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 __X__ Form 40-F ___

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

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

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

Yes ___ No __X__

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

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

**Divisional performance**

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

| | Quarter ended | | | Half year ended | |
|---|---|---|---|---|---|
| | **30 June 2010** | 31 March 2010 | 30 June 2009 | **30 June 2010** | 30 June 2009 |
| | **£m** | £m | £m | **£m** | £m |
| **Operating profit/(loss) before impairment losses by division** | | | | | |
| UK Retail | **576** | 527 | 490 | **1,103** | 861 |
| UK Corporate | **588** | 504 | 535 | **1,092** | 956 |
| Wealth | **88** | 66 | 134 | **154** | 234 |
| Global Banking & Markets | **1,245** | 1,498 | 1,018 | **2,743** | 4,755 |
| Global Transaction Services | **282** | 233 | 269 | **515** | 509 |
| Ulster Bank | **104** | 81 | 78 | **185** | 149 |
| US Retail & Commercial | **273** | 183 | 136 | **456** | 318 |
| RBS Insurance | **(203)** | (50) | 142 | **(253)** | 223 |
| Central items | **337** | 201 | (311) | **538** | 175 |
| Core | **3,290** | 3,243 | 2,491 | **6,533** | 8,180 |
| Non-Core | **66** | 145 | (1,361) | **211** | (4,013) |
| **Group operating profit before impairment losses** | **3,356** | 3,388 | 1,130 | **6,744** | 4,167 |
| Included in the above are movements in fair value of own debt: | | | | | |
| Global Banking & Markets | **331** | (32) | (482) | **299** | 165 |
| Central items | **288** | (137) | (478) | **151** | (94) |
| | **619** | (169) | (960) | **450** | 71 |
| **Impairment losses by division** | | | | | |
| UK Retail | **300** | 387 | 470 | **687** | 824 |
| UK Corporate | **198** | 186 | 450 | **384** | 550 |
| Wealth | **7** | 4 | 16 | **11** | 22 |
| Global Banking & Markets | **164** | 32 | (31) | **196** | 238 |

| | | | | | |
|---|---|---|---|---|---|
| Global Transaction Services | **3** | - | 4 | **3** | 13 |
| Ulster Bank | **281** | 218 | 90 | **499** | 157 |
| US Retail & Commercial | **144** | 143 | 146 | **287** | 369 |
| RBS Insurance | **-** | - | 1 | **-** | 6 |
| Central items | **-** | 1 | 1 | **1** | (2) |
| | | | | | |
| Core | **1,097** | 971 | 1,147 | **2,068** | 2,177 |
| Non-Core | **1,390** | 1,704 | 3,516 | **3,094** | 5,344 |
| | | | | | |
| **Group impairment losses** | **2,487** | 2,675 | 4,663 | **5,162** | 7,521 |

**Divisional performance** (continued)

**Key points**

· Operating profit before impairment losses, adjusted for the movement in the fair value of own debt, was £2,737 million, down 23% compared with the first quarter of 2010 but up 31% compared with the second quarter of 2009. Pre-impairment profits grew in every Core division except GBM and RBS Insurance.

· Core Retail & Commercial generated good growth in pre-impairment operating profit during the second quarter, but this was offset by weaker GBM performance in more difficult conditions and by operating losses due to prior year reserve increases in RBS Insurance.

| | 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 |
| **Operating profit/(loss) by division** | | | | | |
| UK Retail | **276** | 140 | 20 | **416** | 37 |
| UK Corporate | **390** | 318 | 85 | **708** | 406 |
| Wealth | **81** | 62 | 118 | **143** | 212 |
| Global Banking & Markets | **1,081** | 1,466 | 1,049 | **2,547** | 4,517 |
| Global Transaction Services | **279** | 233 | 265 | **512** | 496 |
| Ulster Bank | **(177)** | (137) | (12) | **(314)** | (8) |
| US Retail & Commercial | **129** | 40 | (10) | **169** | (51) |
| RBS Insurance | **(203)** | (50) | 141 | **(253)** | 217 |
| Central items | **337** | 200 | (312) | **537** | 177 |
| Core | **2,193** | 2,272 | 1,344 | **4,465** | 6,003 |
| Non-Core | **(1,324)** | (1,559) | (4,877) | **(2,883)** | (9,357) |
| **Group operating profit/(loss)** | **869** | 713 | (3,533) | **1,582** | (3,354) |

| | Quarter ended | | | Half year ended | |
|---|---|---|---|---|---|
| | **30 June** | 31 March | 30 June | **30 June** | 30 June |

| | **2010** | 2010 | 2009 | **2010** | 2009 |
|---|---|---|---|---|---|
| | **%** | % | % | **%** | % |
| **Net interest margin by division** | | | | | |
| UK Retail | **3.88** | 3.66 | 3.69 | **3.77** | 3.57 |
| UK Corporate | **2.50** | 2.38 | 2.17 | **2.44** | 2.03 |
| Wealth | **3.36** | 3.38 | 4.82 | **3.37** | 4.65 |
| Global Banking & Markets | **1.01** | 1.11 | 1.48 | **1.06** | 1.73 |
| Global Transaction Services | **6.47** | 7.97 | 9.23 | **7.11** | 8.74 |
| Ulster Bank | **1.92** | 1.77 | 2.03 | **1.84** | 1.95 |
| US Retail & Commercial | **2.78** | 2.69 | 2.32 | **2.73** | 2.32 |
| Non-Core | **1.22** | 1.25 | 0.45 | **1.24** | 0.54 |
| | | | | | |
| Group | **2.03** | 1.92 | 1.70 | **1.97** | 1.74 |

**Divisional performance** (continued)

| | **30 June 2010 £bn** | 31 March 2010 £bn | Change | 31 December 2009 £bn | Change |
|---|---|---|---|---|---|
| **Risk-weighted assets by division** | | | | | |
| UK Retail | **49.1** | 49.8 | (1%) | 51.3 | (4%) |
| UK Corporate | **87.6** | 91.3 | (4%) | 90.2 | (3%) |
| Wealth | **12.0** | 11.7 | 3% | 11.2 | 7% |
| Global Banking & Markets | **141.3** | 141.8 | - | 123.7 | 14% |
| Global Transaction Services | **19.4** | 20.4 | (5%) | 19.1 | 2% |
| Ulster Bank | **30.5** | 32.8 | (7%) | 29.9 | 2% |
| US Retail & Commercial | **65.5** | 63.8 | 3% | 59.7 | 10% |
| Other | **16.9** | 9.6 | 76% | 9.4 | 80% |
| Core | **422.3** | 421.2 | - | 394.5 | 7% |
| Non-Core | **175.0** | 164.3 | 7% | 171.3 | 2% |
| | **597.3** | 585.5 | 2% | 565.8 | 6% |
| Benefit of Asset Protection Scheme | **(123.4)** | (124.8) | (1%) | (127.6) | (3%) |

| | | | | | |
|---|---|---|---|---|---|
| **Total** | **473.9** | 460.7 | 3% | 438.2 | 8% |

**UK Retail**

| | 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 |
| **Income statement** | | | | | |
| Net interest income | **1,001** | 933 | 868 | **1,934** | 1,665 |
| Net fees and commissions - banking | **263** | 259 | 321 | **522** | 658 |
| Other non-interest income (net of insurance claims) | **56** | 56 | 69 | **112** | 122 |
| Non-interest income | **319** | 315 | 390 | **634** | 780 |
| Total income | **1,320** | 1,248 | 1,258 | **2,568** | 2,445 |
| Direct expenses | | | | | |
| - staff | **(203)** | (198) | (214) | **(401)** | (428) |
| - other | **(111)** | (105) | (102) | **(216)** | (217) |
| Indirect expenses | **(430)** | (418) | (452) | **(848)** | (939) |
| | **(744)** | (721) | (768) | **(1,465)** | (1,584) |
| Operating profit before impairment losses | **576** | 527 | 490 | **1,103** | 861 |
| Impairment losses | **(300)** | (387) | (470) | **(687)** | (824) |
| Operating profit | **276** | 140 | 20 | **416** | 37 |
| **Analysis of income by product** | | | | | |
| Personal advances | **236** | 234 | 311 | **470** | 616 |
| Personal deposits | **277** | 277 | 354 | **554** | 751 |
| Mortgages | **478** | 422 | 273 | **900** | 480 |
| Bancassurance | **58** | 59 | 69 | **117** | 121 |
| Cards | **239** | 229 | 212 | **468** | 416 |
| Other | **32** | 27 | 39 | **59** | 61 |
| Total income | **1,320** | 1,248 | 1,258 | **2,568** | 2,445 |

**Analysis of impairment by sector**

| | | | | | |
|---|---|---|---|---|---|
| Mortgages | **44** | 48 | 41 | **92** | 63 |
| Personal | **168** | 233 | 299 | **401** | 494 |
| Cards | **88** | 106 | 130 | **194** | 267 |
| | | | | | |
| Total impairment | **300** | 387 | 470 | **687** | 824 |
| | | | | | |
| **Loan impairment charge as % of gross customer loans and advances by sector** | | | | | |
| Mortgages | **0.2%** | 0.2% | 0.2% | **0.2%** | 0.2% |
| Personal | **5.3%** | 7.1% | 8.3% | **6.3%** | 6.9% |
| Cards | **5.9%** | 7.1% | 8.5% | **6.5%** | 8.8% |
| | | | | | |
| | **1.1%** | 1.5% | 1.9% | **1.3%** | 1.7% |

**UK Retail** (continued)

**Key metrics**

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

| | **30 June 2010 £bn** | 31 March 2010 £bn | Change | 31 December 2009 £bn | Change |
|---|---|---|---|---|---|
| **Capital and balance sheet** | | | | | |
| Loans and advances to customers (gross) | | | | | |
| - mortgages | **86.9** | 84.8 | 2% | 83.2 | 4% |
| - personal | **12.8** | 13.2 | (3%) | 13.6 | (6%) |
| - cards | **6.0** | 6.0 | - | 6.2 | (3%) |
| Customer deposits (excluding bancassurance) | **90.0** | 89.4 | 1% | 87.2 | 3% |
| Assets under management (excluding deposits) | **5.4** | 5.3 | 2% | 5.3 | 2% |
| Risk elements in lending | **4.8** | 4.7 | 2% | 4.6 | 4% |
| Loan:deposit ratio (excluding repos) | **114%** | 113% | 100bp | 115% | (100bp) |
| Risk-weighted assets | **49.1** | 49.8 | (1%) | 51.3 | (4%) |

Notes:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).
(2) Adjusted cost:income ratio is based on total income after netting insurance claims and operating expenses.

**Key points**

**Q2 2010 compared with Q1 2010**

· Operating profit of £276 million in Q2 2010 was £136 million higher than in the previous quarter. Impairment losses fell £87 million to £300 million. Growth in income of 6% (£72 million) was partly offset by increased costs. Return on equity was 18.8%, compared with 9.4% in Q1 2010.

· UK Retail continues to focus on the delivery of its strategic plan and is benefiting from investment in process improvements and automation. The division launched its customer charter during Q2 2010, which has been well received by customers and staff.

**UK Retail** (continued)

**Key points** (continued)

**Q2 2010 compared with Q1 2010** (continued)

· UK Retail continued to achieve its growth targets for secured lending while building customer deposits.

o Mortgage balances were up 2% on Q1 2010, with continued retention of existing customers and new business sourced predominantly from the existing customer base. Gross lending increased 41% on Q1 2010, which saw low levels of business activity, driven by seasonality and removal of stamp duty relief at the end of 2009. Market share of new mortgage lending was 12%, still well above the Group's 7% share of stock. The Group considers mortgages to be a critical customer need and will continue to make lending available for both new and existing customers.

o Unsecured lending fell 2% in the quarter, as repayments continued to exceed new borrowing, which remained subdued in line with trends in the economy.

o Deposit growth continued albeit at a slower rate than previously with 1% growth in the quarter. This growth was despite a challenging market place, continued low interest rates and significant maturities of earlier fixed-term products.

o The loan to deposit ratio at 30 June 2010 was 114%, 1 percentage point higher than Q1 2010 as a result of continued strong growth in mortgage balances.

· Net interest income increased by 7%, with net interest margin increasing by 22 basis points. Asset margins continued to widen across all products, while liability margins in Q2 2010 were slightly lower than in Q1 2010. Savings margins remained stable, but swap rates on current account hedges declined.

· Non-interest income increased by 1%, with transaction-based fee income remaining stable as growth in the current economic climate remained challenging.

· Costs increased by 3% in the quarter reflecting marketing expenses associated with the launch of the customer charter as well as the impact of annual pay awards. Adjusted for insurance claims, the cost:income ratio improved by 2 percentage points to 56%.

· Impairment losses declined by 22% in Q2 2010. The impairment outlook is expected to remain steady and may improve slightly, subject to economic conditions remaining stable.

o Mortgage impairment losses decreased 8% in the quarter due to a reduction in customer default volumes, with performance continuing to benefit from the low interest rate environment.

o The unsecured portfolio impairment charge fell 24% to £ 256 million, on a book of £19 billion, due to lower default volumes together with improved collections performance.

· Risk-weighted assets fell marginally in the quarter as the impacts of mortgage volume growth and a retiring cards securitisation were more than offset by lower unsecured balances. Portfolio credit metrics remain stable.

**UK Retail** (continued)

**Key points** (continued)

**Q2 2010 compared with Q2 2009**

· Operating profit increased significantly, with income up 5% and costs down 3%, while impairments were 36% lower than in the previous year, primarily reflecting lower volumes of arrears on the unsecured portfolio.

· Net interest income was 15% higher than Q2 2009, with widening asset margins across all products. Liability margins came under pressure during 2009, with savings margin sacrificed to support balance growth.

· Non interest income decreased 18% versus prior year primarily as a result of changes to the structure of overdraft charges which took effect from Q4 2009.

· Deposit balances were up 8% on Q2 2009. Savings balances grew by 9%, significantly outperforming the market, which remains intensely competitive. Personal current account balances were up 5%, with 2% growth in accounts.

· Mortgage balances at 30 June 2010 were up 13%. UK Retail continues to take proactive steps to support and retain existing customers.

· Costs were 3% lower than in Q2 2009, driven by process re-engineering efficiencies within the branch network and operational centres. The adjusted cost:income ratio fell from 61% to 56%.

· Impairment losses dropped by 36% compared with Q2 2009, primarily reflecting lower arrears volumes on the unsecured portfolio and stabilisation of recovery expectations.

**H1 2010 compared with H1 2009**

· Net interest income was 16% higher, with net interest margin increasing 20 basis points. Widening asset margins across all products and an increasing number of mortgage customers choosing to remain on standard variable rate were the key drivers. Liability margins, however, fell as a result of lower interest rates, a competitive market place and our focus on saving balance growth.

· Total customer lending grew 9% from H1 2009 with mortgage balances increasing 13%, whilst unsecured balances reduced 8%. Deposit balances grew 8% with savings deposits up 9% and current account balances up 5% on H1 2009.

- Costs decreased by 8%, as process re-engineering helped to deliver lower staff costs and operational efficiencies.

- Impairment losses fell 17% in H1 2010 as improved economic conditions favourably impacted unsecured impairments, which declined by £166 million whilst secured impairments grew by £29 million.

**UK Corporate**

| | 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 |
| **Income statement** | | | | | |
| Net interest income | **647** | 610 | 560 | **1,257** | 1,059 |
| Net fees and commissions | **233** | 224 | 219 | **457** | 413 |
| Other non-interest income | **107** | 105 | 109 | **212** | 226 |
| Non-interest income | **340** | 329 | 328 | **669** | 639 |
| Total income | **987** | 939 | 888 | **1,926** | 1,698 |
| Direct expenses | | | | | |
| - staff | **(189)** | (205) | (182) | **(394)** | (367) |
| - other | **(78)** | (100) | (46) | **(178)** | (120) |
| Indirect expenses | **(132)** | (130) | (125) | **(262)** | (255) |
| | **(399)** | (435) | (353) | **(834)** | (742) |
| Operating profit before impairment losses | **588** | 504 | 535 | **1,092** | 956 |
| Impairment losses | **(198)** | (186) | (450) | **(384)** | (550) |
| Operating profit | **390** | 318 | 85 | **708** | 406 |
| **Analysis of income by business** | | | | | |
| Corporate and commercial lending | **660** | 630 | 520 | **1,290** | 996 |
| Asset and invoice finance | **154** | 134 | 123 | **288** | 232 |
| Corporate deposits | **185** | 176 | 264 | **361** | 554 |
| Other | **(12)** | (1) | (19) | **(13)** | (84) |
| Total income | **987** | 939 | 888 | **1,926** | 1,698 |
| **Analysis of impairment by sector** | | | | | |
| Banks and financial institutions | **(9)** | 2 | 3 | **(7)** | 5 |
| Hotels and restaurants | **12** | 16 | 36 | **28** | 51 |
| Housebuilding and construction | **8** | 14 | 55 | **22** | 61 |
| Manufacturing | **2** | 6 | 17 | **8** | 21 |
| Other | **83** | 37 | 88 | **120** | 107 |

| | | | | | |
|---|---|---|---|---|---|
| Private sector education, health, social work, recreational and community services | **-** | 8 | 32 | **8** | 40 |
| Property | **61** | 66 | 149 | **127** | 160 |
| Wholesale and retail trade, repairs | **28** | 18 | 23 | **46** | 37 |
| Asset and invoice finance | **13** | 19 | 47 | **32** | 68 |
| Total impairment | **198** | 186 | 450 | **384** | 550 |

**UK Corporate** (continued)

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

**Key metrics**

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

| | **30 June** | 31 March | 31 December |
|---|---|---|---|

| | **2010 £bn** | 2010* £bn | Change | 2009* £bn | Change |
|---|---|---|---|---|---|
| **Capital and balance sheet** | | | | | |
| Total third party assets | **118.4** | 117.4 | 1% | 114.9 | 3% |
| Loans and advances to customers (gross) | | | | | |
| - banks and financial institutions | **6.5** | 6.5 | - | 6.3 | 3% |
| - hotels and restaurants | **7.0** | 6.6 | 6% | 6.7 | 4% |
| - housebuilding and construction | **4.6** | 4.3 | 7% | 4.3 | 7% |
| - manufacturing | **5.5** | 5.9 | (7%) | 5.9 | (7%) |
| - other | **32.6** | 31.1 | 5% | 29.9 | 9% |
| - private sector education, health, social work, recreational and community services | **9.1** | 8.5 | 7% | 6.5 | 40% |
| - property | **30.3** | 32.0 | (5%) | 33.0 | (8%) |
| - wholesale and retail trade, repairs | **10.4** | 10.4 | - | 10.2 | 2% |
| - asset and invoice finance | **9.2** | 9.0 | 2% | 8.8 | 5% |
| Customer deposits | **95.4** | 91.4 | 4% | 87.8 | 9% |
| Risk elements in lending | **2.9** | 2.5 | 16% | 2.3 | 26% |
| Loan:deposit ratio (excluding repos) | **119%** | 124% | (500bp) | 126% | (700bp) |
| Risk-weighted assets | **87.6** | 91.3 | (4%) | 90.2 | (3%) |

* Revised to reflect improvement in data quality to more accurately reflect Standard Industrial Classification.

Note:

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

**UK Corporate** (continued)

**Key points**

**Q2 2010 compared with Q1 2010**

· Operating profit increased by 23% to £390 million, driven by good income growth and reduced costs.

· Net interest income increased by 6%. Loans and advances to customers were broadly in line with previous quarter, despite robust levels of gross new lending; margins continue to recover from the low levels reached in 2008 and 2009. Customer deposits grew by £4 billion, with deposit-gathering initiatives continuing through the quarter. Deposit margins remained tight. Net interest margin increased by 12 basis points.

· Non-interest income increased 3%, driven by GBM cross sales and money transmission fees.

· Staff costs were £16 million lower due to phasing of staff compensation. Excluding the £29 million Office of Fair Trading (OFT) penalty taken in Q1 2010, total expenses were 2% lower.

· Impairments were broadly in line with the previous three quarters and continue to reflect the delicate financial condition of many clients, especially in the property and SME sectors.

· Although nominal assets increased by 1%, risk-weighted assets decreased by 4%, primarily reflecting improvements in risk metrics.

**Q2 2010 compared with Q2 2009**

· Operating profits increased by £305 million, reflecting income growth and significantly lower impairments.

· Net interest income increased by 16%, driven by the recovery in lending margins. Non-interest income increased by 4%, from small increases across most fee and product lines.

· Staff expenses increased by £7 million, with changes to the phasing of staff costs partially offset by reduced redundancy costs. Other expenses increased £32 million, partly as a result of a £19 million legal recovery in Q2 2009. Adjusting for this, total expenses were up 7%.

· Impairments decreased by £252 million compared with Q2 2009, which included a higher charge taken to reflect potential losses in the portfolio not yet specifically identified.

**H1 2010 compared with H1 2009**

- Operating profit increased by £302 million or 74% compared with H1 2009, driven by strong income performance (up 13%) and significantly lower impairments.

- Net interest income increased by £198 million, 19%, and net interest margin recovered, rising by 41 basis points, reflecting repricing of the loan portfolio and a better funding cost environment than in the prior year, offset by adverse deposit floor impacts. Deposit-gathering initiatives delivered balance growth of 11% and the loan:deposit ratio improved to 119%, compared with 130% at H1 2009.

- Non-interest income increased by 5%, reflecting good refinancing activity levels.

- Total expenses increased £92 million, 12%, or 2% after excluding the OFT penalty and legal recovery and normalising for phasing of staff compensation and 2009 redundancy costs.

- Impairments were £166 million lower, primarily a result of higher charges taken in H1 2009 to reflect potential losses in the portfolio not yet specifically identified.

**Wealth**

| | Quarter ended | | | Half year ended | |
|---|---|---|---|---|---|
| | **30 June** | 31 March | 30 June | **30 June** | 30 June |
| | **2010** | 2010 | 2009 | **2010** | 2009 |
| | **£m** | £m | £m | **£m** | £m |
| **Income statement** | | | | | |
| Net interest income | **150** | 143 | 176 | **293** | 334 |
| Net fees and commissions | **97** | 95 | 90 | **192** | 180 |
| Other non-interest income | **19** | 17 | 21 | **36** | 42 |
| Non-interest income | **116** | 112 | 111 | **228** | 222 |
| Total income | **266** | 255 | 287 | **521** | 556 |
| Direct expenses | | | | | |
| - staff | **(92)** | (99) | (78) | **(191)** | (168) |
| - other | **(34)** | (30) | (34) | **(64)** | (67) |
| Indirect expenses | **(52)** | (60) | (41) | **(112)** | (87) |
| | **(178)** | (189) | (153) | **(367)** | (322) |
| Operating profit before impairment losses | **88** | 66 | 134 | **154** | 234 |
| Impairment losses | **(7)** | (4) | (16) | **(11)** | (22) |
| Operating profit | **81** | 62 | 118 | **143** | 212 |
| **Analysis of income** | | | | | |
| Private Banking | **216** | 204 | 242 | **420** | 461 |
| Investments | **50** | 51 | 45 | **101** | 95 |
| Total income | **266** | 255 | 287 | **521** | 556 |

**Key metrics**

| | Quarter ended | | | Half year ended | |
|---|---|---|---|---|---|

| | **30 June 2010** | 31 March 2010 | 30 June 2009 | **30 June 2010** | 30 June 2009 |
|---|---|---|---|---|---|
| **Performance ratios** | | | | | |
| Net interest margin | **3.36%** | 3.38% | 4.82% | **3.37%** | 4.65% |
| Cost:income ratio | **67%** | 74% | 53% | **70%** | 58% |

| | **30 June 2010 £bn** | 31 March 2010 £bn | Change | 31 December 2009 £bn | Change |
|---|---|---|---|---|---|
| **Capital and balance sheet** | | | | | |
| Loans and advances to customers (gross) | | | | | |
| - mortgages | **6.9** | 6.8 | 1% | 6.5 | 6% |
| - personal | **6.4** | 6.2 | 3% | 4.9 | 31% |
| - other | **1.6** | 1.5 | 7% | 2.3 | (30%) |
| Customer deposits | **36.2** | 36.4 | (1%) | 35.7 | 1% |
| Assets under management (excluding deposits) | **30.2** | 31.7 | (5%) | 30.7 | (2%) |
| Risk elements in lending | **0.2** | 0.2 | - | 0.2 | - |
| Loan:deposit ratio (excluding repos) | **41%** | 40% | 100bp | 38% | 300bp |
| Risk-weighted assets | **12.0** | 11.7 | 3% | 11.2 | 7% |

**Wealth** (continued)

**Key points**

**Q2 2010 compared with Q1 2010**

· Operating profit rose 31% to £81 million, mostly reflecting increased net interest income and a reduction in expenses.

· Competition in the deposit market remains intense. Deposits showed a slight decline from Q1 2010, with continued growth in the UK offset by reductions in the international businesses. At constant exchange rates deposits were flat.

· Loans and advances grew in response to client demand, increasing 3% over the prior quarter with margins continuing to improve.

· Assets under management were affected by adverse market conditions, with balances declining 5%. Assets under management outflows continued in the international businesses, where competition for private bankers has resulted in client attrition.

· Total expenses decreased 6% on the previous quarter reflecting the phasing of compensation accruals. On an underlying basis, total expenses were flat with a reduction in indirect expenses offsetting the impact of the annual pay round and increased investment in staff.

**Q2 2010 compared with Q2 2009**

· Operating profit decreased by 31% reflecting significant margin pressure, particularly on the deposit book. Net interest income fell 15%, with a marked reduction in net interest margin partly offset by growth in client deposit and loan balances.

· Client deposits grew 3% with increases most evident in the UK as new products attracted funds. Deposit outflows occurred in the international businesses where competition for private bankers has resulted in client attrition.

· Lending margins widened by 22 basis points and loans and advances grew by 20%, reflecting the strong client demand evident during 2009 and 2010.

· Total expenses rose 16% reflecting changes to compensation structures and to indirect expense allocations.

**H1 2010 compared with H1 2009**

- Trends in the first half were consistent with those exhibited in the second quarter.

- The economic backdrop and highly competitive deposit market have left the division tracking behind its deposit growth targets. As a consequence the loan:deposit ratio has deteriorated to 41%.

**Global Banking & Markets**

| | Quarter ended | | | Half year ended | |
|---|---|---|---|---|---|
| | **30 June** | 31 March | 30 June | **30 June** | 30 June |
| | **2010** | 2010 | 2009 | **2010** | 2009 |
| | **£m** | £m | £m | **£m** | £m |
| **Income statement** | | | | | |
| Net interest income from banking activities | **335** | 379 | 660 | **714** | 1,472 |
| Net fees and commissions receivable | **314** | 345 | 412 | **659** | 709 |
| Income from trading activities | **1,563** | 1,995 | 1,132 | **3,558** | 5,213 |
| Other operating income (net of related funding costs) | **66** | 73 | (101) | **139** | (199) |
| Non-interest income | **1,943** | 2,413 | 1,443 | **4,356** | 5,723 |
| Total income | **2,278** | 2,792 | 2,103 | **5,070** | 7,195 |
| Direct expenses | | | | | |
| - staff | **(634)** | (891) | (680) | **(1,525)** | (1,568) |
| - other | **(237)** | (229) | (204) | **(466)** | (478) |
| Indirect expenses | **(162)** | (174) | (201) | **(336)** | (394) |
| | **(1,033)** | (1,294) | (1,085) | **(2,327)** | (2,440) |
| Operating profit before impairment losses | **1,245** | 1,498 | 1,018 | **2,743** | 4,755 |
| Impairment losses | **(164)** | (32) | 31 | **(196)** | (238) |
| Operating profit | **1,081** | 1,466 | 1,049 | **2,547** | 4,517 |
| **Analysis of income by product** | | | | | |
| Rates - money markets | **4** | 88 | 466 | **92** | 1,319 |
| Rates - flow | **471** | 699 | 536 | **1,170** | 1,833 |
| Currencies & Commodities | **179** | 295 | 416 | **474** | 955 |
| Equities | **238** | 314 | 364 | **552** | 735 |
| Credit markets | | | | | |