ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
September 30, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

30 September 2009

The Royal Bank of Scotland Group plc

Gogarburn
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Scotland
United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

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

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

Yes No X

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-123972) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited, to the Group’s potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the extent and nature of future developments in the credit markets, including the sub-prime market, and their impact on the financial industry in general and the Group in particular; the effect on the Group’s capital of write downs in respect of credit market exposures; general economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G-7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes; changes in competition and pricing environments; natural and other disasters; the inability to hedge certain risks economically; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; and the success of the Group in managing the risks involved in the foregoing.

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

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

Presentation of information

Acquisition of ABN AMRO
On 17 October 2007, RFS Holdings B.V. ('RFS Holdings'), a company jointly owned by The Royal Bank of Scotland Group plc (‘RBS’), Fortis Bank Nederland (Holding) N.V. ('Fortis') and Banco Santander S.A. ('Santander') (together, the 'Consortium Members'), completed the acquisition of ABN AMRO Holding N.V. ('ABN AMRO').

RFS Holdings is implementing an orderly separation of the business units of ABN AMRO with RBS retaining the following ABN AMRO business units:

• Continuing businesses of Business Unit North America;
• Business Unit Global Clients and wholesale clients in the Netherlands (including former Dutch wholesale clients) and Latin America (excluding Brazil);
• Business Unit Asia (excluding Saudi Hollandi); and
• Business Unit Europe (excluding Antonveneta).

Certain other assets will continue to be shared by the Consortium Members.

On 3 October 2008, the State of the Netherlands acquired Fortis Bank Nederland (Holding) N.V. including Fortis' participation in RFS Holdings that represents the acquired activities of ABN AMRO.

The separation of platforms shared between RBS and its Dutch state-owned partner has been completed and the Group is now on track, subject to legal process and regulatory approvals, for the legal separation of the constituent parts of ABN AMRO by the end of the year. From that point RBS will cease to consolidate the Dutch state's interest in RBS Group statutory accounts.

Non-GAAP financial information
The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and IFRS as adopted by the European Union. IFRS requires consolidating investments over which RBS has control, including RFS Holdings as described below. However, as a practical matter, RBS does not measure its performance based on the results of operations including the assets and liabilities attributable to the RFS Holdings minority shareholders. RBS believes that combining the performance of the operations related to RFS Holdings minority shareholders with the rest of the Group does not provide a meaningful basis for discussion of the financial condition and results of RBS’s operations. Therefore, RBS presents a discussion of certain components of its performance excluding RFS Holdings minority interest. These measures are non-GAAP financial measures.

A body of generally accepted accounting principles such as IFRS is commonly referred to as ‘GAAP’. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. A reconciliation is presented in the pro forma financial information presented in Appendix I to the Form 6-K. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

Statutory results
RFS Holdings is jointly owned by the Consortium Members. It is controlled by RBS and is therefore fully consolidated in its statutory financial statements. The interests of the State of the Netherlands and Santander in RFS Holdings are included in minority interests.

Restatements

Divisional results for 2008 have been restated to reflect the Group's new organisational structure that includes a Non-Core division comprising individual assets, portfolios and lines of business that the Group intends to run off or dispose of. The Non-Core division is reported separately from the divisions which form the Core Group. In addition, separate reporting of Group Manufacturing and Centre results has changed and, with the exception of certain items of a one off nature, costs incurred are now allocated to the customer-facing divisions and included in the measurement of the returns which they generate. The changes do not affect the Group's results. Comparatives have been restated accordingly. Descriptions of business for the new divisions are set out on page 17.

The results for 2008 have been restated for the amendment to IFRS 2 'Share-based Payment'. This has resulted in an increase in staff costs amounting to £35 million for the first half of 2008 and £169 million for the full year 2008.

The results for the first half of 2008 have been restated for the finalisation of the ABN AMRO acquisition accounting.

In this document the term "2008 Form 20-F" refers to the Annual Report on Form 20-F filed with the SEC on 29 April 2009 and the amendment on Form 6-K filed on 30 September 2009.

Condensed consolidated income statement
for the half year ended 30 June 2009 (unaudited)

In the income statement below, amortisation of purchased intangible assets and integration and restructuring costs are included in operating expenses. First half 2008 and full year 2008 have been restated for the amendment to IFRS 2 'Share-based Payment'.

	First half 2009 £m	First half 2008 £m
Interest receivable	18,131	24,178
Interest payable	(9,962)	(15,483)
Net interest income	8,169	8,695
Fees and commissions receivable	4,988	4,917
Fees and commissions payable	(1,340)	(1,188)
Income/(loss) from trading activities	1,994	(3,373)
Gain on redemption of own debt	3,790	-
Other operating income (excluding insurance premium income)	1,419	1,635
Net insurance premium income	2,821	3,156
Non-interest income	13,672	5,147
Total income	21,841	13,842
Staff costs	(6,008)	(5,558)
Premises and equipment	(1,533)	(1,218)
Other administrative expenses	(2,682)	(2,420)
Depreciation and amortisation	(1,357)	(1,523)
Write-down of goodwill and other intangible assets	(311)	-
Operating expenses	(11,891)	(10,719)
Profit before other operating charges and impairment losses	9,950	3,123
Net insurance claims	(2,134)	(2,189)
Impairment losses	(8,060)	(1,661)
Operating loss before tax	(244)	(727)
Tax credit	441	333
Profit/(loss) from continuing operations	197	(394)
(Loss)/profit from discontinued operations, net of tax	(62)	234
Profit/(loss) for the period	135	(160)
Minority interests	(631)	(452)
Other owners' dividends	(546)	(215)
Loss attributable to ordinary shareholders	(1,042)	(827)

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Financial performance

Group organisational structure

Following the conclusion of the Strategic Review, the Group has realigned its Core divisions, including in particular the separation of RBS UK into UK Retail and UK Corporate. A Non-Core division has also been established to manage and run off or dispose of a number of assets and businesses that do not meet the Group's target criteria. Further details of the new divisional structure are on page 17. The initial discussion of Group performance relates to both Core and Non-Core operations. Commentary on divisional performance on pages 20-44 relates to Core activities only.

Group operating performance

The Group delivered strong income generation, up 58% to £21,841 million, with operating expenses up 11% to £11,891 million to yield a profit before operating charges and impairment losses of £9,950 million in the first half of 2009, compared with £3,123 million in the first half of 2008. Impairments, however, rose sharply to £8,060 million, compared with £1,661 million in the first half of 2008. Over 65% of the impairment costs arose in the Non-Core division, but the Group also experienced a significant rise in credit costs in all core divisions, reflecting the continuing deterioration in economic conditions. Approximately 70% of the impairments and write-downs incurred in the first half are attributable to assets covered by the Asset Protection Scheme, subject to any changes to the Scheme, where some important issues remain open. Excluding RFS Holdings minority interest, total income was up 63% to £19,034 million, non-GAAP operating expenses were up 11% to £9,918 million resulting in a non-GAAP profit before operating charges and impairment losses of £9,116 million. Non-GAAP impairments also rose sharply to £7,521 million, compared with £1,479 million in the first half of 2008.

After a gain of £3,790 million on the redemption of a number of outstanding debt securities, the Group recorded a loss before tax of £244 million, compared with a loss of £727 million in the same period of 2008. After tax, minority interests and preference share dividends the loss attributable to ordinary shareholders was £1,042 million, up 26% from the loss recorded in the first half of 2008. This represents a basic loss per ordinary share of 2.2p, including discontinued operations. Excluding RFS Holdings minority interest, the non-GAAP loss before tax was £296 million compared with £726 million in the same period of 2008.

Group margin

Group net interest margin fell to 1.78%, compared with 2.03% in the first half of 2008 and 2.12% for the full year 2008. While new business asset margins have improved, these will take some time to feed through to the back book and have so far fallen well short of the increase in funding costs. In the very low interest rate environment prevailing in all the Group's major markets, deposit pricing floors and active competition have compressed liability margins. In addition, markedly increased costs of term funding and of increasing our stock of liquid assets have contributed to the reduction in net interest margin. Excluding RFS Holdings minority interest, non-GAAP net interest margin fell to 1.72%, compared with 2.14% in the first half of 2008 and 2.18% for the full year 2008.

In these prevailing conditions, margins in the core banking divisions are expected to remain under pressure in the second half.

Group credit and risk metrics
Loan impairments increased to £7,330 million in the first half, representing 1.98% of gross loans and advances excluding reverse repos, on an annualised basis, compared with 0.44% in the first half of 2008 and 1.27% in the second half of 2008. Impairments continued to increase in the second quarter, particularly in the Group's UK retail and corporate banking divisions, and included an incremental provision on our UK corporate book, to reflect the materially increased flow of companies into restructuring during the period. While a degree of stabilisation has occurred in financial markets, the impact of economic recession continues to feed through into the Group's credit portfolios. Excluding RFS Holdings minority interest, non-GAAP loan impairments increased to £6,796 million in the first half of 2008, representing 2.22% of non-GAAP gross loans and advances excluding reverse repos, on an annualised basis, compared with 0.46% in the first half of 2008 and 1.33% in the second half of 2008.

Non-performing and potential problem loans at 30 June 2009 totalled £33.7 billion, an increase of 222% from 30 June 2008 and of 56% from 31 December 2008. These categories represented 4.53% of gross loans and advances, excluding reverse repos, compared with 1.44% at 30 June 2008 and 2.52% at 31 December 2008. Excluding RFS Holdings minority interest, non-GAAP non-performing and potential problem loans at 30 June 2009 totalled £31.0 billion, an increase of 246% from 30 June 2008 and of 63% from 31 December 2008.

Provision coverage was 46%, a decrease of 12% compared with 30 June 2008 and a decrease of 6% compared with 31 December 2008. The declining trend is mainly attributable to the increasingly secured composition of the Group's non performing loan portfolio. In addition, during the first half of 2009, a small number of large corporate exposures assessed as requiring limited provisions, because of the structure of the transactions and the expected restructuring outcomes, moved into the non-performing category.

The availability of equity funding in the capital markets has provided some relief to companies, particularly in the UK, but corporate default rates have continued to rise. While personal unsecured lending has been reduced, arrears on these exposures have continued to increase, in line with rising unemployment trends. Arrears on residential mortgage lending have risen more modestly, with the arrears rate on the NatWest and RBS UK mortgage portfolio increasing to 1.8% at 30 June 2009 from 1.16% at 30 June 2008 and 1.5% at December 2008. The average loan-to-value for new business was 65% in the first half of 2009 versus 67% for 2008.

The Group has made good progress in strengthening its risk management practices, with the implementation of updated limit frameworks for credit and market risk and further refinement of the credit approval process.

Group balance sheet, capital and funding
The Group made good progress in its financial restructuring during the first six months of 2009, achieving a reduction of £583 billion in total assets to £1,819 billion – a fall of 24%. Excluding mark-to-market derivative assets, third party assets were reduced by £147 billion to £1,262 billion, principally reflecting substantial repayments of loans to banks and customers. Mark-to-market derivative assets fell by 44% to £557 billion, with a corresponding fall in derivative liabilities.

Group risk-weighted assets totalled £655.2 billion at 30 June 2009, an increase of £11.5 billion from June 2008 but a decrease of £40.6 billion from December 2008. Although the Group has continued to reduce its balance sheet throughout the half year, the pro-cyclical effects of the Basel 2 methodology have resulted in higher risk-weightings. Undrawn facilities and other commitments to lend have been reduced to £298.9 billion, down 10% from June 2008 and 15% from December 2008. The effect of currency movements during the latter half of 2008, in particular the marked weakening of sterling against the dollar, has been partially reversed during the first half of 2009. Excluding RFS Holdings minority interest, risk-weighted assets totalled £547.3 billion at 30 June 2009, an increase of £55.6 billion from June 2008 but a decrease of £30.5 billion from December 2008

The Group's Core Tier 1 ratio at 30 June 2009 was 7.0%, compared with 6.5% a year earlier, reflecting the preference share conversion and debt exchange carried out earlier this year, as well as 2008 equity issuance. Excluding RFS Holdings minority interest, the Group's Core Tier 1 ratio at 30 June 2009 was 6.4%, compared with 5.3% a year earlier.

In April, the Group concluded a series of exchange offers and tender offers with the holders of a number of Tier 1 and Upper Tier 2 securities which resulted in an aggregate pre-tax gain of £4.6 billion, of which approximately £3.8 billion was taken through income and the remainder through equity.

The Asset Protection Scheme announced in February and related capitalisations, when concluded, is expected to further strengthen the Group's capital ratios, as the assets covered by the Scheme will carry lower risk weightings as a result of UK Government asset insurance. This augments the impact of RBS's own extensive restructuring measures. The scheme is currently expected to provide approximately £150 billion of risk-weighted asset relief. In addition, HM Treasury will subscribe to a total of £19.5 billion of new B Shares qualifying as capital on implementation of the APS, with a further £6 billion as a contingent reserve. The APS should strengthen Core Tier 1 by more than 5% on a proportional consolidation basis excluding RFS Holdings minority interest. This figure is RBS's current estimate and subject to finalisation of the detailed terms and conditions, confirmation of asset eligibility and pricing (all of which require state aid approval) and without taking account of the £6 billion contingent tranche of B share issuance outlined in February.

While the quantum of funding available in the markets has increased, funding costs remain high compared with pre-crisis levels. Money market conditions have improved, with spreads between Libor and overnight indexed swap rates narrowing somewhat, though they remain substantially in excess of average levels experienced in previous years. The short and medium end of the yield curve remains steep.

The Group's average credit spreads in the first half were significantly higher than in the same period of 2008 but spreads have now narrowed from their peaks. During the period the Group was able to resume issuance of term debt without the requirement for a government guarantee and has made significant progress towards extending the maturity profile of its funding. It has also made good progress in building up its liquidity portfolio, although this has been at the expense of margins.

The Group's loan:deposit ratio improved from 146% at December 2008 to 136% at June 2009. Each division has been set targets for further improvements in this ratio over the next five years.

Core Bank

The Core Bank achieved a good recovery in operating performance in the first half, with underlying operating profit before tax, purchased intangibles amortisation, gain on redemption of own debt, strategic disposals, write-down of goodwill and other intangibles, integration and restructuring costs, up 33% to £6.294 million.

Operating income grew strongly, reflecting favourable trading conditions during the first half, with strong volumes and volatility benefiting Global Banking & Markets. There were more modest improvements in Wealth and Global Transaction Services, offset to a significant degree by increased funding costs. The core UK retail and corporate banking businesses put in a resilient performance, with severe margin attrition from higher deposit and funding costs but some improvement in new asset margins. Non-interest income was also affected by slower economic conditions. Total income rose by 25% to £17,793 million, with net interest income 10% lower at £6,205 million and non-interest income 59% higher at £11,588 million.

Expense discipline remained good, both in the customer-facing divisions and in Manufacturing operations, with operating expenses up 7% to £7,745 million. Operating profit before other operating charges and impairment losses increased by 44% to £10,048 million. The Group has made good progress in its £2.5 billion expense reduction programme, with £0.6 billion of cost savings delivered in the first half.

Impairments increased markedly across all banking divisions, totalling £2,177 million, an increase of 225% from the first half of 2008. Impairments in the second quarter were 11% higher than in the first, with a small net recovery in GBM but incremental impairments taken to reflect the accelerating flow of credit problems in the UK corporate sector, and a further increase in personal delinquencies in the UK and US, in line with the continuing deterioration in economic conditions and the rising level of unemployment.

Non-Core Division
Non-Core division third party assets at 30 June 2009, including derivatives, totalled £231.1 billion, down from £324.7 billion at 31 December 2008. The division recorded an operating loss of £9,648 million in the first half, driven largely by credit market and other write-downs of £4.2 billion and impairments of £5.3 billion. Approximately 44% of the assets of the Non-Core division are expected to be covered by the Asset Protection Scheme.

The Group has established targets for a reduction of approximately £230 billion in Non-Core's third party assets, excluding derivatives mark to market, by 2013, as compared with December 2008. This includes asset run-off of approximately £200 billion as well as £50 billion to £60 billion of asset sales, offset by rollovers and additional drawings. Achieving this run-off profile will depend on sufficient recovery in market conditions to allow assets to be disposed of at acceptable valuations, and on the securitisation or sale of some APS assets in the outer years of the five year plan, for which HM Treasury's permission may be needed.

Disposals
In January the Group announced that it had disposed of its 4.26% equity stake in Bank of China for a net consideration of £1.6 billion.

In April 2009 the Group disposed of its 50% stake in Linea Directa Aseguradora to its joint venture partner, Bankinter, for a cash consideration of €426 million. This disposal is consistent with the Group strategy announced on 26 February 2009. As a 50/50% joint venture, Linea Directa Aseguradora had operated as a largely independent Spanish insurance operation with limited connection to the Group.

RBS announced on 4 August 2009 that it had reached agreement with ANZ on the sale of a number of its Asian assets, and remains in advanced discussions on the sale of its remaining Asian retail and commercial businesses.

Asset Protection Scheme
Although full documentation of the Asset Protection Scheme has not yet been finalised, the key terms of the APS were agreed in principle and announced in February. RBS's most recent APS submission is for coverage of assets with a gross value of £316 billion and a carrying value, net of impairments and write-downs incurred before 1 January 2009, of £294 billion. These assets are individually identified and documented and comprise primarily corporate loans, bonds and mortgages, as well as more complex credit exposures such as collateralised debt obligations and derivative transactions with monoline insurers.

Subject to the detailed terms and conditions of the Scheme and state aid approval, RBS will bear the first loss on these specified assets up to £19.5 billion, plus historical impairments and write-downs. Once this first loss is exceeded, HMT will bear 90% of further losses, while the remaining 10% of the losses will remain with RBS. The APS applies to losses incurred on or after 1 January 2009 in respect of assets held on RBS's balance sheet as at 31 December 2008.

The Group will pay a fee of £6.5 billion for this protection. In addition, it has agreed to forgo certain tax reliefs, including the ability to carry back 2008 losses to 2007. RBS's agreement to forfeit these tax reliefs will continue until 31 December 2013 when the Group returns to profitability, whichever occurs earlier. The cost of this tax agreement will depend on results but is currently estimated at £9-11 billion.

Before RBS's participation in the APS can begin, state aid clearance must also be received by the UK Government from the European Commission in respect of all aspects of the scheme including asset coverage and pricing. Both the terms of the APS announced in February and the asset coverage outlined above remain open and may change as negotiations continue with HM Treasury and the European Commission regarding the Scheme. This remains an important risk factor for RBS.

UK Lending Commitments

In February, as a result of the APS, the Group agreed to make available an additional £25 billion of lending to creditworthy customers on commercial terms, and subject to market demand, over the ensuing 12 months, and a similar amount over the following year. In the first four months since entering into this commitment RBS has achieved strong results in the mortgage market, with gross lending over £7 billion despite generally weak demand, and remains on track to achieve its targets. UK mortgage balances, including Ulster at 30 June 2009 totalled £80.8 billion, up 9% year on year and 5% higher than at the end of 2008.

In business markets, RBS has achieved gross new lending of £28.6 billion. However, demand has been comparatively muted, with companies cutting inventories and expansion plans and reducing their bank borrowing requirements. Additionally, the anticipated withdrawal of non-UK and wholesale-funded lenders which has characterised the mortgage market has not occurred in corporate markets, and the anticipated "gap" in the market for creditworthy corporate borrowers has not emerged. After taking account of loan repayments and overdraft movements, RBS's UK business lending, including Ulster, at 30 June 2009 totalled £155.1 billion, a decrease of 1% from 30 June 2008 and a decline of 4% since the end of 2008.

In the SME segment of business markets, gross lending in the first half totalled £17 billion notwithstanding weaker demand. However, repayments have been accelerating since the third quarter of 2008, leaving balances at the end of June of £66.6 billion, up 2% from June 2008. As a result of RBS's price pledge, 94% of customers who renewed their overdrafts in the second quarter of 2009 did so at the same margin or lower and in June, the average interest rate paid by customers on term loans was half its level a year earlier. Total credit applications in the first half were down 22% on the same period of 2008. While there has been some recovery in recent months in the number of applications for term loans, the average size of each application has fallen, reflecting, among other factors, falling property values. As a result, term loan applications by value were 37% lower. The acceptance rate across all categories of SME credit remains stable at 85%.

Among larger corporates, RBS advanced £12 billion of gross new lending in the first half. However, many larger companies are actively deleveraging, and RBS has helped many of its clients to raise new finance in the equity and bonds markets, which has been used to reduce bank borrowing substantially. Demand for acquisition finance remains minimal.

RBS has undertaken a range of initiatives aimed at demonstrating that it remains open for business, and is determined to do its part in meeting demand for lending from creditworthy homeowners and businesses. There have been some recent signs of a modest increase in demand in certain segments of the market, but in the absence of a more general recovery in borrowing appetite the targets will remain challenging.

	30 June 2008 £bn	31 December 2008 £bn	Gross lending during H1 2009 £bn	Net lending during H1 2009 £bn	30 June 2009 £bn
Mortgages	74.2	76.7	7.2	4.1	80.8
Total Business	156.8	162.4	28.6	(7.3)	155.1
SME	65.0	66.9	17.0	(0.3)	66.6
Mid-corporate	47.3	49.4	7.3	(2.6)	46.8
Large corporate	44.5	46.1	4.3	(4.4)	41.7
Total Lending	231.0	239.1	35.8	(3.2)	235.9

Lending figures represent drawn balances, with the exception of Large Corporate figures, which are committed lending (as per RBS's Lending Commitments agreement). Wealth lending balances, unsecured personal lending and non-UK lending are not included in the above data.

Customer Franchises

Crucial to the Group's prospects for future success and return to standalone health is the resilience of its customer franchises. It was, therefore, significant that, excepting the extensive activities earmarked for restructuring, run-off or exit, RBS generally sustained its customer market positions during the first half despite the headwinds of reputational damage and financial weakness. In the UK personal sector, the RBS and NatWest banking brands made good headway, increasing the number of current account customers to 12.6 million, up 3% from June 2008, and the number of savings accounts to 9.7 million, up 18%. Our mortgage business has also made particularly good progress despite weak market demand, driven by the requirement to fulfil our lending commitments with market share increased from historically modest levels as wholesale-funded lenders have pulled out of the market. UK Corporate maintained its market-leading position among businesses, ranking first in customer satisfaction. Ulster Bank increased consumer accounts by 5%, while Citizens achieved good success in converting mortgage customers into checking account customers, with checking accounts up 2% to 4.1 million, and increased the number of business checking account customers by 3%. In GBM, good progress was made in chosen market positions, moving from fifth to fourth in the Euromoney global foreign exchange rankings and sustaining top 3 positions in key government bond markets. A number of other market shares slipped back, reflecting deliberate strategy and business disruption. RBS Insurance achieved a strong performance, with own-brand motor policies up 8% and own-brand non-motor policies also up 8%.

Outlook

The exceptionally favourable market conditions from which GBM benefited in the first half of 2009 are not expected to continue in the second half, and this is likely to have a material effect on Core Bank operating income. In the retail and corporate banking divisions, income is expected to be more stable. Costs are expected to remain well controlled, while impairments are expected to remain at elevated levels. Restructuring charges will continue to be a feature over the next three years.

Condensed consolidated balance sheet
at 30 June 2009 (unaudited)

	30 June 2009 £m	31 December 2008 £m
Assets		
Cash and balances at central banks	39,946	12,400
Net loans and advances to banks	60,330	79,426
Reverse repurchase agreements and stock borrowing	35,076	58,771
Loans and advances to banks	95,406	138,197
Net loans and advances to customers	722,260	835,409
Reverse repurchase agreements and stock borrowing	47,514	39,313
Loans and advances to customers	769,774	874,722
Debt securities	244,089	267,549
Equity shares	17,580	26,330
Settlement balances	23,264	17,832
Derivatives	557,284	992,559
Intangible assets	18,180	20,049
Property, plant and equipment	17,895	18,949
Deferred taxation	8,392	7,082
Prepayments, accrued income and other assets	23,265	24,402
Assets of disposal groups	3,848	1,581
Total assets	1,818,923	2,401,652
Liabilities		
Bank deposits	126,852	174,378
Repurchase agreements and stock lending	44,142	83,666
Deposits by banks	170,994	258,044
Customer deposits	540,674	581,369
Repurchase agreements and stock lending	75,015	58,143
Customer accounts	615,689	639,512
Debt securities in issue	274,180	300,289
Settlement balances and short positions	60,287	54,277
Derivatives	537,064	971,364
Accruals, deferred income and other liabilities	30,121	31,482
Retirement benefit liabilities	1,731	2,032
Deferred taxation	4,022	4,165
Insurance liabilities	9,542	9,976
Subordinated liabilities	35,703	49,154
Liabilities of disposal groups	7,498	859
Total liabilities	1,746,831	2,321,154
Equity:		
Minority interests	16,426	21,619
Owners' equity*		
Called up share capital	14,120	9,898

Reserves	41,546	48,981
Total equity	72,092	80,498
Total liabilities and equity	1,818,923	2,401,652
*Owners' equity attributable to:		
Ordinary shareholders	47,820	45,525
Other equity owners	7,846	13,354
	55,666	58,879

Overview of condensed consolidated balance sheet

Total assets of £1,818.9 billion at 30 June 2009 were down £582.7 billion, 24%, compared with 31 December 2008.

Cash and balances at central banks increased £27.5 billion to £39.9 billion from seasonal lows.

Loans and advances to banks decreased by £42.8 billion, 31%, to £95.4 billion reflecting lower reverse repurchase agreements and stock borrowing ('reverse repos'), down by £23.7 billion, 40% to £35.1 billion and reduced bank placings, down £19.1 billion, 24%, to £60.3 billion largely as a result of reduced cash collateral balances in Global Banking & Markets.

Loans and advances to customers were down £104.9 billion, 12%, at £769.8 billion. Within this, reverse repos increased by 21%, £8.2 billion to £47.5 billion. Excluding reverse repos, lending declined by £113.1 billion, 14% to £722.3 billion or £108.6 billion, 13%, before impairment provisions. This reflected the effect of exchange rate movements, £51.9 billion, following the strengthening of sterling during the first half of 2009 and reductions in lending in Global Banking & Markets, down £38.5 billion, Non-Core, £11.5 billion including £3.5 billion transfer to disposal groups in respect of the Asian businesses, UK Corporate & Commercial, £3.4 billion, US Retail & Commercial, £2.8 billion and Ulster Bank, £1.4 billion.

Debt securities decreased by £23.5 billion, 9%, to £244.1 billion and equity shares decreased by £8.8 billion, 33%, to £17.6 billion principally due to lower holdings in Global Banking & Markets.

Settlement balances were up £5.4 billion, 30%, at £23.3 billion reflecting increased customer activity.

Movements in the value of derivatives, assets and liabilities, primarily reflect reductions in interest rates and the strengthening of sterling during the first half of 2009.

Intangible assets declined by £1.9 billion, 9%, to £18.2 billion mainly due to the £0.3 billion write-down of goodwill in the Non-Core division and the effect of exchange rates.

Deferred tax assets increased £1.3 billion, 18%, to £8.4 billion principally due to carried forward trading losses.

Increases in assets and liabilities of disposal groups largely reflect the inclusion of the Asian businesses at 30 June 2009 partly offset by the continued disposals of ABN AMRO's private equity investments.

Deposits by banks declined by £87.0 billion, 34% to £171.0 billion. This reflected decreased repurchase agreements and stock lending ('repos'), down £39.5 billion, 47% to £44.1 billion and reduced inter-bank deposits, down £47.5 billion, 27% to £126.9 billion principally in Global Banking & Markets in part due to lower collateral deposits.

Customer accounts were down £23.8 billion, 4% to £615.7 billion. Within this, repos increased £16.9 billion, 29% to £75.0 billion. Excluding repos, deposits declined by £40.7 billion, 7%, to £540.7 billion primarily due to exchange rate movements, £33.3 billion, the transfer of £7.3 billion to disposal groups in respect of the Asian businesses and reductions in Global Banking & Markets, £17.6 billion, offset in part by increases in the RFS Minority Interest, up £17.4 billion.

Debt securities in issue decreased £26.1 billion, 9% to £274.2 billion mainly as a result of movements in exchange rates together with reductions in Global Banking & Markets, Non-Core and the RFS Minority Interest.

Settlement balances and short positions were up £6.0 billion, 11%, to £60.3 billion reflecting increased customer activity.

Subordinated liabilities decreased £13.5 billion, 27% to £35.7 billion reflecting the redemption of £5.0 billion undated loan capital, £1.5 billion trust preferred securities and £2.0 billion dated loan capital, together with the effect of exchange rates and other adjustments.

Overview of condensed consolidated balance sheet (continued)

Equity minority interests decreased by £5.2 billion, 24% to £16.4 billion. Equity withdrawals of £3.1 billion, reflecting the disposal of the investment in Bank of China attributable to minority shareholders and the redemption, in part, of certain Trust Preferred Securities, the recycling of related available-for-sale reserves to income, £0.4 billion, dividends paid of £0.3 billion and exchange rate movements of £2.0 billion, were partially offset by attributable profits of £0.6 billion.

Owners' equity declined by £3.2 billion, 5% to £55.7 billion. The placing and open offer in April 2009 raised £5.3 billion to fund the redemption of the £5.0 billion preference shares issued to HM Treasury in December 2008. A £0.7 billion decrease in available-for-sale reserves, net of tax, the payment of other owners dividends of £0.5 billion including £0.3 billion to HM Treasury on the redemption of preference shares, the partial redemption of paid-in equity of £0.3 billion, the attributable loss for the period of £0.5 billion and exchange rate movements of £2.3 billion, were partly offset by an increase in the cash flow hedging reserve of £0.4 billion and the equity owners gain on withdrawal of minority interests, net of tax, of £0.5 billion arising from the redemption of Trust Preferred Securities.

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through the RBS and NatWest networks of branches and ATMs in the United Kingdom, and also through telephone and internet channels.

UK Corporate is a provider of banking, finance, and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

Wealth provides private banking and investment services in the UK through Coutts & Co and Adam & Company, offshore banking through RBS International, NatWest Offshore and Isle of Man Bank, and international private banking through RBS Coutts.

Global Banking & Markets is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The division is organised along seven principal business lines: money markets; rates flow trading; currencies; commodities (including RBS Sempra Commodities LLP, the commodities-marketing joint venture between RBS and Sempra Energy); equities; credit markets and portfolio management & origination.

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, and trade finance, United Kingdom and international merchant acquiring and commercial card products and services. It includes the Group’s corporate money transmission activities in the United Kingdom and the United States.

Ulster Bank is the leading retail and commercial bank in Northern Ireland and the third largest banking group on the island of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division which has a network of branches and operates in the personal and bancassurance sectors, while its Corporate Markets division provides services to SME business customers, corporates and institutional markets.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states. It ranks among the top five banks in New England and the Mid Atlantic regions.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill and Privilege, which sell general insurance products direct to the customer, as well as Green Flag and NIG. Through its international division, RBS Insurance sells general insurance, mainly motor, in Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

Group Manufacturing comprises the Group’s worldwide manufacturing operations. It supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Manufacturing drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group’s purchasing power and is the Group’s centre of excellence for managing large-scale and complex change.

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

Non-Core Division manages separately assets that the Group intends to run off or dispose of. The division contains a range of businesses and asset portfolios primarily from the GBM division, linked to proprietary trading, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of other portfolios and businesses including regional markets businesses that the Group has concluded are no longer strategic.

RFS Holdings minority interest comprises those activities of ABN AMRO that are attributable to the other consortium members.

Divisional performance

The operating profit/(loss) of each division before amortisation of purchased intangible assets, write-down of goodwill and other intangible assets, integration and restructuring costs, gain on redemption of own debt and strategic disposals is detailed below.

	First half 2009 £m	First half 2008 £m
Operating profit/(loss) by division		
UK Retail	53	514
UK Corporate	321	939
Wealth	218	185
Global Banking & Markets	4,873	1,115
Global Transaction Services	496	493
Ulster Bank	(8)	172
US Retail & Commercial	(51)	291
RBS Insurance	217	300
Central items	175	706
Core	6,294	4,715
Non-Core	(9,648)	(4,863)
Group before RFS Holdings minority interest	(3,354)	(148)
RFS Holdings minority interest	52	(1)
Amortisation of purchased intangible assets	(140)	(262)
Integration and restructuring costs	(734)	(316)
Gain on redemption of own debt	3,790	-
Strategic disposals	453	-
Write-down of goodwill and other intangible assets	(311)	-
	(244)	(727)

	30 June 2009 £bn	31 December 2008 £bn
Risk-weighted assets by division		
UK Retail	54.0	45.7
UK Corporate	85.1	81.5
Wealth	10.5	11.0
Global Banking & Markets	126.6	166.5
Global Transaction Services	16.7	17.1
Ulster Bank	26.2	24.5
US Retail & Commercial	55.6	63.9
Other	8.6	7.0

Core	383.3	417.2
Non-Core	164.0	160.6
	547.3	577.8
RFS Holdings minority interest	107.9	118.0
Total risk-weighted assets	655.2	695.8

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UK Retail

	First half 2009 £m	First half 2008 £m
Net interest income	1,684	1,530
Net fees and commissions - banking	658	814
Other non-interest income	148	203
Non-interest income	806	1,017
Total income	2,490	2,547
Direct expenses		
- staff	(428)	(445)
- other	(221)	(219)
Indirect expenses	(938)	(865)
	(1,587)	(1,529)
Insurance net claims	(26)	(64)
Impairment losses	(824)	(440)
Operating profit before tax	53	514
Analysis of income by product:		
Personal advances	609	633
Mortgages	480	219
Personal deposits	741	998
Bancassurance	148	196
Cards	416	418
Other	96	83
Total income	2,490	2,547
Analysis of impairment by sector:		
Mortgages	63	13
Personal	494	255
Cards	267	172
	824	440
Loan impairment charge as % of gross customer loans and advances by sector		
Mortgages	0.16%	0.04%

Personal	7.01%	3.29%
Cards	8.75%	5.06%
Total	1.70%	0.96%

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UK Retail (continued)

	First half 2009	First half 2008
Performance ratios		
Return on equity (1)	1.8%	19.3%
Net interest margin	3.53%	3.52%
Cost:income ratio	63.7%	60.0%

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances to customers – gross		
- mortgages	76.9	72.4
- personal	14.1	15.1
- cards	6.1	6.3
Customer deposits (excluding bancassurance)	83.4	78.9
Assets under management – excluding deposits	4.7	5.7
Non-performing loans	4.5	3.8
Loan:deposit ratio (excluding repos)	116.4%	118.9%
Risk-weighted assets	54.0	45.7

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

UK Retail banking income declined marginally with growth in net interest income offset by declining fees. However, impairment losses have continued to rise, reflecting the wider economic environment, and consequently the division reported a much reduced operating profit of £53 million in the first half.

Net interest income grew by 10% to £1,684 million, driven by growth in both loan and deposit balances. Net interest margin increased slightly to 3.53% (2008 - 3.52%), with improved asset pricing, primarily in mortgages, offsetting the impact of the low interest rate environment on savings margins. Continued competitive pressure on savings margins and reduced volumes in unsecured lending may put pressure on the net interest margin in coming periods.

Non-interest income declined 21% to £806 million. Of this decline, £117 million reflected the withdrawal of the single premium payment protection insurance product and lower related income due to higher claims, with the remainder being largely due to the impact of the weak economic environment on credit card, private banking and bancassurance fees.

Direct expenses were reduced by 2% to £649 million, with a 4% reduction in direct staff costs reflecting lower staff compensation and the benefits of cost saving initiatives. Indirect costs rose by 8% to £938 million, including the effect of an additional £61 million Financial Services Compensation Scheme Levy. Total costs increased by 4% and the cost:income ratio deteriorated to 63.7%.

UK Retail (continued)

Impairment losses increased by 87% to £824 million reflecting the deterioration in the economic environment, and its impact on customer finances. The mortgage impairment charge was £63 million (2008 - £13 million) on a total book of £76.9 billion, while the unsecured lending impairments charge was £761 million (2008 - £427 million) on a book of £20.2 billion. Impairment provisions have been increased to reflect the reduction in expected cash recoveries. In mortgages, arrears rates remain below the industry average as reported by the Council of Mortgage Lenders. Repossessions have not increased as RBS seeks to support its customers in difficult times wherever possible. Current expectations are for the upward pressure on impairments to continue for the remainder of this year and into 2010.

Loans and advances to customers increased by 6% with particularly strong growth in mortgage lending, which grew by 10%. The strong performance in mortgages reflects good volumes of new business delivered primarily through organic channels as well as very good customer retention resulting from a competitively priced product range. Gross mortgage lending market share increased to 10.5% (2008 – 6.5%) and the Group is on track to deliver its commitments to the Government on net lending. Unsecured lending has continued to slow reflecting reduced customer demand and rising risk.

Customer deposits have grown 9% reflecting the strength of the UK Retail customer franchise in an increasingly competitive environment and despite depressed market growth. This is essential in order to fund the increased lending. Personal current account customers increased 3% both year on year and annualised in the first half to 12.6 million. Personal savings accounts increased 18% year on year to 9.7 million. The division's loan:deposit ratio improved by 4 percentage points compared with June 2008 to 116%.

Risk-weighted assets increased 18% to £54 billion, reflecting the upward pressure from procyclicality, including the impact of rising default probability and reduced levels of expected recoveries reflecting house price declines.

RBS continues to progress towards a more convenient, lower cost operating model, with over 3.8 million active users of online banking. A record share of new sales was achieved through direct channels. In the first half 700,000 additional accounts switched to paperless statements, taking the total number of paperless accounts to 2.3 million. In support of this lower cost operating model there has also been a 6% FTE reduction year on year. In Branches, a significant number of 'Cash & Deposits Machines' (CDMs) have been rolled out, giving customers in 121 branches access to this technology. The machines can accept cheque, notes and coin deposits, and can provide an 'image' receipt for customer reassurance.

UK Corporate

	First half 2009 £m	First half 2008 £m
Net interest income	1,006	1,194
Net fees and commissions	387	377
Other non-interest income	182	218
Non-interest income	569	595
Total income	1,575	1,789
Direct expenses		
- staff	(342)	(368)
- other	(106)	(137)
Indirect expenses	(255)	(249)
	(703)	(754)
Impairment losses	(551)	(96)
Operating profit before tax	321	939
Analysis of income by business:		
Corporate and commercial lending	692	792
Asset and invoice finance	233	245
Corporate deposits	544	573
Other	106	179
Total income	1,575	1,789
Analysis of impairment by sector:		
Manufacturing	21	10
Housebuilding and construction	61	5
Property	167	7
Asset and invoice finance	68	38
Other	234	36
Total impairment	551	96
Loan impairment charge as % of gross customer loans and advances excluding reverse repurchase agreements by sector:		
Manufacturing	0.88%	0.44%
Housebuilding and construction	2.30%	0.19%

Property	1.02%	0.05%
Asset and invoice finance	1.55%	0.92%
Other	0.92%	0.13%
	1.08%	0.18%

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UK Corporate (continued)

	First half 2009	First half 2008
Performance ratios		
Return on equity (1)	6.3%	19.6%
Net interest margin	2.14%	2.64%
Cost:income ratio	44.6%	42.2%

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Total assets	106.0	109.8
Loans and advances to customers – gross		
- Manufacturing	4.8	5.3
- Housebuilding and construction	5.3	5.8
- Property	32.9	32.1
- Asset and invoice finance	8.8	8.5
- Other	50.6	54.1
Customer deposits	84.1	79.9
Non-performing loans	2.4	1.3
Loan:deposit ratio	121.8%	132.4%
Risk-weighted assets	85.1	81.5

Note:

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

The first half of 2009 has been a challenging period, with operating profit falling to £321 million. Results were severely affected by worsening income and higher impairments, partially offset by cost reductions. Increases in the cost of funding, the low base rate environment and lower levels of economic activity reduced margins, driving income lower by 12%, while costs were reduced by 7%. Impairment losses were significantly higher at £551 million.

Net interest income fell by 16% to £1,006 million with narrowed margins as a result of the significant increase in the cost of funding. New business margins on lending have widened, partly reflecting repricing from Base rate to LIBOR to better reflect the Group’s costs of funding. Deposit margins narrowed sharply as savings floors were reached on a range of deposit products, although the impact on net interest income was partly mitigated by hedging programmes. Overall, net interest margin reduced by 50 basis points to 2.1%, and is expected to remain under pressure while interest rates remain low and deposit competition strong.

Non-interest income has also been adversely impacted by the slowdown in the UK economy, with lower levels of activity across most sectors leading to a 4% fall to £569 million.

Total direct costs fell by 11% to £448 million, reflecting lower staff compensation and a business-wide cost reduction programme which will generate further savings into the second half. Indirect costs from Manufacturing and Group

Central functions increased by 2% to £255 million.

UK Corporate (continued)

Impairment losses increased materially to £551 million. While there was a rise in the number of significant corporate delinquencies requiring a specific provision, increased impairments of £271 million have also been recognised to cover losses in the portfolio not yet specifically identified. The impairment charge has been biased towards the housebuilding, property and construction sectors, but this is expected to spread more widely as the adverse economic conditions begin to impact other sectors of the economy for the remainder of 2009.

Loans and advances to customers were slightly down compared with 30 June 2008 at £102.4 billion. The division has stepped up its efforts to provide support to UK businesses, reflecting the lending commitments made in February to HM Government. Demand for credit, however, remains subdued, with the value of applications for Business & Commercial term loans 37% lower than in the first half of 2008.

Deposit balances remained stable at £84.1 billion, building on the improved stability and confidence provided by the recapitalisations of 2008. Specific campaigns aimed at generating new deposits have yielded benefits in the first half of the year. Improving our capability and product offering is a key step in improving deposit-gathering performance. The loan:deposit ratio improved from 132% at the end of 2008 to 122% at June 2009.

Risk-weighted assets were stable at £85 billion, compared with June 2008, but increased by 4% from December 2008, reflecting the effect of procyclicality under Basel 2.

Wealth

	First half 2009 £m	First half 2008 £m
Net interest income	339	271
Net fees and commissions	182	212
Other non-interest income	43	39
Non-interest income	225	251
Total income	564	522
Direct expenses		
- staff	(169)	(187)
- other	(68)	(72)
Indirect expenses	(87)	(73)
	(324)	(332)
Impairment losses	(22)	(5)
Operating profit before tax	218	185
Analysis of income:		
Private Banking	469	395
Investments	95	127
Total income	564	522
Performance ratios		
Net interest margin	4.64%	4.42%
Cost:income ratio	57.5%	63.6%

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances to customers – gross		
- mortgages	5.8	5.4
- personal	4.7	5.0
- other	2.2	2.2
Customer deposits	35.7	34.5

Assets under management – excluding deposits	29.8	34.7
Non-performing loans	0.2	0.1
Loan:deposit ratio	35.6%	36.6%
Risk-weighted assets	10.5	11.0

Wealth (continued)

Wealth delivered a resilient performance with income growing by 8% to £564 million and operating profit increasing by 18% to £218 million. Increases in income and reductions in direct costs were partly offset by higher provisions and higher internal allocations for support services.

Net interest income rose 25% to £339 million, primarily driven by increased internal pricing applied to the Wealth deposit base. The effect of this change improved divisional income, compared with the first half of 2008, by £89 million. Reported income also benefited from the appreciation of the Swiss franc against sterling. At constant exchange rates net interest income was 21% higher. Deposit balances have continued to grow in the second quarter of 2009 and recovered much of the outflow seen in the last quarter of 2008, demonstrating the underlying strength of the division's client relationships. The effect of lower base rates, and to a lesser extent lower average balances in the first half of 2009 (down 2% compared with the first half of 2008), was partially offset by an uplift in lending income. New deposit products have been designed to match evolving client needs for yield and liquidity. Lending volumes were strong, up 12%, particularly in mortgages and small business. Lending margins have improved, particularly for mortgages, and credit metrics for new business remain satisfactory.

Non-interest income, primarily comprising fees and commissions (for lending, payments and investments) declined 10% to £225 million as a result of two major factors: first, the significant fall in equity markets (the FTSE 100 index at 30 June 2009 was 24% lower than a year earlier while the S&P 500 index was down 28% for the same period) lowered overall investment portfolio values; second, ongoing lack of investor appetite led to lower than expected investment product sales as well as a preference for lower margin products. Furthermore, investors' use of leverage in investment portfolios was significantly lower. Together these contributed to an overall decline in investment assets under management of 14% to £29.8 billion.

Direct expenses fell 9% to £237 million reflecting three major influences: an increase due to foreign exchange effects (with the Swiss franc strengthening versus sterling), a decrease in remuneration and a further decrease from cost management. Headcount has been reduced 3% to 5,013. Indirect expenses increased by 19% to £87 million due to higher Group Centre allocations, most notably the Financial Services Compensation Scheme levies. At constant exchange rates total expenses were reduced by 8%.

Impairment losses increased by £17 million to £22 million, reflecting some isolated instances of difficulty in UK and offshore mortgage books (representing second property mortgages for expatriates). Impairment losses as a percentage of lending to customers increased to 0.35% (annualised).

Customer numbers have held steady, increasing by 1% compared with June 2008 despite the significant shrinkage in the population of high net worth individuals.

Global Banking & Markets

	First half 2009 £m	First half 2008 £m
Net interest income from banking activities	1,584	941
Net fees and commissions receivable	728	643
Income from trading activities	5,733	2,234
Other operating income (net of related funding costs)	(215)	(142)
Non-interest income	6,246	2,735
Total income	7,830	3,676
Direct expenses		
- staff	(1,787)	(1,603)
- other	(539)	(640)
Indirect expenses	(394)	(301)
	(2,720)	(2,544)
Impairment losses	(237)	(17)
Operating profit before tax	4,873	1,115
Analysis of income by product:		
Rates - money markets	1,356	500
Rates - flow	1,942	1,403
Currencies	976	699
Commodities	467	349
Equities	733	561
Credit markets	1,452	(1,028)
Portfolio management and origination	740	608
Fair value of own debt	164	584
Total income	7,830	3,676
Analysis of impairment by sector:		
Manufacturing and infrastructure	39	-
Property and construction	50	12
Transport	1	-
Telecommunications, media and technology	-	-
Banks and financial institutions	43	(9)
Other	104	14

	237	17
Loan impairment charge as % of gross customer loans and advances excluding reverse repurchase agreements	0.37%	0.02%

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Global Banking & Markets (continued)

	First half 2009	First half 2008
Performance ratios		
Return on equity (1)	51.6%	11.4%
Net interest margin	1.69%	0.93%
Cost:income ratio	34.7%	69.2%

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances (including banks)	166.4	236.4
Reverse repos	75.2	88.8
Securities	115.5	127.5
Cash and eligible bills	51.5	20.2
Other	46.3	42.9
Total third party assets (excluding derivatives mark to market)	454.9	515.8
Net derivative assets (after netting)	70.7	113.0
Customer deposits (excluding repos)	66.0	90.2
Non-performing loans	1.1	0.7
Loan:deposit ratio	195.8%	200.6%
Risk-weighted assets	126.6	166.5

Note:

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

Following a particularly strong first quarter performance, notably in its rates and currencies businesses, Global Banking & Markets (GBM) continued to deliver robust income across all business lines throughout the first half of 2009. Total income was £7,830 million, up 113% from the first half of 2008. Costs were up 7% and credit impairments rose sharply, resulting in a first half 2009 operating profit of £4,873 million. On a constant currency basis total income was up 86% from the first half of 2008, while costs fell 1%.

The performance was particularly creditable given the immense pressures of business restructuring following 2008 losses. Significant people issues arising from competitors' hiring activities resulted in a net loss of people and revenues from GBM. GBM's ability to benefit from favourable market conditions demonstrates the core strength of its franchise. It is important to note, however, that first half revenues are likely to prove unsustainable, with a significantly lower run-rate expected in the second half of 2009.

Net interest income grew 68% to £1,584 million, with money markets income showing an especially strong performance, driven by global interest rate movements and volatility. Portfolio margins have improved, reflecting the rapid repricing taking place in the market. Fees and commissions rose 13% to £728 million, while income from trading activities advanced markedly to £5,733 million.

Global Banking & Markets (continued)

By business line, the rates flow business saw continued good performance in the first half of 2009 with increased market volatility and strong customer demand, albeit at a more moderate level in the second quarter than in the first, which saw exceptional levels of activity. This resulted in a 38% increase in income to £1,942 million. The currencies business continued to make good progress in consolidating its leading position, generating income of £976 million in the first half of 2009, up 40%. The Sempra Commodities joint venture, which began in April 2008, contributed income of £467 million for the first half of 2009. Money markets delivered very strong revenue of £1,356 million, benefiting from the rapid reduction in short-term rates.

Core equities and equity derivatives performed well in an active market. Core equities revenue growth was driven by a strong equity capital markets (ECM) performance, with RBS rising from 5th to 4th position in Non-US ECM from the first half of 2008 to the first half of 2009.

As the impact of various government schemes globally began to take effect credit markets benefited from greater liquidity and a more positive trading environment, driving increased activity particularly in the US liquid mortgage trading business. The legacy illiquid mortgage origination and trading portfolio that incurred losses in 2008 has been substantially closed out.

Portfolio management income remained resilient and debt capital markets origination revenues grew strongly across both Corporate and FI client sectors. Total portfolio management and origination income grew by 22% to £740 million for the first half of 2009. Gains on the fair value of own debt began to reverse as credit spreads narrowed, with a loss of £483 million booked in the second quarter compared with a gain of £647 million in the first quarter.

While total income grew by 113%, total expenses increased 7% to £2,720 million but reduced by 1% at constant exchange rates. Besides currency effects, the expense line reflects the inclusion of Sempra for the full six months and the phasing of performance-related accruals. Compensation structures have undergone far-reaching review to align reward with long-term value creation, adjusted for risk; the compensation ratio for the half year was 23%, at the lower end of the expected range for this ratio for the full year. The ratio is likely to increase modestly in 2010/11 as the full accounting impact of new deferral policies accrues. Notwithstanding adverse exchange rate movements, non-staff costs were cut by 16%, primarily reflecting restructuring and efficiency benefits. Headcount reduced by 1,500, or 8%, compared with June 2008. The overall cost:income ratio improved significantly to 34.7%, reflecting the exceptionally strong income performance.

Impairments increased sharply to £237 million, representing 0.37% of loans & advances to customers. This compares with 0.02% for the first half of 2008 which was the low point in the economic cycle.

Global Banking & Markets (continued)

GBM's total third party assets excluding derivatives were reduced to £455 billion at 30 June 2009, a reduction of 24% on a year earlier, or 30% at constant exchange rates, reflecting continued progress in managing down the inventories supporting the trading businesses, with significant reductions in reverse repos and securities holdings. Within this, total loans and advances were £166 billion, a decrease of 5% from June 2008 or 13% at constant exchange rates, reflecting higher levels of corporate repayments particularly in Europe and the USA. GBM continued to provide direct support for key clients, notably in the UK, while at the same time facilitating their access to the global equity and debt capital markets. Net derivative assets totalled £70.7 billion, compared with £113.0 billion at 31 December 2008.

Risk-weighted assets reduced by 8% from a year earlier to £126.6 billion and were 24% lower than at 31 December 2008. The movement was principally affected by lower non-UK lending, reduced derivatives and foreign exchange movements.

Good progress was made in increasing market share in core markets, moving from fifth to fourth in the Euromoney global foreign exchange rankings and sustaining top 3 positions in key government bond markets. A number of other market shares slipped back, reflecting deliberate strategy and business disruption.

Global Transaction Services

	First half 2009 £m	First half 2008 £m
Net interest income	446	445
Non-interest income	782	710
Total income	1,228	1,155
Direct expenses		
- staff	(183)	(179)
- other	(72)	(66)
Indirect expenses	(464)	(413)
	(719)	(658)
Impairment losses	(13)	(4)
Operating profit before tax	496	493
Analysis of income by product:		
Domestic cash management	404	381
International cash management	350	344
Trade finance	152	110
Merchant acquiring	260	263
Commercial cards	62	57
Total income	1,228	1,155
Performance ratios		
Net interest margin	8.75%	8.27%
Cost: income ratio	58.6%	57.0%

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Total third party assets	19.7	22.5
Loans and advances	13.8	15.2
Customer deposits	54.0	62.0
Non-performing loans	0.1	0.1
Loan:deposit ratio	26.4%	25.7%
Risk-weighted assets	16.7	17.1

Global Transaction Services (continued)

Global Transaction Services increased operating profit by 1% to £496 million, with results benefiting from currency movements. Income increased by 6% to £1,228 million, but declined 2% at constant exchange rates. Expenses were up 9%, but 2% in constant currency terms, as cost savings and efficiencies offset the impact of prudent investment in staffing and infrastructure in the second half of 2008.

Growth was driven by a solid performance in cash management, where income rose 4% in the first half of the year to £754 million, with growth in UK and US domestic cash management. The division continued to win new cash management business, reflecting the strength of the domestic platforms and the international network.

In the UK domestic market income grew by 5% despite the low interest rate environment and increased competition for deposits. Average deposits increased 13% to £15 billion, attributable to growth with UK financial institutions. US domestic fee income benefited from re-pricing strategies implemented in the second half of 2008 as income grew 9%, with currency effects mitigating the migration of some balances to Citizens.

International cash management income increased by 2% but was 7% lower at constant exchange rates. Income benefited primarily from the increased internal pricing applied to the GTS deposit base, but this was more than offset by the negative impact on margins caused by low base rates. Average deposit balances remained stable, but there was some attrition of international deposit customers affecting the period end spot balances. Interest rates are negatively impacting deposit margins as zero rate floors are reached on a range of products. The continued benefit of overdraft re-pricing has increased margins on asset balances versus the first half of 2008. International fee income from payment transactions has increased 19% on H1 2008.

The trade finance business increased income by 38%, with improving penetration into the Asia-Pacific region. The strength of the product platform resulted in new customer mandates particularly in the UK corporate sector, where the Supply chain service has continued to expand.

Merchant services and commercial cards income remained stable at £322 million in the face of changing consumer spending patterns. The value of individual transactions has decreased together with a switch from credit card to debit card usage as households pay down debt. Volume growth in the UK domestic acquiring market was up 5%, exceeding UK economic growth, which partly offset the decreasing value of individual transactions. Commercial cards income grew 9% driven by improved margins, compensating for the downturn in corporate spending.

Total expenses for the division rose 9% in the first half of 2009 to £719 million, largely reflecting exchange rate movements, with direct expenses up 4% to £255 million and indirect expenses up 12% to £464 million. In constant currency terms, direct expenses were reduced by 1% as a result of the division's continued implementation of cost saving initiatives and operating model efficiencies, while indirect expenses increased by 4%. The cost: income ratio was 58.6%, a deterioration of 2.4% in constant currency terms.

Impairment losses were £13 million for the first half 2009, up from £4 million in the first half of 2008. Overall defaults remain modest at 0.1% of loans and advances.

Global Transaction Services (continued)

Average deposit balances for the period remained stable, but deposits at 30 June 2009 were down 10% on the first half of 2008, driven in part by US domestic transfers within the wider Group and some attrition in international cash management. Loans and advances were down 12% from June 2008 due to lower overdraft utilisation. In constant currency terms, deposits fell by 12% and loans and advances by 15%. Divisional net funding contribution has remained stable. Risk-weighted assets were 6% lower in constant currency terms.

Ulster Bank

	First half 2009 £m	First half 2008 £m
Net interest income	410	360
Net fees and commissions	85	104
Other non-interest income	23	71
Non-interest income	108	175
Total income	518	535
Direct expenses		
- staff	(170)	(159)
- other	(47)	(46)
Indirect expenses	(152)	(140)
	(369)	(345)
Impairment losses	(157)	(18)
Operating (loss)/profit before tax	(8)	172
Analysis of income by business:		
Corporate	299	319
Retail	194	197
Other	25	19
Total income	518	535
Analysis of impairment by sector:		
Mortgages	23	7
Corporate	107	-
Other	27	11
	157	18
Loan impairment charge as % of gross customer loans and advances excluding reverse repurchase agreements by sector:		
Mortgages	0.29%	0.09%
Corporate	1.00%	-
Other	3.38%	0.92%

	0.81%	0.10%

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Ulster Bank (continued)

	First half 2009	First half 2008
Performance ratios		
Return on equity (1)	(0.7%)	18.2%
Net interest margin	1.95%	1.92%
Cost:income ratio	71.2%	64.5%

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances to customers – gross		
- mortgages	16.0	18.1
- corporate	21.2	23.8
- other	1.8	2.1
Customer deposits	18.9	24.3
Non-performing loans		
- mortgages	0.4	0.3
- corporate	1.1	0.8
- other	0.1	0.1
Loan:deposit ratio	206.3%	181.1%
Risk-weighted assets	26.2	24.5

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

Ulster Bank's results have been severely affected by economic conditions across the island of Ireland. Income fell by 3%, or by 14% at constant exchange rates, to £518 million, reflecting reduced volumes and narrowing margins. Although expense growth remained under tight control, impairments rose sharply, resulting in an operating loss of £8 million.

Net interest income rose to £410 million in the first half of 2009, an increase of 14% at constant exchange rates, with net interest margin up 3 basis points to 1.95%. There was some easing of wholesale funding costs over the course of the period, and a re-pricing of some new lending, but this was largely offset by the increasing cost of acquiring and retaining customer deposits. Margins are expected to decline reflecting the highly competitive deposit market. Loans to customers were flat year on year as new lending reduced significantly reflecting subdued demand, although redemption levels have also fallen. Ulster Bank remains on track to deliver its portion of the Group's lending commitments in Northern Ireland. Non-wholesale customer deposits were broadly flat reflecting the highly competitive deposit market in Ireland. Customer deposits were down by 21% in constant currency terms, primarily as a result of the impact of the Irish Government guarantee scheme and a reduction in wholesale deposits in the first quarter but this has since stabilised.

Non-interest income fell by 38% at constant currency rates in the first half of 2009 reflecting reduced fee income from bancassurance products sales and lower activity levels, particularly in the banking and Capital Markets businesses.

Direct expenses were £217 million, a reduction of 5% in constant currency terms, driven by a 4% reduction in staff costs, reflecting the initial benefits of the Bank's restructuring programme. On the same constant currency basis, other costs were 10% lower as a result of a range of cost reduction initiatives across the business, with indirect costs held flat.

Impairment charges increased to £157 million, reflecting the significant continuing deterioration in the Irish economic outlook and the resultant change in underlying credit metrics. Impairments are expected to continue to rise in the second half of 2009.

Ulster Bank continues to launch products aimed at supporting existing and new customers through the changing economic environment. These include the Momentum mortgage and Co-ownership Scheme in Northern Ireland and the Secure Step mortgage in the Republic of Ireland. For business customers, €1billion of funding has been made available across the island of Ireland including £250 million of SME funding in Northern Ireland. Support is also being provided to customers through the launch of the "MoneySense for Adults" and "Flex" propositions, as well as the "Small Business Can" website.

Ulster Bank launched its 'One Bank' programme in January which is on track for completion by the end of 2009. The programme will see the merger of the First Active and Ulster Bank businesses and the implementation of a number of cost management initiatives across all business areas. The creation of a single franchise across the island of Ireland will increase efficiency and result in further cost reductions whilst providing customers with an improved level of service. Customer numbers have grown across the Ulster Bank brand and across the island of Ireland, with strong growth in current and savings accounts driving a 5% increase in total consumer accounts compared with June 2008.

US Retail & Commercial

	First half 2009 £m	First half 2008 £m	First half 2009 $m	First half 2008 $m
Net interest income	942	774	1,407	1,529
Net fees and commissions	407	310	608	612
Other non-interest income	97	84	144	168
Non-interest income	504	394	752	780
Total income	1,446	1,168	2,159	2,309
Direct expenses				
- staff	(402)	(311)	(600)	(614)
- other	(331)	(142)	(495)	(281)
Indirect expenses	(395)	(298)	(589)	(588)
	(1,128)	(751)	(1,684)	(1,483)
Impairment losses	(369)	(126)	(551)	(249)
Operating (loss)/profit before tax	(51)	291	(76)	577
Analysis of income by product:				
Mortgages and home equity	272	175	407	346
Personal lending and cards	220	157	328	310
Retail deposits	433	465	647	919
Commercial lending	281	179	419	354
Commercial deposits	193	169	288	334
Other	47	23	70	46
Total income	1,446	1,168	2,159	2,309
Average exchange rate - US$/£	1.494	1.975		

US Retail & Commercial (continued)

	First half 2009 £m	First half 2008 £m	First half 2009 $m	First half 2008 $m
Analysis of impairment by sector:				
Residential mortgages	35	12	52	24
Home equity	72	25	107	50
Corporate & Commercial	169	40	253	78
Other consumer	93	49	139	97
	369	126	551	249
Loan impairment charge as % of gross customer loans and advances excluding reverse repurchase agreements by sector:				
Residential mortgages	0.96%	0.30%	0.87%	0.30%
Home equity	0.91%	0.37%	0.82%	0.37%
Corporate & Commercial	1.65%	0.48%	1.50%	0.47%
Other consumer	2.25%	1.36%	2.04%	1.35%
	1.42%	0.56%	1.29%	0.55%
Performance ratios				
Return on equity (1)	(1.7%)	12.1%	(1.5%)	12.0%
Net interest margin	2.31%	2.61%	2.32%	2.61%
Cost:income ratio	78.0%	64.2%	78.0%	64.2%

	30 June 2009 £bn	31 December 2008 £bn	30 June 2009 $bn	31 December 2008 $bn
Capital and balance sheet				
Total assets	75.6	87.5	124.4	127.8
Loans and advances to customers (gross):				
- Residential mortgages	7.3	9.5	12.0	13.9
- home equity	15.9	18.7	26.1	27.2
- corporate and commercial	20.5	23.7	33.6	34.7
- other consumer	8.3	9.8	13.7	14.3
Customer deposits	60.2	64.4	99.0	94.0
Non-performing loans				
- retail	0.3	0.2	0.4	0.3
- commercial	0.1	0.2	0.3	0.2
Loan:deposit ratio	86.7%	96.6%	86.7%	96.6%
Risk-weighted assets	55.6	63.9	91.3	93.2
Spot exchange rate - US$/£	1.644	1.460		

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

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US Retail & Commercial Banking results were challenged by the recessionary economic environment in the United States and historically low interest rates. Credit conditions worsened as the housing market continued to deteriorate and unemployment rose, exacerbating already difficult conditions. As a result, income declined by 6% to $2,159 million, producing an operating loss of $76 million. In sterling terms, total income increased by 24% to £1,446 million with an operating loss of £51 million, reflecting a significant weakening of sterling against the dollar.

Net interest income was down 8% to $1,407 million with lower net interest margin at 2.31% for the first half of 2009 compared with 2.61% for the first half of 2008. The low interest rate environment contributed to a decline of 30 basis points in deposit margins, only partially offset by wider loan margins, reflecting deteriorating credit conditions and tighter underwriting standards. Non-interest income was down 4% primarily due to lower gains, which declined by $29 million. Net fees and commissions were flat, with higher mortgage origination fees resulting from record refinancing activity offsetting weaker consumer banking fees. Depending upon the prevailing rate environment and local market competition, net interest margins are expected to remain stable / range-bound in the second half, largely driven by pricing around deposits.

Total expenses increased by 14% to $1,684 million, largely as a result of higher deposit insurance costs including a one-off FDIC special assessment of $72 million, as well as increased costs relating to loan workout and collection activity which is expected to mitigate the impact of future impairments. Half year results include the successful execution of restructuring actions announced at the end of 2008. These actions impacted approximately 1,000 employees and resulted in savings of $32 million reflected in the first half results. With income weak, the cost:income ratio deteriorated markedly to 78%.

Impairment losses totalled $551 million in the first half of 2009 compared with $249 million in the first half of 2008 impacting both the retail and commercial loan portfolios. Actual charge-offs were $376 million or 0.87% of loans, an increase of 44bps compared with the first half of 2008. There was a net increase of $175 million in provision balances in the half. Consumer loan delinquencies have continued to rise throughout the first half reflecting the difficult economic conditions, representing 1.80% of loans compared with 1.04% of loans in the first half of 2008. Likewise, commercial non-performing loans rose to 0.87% of total loans compared with 0.20% in the first half of 2008. The challenging economic environment continues to affect credit losses; however, Citizens' asset quality remains superior to peers as measured by non performing loans as a percentage of total loans.

Loans and advances were down 5% at $85.4 billion reflecting mortgage securitisations and subdued customer demand, partly offset by a modest increase in commercial loan balances, which rose 2%. Total customer deposits including wholesale funding at 30 June 2009 were 5% lower at $99 billion, principally due to a planned reduction in wholesale funding. However, despite a very competitive deposit market, core customer deposits were up 5% to $99 billion, partly driven by strong growth in checking balances. The loan:deposit ratio improved to 87%.

US Retail & Commercial is a top 5 bank in New England and the Mid Atlantic regions and is among the top five participants in eight out of the ten largest sub-markets in which it has a presence. Its strategy is based on building market share through dedicated marketing and competitive pricing strategies within its footprint and on capturing opportunities in under penetrated segments by building relationships with small and medium-sized companies.

RBS Insurance

	First half 2009 £m	First half 2008 £m
Earned premiums	2,225	2,263
Reinsurers' share	(85)	(107)
Insurance net premium income	2,140	2,156
Net fees and commissions	(187)	(201)
Investment income	115	180
Other income	97	87
Total income	2,165	2,222
Direct expenses		
- staff	(139)	(145)
- other	(121)	(127)
Indirect expenses	(131)	(124)
	(391)	(396)
Gross claims	(1,574)	(1,571)
Reinsurers' share	23	45
Net claims	(1,551)	(1,526)
Impairment losses	(6)	-
Operating profit before tax	217	300
Analysis of income by product:		
Motor own-brand	972	959
Household and Life own-brands	414	400
Motor partnerships and broker	290	353
Household and Life, partnerships and broker	164	181
Other (International, commercial and central)	325	329
Total income	2,165	2,222
Key business metrics		
In-force policies (thousands)		
- Motor own-brand	4,789	4,424
- Own-brand non-motor (home, rescue, pet, HR24)	5,890	5,449
- Partnerships & broker (motor, home, rescue, pet, HR24)	5,609	6,417
- Other (International, commercial and central)	1,210	1,123
Gross written premium (£m)	2,270	2,224

Performance ratios		
Return on equity (1)	13.6%	18.8%
Cost:income ratio	18.1%	17.8%
Adjusted cost:income ratio (2)	63.7%	56.9%

	30 June 2009 £bn	31 December 2008 £bn
Balance sheet		
General insurance reserves – total (£m)	6,601	6,672

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RBS Insurance (continued)

Notes:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on regulatory capital).

(2) The adjusted cost:income ratio is based on total income and operating expenses above and after netting insurance claims against income.

For RBS Insurance, insurance premium income was stable at £2,140 million, reflecting 4% growth in the Group's own brands offset by a 10% decline in the partnerships and broker segment. This reflects the division's strategy of maximising profitability while focusing on growth in the Group's own-brand businesses. Investment income declined by 36% to £115 million, largely as a result of a year over year reduction in interest rates. The division has a very conservative investment policy for its £8.4 billion of invested funds, with 84% in short duration deposits and fixed income bonds. Net fees and commissions payable were 7% lower, mainly as a result of lower sales of the creditor product. Operating profit in the first half was £217 million, a decline of £83 million or 28% from the first half of 2008, of which £71 million directly related to lower investment returns and impairment losses.

In the UK motor market, the Churchill and Privilege brands continued to be successfully deployed on selected price comparison web sites. Direct Line, Churchill and Privilege motor policy numbers increased by 2%, 22% and 13% respectively over the period. In total, over previous year, own-brand motor policy numbers have increased by 8% to 4.8 million.

In own-brand non-motor insurance RBS Insurance has continued to achieve strong sales through RBS and NatWest, where home insurance policies in force increased by 16%. Direct Line has achieved a 2% increase in the number of policy renewals in the period. In addition, Privilege and Churchill have grown home policies by 223% and 29% respectively, mainly due to successful entry onto price comparison websites. Overall own-brand non-motor policies in force have grown by 8% to 5.9 million.

Direct expenses improved by 4% to £260 million, mainly driven by lower staff costs and reduced marketing spend.

Net claims were 2% higher at £1,551 million due to increases in creditor claims, home claims relating to the very cold weather in the first quarter of 2009, and a rise in personal injury motor claims costs. Impairment losses of £6 million reflect impairments of available for sale securities.

Gross written premium increased by 2% over the period, reflecting the strong growth in own-brand businesses. Own-brand motor gross written premium increased by 10% year on year and own-brand home gross written premium increased by 11%.

The UK combined operating ratio for the first half of 2009, including manufacturing costs, rose to 95.3%, compared with 94.8% a year earlier, reflecting a higher loss ratio partly offset by an improved expense base.

In April 2009 the Group disposed of its 50% stake in Linea Directa to Bankinter, its joint venture partner. In 2008 it also disposed of its 50% stake in Tesco Personal Finance. All financial data have been restated to reflect the transfer of Linea Directa and Tesco Personal Finance to the Non-Core division.

Central items

	First half 2009 £m	First half 2008 £m
Fair value of own debt	(93)	228
Other	268	478
Operating profit before tax	175	706

Funding and operating costs have been allocated to operating divisions, based on direct service usage, 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.

Items not allocated amounted to a net credit of £175 million (first half 2008 - £706 million) and comprised an increase in the carrying value of own debt more than offset by a net credit on a number of other volatile items including foreign exchange translation and the impact of economic hedges which do not qualify for IFRS hedge accounting.

Non-Core

	First half 2009 £m	First half 2008 £m
Net interest income from banking activities	450	628
Net fees and commissions receivable	256	495
Loss from trading activities	(4,276)	(5,286)
Insurance net premium income	440	485
Other operating income	128	1,137
Non-interest income	(3,452)	(3,169)
Total income	(3,002)	(2,541)
Direct expenses		
- staff	(259)	(410)
- other	(450)	(509)
Indirect expenses	(279)	(256)
	(988)	(1,175)
Insurance net claims	(314)	(338)
Impairment losses	(5,344)	(809)
Operating loss before tax	(9,648)	(4,863)
Performance ratios		
Net interest margin	0.49%	0.83%
Cost:income ratio	(32.9%)	(46.2%)

	30 June 2009 £bn	31 December 2008 £bn
Capital and balance sheet*		
Total third party assets (including derivatives)	231.1	324.7
Loans and advances to customers - gross	166.3	190.2
Customer deposits	20.8	26.5
Non-performing loans	20.5	11.2
Loan:deposit ratio	819.6%	720.2%
Risk-weighted assets	164.0	160.6

	First half 2009	First half 2008

	£m	£m
Income by donating division:		
UK Retail	3	147
UK Corporate	244	324
Wealth	209	243
Global Banking & Markets	(4,221)	(3,957)
Global Transaction Services	85	60
Ulster Bank	112	191
US Retail & Commercial	170	162
RBS Insurance	406	543
Central items	(10)	(254)
	(3,002)	(2,541)

* includes disposal groups.

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Non-Core (continued)

	First half 2009 £m	First half 2008 £m
Included in income donated by Global Banking & Markets above are credit and other market write-downs as follows:		
Monoline exposures	1,547	2,120
CDPCs	569	80
Super senior CDOs	537	1,892
Leveraged finance	-	863
CLO's	-	113
Other credit exotics	542	361
Equities	22	36
Other	35	(61)
	3,252	5,404
CDS Hedging	996	(148)
	4,248	5,256
Impairment losses by donating division:		
UK Retail	34	47
UK Corporate	1,092	106
Wealth	156	61
Global Banking & Markets	2,987	277
Global Transaction Services	17	6
Ulster Bank	484	78
US Retail & Commercial	574	234
	5,344	809
Loan impairment charge as % of gross customer loans and advances by donating division:		
UK Retail	2.34%	1.67%
UK Corporate	8.94%	0.92%
Wealth	12.19%	5.13%
Global Banking & Markets	4.38%	0.53%
Global Transaction Services	2.85%	0.86%
Ulster Bank	5.97%	1.07%
US Retail & Commercial	9.34%	3.96%
Total	5.65%	1.00%

Non-Core (continued)

	30 June 2009 £bn	31 December 2008 £bn
Loans and advances by donating division:		
UK Retail	2.9	3.3
UK Corporate	24.4	25.0
Wealth	2.6	3.2
Global Banking & Markets	106.4	123.7
Global Transaction Services	1.2	1.4
Ulster Bank	16.2	17.7
US Retail & Commercial	12.3	15.6
RBS Insurance	0.2	0.2
Group centre	0.1	0.1
	166.3	190.2
Risk-weighted assets by donating division:		
UK Retail	2.0	2.0
UK Corporate	18.9	17.8
Wealth	2.9	3.7
Global Banking & Markets	118.1	112.6
Global Transaction Services	1.9	2.8
Ulster Bank	8.4	6.8
US Retail & Commercial	11.5	14.1
Group centre	0.3	0.8
	164.0	160.6

Non-Core (continued)

The establishment of the Non-Core Division of RBS was announced on 26 February 2009 as one of the key outcomes of the Group Strategic Review.

The Non-Core Division comprises a number of businesses and assets, including a number of overseas branches and subsidiaries which did not meet the target criteria of the new core bank. These criteria covered franchise strength, return on equity over the economic cycle, organic growth potential, capital and funding efficiency, and connectivity with other businesses of the Group.

The objective of the Division is to run off or dispose of the resulting pool of assets over a three to five year period whilst maximising shareholder value and minimising any negative impact on the core franchises of the bank. The Division will seek to achieve this first and foremost by optimising the timing, cost and method of exit of the Non-Core businesses and assets. The terms of the APS may constrain the Group in certain respects. In addition it will aim to achieve a reduction in the amount of capital and funding required to support the Group and over time to reduce the Group’s cost base.

Following further detailed review of the Non-Core asset portfolio during the first half of 2009, a total of £325 billion of third party assets, as at 31 December 2008, were confirmed for transfer to the new Division. This total comprises £251 billion of on-balance sheet funded third party assets and £73 billion of derivative marked-to-market third party assets, compared with the estimates of £240 billion and £145 billion, respectively, announced on 26 February. In addition, the Division had outstanding undrawn commitments of £85 billion. The revised portfolio equates to £161 billion of RWAs, compared with £155 billion announced in February.

GBM’s contribution made up 77% of starting third party assets (including derivative marked-to-market exposures) and 70% of RWAs comprising a number of illiquid medium to long-term structured finance lending books, exotic credits, illiquid asset-backed securities and proprietary trading assets. The balance of the Division’s asset pool was contributed by other divisions in the Group and comprises a range of businesses and corporate, commercial and consumer loan books.

In order to provide a coherent management framework for the run-off and disposal of the Division’s assets, a new management team has been established to exclusively focus on this task, utilising the Group’s infrastructure. The opening asset pool has been divided into three groupings, each of which is managed on a global basis by one or more executives:

- Banking & Portfolio comprises the structured finance portfolios – mainly real estate finance, leveraged finance and project and asset-based finance which originated within GBM.
- Retail, Commercial & Countries mainly comprises the retail, commercial and in some cases wholesale banking activities of the Group in the UK and overseas locations which have been determined to be non-core.
- Trading comprises a number of exotic credit and highly illiquid asset-backed securities and proprietary trading books.

Non-Core (continued)

Approximately 44% of the assets (50% of RWAs) in the Non-Core Division are expected to be covered by the UK Asset Protection Scheme (APS). The precise extent of the asset coverage and the terms of APS are still under negotiation with HMT. RBS also intends to clarify the eligibility of certain Ulster Bank assets for the Irish Government's National Asset Management Agency scheme. Given the overlap and interdependencies between the APS and the Non-Core Division, the management of the two programmes is integrated within the Non-Core Division.

Between December 2008 and June 2009, total third party assets were reduced by £94 billion to £231 billion, including a £51 billion reduction in funded third party assets (excluding derivatives). The reduction in funded third party assets was assisted by foreign exchange movements, which resulted in a £14 billion decline. In addition, net balance run-off totalled £20 billion, and £9 billion of disposals were recorded, including the sale of Linea Directa in Spain (£0.5 billion) and Bank of China (£3.9 billion). Mark-to-market derivative assets decreased by £43 billion, largely as a result of the significant rally in credit markets which led to spreads tightening.

The Division has large hedging exposures on a number of portfolios, so a similar movement in mark-to-market derivative liabilities was recorded.

RWAs remained flat at £164 billion, compared with £161 billion in December 2008. The movements in RWAs were broadly consistent with the movements in nominal assets in Citizens, UK Retail, Wealth and Global Transaction Services. In the case of UK Corporate Banking and Ulster, nominal assets decreased but RWAs increased, primarily as a result of procyclicality.

Non-Core's GBM funded third party assets fell by a total of £36.3 billion, while its' RWAs increased by a net £5.6 billion. Reductions in RWAs as a result of foreign exchange rates (£8.7 billion), reductions in market risk (other than in relation to CDPC exposures) (£9.2 billion) the movement of certain counterparties to default status (causing their removal from the calculation) (£6.1 billion) and other reductions of £13.0 billion, were more than offset by increases in RWAs of £26.3 billion in respect of market and counterparty risk associated with CDPC exposures and of £16.3 billion, from the impact of procyclicality on probability of default and loss given default factors.

The Non-Core Division recorded an operating loss of £9,648 million in the first half of 2009. Net interest income was £450 million, down 28%, but non-interest income totalled a negative £3,452 million, including £4,248 million of credit market and other write-downs, compared with £5,256 million in the first half of 2008. These write-downs included £1,547 million of monoline losses, which were largely incurred in the first quarter and reflected the further widening in monoline credit spreads in February. The Division uses a portfolio of CDSs to manage the capital consumption, concentration and credit risk of its loans. The CDSs are carried at fair value while the loans are recorded at cost less provisions for impairment. The tightening of spreads in the first half of 2009 reduced income by £996 million compared with a positive income impact of £148 million in the first half of 2008 and £1,690 million for full year 2008.

The operating loss was largely due to the increase in impairment charges, compared with the first half of 2008, on assets contributed by GBM (£2,710 million), UK Corporate (£986 million), US Retail & Commercial (£340 million) and Ulster Bank (£406 million).

Targets have been set for a reduction of third party assets, excluding derivatives, to approximately £20 billion by 2013. This includes asset run-off of approximately £200 billion as well as £50 billion to £60 billion of asset sales, offset by rollovers and additional drawings. Achieving this run-off profile will depend on sufficient recovery in market conditions to allow assets to be disposed of at acceptable valuations, and on the securitisation or sale of some APS assets in the outer years of the five year plan, for which HM Treasury's permission may be required.

In the first half of 2009, a number of financial institutions and larger investment grade corporates with strong underlying businesses were able to take advantage of more favourable conditions in the bond and equity markets to refinance borrowing and generally deleveraging their balance sheets in advance of their legal maturity. However, smaller corporates without access to the public markets and with less robust underlying businesses, which are more typical of the Non-Core asset portfolio, have continued to rely on their banks for finance. Given the economic environment, it is expected that a number of these businesses will require their banking facilities to be rolled over or refinanced or to make greater use of any undrawn committed facilities they may have in the remainder of this year. This trend is expected to continue into 2010.

In later years, financial markets and market liquidity may improve to a sufficient extent to allow access to alternative sources of finance, including securitisation, reducing the need to roll over banking facilities and allowing a reduction in commitments.

Allocation methodology for indirect costs

Manufacturing directly attributable costs have been allocated to the operating divisions, based on their service usage. Where services span more than one division an appropriate measure is used to allocate the costs on a basis which management considers reasonable. Manufacturing costs are fully allocated and there are no residual unallocated costs.

Group centre directly attributable costs have been allocated to the operating divisions, based on their service usage. Where services span more than one division, the costs are allocated on a basis management considers reasonable. The residual unallocated costs remaining in the Group centre, relate to volatile corporate items that do not naturally reside within a division.

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

	First half 2009 £m	First half 2008 £m
Manufacturing costs:		
Property	959	815
Operations	734	716
Technology services and support functions	930	874
	2,623	2,405
Allocated to divisions:		
UK Retail	(796)	(791)
UK Corporate	(219)	(218)
Wealth	(61)	(59)
Global Banking & Markets	(277)	(228)
Global Transaction Services	(431)	(392)
Ulster Bank	(132)	(124)
US Retail & Commercial	(360)	(271)
RBS Insurance	(113)	(110)
Non-Core	(234)	(212)
	-	-
Group centre costs	472	314
Allocated to divisions:		
UK Retail	(142)	(74)
UK Corporate	(36)	(31)
Wealth	(26)	(14)
Global Banking & Markets	(117)	(73)
Global Transaction Services	(33)	(21)

Ulster Bank	(20)	(16)
US Retail & Commercial	(35)	(27)
RBS Insurance	(18)	(14)
Non-Core	(45)	(44)
	-	-

Allocation methodology for indirect costs (continued)

	First half 2009 £m	First half 2008 £m
Treasury funding	754	707
Allocated to divisions:		
UK Retail	(78)	(105)
UK Corporate	(134)	(96)
Wealth	39	(50)
Global Banking & Markets	164	(56)
Global Transaction Services	59	37
Ulster Bank	(3)	(39)
US Retail & Commercial	(37)	(58)
RBS Insurance	(18)	(17)
Non-Core	(746)	(323)
	-	-

Condensed consolidated income statement
for the half year ended 30 June 2009 (unaudited)

	First half 2009	First half 2008
	£m	£m
Interest receivable	18,131	24,178
Interest payable	(9,962)	(15,483)
Net interest income	8,169	8,695
Fees and commissions receivable	4,988	4,917
Fees and commissions payable	(1,340)	(1,188)
Income/(loss) from trading activities	1,994	(3,373)
Gain on redemption of own debt	3,790	-
Other operating income (excluding insurance premium income)	1,419	1,635
Net insurance premium income	2,821	3,156
Non-interest income	13,672	5,147
Total income	21,841	13,842
Staff costs	(6,008)	(5,558)
Premises and equipment	(1,533)	(1,218)
Other administrative expenses	(2,682)	(2,420)
Depreciation and amortisation	(1,357)	(1,523)
Write-down of goodwill and other intangible assets	(311)	-
Operating expenses*	(11,891)	(10,719)
Profit before other operating charges and impairment losses	9,950	3,123
Net insurance claims	(2,134)	(2,189)
Impairment losses	(8,060)	(1,661)
Operating loss before tax	(244)	(727)
Tax credit	441	333
Profit/(loss) from continuing operations	197	(394)
(Loss)/profit from discontinued operations, net of tax	(62)	234
Profit/(loss) for the period	135	(160)
Minority interests	(631)	(452)
Other owners' dividends	(546)	(215)
Loss attributable to ordinary shareholders	(1,042)	(827)
Basic earnings per ordinary share from continuing operations (Note 10)	(2.1p)	(6.4p)

Diluted earnings per ordinary share from continuing operations (Note 10)	(2.1p)	(6.4p)
Basic earnings per ordinary share from discontinued operations (Note 10)	(0.1p)	(0.4p)
Diluted earnings per ordinary share from discontinued operations (Note 10)	(0.1p)	(0.4p)
*Operating expenses include:	£m	£m
Integration and restructuring costs:		
- administrative expenses	726	302
- depreciation and amortisation	8	14
	734	316
Amortisation of purchased intangible assets	140	262
	874	578

Condensed consolidated statement of comprehensive income
for the half year ended 30 June 2009 (unaudited)

	First half 2009 £m	First half 2008 £m
Profit/(loss) for the period	135	(160)
Other comprehensive income:		
Available-for-sale financial assets	(1,660)	(1,796)
Cash flow hedges	364	326
Currency translation	(4,281)	3,509
Actuarial losses on defined benefit plans	-	-
Tax on other comprehensive income	478	423
Other comprehensive income for the period, net of tax	(5,099)	2,462
Total comprehensive income for the period	(4,964)	2,302
Attributable to:		
Equity shareholders	(3,146)	(936)
Minority interests	(1,818)	3,238
	(4,964)	2,302

Condensed consolidated balance sheet
at 30 June 2009 (unaudited)

	30 June 2009 £m	31 December 2008 £m
Assets		
Cash and balances at central banks	39,946	12,400
Net loans and advances to banks	60,330	79,426
Reverse repurchase agreements and stock borrowing	35,076	58,771
Loans and advances to banks	95,406	138,197
Net loans and advances to customers	722,260	835,409
Reverse repurchase agreements and stock borrowing	47,514	39,313
Loans and advances to customers	769,774	874,722
Debt securities	244,089	267,549
Equity shares	17,580	26,330
Settlement balances	23,264	17,832
Derivatives	557,284	992,559
Intangible assets	18,180	20,049
Property, plant and equipment	17,895	18,949
Deferred taxation	8,392	7,082
Prepayments, accrued income and other assets	23,265	24,402
Assets of disposal groups	3,848	1,581
Total assets	1,818,923	2,401,652
Liabilities		
Bank deposits	126,852	174,378
Repurchase agreements and stock lending	44,142	83,666
Deposits by banks	170,994	258,044
Customer deposits	540,674	581,369
Repurchase agreements and stock lending	75,015	58,143
Customer accounts	615,689	639,512
Debt securities in issue	274,180	300,289
Settlement balances and short positions	60,287	54,277
Derivatives	537,064	971,364
Accruals, deferred income and other liabilities	30,121	31,482
Retirement benefit liabilities	1,731	2,032
Deferred taxation	4,022	4,165
Insurance liabilities	9,542	9,976
Subordinated liabilities	35,703	49,154
Liabilities of disposal groups	7,498	859
Total liabilities	1,746,831	2,321,154
Equity:		
Minority interests	16,426	21,619
Owners' equity*		
Called up share capital	14,120	9,898

Reserves	41,546	48,981
Total equity	72,092	80,498
Total liabilities and equity	1,818,923	2,401,652
*Owners' equity attributable to:		
Ordinary shareholders	47,820	45,525
Other equity owners	7,846	13,354
	55,666	58,879

Condensed consolidated statement of changes in equity
for the half year ended 30 June 2009 (unaudited)

	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Called-up share capital			
At beginning of period	9,898	2,530	2,530
Ordinary shares issued in respect of rights issue	-	1,531	1,531
Ordinary shares issued in respect of capitalisation issue	-	-	101
Ordinary shares issued in respect of placing and open offers	4,227	-	5,728
Preference shares issued in respect of placing and open offer	-	-	5
Other shares issued during the period	-	3	3
Preference shares redeemed during the period	(5)	-	-
At end of period	14,120	4,064	9,898
Paid-in equity			
At beginning of period	1,073	1,073	1,073
Securities redeemed during the period	(308)	-	-
Transfer to retained earnings	(200)	-	-
At end of period	565	1,073	1,073
Share premium account			
At beginning of period	27,471	17,322	17,322
Ordinary shares issued in respect of rights issue, net of £246 million expenses	-	10,469	10,469
Ordinary shares issued in respect of capitalisation issue	-	-	(101)
Ordinary shares issued in respect of placing and open offer, net of £95 million expenses	1,047	-	-
Expenses of placing and open offer	-	-	(265)
Other shares issued during the year	-	46	46
Preference shares redeemed during the period	(4,995)	-	-
At end of period	23,523	27,837	27,471
Merger reserve			
At beginning of period	10,881	10,881	10,881
Placing and open offer	-	-	14,273
Transfer to retained earnings	-	-	(14,273)
At end of period	10,881	10,881	10,881
Available-for-sale reserves			
At beginning of period	(3,561)	1,032	1,032
Unrealised losses in the period	(1,494)	(1,322)	(6,808)
Realised losses in the period	197	60	842
Taxation	592	343	1,373

At end of period	(4,266)	113	(3,561)
Cash flow hedging reserve			
At beginning of period	(876)	(555)	(555)
Amount recognised in equity during the period	415	(297)	(603)
Amount transferred from equity to earnings in the period	106	174	198
Taxation	(138)	36	84
At end of period	(493)	(642)	(876)

Condensed consolidated statement of changes in equity
for the half year ended 30 June 2009 (unaudited) (continued)

	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Foreign exchange reserve			
At beginning of period	6,385	(426)	(426)
Retranslation of net assets	(2,724)	1,748	11,970
Foreign currency gains/(losses) on hedges of net assets	442	(1,177)	(5,801)
Taxation	(46)	111	642
At end of period	4,057	256	6,385
Capital redemption reserve			
At beginning and end of period	170	170	170
Retained earnings			
At beginning of period	7,542	21,072	21,072
Loss attributable to ordinary shareholders and other equity owners	(496)	(612)	(23,710)
Ordinary dividends paid	-	(2,312)	(2,312)
Equity preference dividends paid	(510)	(188)	(536)
Paid-in equity dividends paid, net of tax	(36)	(27)	(60)
Transfer from paid-in equity	200	-	-
Equity owners gain on withdrawal of minority interest			
- gross	629	-	-
- taxation	(176)	-	-
Transfer from merger reserve	-	-	14,273
Actuarial losses recognised in retirement benefit schemes			
- gross	-	-	(1,807)
- taxation	-	-	472
Net cost of shares bought and used to satisfy share-based payments	(13)	(16)	(19)
Share-based payments, net of tax	60	51	169
At end of period	7,200	17,968	7,542
Own shares held			
At beginning of period	(104)	(61)	(61)
Shares purchased during the period	-	(39)	(64)
Shares issued under employee share schemes	13	17	21
At end of period	(91)	(83)	(104)
Owners' equity at end of period	55,666	61,637	58,879

Condensed consolidated statement of changes in equity
for the half year ended 30 June 2009 (unaudited) (continued)

	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Minority interests			
At beginning of period	21,619	38,388	38,388
Currency translation adjustments and other movements	(1,999)	2,938	9,256
Acquisition of ABN AMRO	-	-	356
Profit/(loss) attributable to minority interests	631	452	(10,832)
Dividends paid	(310)	(137)	(285)
Losses on available-for-sale securities			
- net losses in the period	(363)	(534)	(1,440)
- taxation	7	47	(7)
Movements in cash flow hedging reserves			
- gross	(157)	449	(1,051)
- taxation	63	(114)	220
Actuarial losses recognised in retirement benefit schemes			
- gross	-	-	(480)
- taxation	-	-	2
Equity raised	9	810	1,071
Equity withdrawn and disposals	(2,445)	(243)	(13,579)
Transfer to retained earnings	(629)	-	-
At end of period	16,426	42,056	21,619
Total equity at end of period	72,092	103,693	80,498
Total comprehensive income recognised in the statement of changes in equity is attributable as follows:			
Equity shareholders	(3,146)	(936)	(23,148)
Minority interests	(1,818)	3,238	(4,332)
	(4,964)	2,302	(27,480)

Condensed consolidated cash flow statement
for the half year ended 30 June 2009 (unaudited)

	First half 2009 £m	First half 2008 £m
Operating activities		
Operating loss before tax	(244)	(727)
Operating (loss)/profit before tax on discontinued operations	(65)	463
Adjustments for non-cash items	16,800	(10,553)
Net cash inflow/(outflow) from trading activities	16,491	(10,817)
Changes in operating assets and liabilities	(18,455)	(32,572)
Net cash flows from operating activities before tax	(1,964)	(43,389)
Income taxes paid	(284)	(1,327)
Net cash flows from operating activities	(2,248)	(44,716)
Net cash flows from investing activities	4,461	31,955
Net cash flows from financing activities	(5,525)	10,340
Effects of exchange rate changes on cash and cash equivalents	(10,836)	7,501
Net (decrease)/increase in cash and cash equivalents	(14,148)	5,080
Cash and cash equivalents at beginning of period	134,925	148,955
Cash and cash equivalents at end of period	120,777	154,035

Notes

1. Basis of preparation
The accounts for the half year ended 30 June 2009 have been prepared on a going concern basis. The directors have reviewed the Group's forecasts, projections and other relevant evidence including the ongoing measures from governments and central banks in the UK and around the world to sustain the banking sector. Whilst the Group has received no guarantees, the directors have a reasonable expectation, based on experience to date, of continued and sufficient access to these funding facilities and, accordingly, that the Group will continue in operational existence for the foreseeable future.

2. Accounting policies
The annual accounts of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together “IFRS”) as adopted by the European Union (“EU”). It also complies with IFRS as issued by the IASB. There have been no significant changes to the Group's principal accounting policies as set out on pages 162 to 171 of the 2008 Form 20F apart from the implementation of amendments to IFRS 2 (see below) and the introduction of a new policy dealing with the redemption or settlement of issued debt. These interim financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’.

The Group has implemented Vesting Conditions and Cancellation amendments to IFRS 2 Share-based Payment. The amendments change the way the cancellation of share schemes by an employee are treated. Previously, cancellations resulted in credits as the charge was trued up to reflect the reduction in the number of shares that vest. Under the amendments, cancellations result in the amount that would otherwise have been recognised over the remainder of the vesting period being charged to profit or loss immediately. Implementation of these amendments has increased the charge for the Group’s share schemes in the first half of 2009 by £38 million. The Group’s income statement, related notes and cash flow statement for the half year ended 30 June 2008 and the year ended 31 December 2008 have been restated increasing loss before tax by £35 million and £169 million respectively.

The comparative amounts for the first half of 2008 have been restated for the finalisation of the ABN AMRO acquisition accounting.

As a result of the amendments to IAS 1 Presentation of Financial Statements, the interim financial statements include a statement of changes in equity (showing the components of changes in equity for the period) as a primary financial statement and a statement of comprehensive income immediately following the income statement.

The Group has extended its accounting policy on derecognition to cover the redemption or settlement of issued debt:

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt’s carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

2. Accounting policies (continued)

There are a number of other changes to IFRS that were effective from 1 January 2009. They have had no material effect on the Group's interim financial statements:

Improvements to IFRS issued in May 2008 makes minor amendments to a number of IFRS as part of IASB's annual improvements project.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate Amendments to IAS 27 Consolidated and Separate Financial Statements and IFRS 1 First-time Adoption of International Financial Reporting Standards amends investor accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate.

Improving Disclosures about Financial Instruments Amendments to IFRS 7 Financial Instruments: Disclosures enhances disclosures required about liquidity risk and fair value measurements.

IAS 23 Borrowing Costs requires entities to capitalise borrowing costs attributable to the development or construction of intangible assets or property plant or equipment.

Puttable Financial Instruments and Obligations arising on Liquidation Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements amends IAS 32 to enable puttable instruments to be disclosed as equity.

Embedded Derivatives Amendments to IFRIC 9 and IAS 39 makes changes in relation to embedded derivatives when reclassifying financial instruments.

IFRIC 13 Customer Loyalty Programmes requires entities that provide customers with benefits ancillary to the sale of goods or services should apportion the sales proceeds on the basis of relative fair values.

IFRIC 15 Agreements for the Construction of Real Estate clarifies the accounting for construction profits.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation addresses the nature of the hedged risk and the amount of the hedged item; where in a group the hedging item could be held; and what amounts should be reclassified from equity on the disposal of a foreign operation that had been subject to hedging.

Recent developments in IFRS

The IASB published a revised IFRS 3 Business Combinations and related revisions to IAS 27 Consolidated and Separate Financial Statements in January 2008. The standards improve convergence with US GAAP and provide new guidance on accounting for changes in interests in subsidiaries. The cost of an acquisition will comprise only consideration paid to vendors for equity; other costs will be expensed immediately. Groups will only account for goodwill on acquisition of a subsidiary; subsequent changes in interest will be recognised in equity and only on a loss of control will there be a profit or loss on disposal to be recognised in income. The changes are effective for accounting periods beginning on or after 1 July 2009. These changes will affect the Group's accounting for future acquisitions and disposals of subsidiaries.

The IASB issued an amendment to IAS 39 Eligible Hedged Items in July 2008 to clarify how the hedge accounting principles in IAS 39 should be applied in the designation of a one-sided risk in a hedged item and inflation in a financial hedged item. The amendment is effective for accounting periods beginning on or after 1 July 2009 and is not expected to have a material effect on the Group.

2. Accounting policies (continued)

Group Cash-settled Share-based Payment Transactions Amendments to IFRS 2 issued by the IASB in June 2009 clarifies the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when it has no obligation to settle the transaction. The amendments are effective for annual periods beginning on or after 1 January 2010. They will have no effect on the Group's financial statements.

In April 2009, the IASB issued Improvements to IFRS which makes minor changes to IFRS as part of the Board's annual improvements project: making non-urgent but necessary amendments to standards, primarily to remove inconsistencies and to clarify wording. The amendments are not expected to have a material effect on the Group.

Additional Exemptions for First-time Adopters Amendments to IFRS 1 was issued in July 2009 and provides relief from retrospective application in relation to oil and gas assets and determining whether an arrangement contains a lease. These exemptions will have no effect on the Group.

The IFRIC issued interpretation IFRIC 17 Distributions of Non-Cash Assets to Owners and the IASB made consequential amendments to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations in December 2008. The interpretation requires distributions to be presented at fair value with any surplus or deficit to be recognised in income. The amendment to IFRS 5 extends the definition of disposal groups and discontinued operations to disposals by way of distribution. The interpretation is effective for accounting periods beginning on or after 1 July 2009, to be adopted at the same time as IFRS 3 (revised 2008), and is not expected to have a material effect on the Group.

The IFRIC issued interpretation IFRIC 18 Transfers of Assets from Customers in January 2009. The interpretation addresses the accounting by suppliers that receive assets from customers, requiring measurement at fair value. The interpretation is effective for assets from customers received on or after 1 July 2009 and is not expected to have a material effect on the Group.

3. Analysis of income, expenses and impairment losses

	First half 2009 £m	First half 2008 £m
Fees and commissions receivable	4,988	4,917
Fees and commissions payable		
- banking	(1,080)	(986)
- insurance related	(260)	(202)
Net fees and commissions	3,648	3,729
Foreign exchange	1,722	906
Interest rate	3,265	1,447
Credit	(3,815)	(6,273)
Other	822	547
Income/(loss) from trading activities	1,994	(3,373)

Gain on redemption of own debt	3,790	-

In April 2009, the Group concluded a series of exchange offers and tender offers with the holders of a number of Tier 1 and Upper Tier 2 securities which resulted in an aggregate pre-tax gain of £4.6 billion, of which £3.79 billion was taken through income and the remainder through equity.

Notes (continued)

3.Analysis of income, expenses and impairment losses (continued)

	First half 2009 £m	First half 2008 £m
Operating lease and other rental income	695	872
Changes in the fair value of own debt	(60)	527
Changes in the fair value of securities and other financial assets and liabilities	60	(601)
Changes in the fair value of investment properties	(147)	(22)
Profit on sale of securities	101	115
Profit on sale of property, plant and equipment	26	87
Profit on sale of subsidiaries and associates	227	563
Life company profits/(losses)	24	(44)
Dividend income	46	51
Share of profits less losses of associated entities	(3)	55
Other income	450	32
Other operating income (excluding insurance premium income)	1,419	1,635
Non-interest income (excluding insurance premiums)	10,851	1,991
Insurance net premium income	2,821	3,156
Total non-interest income	13,672	5,147
Staff costs	6,008	5,558
Premises and equipment	1,533	1,218
Other	2,682	2,420
Administrative expenses	10,223	9,196
Depreciation and amortisation	1,357	1,523
Write-down of goodwill and other intangible assets	311	-
Operating expenses	11,891	10,719
General insurance	1,865	1,863
Bancassurance	269	326
Insurance net claims	2,134	2,189
Loan impairment losses	7,330	1,588
Impairment of available-for-sale securities	730	73
Impairment losses	8,060	1,661

4.Goodwill

	First half 2009 £m	First half 2008 £m
Write-down of goodwill and other intangible assets	311	-

The write down of goodwill in the first half of 2009 principally relates to ABN AMRO and NatWest goodwill allocated to non-core businesses.

5. Pensions

The pension cost for the first half of 2009 amounting to £425 million (first half 2008 - £339 million) reflects the assumptions adopted in the Group’s 2008 financial statements as the Group has concluded, following a review of scheme assumptions, that as at 30 June 2009 no adjustment to the deficit on the schemes is required.

Notes (continued)

6.Loan impairment provisions

Operating loss is stated after charging loan impairment losses of £7,330 million (first half 2008 - £1,588 million; full year 2008 - £7,091 million). The balance sheet loan impairment provisions increased in the half year ended 30 June 2009 from £11,016 million to £15,528 million, and the movements thereon were:

	First half 2009 £m	First half 2008 £m
At beginning of period	11,016	6,452
Currency translation and other adjustments	(666)	193
Disposals	-	(1,010)
Amounts written-off	(2,150)	(1,333)
Recoveries of amounts previously written-off	176	171
Charge to the income statement	7,330	1,588
Unwind of discount	(178)	(91)
At end of period	15,528	5,970

The provision at 30 June 2009 includes £126 million (31 December 2008 - £127 million; 30 June 2008 - £3 million) in respect of loans and advances to banks.

7.Taxation

The credit for taxation differs from the tax credit computed by applying the standard UK corporation tax rate of 28% (2008 – 28.5%) as follows:

	First half 2009 £m	First half 2008 £m
Loss before tax from continuing operations	(244)	(727)
Expected tax credit at 28% (2008 – 28.5%)	(68)	(207)
Non-deductible goodwill impairment	87	-
Unrecognised timing differences	16	4
Other non-deductible items	73	162
Non-taxable items;		
- gain on redemption of own debt	(692)	-
- other	(176)	(225)
Taxable foreign exchange movements	(23)	7
Foreign profits taxed at other rates	3	(52)
Losses in year not recognised	184	40
Other	(23)	-
Adjustments in respect of prior periods	178	(62)
Actual tax credit	(441)	(333)

Notes (continued)

8.Minority interests

	First half 2009 £m	First half 2008 £m
Trust preferred securities	45	45
Investment in Bank of China	359	-
Sempra joint venture	144	96
ABN AMRO	79	290
Other	4	21
Profit attributable to minority interests	631	452

9.Other owners' dividends

	First half 2009 £m	First half 2008 £m
Non-cumulative preference shares of US$0.01	179	136
Non-cumulative preference shares of €0.01	57	52
Non-cumulative preference shares of £1		
- issued to UK Financial Investments Limited (1)	274	-
Interest on securities classified as equity, net of tax	36	27
	546	215

Note:
(1) Includes £50 million redemption premium on repayment of preference shares.

10.Earnings per share

Earnings per share have been calculated based on the following:

	First half 2009 £m	First half 2008 £m
Earnings		
Loss from continuing operations attributable to ordinary shareholders	(984)	(786)
Add back finance cost on dilutive convertible securities	-	-
Diluted loss from continuing operations attributable to ordinary shareholders	(984)	(786)
Loss from discontinued operations attributable to ordinary shareholders	(58)	(41)
Weighted average number of ordinary shares (millions)		

In issue during the period	46,719	12,197
Effect of dilutive share options and convertible securities	-	-
Diluted weighted average number of ordinary shares in issue during the period	46,719	12,197
Basic loss per share from continuing operations	(2.1p)	(6.4p)
Diluted loss per share from continuing operations	(2.1p)	(6.4p)
Basic loss per share from discontinued operations	(0.1p)	(0.4p)
Diluted loss per share from discontinued operations	(0.1p)	(0.4p)

Notes (continued)

11. Segmental analysis

Changes have been made to the Group's operating segments in the first half of 2009. A Non-Core division has been created comprising those lines of business, portfolios and individual assets that the Group intends to run off or sell. Furthermore, Group Manufacturing is no longer reported as a separate division whose costs are now allocated to the customer-facing divisions along with certain central costs. UK Retail & Commercial Banking has been split into three segments (UK Retail, UK Corporate and Wealth). Ulster Bank has become a specific segment. The remaining elements of Europe & Middle East Retail & Commercial Banking, Asia Retail & Commercial Banking and Share of shared assets form part of Non-Core. The segment measure is now Operating profit/(loss) before tax which differs from Contribution used previously; it excludes strategic disposals. Comparative data have been restated accordingly.

	First half 2009			First half 2008		
	External	Inter segment	Total	External	Inter segment	Total
Total revenue	£m	£m	£m	£m	£m	£m
UK Retail	3,525	365	3,890	4,174	813	4,987
UK Corporate						