

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

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

Report of Foreign Private Issuer

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

For August 6, 2010

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F

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Yes

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Interim results
for the half year ended
30 June 2010

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Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: the Group's restructuring plans, capitalisation, portfolios, capital ratios, liquidity, risk weighted assets, return on equity, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; the Group's future financial performance; the level and extent of future impairments and write-downs; the protection provided by the Asset Protection Scheme (APS)

; and the Group's potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the global economy and instability in the global financial markets, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group's counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain non-core assets and businesses required as part of the EC State Aid restructuring plan; organisational restructuring; the ability to access sufficient funding to meet liquidity needs; cancellation, change or withdrawal of, or failure to renew, governmental support schemes; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices and equity prices; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; HM Treasury exercising influence over the operations of the Group; the ability of the Group to attract or retain senior management or other key employees; regulatory change in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; impairments of goodwill; pension

fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; general geopolitical and economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the ability to achieve revenue benefits and cost savings from the integration of certain of RBS Holdings N.V.'s (formerly ABN AMRO Holding N.V.) businesses and assets; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the participation of the Group in the APS and the effect of the APS on the Group's financial and capital position; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Presentation of information

Pro forma results

Pro forma results have been prepared to include only those business units of ABN AMRO that have been retained by RBS. The business and strategic update, divisional performance and discussion of risk and capital management in this announcement focus on the pro forma results. The basis of preparation of the pro forma results is detailed on page 67.

Statutory results

RFS Holdings is the entity that acquired ABN AMRO and is jointly owned by the Consortium Members. It is controlled by RBS and is therefore fully consolidated in its financial statements. The interests of Fortis, and its successor the State of the Netherlands, and Santander in RFS Holdings are included in minority interests. Following legal separation on 1 April 2010, the interests of other Consortium Members in RFS Holdings relate only to shared assets. In future years, there will be no significant differences between pro forma and statutory results.

Results summary - pro forma

| | Quarter ended | | | Half year ended | |
|------------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2010 £m | 31 March 2010 £m | 30 June 2009 £m | 30 June 2010 £m | 30 June 2009 £m |
| Core* | | | | | |
| Total income (1) | 7,909 | 8,020 | 6,808 | 15,929 | 17,254 |
| Operating expenses (2) | (3,511) | (3,774) | (3,529) | (7,285) | (7,497) |
| Insurance net claims | (1,108) | (1,003) | (788) | (2,111) | (1,577) |

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| | | | | | |
|--|----------------|---------|---------|----------------|---------|
| Operating profit before impairment losses (3) | 3,290 | 3,243 | 2,491 | 6,533 | 8,180 |
| Impairment losses | (1,097) | (971) | (1,147) | (2,068) | (2,177) |
| Operating profit (3) | 2,193 | 2,272 | 1,344 | 4,465 | 6,003 |
| Non-Core | | | | | |
| Total income (1) | 873 | 934 | (687) | 1,807 | (2,463) |
| Operating expenses (2) | (592) | (656) | (537) | (1,248) | (1,236) |
| Insurance net claims | (215) | (133) | (137) | (348) | (314) |
| Operating profit/(loss) before impairment losses (3) | 66 | 145 | (1,361) | 211 | (4,013) |
| Impairment losses | (1,390) | (1,704) | (3,516) | (3,094) | (5,344) |
| Operating loss (3) | (1,324) | (1,559) | (4,877) | (2,883) | (9,357) |
| Total | | | | | |
| Total income (1) | 8,782 | 8,954 | 6,121 | 17,736 | 14,791 |
| Operating expenses (2) | (4,103) | (4,430) | (4,066) | (8,533) | (8,733) |
| Insurance net claims | (1,323) | (1,136) | (925) | (2,459) | (1,891) |
| Operating profit before impairment losses (3) | 3,356 | 3,388 | 1,130 | 6,744 | 4,167 |
| Impairment losses | (2,487) | (2,675) | (4,663) | (5,162) | (7,521) |
| Operating profit/(loss) (3) | 869 | 713 | (3,533) | 1,582 | (3,354) |
| Integration and restructuring costs | (254) | (168) | (355) | (422) | (734) |
| Gain on redemption of own debt | 553 | - | 3,790 | 553 | 3,790 |
| Asset Protection Scheme credit default swap - fair value changes | 500 | (500) | - | - | - |
| Other | (511) | (66) | 157 | (577) | 313 |
| Profit/(loss) before tax (4) | 1,157 | (21) | 59 | 1,136 | 15 |
| * Includes fair value of own debt impact | 619 | (169) | (960) | 450 | 71 |

For definitions of the notes see page 6.

