- Offsetting the impact of continuing balance sheet reduction on net interest income, non-interest income was higher as a result of securities gains in Q2 2011 on restructured assets.
- Costs decreased by £240 million primarily reflecting disposal activity and consequent significant headcount reductions across countries, Non-Core insurance and Sempra Commodities.

Non-Core (continued)

Key points (continued)

H1 2011 compared with H1 2010

- Non-Core operating loss decreased from £2,883 million in H1 2010 to £1,898 million in H1 2011 driven by lower expenses and impairments.
- Lower costs reflect significant headcount reductions resulting from disposals and run-down of businesses.
- Impairments were £608 million lower, reflecting the overall improvement in the economic environment despite ongoing difficulties in Ireland.

Signatures

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

Date: 5 August 2011

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary