

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

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

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	31 March	30 June	30 June	30 June
	2010	2010	2009	2010	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

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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	
	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

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	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	31 March		31	
	2010	2010		December	
	£bn	£bn	Change	2009	Change
				£bn	
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%
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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

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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		30 June 2009	Half year ended	
	30 June	31 March		30 June	30 June
	2010	2010		2010	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	31 March	Change	31 December	Change
	2010	2010		2009	
	£bn	£bn		£bn	
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	
	2010	2010	2009	2010	
	£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			