Results summary - pro forma

Key metrics

| | Quarter ended | | | Half year ended | |
|--|---------------|---------------|--------------|-----------------|--------------|
| | 30 June 2010 | 31 March 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |

Performance ratios

| | | | | | |
|----------------------------------|--------------|-------|-------|--------------|-------|
| Core | | | | | |
| - Net interest margin | 2.24% | 2.12% | 2.11% | 2.18% | 2.16% |
| - Cost:income ratio (5) | 44% | 47% | 52% | 46% | 43% |
| - Adjusted cost:income ratio (6) | 52% | 54% | 59% | 53% | 48% |
| Non-Core | | | | | |
| - Net interest margin | 1.22% | 1.25% | 0.45% | 1.24% | 0.54% |
| - Cost:income ratio (5) | 68% | 70% | (78%) | 69% | (50%) |
| - Adjusted cost:income ratio (6) | 90% | 82% | (65%) | 86% | (45%) |
| Group | | | | | |
| - Net interest margin | 2.03% | 1.92% | 1.70% | 1.97% | 1.74% |

| | | | | | |
|----------------------------------|------------|-----|-----|------------|-----|
| - Cost:income ratio (5) | 47% | 49% | 66% | 48% | 59% |
| - Adjusted cost:income ratio (6) | 55% | 57% | 78% | 56% | 68% |

Continuing operations:

| | | | | | |
|--|---------------------|---------------|------|------------------|--------|
| Basic earnings/(loss) per ordinary and B share (7) | 0.8p | (0.2p) | 0.1p | 0.6p | (1.7p) |
| | 30 June 2010 | 31 March 2010 | | 31 December 2009 | Change |

Capital and balance sheet

| | | | | | |
|--|-----------------|----------|---------|----------|---------|
| Total assets | £1,581bn | £1,583bn | - | £1,522bn | 4% |
| Funded balance sheet (8) | £1,058bn | £1,121bn | (6%) | £1,084bn | (2%) |
| Loan:deposit ratio (Core - net of provisions) | 102% | 102% | - | 104% | (200bp) |
| Loan:deposit ratio (Group - net of provisions) | 128% | 131% | (300bp) | 135% | (700bp) |
| Risk-weighted assets - gross | £597bn | £586bn | 2% | £566bn | 5% |
| Benefit of Asset Protection Scheme | (£123bn) | (£125bn) | (2%) | (£128bn) | (4%) |
| Risk-weighted assets | £474bn | £461bn | 3% | £438bn | 8% |
| Total equity | £79bn | £81bn | (2%) | £80bn | (1%) |
| Core Tier 1 ratio* | 10.5% | 10.6% | (10bp) | 11.0% | (50bp) |
| Tier 1 ratio | 12.8% | 13.7% | (90bp) | 14.4% | (160bp) |
| Risk elements in lending (REIL) | £36bn | £37bn | (3%) | £35bn | 3% |
| REIL as a % of gross loans and advances | 6.5% | 6.3% | 20bp | 6.1% | 40bp |
| Provision balance as % of REIL and PPL | 43% | 45% | (200bp) | 42% | 100bp |
| Tier 1 leverage ratio (9) | 17.2x | 17.6x | (2%) | 17.0x | 1% |
| Tangible equity leverage ratio (10) | 5.5% | 5.1% | 40bp | 5.2% | 30bp |
| Net tangible equity per share | 52.8p | 51.5p | 3% | 51.3p | 3% |

* Benefit of APS in Core Tier 1 ratio is 1.3% at 30 June 2010, 1.4% at 31 March 2010 and 1.6% at 31 December 2009.

Notes:

- (1) Excluding gain on redemption of own debt, strategic disposals and Asset Protection Scheme credit default swap - fair value changes.
- (2) Excluding amortisation of purchased intangible assets, integration and restructuring costs, bonus tax and write-down of goodwill and other intangible assets.
- (3) Operating profit/(loss) before tax, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, Asset Protection Scheme credit default swap - fair value changes and write-down of goodwill and other intangible assets.
- (4) Excluding write-down of goodwill and other intangible assets.
- (5) Cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above.
- (6) Adjusted cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above and after netting insurance claims against income.
- (7) Adjusted profit/(loss) from continuing operations attributable to ordinary and B shareholders divided by weighted average number of ordinary and B shares in issue. Refer to page 73.
- (8) Total assets less derivatives.
- (9) Tier 1 leverage ratio is total tangible assets (after netting derivatives) divided by Tier 1 capital.
- (10) Tangible equity leverage ratio is total tangible equity divided by total tangible assets (after netting derivatives).

Results summary - statutory

Highlights

- Income of £17,960 million for H1 2010.
- Operating profit before tax of £1,169 million for H1 2010.
- Core Tier 1 ratio 10.5%

| | Half year ended | |
|---|-----------------|---------|
| | 30 June | 2009 |
| | 30 June | * |
| | 2010 | |
| | £m | £m |
| Continuing operations: | | |
| Total income | 17,960 | 19,021 |
| Operating expenses | (9,170) | (9,960) |
| Operating profit before impairment losses | 6,331 | 7,170 |
| Impairment losses | (5,162) | (7,521) |
| Operating profit/(loss) before tax | 1,169 | (351) |
| Profit/(loss) attributable to ordinary and B shareholders | 9 | (1,042) |

* Restated for the reclassification of the results attributable to other Consortium Members as discontinued operations.

For an explanation of the statutory presentation refer to page 4.

**Summary consolidated income statement
for the half year ended 30 June 2010 - pro forma**

In the income statement set out below, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, Asset Protection Scheme credit default swap - fair value changes and write-down of goodwill and other intangible assets are shown separately. In the statutory condensed consolidated income statement on page 145, these items are included in income and operating expenses as appropriate.

| | Quarter ended | | | Half year ended | |
|---------|---------------|---------|---------|-----------------|--|
| 30 June | 31 March | 30 June | 30 June | 30 June | |
| 2010 | 2010 | 2009 | 2010 | 2009 | |
| £m | £m | £m | £m | £m | |

Core*

| | | | | | |
|--|----------------|---------|---------|----------------|---------|
| Net interest income | 3,212 | 3,035 | 3,133 | 6,247 | 6,349 |
| Non-interest income (excluding insurance net premium income) | 3,592 | 3,864 | 2,570 | 7,456 | 8,688 |
| Insurance net premium income | 1,105 | 1,121 | 1,105 | 2,226 | 2,217 |
| Non-interest income | 4,697 | 4,985 | 3,675 | 9,682 | 10,905 |
| Total income (1) | 7,909 | 8,020 | 6,808 | 15,929 | 17,254 |
| Operating expenses (2) | (3,511) | (3,774) | (3,529) | (7,285) | (7,497) |
| Profit before other operating charges | 4,398 | 4,246 | 3,279 | 8,644 | 9,757 |
| Insurance net claims | (1,108) | (1,003) | (788) | (2,111) | (1,577) |
| Operating profit before impairment losses | 3,290 | 3,243 | 2,491 | 6,533 | 8,180 |
| Impairment losses | (1,097) | (971) | (1,147) | (2,068) | (2,177) |
| Operating profit (3) | 2,193 | 2,272 | 1,344 | 4,465 | 6,003 |
| * Includes fair value of own debt impact | 619 | (169) | (960) | 450 | 71 |

Non-Core

| | | | | | |
|--|----------------|---------|---------|----------------|---------|
| Net interest income | 472 | 499 | 189 | 971 | 511 |
| Non-interest income (excluding insurance net premium income) | 228 | 267 | (1,072) | 495 | (3,414) |
| Insurance net premium income | 173 | 168 | 196 | 341 | 440 |
| Non-interest income | 401 | 435 | (876) | 836 | (2,974) |
| Total income (1) | 873 | 934 | (687) | 1,807 | (2,463) |
| Operating expenses (2) | (592) | (656) | (537) | (1,248) | (1,236) |
| Profit/(loss) before other operating charges | 281 | 278 | (1,224) | 559 | (3,699) |
| Insurance net claims | (215) | (133) | (137) | (348) | (314) |
| Operating profit/(loss) before impairment losses | 66 | 145 | (1,361) | 211 | (4,013) |
| Impairment losses | (1,390) | (1,704) | (3,516) | (3,094) | (5,344) |
| Operating loss (3) | (1,324) | (1,559) | (4,877) | (2,883) | (9,357) |

For definitions of the notes see page 6.

Summary consolidated income statement
for the half year ended 30 June 2010 - pro forma
(continued)

| | Quarter ended | | | Half year ended | |
|--|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2010 £m | 31 March 2010 £m | 30 June 2009 £m | 30 June 2010 £m | 30 June 2009 £m |
| Total | | | | | |
| Net interest income | 3,684 | 3,534 | 3,322 | 7,218 | 6,860 |
| Non-interest income (excluding insurance net premium income) | 3,820 | 4,131 | 1,498 | 7,951 | 5,274 |
| Insurance net premium income | 1,278 | 1,289 | 1,301 | 2,567 | 2,657 |
| Non-interest income | 5,098 | 5,420 | 2,799 | 10,518 | 7,931 |
| Total income (1) | 8,782 | 8,954 | 6,121 | 17,736 | 14,791 |
| Operating expenses (2) | (4,103) | (4,430) | (4,066) | (8,533) | (8,733) |
| Profit before other operating charges | 4,679 | 4,524 | 2,055 | 9,203 | 6,058 |
| Insurance net claims | (1,323) | (1,136) | (925) | (2,459) | (1,891) |
| Operating profit before impairment losses (3) | 3,356 | 3,388 | 1,130 | 6,744 | 4,167 |
| Impairment losses | (2,487) | (2,675) | (4,663) | (5,162) | (7,521) |
| Operating profit/(loss) (3) | 869 | 713 | (3,533) | 1,582 | (3,354) |
| Amortisation of purchased intangible assets | (85) | (65) | (55) | (150) | (140) |
| Integration and restructuring costs | (254) | (168) | (355) | (422) | (734) |
| Gain on redemption of own debt | 553 | - | 3,790 | 553 | 3,790 |
| Strategic disposals | (411) | 53 | 212 | (358) | 453 |
| Bonus tax | (15) | (54) | - | (69) | - |
| Asset Protection Scheme credit default swap - fair value changes | 500 | (500) | - | - | - |
| Profit/(loss) before tax (4) | 1,157 | (21) | 59 | 1,136 | 15 |
| Tax (charge)/credit | (825) | (106) | 640 | (931) | 412 |
| Profit/(loss) from continuing operations | 332 | (127) | 699 | 205 | 427 |
| Loss from discontinued operations, net of tax | (26) | (4) | (13) | (30) | (58) |
| Profit/(loss) for the period | 306 | (131) | 686 | 175 | 369 |
| Minority interests | (30) | (12) | (83) | (42) | (554) |
| Preference share and other dividends | (19) | (105) | (432) | (124) | (546) |
| Profit/(loss) attributable to ordinary and B shareholders before write-down of goodwill and other intangible assets | 257 | (248) | 171 | 9 | (731) |

| | | | | | |
|--|------------|--------------|--------------|----------|----------------|
| Write-down of goodwill and other intangible assets, net of tax | - | - | (311) | - | (311) |
| Profit/(loss) attributable to ordinary and B shareholders | 257 | (248) | (140) | 9 | (1,042) |

For definitions of the notes see page 6.

Condensed consolidated statement of comprehensive income for the half year ended 30 June 2010 - pro forma

| | Quarter ended | | | Half year ended | |
|---|---------------|---------------|--------------|-----------------|----------------|
| | 30 June 2010 | 31 March 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |
| | £m | £m | £m | £m | £m |
| Profit/(loss) for the period | 306 | (131) | 375 | 175 | 58 |
| Other comprehensive income | | | | | |
| Available-for-sale financial assets | 117 | 381 | 1,319 | 498 | (1,633) |
| Cash flow hedges | 38 | (1) | 277 | 37 | 521 |
| Currency translation | 480 | 766 | (2,262) | 1,246 | (2,447) |
| Tax on other comprehensive income | 10 | (160) | (154) | (150) | 408 |
| Other comprehensive income/(loss) for the period, net of tax | 645 | 986 | (820) | 1,631 | (3,151) |
| Total comprehensive income/(loss) for the period | 951 | 855 | (445) | 1,806 | (3,093) |
| Attributable to: | | | | | |
| Minority interests | 44 | 89 | (81) | 133 | 53 |
| Preference shareholders | - | 105 | 396 | 105 | 510 |
| Paid-in equity holders | 19 | - | 36 | 19 | 36 |
| Ordinary and B shareholders | 888 | 661 | (796) | 1,549 | (3,692) |
| | 951 | 855 | (445) | 1,806 | (3,093) |

Summary consolidated balance sheet at 30 June 2010 - pro forma

| | 30 June 2010 | 31 March 2010 | 31 December 2009 |
|---|--------------|---------------|------------------|
| | £m | £m | £m |
| Loans and advances to banks (1) | 54,471 | 56,508 | 48,777 |
| Loans and advances to customers (1) | 539,340 | 553,872 | 554,654 |
| Reverse repurchase agreements and stock borrowing | 87,059 | 95,925 | 76,137 |

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| | | | |
|--|------------------|-----------|-----------|
| Debt securities and equity shares | 253,586 | 273,170 | 265,055 |
| Other assets | 123,526 | 141,151 | 139,659 |
| Funded assets | 1,057,982 | 1,120,626 | 1,084,282 |
| Derivatives | 522,871 | 462,272 | 438,199 |
| Total assets | 1,580,853 | 1,582,898 | 1,522,481 |
| Owners' equity | 76,802 | 78,676 | 77,736 |
| Minority interests | 2,109 | 2,305 | 2,227 |
| Subordinated liabilities | 27,523 | 31,936 | 31,538 |
| Deposits by banks (2) | 96,614 | 100,168 | 115,642 |
| Customer accounts (2) | 420,890 | 425,102 | 414,251 |
| Repurchase agreements and stock lending | 114,820 | 129,227 | 106,359 |
| Derivatives, settlement balances and short positions | 571,690 | 514,855 | 472,409 |
| Other liabilities | 270,405 | 300,629 | 302,319 |
| Total liabilities and equity | 1,580,853 | 1,582,898 | 1,522,481 |

Notes:

(1) Excluding reverse repurchase agreements and stock borrowing.

(2) Excluding repurchase agreements and stock lending.

Results summary

| | Quarter ended | | | Half year ended | |
|-------------------------------------|----------------|----------|---------|-----------------|---------|
| | 30 June | 31 March | 30 June | 30 June | 30 June |
| | 2010 | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m | £m |
| Net interest income | | | | | |
| Net interest income (1) | 3,567 | 3,447 | 3,276 | 7,014 | 6,746 |
| Net interest margin | | | | | |
| - Group | 2.03% | 1.92% | 1.70% | 1.97% | 1.74% |
| - Core | | | | | |
| - Retail & Commercial (2) | 3.11% | 2.97% | 2.92% | 3.04% | 2.81% |
| - Global Banking & Markets | 1.01% | 1.11% | 1.48% | 1.06% | 1.73% |
| - Non-Core | 1.22% | 1.25% | 0.45% | 1.24% | 0.54% |
| Selected average balances | | | | | |
| Loans and advances to banks | 47,090 | 47,254 | 55,062 | 47,172 | 49,484 |
| Loans and advances to customers | 517,450 | 529,914 | 585,925 | 523,682 | 602,236 |
| Debt securities | 139,722 | 140,732 | 129,190 | 140,227 | 124,059 |
| Interest earning assets | 704,262 | 717,900 | 770,177 | 711,081 | 775,779 |
| Deposits by banks | 94,330 | 86,048 | 128,733 | 90,189 | 141,778 |
| Customer accounts | 351,282 | 340,872 | 359,539 | 346,077 | 365,187 |
| Subordinated liabilities | 30,639 | 32,629 | 33,813 | 31,634 | 36,234 |
| Interest bearing liabilities | 618,736 | 627,192 | 688,432 | 622,964 | 688,273 |
| Non-interest bearing deposits | 49,928 | 43,946 | 36,790 | 46,937 | 36,664 |

Selected average yields (%)

| | | | | | |
|--|-------------|------|------|-------------|------|
| Loans and advances to banks | 1.12 | 1.19 | 1.85 | 1.15 | 1.94 |
| Loans and advances to customers | 3.67 | 3.48 | 4.07 | 3.58 | 3.96 |
| Debt securities | 2.88 | 2.43 | 2.96 | 2.65 | 3.67 |
| Interest earning assets | 3.34 | 3.13 | 3.72 | 3.23 | 3.79 |
| Deposits by banks | 1.77 | 1.38 | 2.23 | 1.59 | 2.50 |
| Customer accounts | 1.09 | 1.03 | 1.49 | 1.06 | 1.50 |
| Subordinated liabilities | 1.91 | 2.46 | 3.60 | 2.19 | 4.04 |
| Interest bearing deposits | 1.50 | 1.38 | 2.26 | 1.44 | 2.31 |
| Non-interest bearing deposits as a percentage of interest earning assets | 7.09 | 6.12 | 4.78 | 6.60 | 4.73 |

Notes:

- (1) Refer to notes on page 59.
- (2) Retail & Commercial comprises UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions.

Results summary
(continued)**Key points****Q2 2010 compared with Q1 2010**

- Group net interest margin improved to 2.03%, up 11 basis points from the first quarter, with underlying up 8 basis points excluding the positive impact of capital hedging.
- NIM in the Core Retail & Commercial business improved by 14 basis points, with improved asset margins offsetting continued pressure on liability margins as higher yielding hedges roll off. Wider asset margins primarily reflect the roll-off of older business written at lower margins, with front book margins remaining attractive, but stabilising.
- Net interest income benefited from the higher day count in the second quarter (approximately 4 basis points of the 14 basis point movement in Core Retail & Commercial NIM), as well as from modest growth in UK Retail and Corporate loan balances.

Q2 2010 compared with Q2 2009

- Group NIM widened by 33 basis points compared with Q2 2009.
- In Core Retail & Commercial, net interest income increased by 10%, while average interest earning assets increased by 4%, leaving NIM 19 basis points higher.

H1 2010 compared with H1 2009

- Group NIM recovered to 1.97%, up 23 basis points from the trough of 1.74% reached in the first half of 2009.
- Core Retail & Commercial NIM was 23 basis points higher.

Results summary
(continued)

| | Quarter ended | | | Half year ended | |
|--|-----------------------|------------------------|-----------------------|-----------------------|--------------------------|
| | 30 June 2010 £m | 31 March 2010 £m | 30 June 2009 £m | 30 June 2010 £m | 30 June 2009 £m |
| Non-interest income | | | | | |
| Net fees and commissions | 1,467 | 1,479 | 1,530 | 2,946 | 3,115 |
| Income from trading activities | 1,606 | 2,266 | 384 | 3,872 | 2,044 |
| Other operating income | 747 | 386 | (416) | 1,133 | 115 |
| Non-interest income (excluding insurance net premium income)* | 3,820 | 4,131 | 1,498 | 7,951 | 5,274 |
| Insurance net premium income | 1,278 | 1,289 | 1,301 | 2,567 | 2,657 |
| Total non-interest income | 5,098 | 5,420 | 2,799 | 10,518 | 7,931 |
| * Includes fair value of own debt impact: | | | | | |
| Income/(loss) from trading activities | 104 | 41 | (159) | 145 | 131 |
| Other operating income | 515 | (210) | (801) | 305 | (60) |
| Fair value of own debt | 619 | (169) | (960) | 450 | 71 |

Key points**Q2 2010 compared with Q1 2010**

- Income from trading activities, excluding movements in the fair value of own debt, declined by £723 million, with economic uncertainty leading to weak capital market conditions, thereby reducing GBM trading volumes from the strong first quarter. Non-Core trading results improved, however, as banking book hedges benefited from spread widening.
- Other operating income includes losses of £105 million booked on the disposal of a portfolio of lower-rated sovereign debt securities, including Portugal and Greece.
- The Group's credit spreads widened during the quarter, resulting in a gain of £619 million on the fair value of own debt, compared with a charge of £169 million in the first quarter.

Q2 2010 compared with Q2 2009

- Excluding fair value of own debt, GBM trading income was 24% lower than in the buoyant second quarter of 2009.
- Non-Core trading results are inevitably volatile, with gains booked on single name credit default swaps, compared with losses booked on the same positions in Q2 2009.

- UK Retail non-interest income fell, reflecting the reduction in overdraft administration charges following changes to the pricing structure introduced in Q4 2009.
- The gain of £619 million on the fair value of own debt contrasts with a charge of £960 million in the second quarter of 2009, during which the Group's credit spreads tightened sharply.

H1 2010 compared with H1 2009

- Lower revenues in GBM were offset by a £3.7 billion increase in Non-Core trading income as conditions improved and risk continued to be reduced.
- Excluding the reduction in UK Retail overdraft administration fees, Core Retail & Commercial non-interest income rose modestly.

Results summary
(continued)

| | Quarter ended | | | Half year ended | |
|---|-----------------|------------------|-----------------|-----------------|-----------------|
| | 30 June 2010 | 31 March 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |
| | £m | £m | £m | £m | £m |
| Operating expenses | | | | | |
| Staff costs | 2,178 | 2,553 | 2,150 | 4,731 | 4,660 |
| Premises and equipment | 516 | 528 | 587 | 1,044 | 1,231 |
| Other | 974 | 935 | 915 | 1,909 | 1,961 |
| Administrative expenses | 3,668 | 4,016 | 3,652 | 7,684 | 7,852 |
| Depreciation and amortisation | 435 | 414 | 414 | 849 | 881 |
| Operating expenses | 4,103 | 4,430 | 4,066 | 8,533 | 8,733 |
| General insurance | 1,348 | 1,107 | 895 | 2,455 | 1,865 |
| Bancassurance | (25) | 29 | 30 | 4 | 26 |
| Insurance net claims | 1,323 | 1,136 | 925 | 2,459 | 1,891 |
| Staff costs as a percentage of total income | 25% | 29% | 35% | 27% | 32% |

Key points**Q2 2010 compared with Q1 2010**

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

partially offset by the effects of the annual salary award.

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

Q2 2010 compared with Q2 2009

- Administrative expenses were broadly flat compared with a year ago.
- Insurance claims increased by £398 million, largely as a result of the increased bodily injury reserving.

H1 2010 compared with H1 2009

- Lower first half costs reflect more than £600 million of benefits from the Group's cost reduction programme, partially offset by increased investment activity across the core businesses.
- US deposit insurance levies were lower than in the first half of 2009, which included a one-off FDIC assessment.

Results summary (continued)

| | Quarter ended | | | Half year ended | |
|---|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2010 £m | 31 March 2010 £m | 30 June 2009 £m | 30 June 2010 £m | 30 June 2009 £m |
| Impairment losses | | | | | |
| Division | | | | | |
| UK Retail | 300 | 387 | 470 | 687 | 824 |
| UK Corporate | 198 | 186 | 450 | 384 | 550 |
| Wealth | 7 | 4 | 16 | 11 | 22 |
| Global Banking & Markets | 164 | 32 | (31) | 196 | 238 |
| Global Transaction Services | 3 | - | 4 | 3 | 13 |
| Ulster Bank | 281 | 218 | 90 | 499 | 157 |
| US Retail & Commercial | 144 | 143 | 146 | 287 | 369 |
| RBS Insurance | - | - | 1 | - | 6 |
| Central items | - | 1 | 1 | 1 | (2) |
| Core | 1,097 | 971 | 1,147 | 2,068 | 2,177 |
| Non-Core | 1,390 | 1,704 | 3,516 | 3,094 | 5,344 |
| | 2,487 | 2,675 | 4,663 | 5,162 | 7,521 |
| Asset category | | | | | |
| Loan impairment losses | 2,479 | 2,602 | 4,520 | 5,081 | 6,796 |
| Securities impairment losses | 8 | 73 | 143 | 81 | 725 |
| | 2,487 | 2,675 | 4,663 | 5,162 | 7,521 |
| Loan impairment charge as % of gross | 1.8% | 1.8% | 3.0% | 1.8% | 2.2% |

loans and advances (excluding reverse repurchase agreements)

Key points

Q2 2010 compared with Q1 2010

- Core Retail & Commercial impairments were flat on Q1 2010, with improvements in UK Retail offset by increased impairments in Ulster Bank commercial property portfolios. UK Corporate and US Retail & Commercial impairments were stable as a percentage of loans and advances. GBM had a small number of individual impairments in Q2 2010.
- The improvement in Non-Core impairments was largely driven by a provision recovery of £270 million on a significant single name exposure.

Q2 2010 compared with Q2 2009

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

H1 2010 compared with H1 2009

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

Results summary (continued)

| | Quarter ended | | | Half year ended | |
|---|-----------------|------------------|-----------------|-----------------|-----------------|
| | 30 June 2010 | 31 March 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |
| Credit and other market losses (1) | £m | £m | £m | £m | £m |
| Monoline exposures | 139 | - | 26 | 139 | 1,671 |
| | | | | 88 | |
| CDPCs (2) | 56 | 32 | 371 | | 569 |
| Asset-backed products | (97) | 55 | 165 | (42) | 541 |
| Other credit exotics | (47) | (11) | (1) | (58) | 536 |
| | | | | 13 | |
| Equities | 6 | 7 | 17 | | 25 |
| Banking book hedges | (147) | 36 | 813 | (111) | 996 |
| Other | 183 | 140 | (2) | 323 | (85) |
| Net credit and other market losses | 93 | 259 | 1,389 | 352 | 4,253 |

Notes:

- Included in 'Income from trading activities', significantly all in Non-Core.
- Credit derivative product companies.

Key points

Q2 2010 compared with Q1 2010

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

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

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

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

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

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

Q2 2010 compared with Q2 2009

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

Results summary
(continued)

Key points
(continued)

H1 2010 compared with H1 2009

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

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

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

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

Results summary

(continued)

| | Quarter ended | | | Half year ended | |
|---|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2010 £m | 31 March 2010 £m | 30 June 2009 £m | 30 June 2010 £m | 30 June 2009 £m |
| Other non-operating items | | | | | |
| Amortisation of purchased intangible assets | (85) | (65) | (55) | (150) | (140) |
| Integration and restructuring costs | (254) | (168) | (355) | (422) | (734) |
| Gain on redemption of own debt | 553 | - | 3,790 | 553 | 3,790 |
| Strategic disposals | (411) | 53 | 212 | (358) | 453 |
| Bonus tax | (15) | (54) | - | (69) | - |
| Asset Protection Scheme credit default swap - fair value changes | 500 | (500) | - | - | - |
| | 288 | (734) | 3,592 | (446) | 3,369 |

Key points

- A gain of £553 million was booked associated with the liability management exercise undertaken during the second quarter, through which the Group strengthened its Core Tier 1 capital base by repurchasing existing Tier 1 securities and exchanging selected existing Upper Tier 2 securities for new senior debt securities. Note that a further gain of £651 million was booked directly to equity in Q2 2010.
- The Asset Protection Scheme is structured as a credit derivative, with movements in the fair value of the contract taken as a credit of £500 million in the second quarter, compared with £500 million charged in Q1 2010. This reflects widening credit spreads across the portfolio of covered assets.
- Losses booked on strategic disposals during the second quarter reflect the momentum in the Group's restructuring programme, including a number of country exits, primarily in Latin America and Asia. In addition, the Group recognised a loss of £235 million in relation to the restructuring of its bancassurance distribution arrangements with Aviva.

Results summary
(continued)

| Capital resources and ratios | 30 June | | |
|-------------------------------------|-----------------|------------------|---------------------|
| | 2010 | 31 March 2010 | 31 December 2009 |
| Core Tier 1 capital | £50bn | £49bn | £48bn |
| Tier 1 capital | £61bn | £63bn | £63bn |
| Total capital | £66bn | £72bn | £71bn |
| Risk-weighted assets - gross | £597bn | £586bn | £566bn |
| Benefit of Asset Protection Scheme | (£123bn) | (£125bn) | (£128bn) |
| Risk-weighted assets | £474bn | £461bn | £438bn |
| Core Tier 1 ratio * | 10.5% | 10.6% | 11.0% |
| Tier 1 ratio | 12.8% | 13.7% | 14.4% |
| Total capital ratio | 13.9% | 15.7% | 16.3% |

* Benefit of APS in Core Tier 1 ratio is 1.3% at 30 June 2010, 1.4% at 31 March 2010 and 1.6% at 31 December 2009.

Key points

- The Core Tier 1 ratio declined by 10 basis points during the second quarter, largely driven by an increase in risk-weighted assets, partially offset by the benefits of the liability management exercise.
- RWAs were up £13 billion to £474 billion due to a new market risk-related event risk charge and an increase in RBS NV as historic capital relief trades rolled off.
- The transition of RBS NV to the Basel II approach was successfully completed during the quarter. This resulted in an increase in Non-Core and Group Centre RWAs which was largely offset by reductions across other divisions.
- Capital relief from the Asset Protection Scheme declined by £1 billion to £123 billion, reflecting run-off and the withdrawal of certain assets from the Scheme.
- The Tier 1 capital ratio declined by 90 basis points to 12.8%, reflecting the increase in RWAs as well as the liability management exercise completed in the second quarter. The movement in the total capital ratio reflects the same drivers.

Results summary (continued)

| | 30 June | 31 March | 31 December |
|---|-----------------|----------|-------------|
| | 2010 | 2010 | 2009 |
| Balance sheet | | | |
| Funded balance sheet | £1,058bn | £1,121bn | £1,084bn |
| Total assets | £1,581bn | £1,583bn | £1,522bn |
| Loans and advances to customers (excluding reverse repurchase agreements and stock borrowing) | £539bn | £554bn | £555bn |
| Customer accounts (excluding repurchase agreements and stock lending) | £421bn | £425bn | £414bn |
| Loan:deposit ratio (Core - net of provisions) | 102% | 102% | 104% |
| Loan:deposit ratio (Group - net of provisions) | 128% | 131% | 135% |

Key points

- The funded balance sheet decreased by £63 billion during the second quarter, including £44 billion asset reduction in GBM and £20 billion in Non-Core, of which £8 billion was from disposals.
- Compared with 30 June 2009, loans and advances have fallen by £29 billion in GBM and by £36 billion in Non-Core, while growing by £11 billion in Core Retail & Commercial.

Further discussion of the Group's funding and liquidity positions is included on pages 115 to 119.

Signatures

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

Date: August 6, 2010

THE ROYAL BANK OF SCOTLAND
GROUP plc (Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary