

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

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

Report of Foreign Private Issuer

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

For August 5, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X

Form 40-F ___

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

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

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

Yes ___

No X

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

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

Condensed consolidated income statement
for the half year ended 30 June 2011

	Quarter ended			Half year ended	
	31			30 June	30 June
	30 June	March	30 June	30 June	30 June
	2011	2011	2010	2011	2010
	£m	£m	£m	£m	£m
Interest receivable	5,404	5,401	5,888	10,805	11,580
Interest payable	(2,177)	(2,100)	(2,212)	(4,277)	(4,362)
Net interest income	3,227	3,301	3,676	6,528	7,218
Fees and commissions receivable	1,700	1,642	2,053	3,342	4,104
Fees and commissions payable	(323)	(260)	(579)	(583)	(1,151)
Income from trading activities	1,147	835	2,110	1,982	3,876
Gain on redemption of own debt	255	-	553	255	553
Other operating income (excluding insurance premium income)	1,142	391	346	1,533	793
Insurance net premium income	1,090	1,149	1,278	2,239	2,567
Non-interest income	5,011	3,757	5,761	8,768	10,742
Total income	8,238	7,058	9,437	15,296	17,960
Staff costs	(2,210)	(2,399)	(2,365)	(4,609)	(5,054)
Premises and equipment	(602)	(571)	(547)	(1,173)	(1,082)
Other administrative expenses	(1,752)	(921)	(1,022)	(2,673)	(2,033)
Depreciation and amortisation	(453)	(424)	(519)	(877)	(1,001)
Operating expenses	(5,017)	(4,315)	(4,453)	(9,332)	(9,170)
Profit before other operating charges and impairment losses	3,221	2,743	4,984	5,964	8,790
Insurance net claims	(793)	(912)	(1,323)	(1,705)	(2,459)
Impairment losses	(3,106)	(1,947)	(2,487)	(5,053)	(5,162)
Operating (loss)/profit before tax	(678)	(116)	1,174	(794)	1,169
Tax charge	(222)	(423)	(825)	(645)	(932)
(Loss)/profit from continuing	(900)	(539)	349	(1,439)	237

operations					
Profit/(loss) from discontinued operations, net of tax	21	10	(1,019)	31	(706)
Loss for the period	(879)	(529)	(670)	(1,408)	(469)
Non-controlling interests	(18)	1	946	(17)	602
Preference share and other dividends	-	-	(19)	-	(124)
(Loss)/profit attributable to ordinary and B shareholders	(897)	(528)	257	(1,425)	9
Basic (loss)/gain per ordinary and B share from continuing operations	(0.8p)	(0.5p)	0.8p	(1.3p)	0.6p
Diluted (loss)/gain per ordinary and B share from continuing operations	(0.8p)	(0.5p)	0.8p	(1.3p)	0.6p
Basic (loss)/gain per ordinary and B share from discontinued operations	-	-	-	-	-
Diluted (loss)/gain per ordinary and B share from discontinued operations	-	-	-	-	-

In the income statement above, one-off and other items as shown on page 16 are included in the appropriate caption. A reconciliation between the income statement above and the managed view income statement on page 10 is given in Appendix 1 to this announcement.

Condensed consolidated statement of comprehensive income
for the half year ended 30 June 2011

	Quarter ended			Half year ended	
	30 June	March	30 June	30 June	30 June
	2011	2011	2010	2011	2010
	£m	£m	£m	£m	£m
Loss for the period	(879)	(529)	(670)	(1,408)	(469)
Other comprehensive income/(loss)					
Available-for-sale financial assets (1)	1,406	(37)	93	1,369	508
Cash flow hedges	588	(227)	1,449	361	1,254
Currency translation	59	(360)	(91)	(301)	694

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Other comprehensive income/(loss) before tax	2,053	(624)	1,451	1,429	2,456
Tax (charge)/credit	(524)	32	(331)	(492)	(446)
Other comprehensive income/(loss) after tax	1,529	(592)	1,120	937	2,010
Total comprehensive income/(loss) for the period	650	(1,121)	450	(471)	1,541
Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable as follows:					
Non-controlling interests	3	(9)	(457)	(6)	(132)
Preference shareholders	-	-	-	-	105
Paid-in equity holders	-	-	19	-	19
Ordinary and B shareholders	647	(1,112)	888	(465)	1,549
	650	(1,121)	450	(471)	1,541

Note:

(1) Analysis provided on page 104.

Key points

- The Q2 2011 movement in available-for-sale financial assets reflects the movement of £733 million losses on Greek government bonds and a £109 million related interest rate hedge adjustment to profit or loss from available-for-sale reserves. Offsetting this partially were realised gains from routine portfolio management in Group Treasury of £153 million, Non-Core of £31 million and UK Corporate of £16 million. In addition, unrealised gains on securities increased by £781 million in the quarter, primarily in relation to high quality sovereign bonds.
- Gains related to cash flow hedges of £588 million in Q2 2011 result principally from declines in swap rates during the quarter as expectations of an increase in interest rates have been deferred.

Condensed consolidated balance sheet
at 30 June 2011

	30 June 2011 £m	31 March 2011 £m	31 December 2010 £m
Assets			
Cash and balances at central banks	64,351	59,591	57,014
Net loans and advances to banks	53,133	59,304	57,911
Reverse repurchase agreements and stock borrowing	41,973	45,148	42,607
Loans and advances to banks	95,106	104,452	100,518
Net loans and advances to customers	489,572	494,148	502,748

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Reverse repurchase agreements and stock borrowing	56,162	60,511	52,512
Loans and advances to customers	545,734	554,659	555,260
Debt securities	243,645	231,384	217,480
Equity shares	24,951	22,212	22,198
Settlement balances	24,566	23,006	11,605
Derivatives	394,872	361,048	427,077
Intangible assets	14,592	14,409	14,448
Property, plant and equipment	17,357	15,846	16,543
Deferred tax	6,245	6,299	6,373
Prepayments, accrued income and other assets	11,143	11,355	12,576
Assets of disposal groups	3,407	8,992	12,484
Total assets	1,445,969	1,413,253	1,453,576
Liabilities			
Bank deposits	71,573	63,829	66,051
Repurchase agreements and stock lending	35,381	39,615	32,739
Deposits by banks	106,954	103,444	98,790
Customer deposits	428,703	428,474	428,599
Repurchase agreements and stock lending	88,822	90,432	82,094
Customer accounts	517,525	518,906	510,693
Debt securities in issue	213,797	215,968	218,372
Settlement balances	22,905	21,394	10,991
Short positions	56,106	50,065	43,118
Derivatives	387,809	360,625	423,967
Accruals, deferred income and other liabilities	24,065	23,069	23,089
Retirement benefit liabilities	2,239	2,257	2,288
Deferred tax	2,092	2,094	2,142
Insurance liabilities	6,687	6,754	6,794
Subordinated liabilities	26,311	26,515	27,053
Liabilities of disposal groups	3,237	6,376	9,428
Total liabilities	1,369,727	1,337,467	1,376,725
Equity			
Non-controlling interests	1,498	1,710	1,719
Owners' equity*			
Called up share capital	15,317	15,156	15,125
Reserves	59,427	58,920	60,007
Total equity	76,242	75,786	76,851
Total liabilities and equity	1,445,969	1,413,253	1,453,576
* Owners' equity attributable to:			
Ordinary and B shareholders	70,000	69,332	70,388
Other equity owners	4,744	4,744	4,744
	74,744	74,076	75,132

Commentary on condensed consolidated balance sheet

Total assets of £1,446.0 billion at 30 June 2011 were down £7.6 billion, 1%, compared with 31 December 2010. This is principally driven by the reduction in the mark-to-market value of derivatives in GBM and the continuing planned disposal of Non-Core assets. The decrease is offset in part by higher levels of debt securities held by GBM and Group Treasury, coupled with a rise in settlement balances as a result of increased customer activity from seasonal year-end lows.

Loans and advances to banks decreased by £5.4 billion, 5%, to £95.1 billion. Within this, reverse repurchase agreements and stock borrowing ('reverse repos') were down £0.6 billion, 1%, to £42.0 billion and bank placings declined £4.8 billion, 8%, to £53.1 billion.

Loans and advances to customers declined £9.5 billion, 2%, to £545.7 billion. Within this, reverse repurchase agreements were up £3.7 billion, 7%, to £56.1 billion. Customer lending decreased by £13.2 billion to £489.6 billion, or £10.6 billion to £510.2 billion before impairments. This reflected planned reductions in Non-Core of £13.9 billion, along with declines in GBM, £4.2 billion, UK Corporate, £0.9 billion and Ulster Bank, £0.8 billion. These reductions were partially offset by growth in Global Transaction Services, £4.7 billion, UK Retail, £2.0 billion, US Retail & Commercial, £1.0 billion and Wealth, £0.6 billion, together with the effect of exchange rate and other movements.

Debt securities were up £26.2 billion, 12%, to £243.6 billion, driven mainly by increased holdings of government and financial institution bonds within GBM and Group Treasury.

Settlement balances rose £13.0 billion, to £24.6 billion as a result of increased customer activity from seasonal year-end lows.

Movements in the value of derivative assets down, £32.2 billion, 8%, to £394.9 billion, and liabilities, down £36.2 billion, 9% to £387.8 billion, primarily reflect decreases in interest rate contracts, together with the combined effect of currency movements, with Sterling strengthening against the US dollar but weakening against the Euro.

The reduction in assets and liabilities of disposal groups primarily reflects the continuing disposal of parts of the RBS Sempra Commodities JV business and the sale of certain Non-Core project finance assets.

Deposits by banks increased £8.2 billion, 8%, to £107.0 billion, with higher repurchase agreements and stock lending ('repos'), up £2.7 billion, 8%, to £35.4 billion combined with an increase in inter-bank deposits, up £5.5 billion, 8%, to £71.6 billion.

Customer accounts increased £6.8 billion, 1%, to £517.5 billion. Within this, repos increased £6.7 billion, 8%, to £88.8 billion. Excluding repos, customer deposits were up £0.1 billion at £428.7 billion, reflecting growth in Global Transaction Services, £3.6 billion, Wealth, £0.9 billion and Ulster Bank, £0.4 billion, together with exchange and other movements £0.9 billion. This was offset by decreases in GBM, £3.4 billion, Non-Core, £1.8 billion and UK Corporate, £0.5 billion.

Settlement balances rose £11.9 billion to £22.9 billion and short positions were up £13.0 billion, 30%, to £56.1 billion due to increased customer activity from seasonal year-end lows.

Commentary on condensed consolidated balance sheet (continued)

Subordinated liabilities decreased by £0.7 billion, 3% to £26.3 billion, primarily reflecting the redemption of £0.2 billion US dollar and £0.4 billion Euro denominated dated loan capital.

Owner's equity decreased by £0.4 billion, 1%, to £74.7 billion, driven by the £1.4 billion attributable loss for the period together with movements in foreign exchange reserves, £0.3 billion, partially offset by increases in available-for-sale reserves, £1.0 billion and cash flow hedging reserves, £0.3 billion.

Average balance sheet

	Quarter ended		Half year ended	
	30 June 2011	31 March 2011	30 June 2011	30 June 2010
Average yields, spreads and margins of the banking business	%	%	%	%
Gross yield on interest-earning assets of banking business	3.28	3.33	3.30	3.26
Cost of interest-bearing liabilities of banking business	(1.60)	(1.57)	(1.59)	(1.45)
Interest spread of banking business	1.68	1.76	1.71	1.81
Benefit from interest-free funds	0.29	0.27	0.29	0.18
Net interest margin of banking business	1.97	2.03	2.00	1.99
Average interest rates				
The Group's base rate	0.50	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	0.82	0.79	0.81	0.66
- Eurodollar	0.26	0.31	0.29	0.35
- Euro	1.36	1.04	1.20	0.62

Average balance sheet (continued)

Quarter ended	Quarter ended
30 June 2011	31 March 2011

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	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	67,191	164	0.98	64,021	172	1.09
Loans and advances to customers	470,593	4,545	3.87	474,177	4,593	3.93
Debt securities	123,888	705	2.28	120,380	638	2.15
Interest-earning assets						
- banking business	661,672	5,414	3.28	658,578	5,403	3.33
Trading business	284,378			279,164		
Non-interest earning assets	557,649			507,209		
Total assets	1,503,699			1,444,951		
Memo: Funded assets	1,089,400			1,066,690		
Liabilities						
Deposits by banks	65,119	245	1.51	66,671	259	1.58
Customer accounts	336,317	857	1.02	329,825	831	1.02
Debt securities in issue	171,709	897	2.10	175,585	846	1.95
Subordinated liabilities	21,522	148	2.76	25,078	170	2.75
Internal funding of trading business	(51,609)	22	(0.17)	(52,013)	8	(0.06)
Interest-bearing liabilities -						
banking business	543,058	2,169	1.60	545,146	2,114	1.57
Trading business	314,099			301,753		
Non-interest-bearing liabilities						
- demand deposits	64,811			63,701		
- other liabilities	507,383			459,981		
Owners' equity	74,348			74,370		
Total liabilities and owners' equity	1,503,699			1,444,951		

Notes:

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- (1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
- (2) Interest receivable has been increased by £6 million (Q1 2011 - decreased by £1 million) to exclude the RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (3) Interest receivable has been increased by £2 million (Q1 2011 - £3 million) and interest payable has been increased by £34 million (Q1 2011 - £29 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (4) Interest receivable has been increased by £2 million (Q1 2011 - nil) and interest payable has been decreased by £42 million (Q1 2011 - £15 million) in respect of non-recurring adjustments.

Average balance sheet (continued)

	Half year ended 30 June 2011			Half year ended 30 June 2010		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	65,606	336	1.03	47,172	272	1.16
Loans and advances to customers	472,385	9,138	3.90	523,682	9,365	3.61
Debt securities	122,134	1,343	2.22	140,227	1,861	2.68
Interest-earning assets						
- banking business	660,125	10,817	3.30	711,081	11,498	3.26
Trading business	281,771			278,527		
Non-interest earning assets	532,429			733,323		
Total assets	1,474,325			1,722,931		
Memo: Funded assets	1,078,045			1,242,452		
Liabilities						
Deposits by banks	65,895	504	1.54	90,189	715	1.60
Customer accounts	333,071	1,688	1.02	346,077	1,834	1.07
Debt securities in issue	173,647	1,743	2.02	202,673	1,690	1.68
Subordinated liabilities	23,300	318	2.75	31,134	370	2.40
Internal funding of trading business	(51,811)	30	(0.12)	(47,609)	(125)	0.53

Interest-bearing liabilities -						
banking business	544,102	4,283	1.59	622,464	4,484	1.45
Trading business	307,926			301,816		
Non-interest-bearing liabilities						
- demand deposits	64,256			46,937		
- other liabilities	483,682			674,006		
Owners' equity	74,359			77,708		
Total liabilities and owners' equity	1,474,325			1,722,931		

Notes:

- (1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
- (2) Interest-earning assets and interest-bearing liabilities exclude the Retail bancassurance long-term assets and liabilities, attributable to policyholders, in view of their distinct nature. As a result, net interest income has been increased by nil (H1 2010 - £3 million).
- (3) Interest receivable has been increased by £5 million (H1 2010 - nil) to exclude the RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (4) Interest receivable has been increased by £5 million for H1 2011 (H1 2010 - £5 million) and interest payable has been increased by £63 million (H1 2010 - £12 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (5) Interest receivable has been increased by £2 million (H1 2010 - £90 million decrease) and interest payable has been decreased by £57 million (H1 2010 - £110 million increase) in respect of non-recurring adjustments.

Condensed consolidated statement of changes in equity
for the half year ended 30 June 2011

	Quarter ended			Half year ended	
	30 June 2011	March 2011	30 June 2010	30 June 2011	30 June 2010
	£m	£m	£m	£m	£m
Called-up share capital					
At beginning of period	15,156	15,125	15,031	15,125	14,630
Ordinary shares issued	161	31	-	192	401
Preference shares redeemed	-	-	(2)	-	(2)
At end of period	15,317	15,156	15,029	15,317	15,029
Paid-in equity					
At beginning of period	431	431	565	431	565

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Securities redeemed during the period	-	-	(132)	-	(132)
Transfer to retained earnings	-	-	(2)	-	(2)
At end of period	431	431	431	431	431
Share premium account					
At beginning of period	23,922	23,922	23,740	23,922	23,523
Ordinary shares issued	1	-	-	1	217
Redemption of preference shares classified as debt	-	-	118	-	118
At end of period	23,923	23,922	23,858	23,923	23,858
Merger reserve					
At beginning of period	13,272	13,272	13,272	13,272	25,522
Transfer to retained earnings	(50)	-	-	(50)	(12,250)
At end of period	13,222	13,272	13,272	13,222	13,272
Available-for-sale reserve					
At beginning of period	(2,063)	(2,037)	(1,527)	(2,037)	(1,755)
Unrealised gains	781	162	119	943	647
Realised losses/(gains) (1)	626	(197)	20	429	(127)
Tax	(370)	9	(55)	(361)	(208)
Recycled to profit or loss on disposal of businesses(2)	-	-	(16)	-	(16)
At end of period	(1,026)	(2,063)	(1,459)	(1,026)	(1,459)
Cash flow hedging reserve					
At beginning of period	(314)	(140)	(272)	(140)	(252)
Amount recognised in equity	811	14	(47)	825	(58)
Amount transferred from equity to earnings	(223)	(241)	7	(464)	17
Tax	(161)	53	19	(108)	-
Recycled to profit or loss on disposal of businesses (3)	-	-	58	-	58
At end of period	113	(314)	(235)	113	(235)

For the notes to this table refer to page 72.

Condensed consolidated statement of changes in equity
for the half year ended 30 June 2011 (continued)

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

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	£m	£m	£m	£m	£m
Foreign exchange reserve					
At beginning of period	4,754	5,138	5,229	5,138	4,528
Retranslation of net assets	189	(429)	666	(240)	1,775
Foreign currency (losses)/gains on hedges of net assets	(116)	76	(189)	(40)	(609)
Tax	7	(31)	60	(24)	72
Recycled to profit or loss on disposal of businesses	-	-	(11)	-	(11)
At end of period	4,834	4,754	5,755	4,834	5,755
Capital redemption reserve					
At beginning of period	198	198	170	198	170
Preference shares redeemed	-	-	2	-	2
At end of period	198	198	172	198	172
Contingent capital reserve					
At beginning and end of period	(1,208)	(1,208)	(1,208)	(1,208)	(1,208)
Retained earnings					
At beginning of period	20,713	21,239	24,164	21,239	12,134
(Loss)/profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	(899)	(530)	302	(1,429)	163
- discontinued operations	2	2	(26)	4	(30)
Equity preference dividends paid	-	-	-	-	(105)
Paid-in equity dividends paid, net of tax	-	-	(19)	-	(19)
Transfer from paid-in equity					
- gross	-	-	2	-	2
- tax	-	-	(1)	-	(1)
Equity owners gain on withdrawal of minority interest					
- gross	-	-	40	-	40
- tax	-	-	(11)	-	(11)
Redemption of equity preference shares	-	-	(2,968)	-	(2,968)
Gain on redemption of equity preference shares	-	-	609	-	609
Redemption of preference shares classified as debt	-	-	(118)	-	(118)
Transfer from merger reserve	50	-	-	50	12,250
Shares issued under employee share schemes	(166)	(41)	(2)	(207)	(9)

Share-based payments					
- gross	29	38	26	67	61
- tax	(3)	5	5	2	5
At end of period	19,726	20,713	22,003	19,726	22,003

Condensed consolidated statement of changes in equity
for the half year ended 30 June 2011 (continued)

	Quarter ended			Half year ended	
	30 June 2011 £m	March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Own shares held					
At beginning of period	(785)	(808)	(488)	(808)	(121)
Shares (purchased)/disposed	(6)	12	(330)	6	(704)
Shares issued under employee share schemes	5	11	2	16	9
At end of period	(786)	(785)	(816)	(786)	(816)
Owners' equity at end of period	74,744	74,076	76,802	74,744	76,802
Non-controlling interests					
At beginning of period	1,710	1,719	10,364	1,719	16,895
Currency translation adjustments and other movements	(14)	(7)	(557)	(21)	(461)
Profit/(loss) attributable to non-controlling interests					
- continuing operations	(1)	(9)	47	(10)	74
- discontinued operations	19	8	(993)	27	(676)
Dividends paid	(39)	-	(1,497)	(39)	(4,171)
Movements in available-for-sale securities					
- unrealised (losses)/gains	(1)	1	(3)	-	22
- realised gains	-	(3)	(12)	(3)	(3)
- tax	-	1	4	1	1
- recycled to profit or loss on disposal of discontinued operations (4)	-	-	(7)	-	(7)
Movements in cash flow hedging reserves					
- amounts recognised in equity	-	-	30	-	(165)
- amounts transferred from equity to earnings	-	-	(1)	-	-

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- tax	-	-	(1)	-	47
- recycled to profit or loss on disposal of discontinued operations (5)	-	-	1,036	-	1,036
Equity raised	-	-	(10)	-	501
Equity withdrawn and disposals	(176)	-	(5,868)	(176)	(10,561)
Transfer to retained earnings	-	-	(40)	-	(40)
At end of period	1,498	1,710	2,492	1,498	2,492
Total equity at end of period	76,242	75,786	79,294	76,242	79,294
Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable as follows:					
Non-controlling interests	3	(9)	(457)	(6)	(132)
Preference shareholders	-	-	-	-	105
Paid-in equity holders	-	-	19	-	19
Ordinary and B shareholders	647	(1,112)	888	(465)	1,549
	650	(1,121)	450	(471)	1,541

Notes:

- (1) Includes an impairment loss of £733 million in respect of the Group's holding of Greek government bonds, together with £109 million of related interest rate hedge adjustments, in the quarter ended 30 June 2011 and half year ended 30 June 2011.
- (2) Net of tax (quarter ended 30 June 2010 - £6 million credit; half year ended 30 June 2010 - £6 million credit).
- (3) Net of tax (quarter ended 30 June 2010 - £20 million charge; half year ended 30 June 2010 - £20 million charge).
- (4) Net of tax (quarter ended 30 June 2010 - £2 million credit; half year ended 30 June 2010 - £2 million credit).
- (5) Net of tax (quarter ended 30 June 2010 - £346 million charge; half year ended 30 June 2010 - £346 million charge).

Condensed consolidated cash flow statement
for the half year ended 30 June 2011

	First half 2011 £m	First half 2010 £m
Operating activities		
Operating (loss)/profit before tax	(794)	1,169
Operating profit/(loss) before tax on discontinued operations	38	(618)
Adjustments for non-cash items	1,503	2,571
Net cash inflow from trading activities	747	3,122
Changes in operating assets and liabilities	7,595	(13,954)

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Net cash flows from operating activities before tax	8,342	(10,832)
Income taxes (paid)/received	(90)	411
Net cash flows from operating activities	8,252	(10,421)
Net cash flows from investing activities	(4,362)	822
Net cash flows from financing activities	(1,212)	(12,795)
Effects of exchange rate changes on cash and cash equivalents	482	(355)
Net increase/(decrease) in cash and cash equivalents	3,160	(22,749)
Cash and cash equivalents at beginning of period	152,530	144,186
Cash and cash equivalents at end of period	155,690	121,437

Notes

1. Basis of preparation

The Group's business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 5 to 117. Its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the risk and balance sheet management sections on pages 118 to 171. A summary of the risk factors which could materially affect the Group's future results are described on pages 174 to 177. The Group's regulatory capital resources are set on page 119. Pages 122 to 130 describe the Group's funding and liquidity management. The condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the interim financial statements for the six months ended 30 June 2011 have been prepared on a going concern basis.

In line with the Group's policy of providing users of its financial reports with relevant and transparent disclosures, it has adopted the British Bankers' Association Code for Financial Reporting Disclosure published in September 2010. The code sets out five disclosure principles together with supporting guidance: the overarching principle being a commitment to provide high quality, meaningful and decision-useful disclosures.

2. Accounting policies

The annual accounts 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 (IFRIC) of the IASB as adopted by the European Union (EU) (together IFRS). There have been no significant changes to the Group's principal accounting policies as set out on pages 275 to 283 of the 2010 Annual Report and Accounts.

Recent developments in IFRS

In May 2011, the IASB issued six new or revised standards:

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.

IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures. IFRS 11 distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

Notes (continued)

2. Accounting policies (continued)

Recent developments in IFRS (continued)

IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the standards to determine their effect on the Group's financial reporting.

In June 2011, the IASB issued amendments to two standards:

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification.

Amendments IAS 19 Employee Benefits - these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach'; interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate; and all past service costs to be recognised immediately when a scheme is curtailed or amended.

These amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the amendments to determine their effect on the Group's financial reporting.

Notes (continued)

3. Analysis of income, expenses and impairment losses

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Loans and advances to customers	4,535	4,593	4,754	9,128	9,451
Loans and advances to banks	164	172	131	336	271
Debt securities	705	636	1,003	1,341	1,858
Interest receivable	5,404	5,401	5,888	10,805	11,580
Customer accounts	853	831	966	1,684	1,834
Deposits by banks	249	259	418	508	715
Debt securities in issue	863	817	824	1,680	1,678
Subordinated liabilities	190	185	60	375	260
Internal funding of trading businesses	22	8	(56)	30	(125)
Interest payable	2,177	2,100	2,212	4,277	4,362
Net interest income	3,227	3,301	3,676	6,528	7,218
Fees and commissions receivable	1,700	1,642	2,053	3,342	4,104
Fees and commissions payable					
- banking	(238)	(181)	(541)	(419)	(1,007)
- insurance related	(85)	(79)	(38)	(164)	(144)
Net fees and commissions	1,377	1,382	1,474	2,759	2,953
Foreign exchange	375	203	383	578	832
Interest rate	2	649	207	651	1,161
Credit	562	(248)	1,231	314	1,208
Other	208	231	289	439	675
Income from trading activities	1,147	835	2,110	1,982	3,876
Gain on redemption of own debt	255	-	553	255	553
Operating lease and other rental income	350	322	344	672	687
Changes in fair value of own debt	228	(294)	515	(66)	305
Changes in the fair value of securities and other financial assets and liabilities	224	68	(165)	292	(151)
Changes in the fair value of investment properties	(27)	(25)	(105)	(52)	(108)
Profit on sale of securities	193	236	6	429	154

Profit on sale of property, plant and equipment	11	11	3	22	12
Profit/(loss) on sale of subsidiaries and associates	55	(29)	(428)	26	(358)
Life business (losses)/profits	(3)	(2)	(23)	(5)	12
Dividend income	18	15	21	33	41
Share of profits less losses of associated entities	8	7	26	15	48
Other income	85	82	152	167	151
Other operating income	1,142	391	346	1,533	793

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Notes (continued)

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

	Quarter ended			Half year ended	
	31			30 June 2011	30 June 2010
	30 June 2011	March 2011	30 June 2010		
£m	£m	£m	£m	£m	
Non-interest income (excluding insurance net premium income)	3,921	2,608	4,483	6,529	8,175
Insurance net premium income	1,090	1,149	1,278	2,239	2,567
Total non-interest income	5,011	3,757	5,761	8,768	10,742
Total income	8,238	7,058	9,437	15,296	17,960
Staff costs					
- wages, salaries and other staff costs	1,923	2,059	2,079	3,982	4,373
- bonus tax	11	11	15	22	69
- social security costs	168	192	158	360	352
- pension costs	108	137	113	245	260
Total staff costs	2,210	2,399	2,365	4,609	5,054
Premises and equipment	602	571	547	1,173	1,082
Other	1,752	921	1,022	2,673	2,033
Administrative expenses	4,564	3,891	3,934	8,455	8,169
Depreciation and amortisation	453	424	519	877	1,001
Operating expenses	5,017	4,315	4,453	9,332	9,170

General insurance	793	912	1,348	1,705	2,455
Bancassurance	-	-	(25)	-	4
Insurance net claims	793	912	1,323	1,705	2,459
Loan impairment losses	2,237	1,898	2,479	4,135	5,081
Securities impairment losses					
- sovereign debt impairment and related interest					
rate hedge adjustments	842	-	-	842	-
- other	27	49	8	76	81
Impairment losses	3,106	1,947	2,487	5,053	5,162

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Notes (continued)

4. Loan impairment provisions

Operating (loss)/profit is stated after charging loan impairment losses of £2,237 million (Q1 2011 - £1,898 million; Q2 2010 - £2,479 million). The balance sheet loan impairment provisions increased in the quarter ended 30 June 2011 from £19,258 million to £20,759 million and the movements thereon were:

	30 June 2011				Quarter ended 31 March 2011			30 June 2010		
	Core £m	Non-Core £m	RFS		Core £m	Non-Core £m	Total £m	Core £m	Non-Core £m	Total £m
			MI £m	Total £m						
At beginning of period	8,416	10,842	-	19,258	7,866	10,316	18,182	7,397	9,430	16,827
Transfers to disposal groups	-	9	-	9	-	(9)	(9)	-	(38)	(38)
Intra-group transfers	-	-	-	-	177	(177)	-	-	-	-
Currency translation and other adjustments	33	145	-	178	56	95	151	(309)	(66)	(375)
Disposals	-	-	11	11	-	-	-	-	(17)	(17)
Amounts written-off	(504)	(474)	-	(978)	(514)	(438)	(952)	(562)	(2,122)	(2,684)
Recoveries of amounts previously written-off	41	126	-	167	39	80	119	59	21	80
Charge to income statement										
- continued	810	1,427	-	2,237	852	1,046	1,898	1,096	1,383	2,479
- discontinued	-	-	(11)	(11)	-	-	-	-	-	-
Unwind of discount	(44)	(68)	-	(112)	(60)	(71)	(131)	(48)	(58)	(106)

At end of period 8,752 12,007 - 20,759 8,416 10,842 19,258 7,633 8,533 16,166

	Half year ended							
	30 June 2011				30 June 2010			
	Core	Non-Core	RFS	Total	Core	Non-Core	RFS	Total
£m	£m	£m	£m	£m	£m	£m	£m	
At beginning of period	7,866	10,316	-	18,182	6,921	8,252	2,110	17,283
Transfers to disposal groups	-	-	-	-	-	(67)	-	(67)
Intra-group transfers	177	(177)	-	-	-	-	-	-
Currency translation and other adjustments	89	240	-	329	(279)	119	-	(160)
Disposals	-	-	11	11	-	(17)	(2,152)	(2,169)
Amounts written-off	(1,018)	(912)	-	(1,930)	(1,063)	(2,718)	-	(3,781)
Recoveries of amounts previously written-off	80	206	-	286	104	46	-	150
Charge to income statement								
- continuing	1,662	2,473	-	4,135	2,046	3,035	-	5,081
- discontinued	-	-	(11)	(11)	-	-	42	42
Unwind of discount	(104)	(139)	-	(243)	(96)	(117)	-	(213)
At end of period	8,752	12,007	-	20,759	7,633	8,533	-	16,166

Provisions at 30 June 2011 include £132 million (31 March 2011 - £130 million; 30 June 2010 - £139 million) in respect of loans and advances to banks.

The table above excludes impairments relating to securities.

Notes (continued)

5. Strategic disposals

	Quarter ended			Half year ended	
	31			30 June	30 June
	30 June	March	30 June	30 June	30 June
	2011	2011	2010	2011	2010
	£m	£m	£m	£m	£m
Gain/(loss) on sale and provision for loss on disposal of investments in:					
- RBS Asset Management's investment strategies business	-	-	-	-	80

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- Global Merchant Services	-	47	-	47	-
- Non-Core project finance assets	(4)	-	-	(4)	-
- Life assurance business	-	-	(235)	-	(235)
- Other	54	(70)	(176)	(16)	(203)
	50	(23)	(411)	27	(358)

6. Pensions

The Group and the Trustees of The Royal Bank of Scotland Group Pension Fund (which is the main defined benefit scheme of the Group) have recently agreed the funding valuation of the Main Scheme as at 31 March 2010 which shows that the value of liabilities exceeded the value of assets by £3.5 billion as at 31 March 2010, a ratio of assets to liabilities of 84%.

In order to eliminate this deficit, the Group will pay additional contributions each year over the period 2011 to 2018. These contributions will start at £375 million per annum in 2011, increase to £400 million per annum in 2013 and from 2016 onwards be further increased in line with price inflation. These contributions are in addition to the regular contributions of around £300 million for future accrual of benefits.

7. Bank Levy

The Finance (No. 3) Act 2011 introduced an annual bank levy in the UK. The levy will be collected through the existing quarterly Corporation Tax collection mechanism starting with payment dates on or after 19 July 2011.

The levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The first chargeable period for RBS is the year ending 31 December 2011. In determining the chargeable equity and liabilities the following amounts are excluded: adjusted Tier 1 capital; certain "protected deposits" (for example those protected under the Financial Services Compensation Scheme); liabilities that arise from certain insurance business within banking groups; liabilities in respect of currency notes in circulation; Financial Services Compensation Scheme liabilities; liabilities representing segregated client money; and deferred tax liabilities, current tax liabilities, liabilities in respect of the levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities. It is also permitted in specified circumstances to reduce certain liabilities: by netting them against certain assets; offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the FSA definition); and repo liabilities secured against sovereign and supranational debt.

Notes (continued)

7. Bank Levy (continued)

The levy will be set at a rate of 0.075 per cent from 2011. Three different rates apply during 2011, these average to 0.075 per cent. Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The levy is not charged on the first £20 billion of chargeable liabilities.

If the levy had been applied to the balance sheet at 30 June 2011, the cost of the levy to RBS would be a full year charge of approximately £330 million. Under IFRS, no liability for the bank levy arises until the measurement date, 31 December 2011. Accordingly, no accrual was made for the estimated cost of the levy at 30 June 2011.

8. Tax

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The charge for tax differs from the tax credit/(charge) computed by applying the standard UK corporation tax rate of 26.5% (2010 - 28%) as follows:

	Quarter ended			Half year ended	
	30 June 2011 £m	31 March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
(Loss)/profit before tax	(678)	(116)	1,174	(794)	1,169
Tax credit/(charge) based on the standard UK corporation tax rate of 26.5% (2010 - 28%)	179	31	(329)	210	(327)
Sovereign debt impairment and related interest rate hedge adjustments where no deferred tax asset recognised	(219)	-	-	(219)	-
Losses in period where no deferred tax asset recognised	(66)	(166)	(280)	(232)	(355)
Foreign profits taxed at other rates	(100)	(200)	(210)	(300)	(338)
UK tax rate change - deferred tax impact	-	(87)	-	(87)	-
Unrecognised timing differences	(15)	5	52	(10)	-
Items not allowed for tax					
- losses on strategic disposals and write downs	(7)	(3)	(134)	(10)	(145)
- other disallowable items	(70)	(40)	(59)	(110)	(84)
Non-taxable items					
- gain on sale of Global Merchant Services	-	12	-	12	-
- gain on redemption of own debt	-	-	12	-	12
- other non taxable items	9	12	62	21	64
Taxable foreign exchange movements	(2)	2	7	-	7
Losses brought forward and utilised	13	16	3	29	11
Adjustments in respect of prior periods	56	(5)	51	51	223
Actual tax charge	(222)	(423)	(825)	(645)	(932)

The high charge in the first six months of 2011 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the effect of the reduction of 1% in the rate of UK Corporation Tax enacted in March 2011 on the net deferred tax balance.

Notes (continued)

8. Tax (continued)

The combined effect of losses in Ireland and the Netherlands (including the sovereign debt impairment and related interest rate hedge adjustments) in the half year ended 30 June 2011 for which no deferred tax asset has been recognised and the 1% change in the standard rate of UK corporation tax accounts for £691 million (81%) of the difference between the actual tax charge and the tax credit derived from applying the standard UK Corporation Tax rate to the results for the period.

The Group has recognised a deferred tax asset at 30 June 2011 of £6,245 million (31 March 2011 -£6,299 million; 31 December 2010 - £6,373 million), of which £3,880 million (31 March 2011 - £3,770 million; 31 December 2010 - £3,849 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 30 June 2011 and concluded that it is recoverable based on future profit projections.

9. Profit/(loss) attributable to non-controlling interests

	Quarter ended			Half year ended	
	30 June	March	30 June	30 June	30 June
	2011	2011	2010	2011	2010
	£m	£m	£m	£m	£m
Trust preferred securities	-	-	-	-	10
RBS Sempra Commodities JV	4	(9)	20	(5)	20
ABN AMRO					
- RFS Holdings minority interest	14	10	(976)	24	(644)
- other	-	-	1	-	1
RBS Life Holdings	-	-	7	-	11
Other	-	(2)	2	(2)	-
Profit/(loss) attributable to non-controlling interests	18	(1)	(946)	17	(602)

10. Dividends

The Group has undertaken that, unless otherwise agreed with the European Commission, neither the company nor any of its direct or indirect subsidiaries (other than companies in the RBS Holdings N.V. group, which are subject to different restrictions) will pay external investors any dividends or coupons on existing hybrid capital instruments (including preference shares, B shares and upper and lower tier 2 instruments) from 30 April 2010 and for a period of two years thereafter ("the Deferral period"), or exercise any call rights in relation to these capital instruments between 24 November 2009 and the end of the deferral period, unless there is a legal obligation to do so. Hybrid capital instruments issued after 24 November 2009 will generally not be subject to the restriction on dividend or coupon payments or call options.

Notes (continued)

11. Earnings per ordinary and B share

Earnings per ordinary and B share have been calculated based on the following:

	Quarter ended			Half year ended	
	30 June 2011 £m	March 2011 £m	30 June 2010 £m	30 June 2011 £m	30 June 2010 £m
Earnings					
(Loss)/profit from continuing operations attributable to ordinary and B shareholders	(899)	(530)	283	(1,429)	39
Gain on redemption of preference shares and paid-in equity	-	-	610	-	610
Adjusted (loss)/profit from continuing operations attributable to ordinary and B shareholders	(899)	(530)	893	(1,429)	649
Profit/(loss) from discontinued operations attributable to ordinary and B shareholders	2	2	(26)	4	(30)
Ordinary shares in issue during the period (millions)	56,973	56,798	56,413	56,886	56,326
B shares in issue during the period (millions)	51,000	51,000	51,000	51,000	51,000
Weighted average number of ordinary and B shares in issue during the period (millions)	107,973	107,798	107,413	107,886	107,326
Effect of dilutive share options and convertible securities	-	-	521	-	536
Diluted weighted average number of ordinary and B shares in issue during the period (1)	107,973	107,798	107,934	107,886	107,862
Basic (loss)/earnings per ordinary and B share from continuing operations	(0.8p)	(0.5p)	0.8p	(1.3p)	0.6p

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Fair value of own debt	(0.2p)	0.3p	(0.5p)	0.1p	(0.3p)
Asset Protection Scheme credit default swap - fair value changes	0.1p	0.3p	(0.3p)	0.4p	-
Payment Protection Insurance costs	0.6p	-	-	0.6p	-
Sovereign debt impairment and related interest rate hedge adjustments	0.8p	-	-	0.8p	-
Amortisation of purchased intangible assets	-	-	0.1p	-	0.1p
Integration and restructuring costs	-	0.2p	0.2p	0.2p	0.3p
Gain on redemption of own debt	(0.2p)	-	(1.0p)	(0.2p)	(1.0p)
Strategic disposals	-	-	0.4p	-	0.3p
Bonus tax	-	-	-	-	0.1p
Adjusted earnings/(loss) per ordinary and B share from continuing operations	0.3p	0.3p	(0.3p)	0.6p	0.1p
Loss/(profit) from Non-Core attributable to ordinary and B shareholders	0.4p	0.3p	(0.1p)	0.7p	0.8p
Core adjusted earnings/(loss) per ordinary and B share from continuing operations	0.7p	0.6p	(0.4p)	1.3p	0.9p
Core impairment losses	0.3p	0.3p	(0.1p)	0.6p	0.5p
Pre-impairment Core adjusted earnings/(loss) per ordinary and B share	1.0p	0.9p	(0.5p)	1.9p	1.4p
Memo: Core adjusted earnings per ordinary and B share from continuing operations assuming normalised tax rate of 26.5% (2010 - 28.0%)	1.1p	1.4p	1.0p	2.5p	2.6p
Diluted (loss)/earnings per ordinary and B share from continuing operations	(0.8p)	(0.5p)	0.8p	(1.3p)	0.6p

Note:

- (1) Following reconsideration of the terms of the B Share agreement with HM Treasury, it is no longer treated as dilutive. The comparative amount for the half year ended 30 June 2010 has been restated.

Notes (continued)

12. Segmental analysis

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There have been no significant changes in the Group's divisions as set out on page 377 of the 2010 Report and Accounts. Operating profit/(loss) before tax, total revenue and total assets by division are shown in the tables below.

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of the divisional profit/(loss) for the quarters ended 30 June 2011, 31 March 2011 and 30 June 2010 and the half years ended 30 June 2011 and 30 June 2010 by main income statement captions. The divisional income statements on pages 23 to 61 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

Quarter ended 30 June 2011	Net interest income £m	Non-interest income £m	Total Operating income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail	1,086	333	1,419	(688)	-	(208)	523
UK Corporate	641	325	966	(403)	-	(218)	345
Wealth	182	115	297	(220)	-	(3)	74
Global Transaction Services	263	297	560	(342)	-	(54)	164
Ulster Bank	171	51	222	(142)	-	(269)	(189)
US Retail & Commercial	469	246	715	(522)	-	(66)	127
Global Banking & Markets (1)	164	1,386	1,550	(1,067)	-	(37)	446
RBS Insurance (2)	89	957	1,046	(203)	(704)	-	139
Central items	(65)	79	14	30	1	2	47
Core	3,000	3,789	6,789	(3,557)	(703)	(853)	1,676
Non-Core (3)	233	745	978	(335)	(90)	(1,411)	(858)
	3,233	4,534	7,767	(3,892)	(793)	(2,264)	818
Fair value of own debt (4)	-	339	339	-	-	-	339
Asset Protection Scheme credit default swap - fair value changes (5)	-	(168)	(168)	-	-	-	(168)
Payment Protection Insurance costs	-	-	-	(850)	-	-	(850)
Sovereign debt impairment and related interest rate hedge adjustments	-	-	-	-	-	(842)	(842)
Amortisation of purchased intangible assets	-	-	-	(56)	-	-	(56)
Integration and restructuring costs	-	1	1	(209)	-	-	(208)
Gain on redemption of own debt	-	255	255	-	-	-	255
Strategic disposals	-	50	50	-	-	-	50
Bonus tax	-	-	-	(11)	-	-	(11)
RFS Holdings minority interest	(6)	-	(6)	1	-	-	(5)
Total statutory	3,227	5,011	8,238	(5,017)	(793)	(3,106)	(678)

Notes:

(1) Reallocation of £14 million between net interest income and non-interest income in respect of funding costs of rental assets, £11 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £3 million.

(2)

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Total income includes £69 million investment income, £54 million in net interest income and £15 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.

- (3) Reallocation of £52 million between net interest income and non-interest income in respect of funding costs of rental assets, £51 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.
- (4) Comprises £111 million gain included in 'Income from trading activities' and £228 million gain included in 'Other operating income' on a statutory basis.
- (5) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

12. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

Quarter ended 31 March 2011	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail	1,076	304	1,380	(678)	-	(194)	508
UK Corporate Wealth	689	332	1,021	(423)	-	(105)	493
Global Transaction Services	167	114	281	(196)	-	(5)	80
Ulster Bank	260	282	542	(335)	-	(20)	187
US Retail & Commercial	169	51	220	(136)	-	(461)	(377)
Global Banking & Markets (1)	451	243	694	(504)	-	(110)	80
RBS Insurance (2)	180	2,200	2,380	(1,306)	-	24	1,098
Central items	88	982	1,070	(219)	(784)	-	67
Core	(28)	(13)	(41)	(1)	-	(1)	(43)
Non-Core (3)	3,052	4,495	7,547	(3,798)	(784)	(872)	2,093
Fair value of own debt (4)	250	236	486	(323)	(128)	(1,075)	(1,040)
Asset Protection Scheme credit	3,302	4,731	8,033	(4,121)	(912)	(1,947)	1,053
default swap - fair value changes (5)	-	(480)	(480)	-	-	-	(480)
Amortisation of purchased intangible assets	-	(469)	(469)	-	-	-	(469)
Integration and restructuring costs	-	-	-	(44)	-	-	(44)
	(2)	(4)	(6)	(139)	-	-	(145)

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Strategic disposals	-	(23)	(23)	-	-	-	(23)
Bonus tax	-	-	-	(11)	-	-	(11)
RFS Holdings minority interest	1	2	3	-	-	-	3
Total statutory	3,301	3,757	7,058	(4,315)	(912)	(1,947)	(116)

Notes:

- (1) Reallocation of £13 million between net interest income and non-interest income in respect of funding costs of rental assets, £10 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £3 million.
- (2) Total income includes £64 million of investment income, £53 million in net interest income and £11 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.
- (3) Reallocation of £53 million between net interest income and non-interest income in respect of funding costs of rental assets, £51 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £2 million.
- (4) Comprises £186 million loss included in 'Income from trading activities' and £294 million loss included in 'Other operating income' on a statutory basis.
- (5) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

12. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

Quarter ended 30 June 2010	Net interest income £m	Non-interest income £m	Total Operating income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail (1)	1,001	297	1,298	(747)	25	(300)	276
UK Corporate	647	340	987	(399)	-	(198)	390
Wealth	150	116	266	(178)	-	(7)	81
Global Transaction Services	237	411	648	(366)	-	(3)	279
Ulster Bank	194	53	247	(143)	-	(281)	(177)
US Retail & Commercial	502	275	777	(504)	-	(144)	129
Global Banking & Markets (2)	320	1,627	1,947	(1,033)	-	(164)	750
RBS Insurance (3)	95	1,048	1,143	(220)	(1,126)	-	(203)
Central items	66	(72)	(6)	62	(7)	-	49
Core	3,212	4,095	7,307	(3,528)	(1,108)	(1,097)	1,574
Non-Core (4)	472	384	856	(575)	(215)	(1,390)	(1,324)
Fair value of own debt (5)	3,684	4,479	8,163	(4,103)	(1,323)	(2,487)	250
	-	619	619	-	-	-	619

Asset Protection Scheme credit default swap - fair value changes							
(6)	-	500	500	-	-	-	500
Amortisation of purchased intangible assets	-	-	-	(85)	-	-	(85)
Integration and restructuring costs	-	-	-	(254)	-	-	(254)
Gain on redemption of own debt	-	553	553	-	-	-	553
Strategic disposals	-	(411)	(411)	-	-	-	(411)
Bonus tax	-	-	-	(15)	-	-	(15)
RFS Holdings minority interest	(8)	21	13	4	-	-	17
Total statutory	3,676	5,761	9,437	(4,453)	(1,323)	(2,487)	1,174

Notes:

- (1) Reallocation of netting of bancassurance claims of £25 million from non-interest income.
- (2) Reallocation of £15 million between net interest income and non-interest income in respect of funding costs of rental assets, £9 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £6 million.
- (3) Total income includes £74 million of investment income, £55 million in net interest income and £19 million in non-interest income. Reallocation of £40 million between non-interest income and net interest income in respect of instalment income.
- (4) Includes reallocation between net interest income and non-interest income in respect of funding costs of rental assets, £78 million, less interest on financial assets and liabilities designated as fair value through profit or loss, £16 million.
- (5) Comprises £104 million gain included in 'income from trading activities' and £515 million gain included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

12. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

	Net interest income	Non- interest income	Total income	Operating expenses	Insurance net claims	Impairment losses	Operating profit/(loss)
Half year ended 30 June 2011	£m	£m	£m	£m	£m	£m	£m
UK Retail	2,162	637	2,799	(1,366)	-	(402)	1,031
UK Corporate	1,330	657	1,987	(826)	-	(323)	838
Wealth	349	229	578	(416)	-	(8)	154
Global Transaction Services	523	579	1,102	(677)	-	(74)	351
Ulster Bank	340	102	442	(278)	-	(730)	(566)
US Retail & Commercial	920	489	1,409	(1,026)	-	(176)	207
Global Banking & Markets (1)	344	3,586	3,930	(2,373)	-	(13)	1,544

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RBS Insurance (2)	177	1,939	2,116	(422)	(1,488)	-	206
Central items	(93)	66	(27)	29	1	1	4
Core	6,052	8,284	14,336	(7,355)	(1,487)	(1,725)	3,769
Non-Core (3)	483	981	1,464	(658)	(218)	(2,486)	(1,898)
	6,535	9,265	15,800	(8,013)	(1,705)	(4,211)	1,871
Fair value of own debt (4)	-	(141)	(141)	-	-	-	(141)
Asset Protection Scheme credit default swap - fair value changes (5)	-	(637)	(637)	-	-	-	(637)
Payment Protection Insurance costs	-	-	-	(850)	-	-	(850)
Sovereign debt impairment and related interest rate hedge adjustments	-	-	-	-	-	(842)	(842)
Amortisation of purchased intangible assets	-	-	-	(100)	-	-	(100)
Integration and restructuring costs	(2)	(3)	(5)	(348)	-	-	(353)
Gain on redemption of own debt	-	255	255	-	-	-	255
Strategic disposals	-	27	27	-	-	-	27
Bonus tax	-	-	-	(22)	-	-	(22)
RFS Holdings minority interest	(5)	2	(3)	1	-	-	(2)
Total statutory	6,528	8,768	15,296	(9,332)	(1,705)	(5,053)	(794)

Notes:

- (1) Reallocation of £27 million between net interest income and non-interest income in respect of funding costs of rental assets, £21 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £6 million.
- (2) Total income includes £133 million investment income, £107 million in net interest income and £26 million in non-interest income. Reallocation of £70 million between non-interest income and net interest income in respect of instalment income.
- (3) Reallocation of £105 million between net interest income and non-interest income in respect of funding costs of rental assets, £102 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £3 million.
- (4) Comprises £75 million loss included in 'Income from trading activities' and £66 million loss included in 'Other operating income' on a statutory basis.
- (5) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

12. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

	Net interest income	Non- interest income	Total income	Operating expenses	Insurance net claims	Impairment losses	Operating profit/(loss)
Half year ended 30 June 2010	£m	£m	£m	£m	£m	£m	£m
UK Retail (1)	1,934	643	2,577	(1,470)	(4)	(687)	416
UK Corporate Wealth	1,257	669	1,926	(834)	-	(384)	708
Global Transaction Services	293	228	521	(367)	-	(11)	143
Ulster Bank	454	801	1,255	(740)	-	(3)	512
US Retail & Commercial Global Banking & Markets (2)	382	106	488	(303)	-	(499)	(314)
RBS Insurance (3)	970	527	1,497	(1,041)	-	(287)	169
Central items	693	4,078	4,771	(2,327)	-	(196)	2,248
Core	191	2,089	2,280	(441)	(2,092)	-	(253)
Non-Core (4)	73	125	198	204	(15)	(1)	386
	6,247	9,266	15,513	(7,319)	(2,111)	(2,068)	4,015
	971	802	1,773	(1,214)	(348)	(3,094)	(2,883)
	7,218	10,068	17,286	(8,533)	(2,459)	(5,162)	1,132
Fair value of own debt (5)	-	450	450	-	-	-	450
Amortisation of purchased intangible assets	-	-	-	(150)	-	-	(150)
Integration and restructuring costs	-	-	-	(422)	-	-	(422)
Gain on redemption of own debt	-	553	553	-	-	-	553
Strategic disposals	-	(358)	(358)	-	-	-	(358)
Bonus tax	-	-	-	(69)	-	-	(69)
RFS Holdings minority interest	-	29	29	4	-	-	33
Total statutory	7,218	10,742	17,960	(9,170)	(2,459)	(5,162)	1,169

Notes:

- (1) Reallocation of netting of bancassurance claims of £4 million from non-interest income.
- (2) Reallocation of £21 million between net interest income and non-interest income in respect of funding costs of rental assets, £18 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £3 million.
- (3) Total income includes £125 million of investment income, £109 million in net interest income and £16 million in non-interest income. Reallocation of £82 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £131 million between net interest income and non-interest income in respect of funding costs of rental assets, £147 million and to record interest in financial assets and liabilities designated as fair value through profit or loss, £16 million.

(5) Comprises £145 million gain included in 'Income from trading activities' and £305 million gain included in 'Other operating income' on a statutory basis.

Notes (continued)

12. Segmental analysis (continued)

Total revenue by division

	30 June 2011			Quarter ended 31 March 2011			30 June 2010		
	External	Inter segment	Total	External	Inter segment	Total	External	Inter segment	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue									
UK Retail	1,744	88	1,832	1,696	116	1,812	1,700	93	1,793
UK Corporate Wealth	1,112	17	1,129	1,153	19	1,172	1,100	23	1,123
	253	185	438	248	168	416	238	150	388
Global Transaction Services	410	28	438	382	12	394	748	-	748
Ulster Bank	309	2	311	327	-	327	407	40	447
US Retail & Commercial	826	51	877	822	54	876	984	76	1,060
Global Banking & Markets	2,097	1,967	4,064	2,813	1,792	4,605	2,220	1,385	3,605
RBS Insurance	1,187	2	1,189	1,199	2	1,201	1,273	2	1,275
Central items	762	3,062	3,824	693	2,970	3,663	753	2,131	2,884
Core	8,700	5,402	14,102	9,333	5,133	14,466	9,423	3,900	13,323
Non-Core	1,632	116	1,748	1,122	55	1,177	1,582	178	1,760
	10,332	5,518	15,850	10,455	5,188	15,643	11,005	4,078	15,083
Reconciling items									
Fair value of own debt	339	-	339	(480)	-	(480)	619	-	619
Asset Protection Scheme credit default swap - fair value changes	(168)	-	(168)	(469)	-	(469)	500	-	500
Integration and restructuring costs	1	-	1	(6)	-	(6)	-	-	-
Gain on redemption of own debt	255	-	255	-	-	-	553	-	553

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Strategic disposals	50	-	50	(23)	-	(23)	(411)	-	(411)
RFS Holdings minority interest	(6)	-	(6)	3	-	3	25	-	25
Elimination of intra-group transactions	-	(5,518)	(5,518)	-	(5,188)	(5,188)	-	(4,078)	(4,078)
	10,803	-	10,803	9,480	-	9,480	12,291	-	12,291

Notes (continued)

12. Segmental analysis (continued)

Total revenue by division (continued)

	Half year ended 30 June 2011			Half year ended 30 June 2010		
	External	Inter segment	Total	External	Inter segment	Total
	£m	£m	£m	£m	£m	£m
Total revenue						
UK Retail	3,440	204	3,644	3,391	183	3,574
UK Corporate Wealth	2,265	36	2,301	2,151	47	2,198
Global Transaction Services	501	353	854	467	296	763
Ulster Bank	792	40	832	1,454	1	1,455
US Retail & Commercial	636	2	638	753	70	823
Global Banking & Markets	1,648	105	1,753	1,932	148	2,080
RBS Insurance	4,910	3,759	8,669	5,489	2,517	8,006
Central items	2,386	4	2,390	2,533	5	2,538
	1,455	6,032	7,487	1,233	5,106	6,339
Core	18,033	10,535	28,568	19,403	8,373	27,776
Non-Core	2,754	171	2,925	3,517	71	3,588
	20,787	10,706	31,493	22,920	8,444	31,364
Reconciling items						
Fair value of own debt	(141)	-	(141)	450	-	450
Asset Protection Scheme credit						
default swap - fair value changes	(637)	-	(637)	-	-	-
Integration and restructuring costs	(5)	-	(5)	-	-	-

Gain on redemption of own debt	255	-	255	553	-	553
Strategic disposals	27	-	27	(358)	-	(358)
RFS Holdings minority interest	(3)	-	(3)	29	-	29
Elimination of intra-group transactions	-	(10,706)	(10,706)	-	(8,444)	(8,444)
	20,283	-	20,283	23,594	-	23,594

Total assets by division

	31		
	30 June	31 March	December
	2011	2011	2010
Total assets	£m	£m	£m
UK Retail	113,578	113,303	111,793
UK Corporate Wealth	113,565	115,029	114,550
Global Transaction Services	22,038	21,500	21,073
Ulster Bank	30,206	27,091	25,221
US Retail & Commercial	38,690	39,431	40,081
Global Banking & Markets	70,872	70,559	71,173
RBS Insurance	787,655	767,993	802,578
Central items	12,901	12,673	12,555
	120,734	107,518	99,728
Core	1,310,239	1,275,097	1,298,752
Non-Core	134,692	137,135	153,882
	1,444,931	1,412,232	1,452,634
RFS Holdings minority interest	1,038	1,021	942
	1,445,969	1,413,253	1,453,576

Notes (continued)

13. Discontinued operations and assets and liabilities of disposal groups

Profit/(loss) from discontinued operations, net of tax

Quarter ended			Half year ended		
31					
30 June	March	30 June	30 June	30 June	
2011	2011	2010	2011	2010	
£m	£m	£m	£m	£m	£m

Discontinued operations

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Total income	9	8	-	17	1,435
Operating expenses	-	(1)	-	(1)	(820)
Insurance net claims	-	-	-	-	(163)
Impairment recoveries/(losses)	11	-	-	11	(39)
Profit before tax	20	7	-	27	413
Gain on disposal before recycling of reserves	-	-	57	-	57
Recycled reserves	-	-	(1,076)	-	(1,076)
Operating profit/(loss) before tax	20	7	(1,019)	27	(606)
Tax on profit/(loss)	(4)	(3)	-	(7)	(88)
Profit/(loss) after tax	16	4	(1,019)	20	(694)
Businesses acquired exclusively with a view to disposal					
Profit/(loss) after tax	5	6	-	11	(12)
Profit/(loss) from discontinued operations, net of tax	21	10	(1,019)	31	(706)

Discontinued operations reflect the results of the State of the Netherlands and Santander in RFS Holdings following the legal separation of ABN AMRO Bank N.V. on 1 April 2010.

Notes (continued)

13. Discontinued operations and assets and liabilities of disposal groups (continued)

	30 June 2011			31	31
	Sempra	Other	Total	March 2011	December 2010
	£m	£m	£m	£m	£m
Assets of disposal groups					
Cash and balances at central banks	-	155	155	126	184
Loans and advances to banks	316	28	344	612	651
Loans and advances to customers	82	1,405	1,487	3,579	5,013
Debt securities and equity shares	13	3	16	32	20
Derivatives	505	20	525	2,917	5,148
Settlement balances	157	-	157	157	555
Property, plant and equipment	2	15	17	766	18
Other assets	50	423	473	585	704
Discontinued operations and other disposal groups	1,125	2,049	3,174	8,774	12,293

Assets acquired exclusively with a view to disposal	-	233	233	218	191
	1,125	2,282	3,407	8,992	12,484
Liabilities of disposal groups					
Deposits by banks	6	80	86	485	266
Customer accounts	57	1,831	1,888	1,976	2,267
Derivatives	480	18	498	2,963	5,042
Settlement balances	505	-	505	452	907
Other liabilities	145	94	239	481	925
Discontinued operations and other disposal groups	1,193	2,023	3,216	6,357	9,407
Liabilities acquired exclusively with a view to disposal	-	21	21	19	21
	1,193	2,044	3,237	6,376	9,428

The Group substantially completed the disposal of the RBS Sempra Commodities JV in 2010. Certain contracts of the RBS Sempra Commodities JV were sold in risk transfer transactions prior to being novated to the purchaser. They comprise substantially all of its residual assets at 30 June 2011, 31 March 2011 and 31 December 2010 with the other assets and liabilities of disposal groups including project finance assets to be sold to The Bank of Tokyo-Mitsubishi UFJ, Ltd and Non-Core interests in Latin America and the Middle East.

Notes (continued)

14. Financial instruments

Classification

The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 with assets and liabilities outside the scope of IAS 39 shown separately.

	HFT (1)	DFV (2)	AFS (3)	LAR (4)	Other financial instruments (amortised cost)	Finance leases	Non financial assets/liabilities	Total
30 June 2011	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and balances at central banks	-	-	-	64,351				64,351
Loans and advances to banks								
- reverse repos	36,120	-	-	5,853				41,973
- other	21,733	-	-	31,400				53,133
Loans and advances to								

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customers							
- reverse repos	43,641	-	-	12,521			56,162
- other	19,971	1,038	-	458,553	10,010		489,572
Debt securities	118,169	213	118,668	6,595			243,645
Equity shares	21,873	1,049	2,029	-			24,951
Settlement balances	-	-	-	24,566			24,566
Derivatives (5)	394,872						394,872
Intangible assets						14,592	14,592
Property, plant and equipment						17,357	17,357
Deferred tax						6,245	6,245
Prepayments, accrued income and other assets	-	-	-	1,160		9,983	11,143
Assets of disposal groups						3,407	3,407
	656,379	2,300	120,697	604,999	10,010	51,584	1,445,969
Liabilities							
Deposits by banks							
- repos	19,898	-			15,483		35,381
- other	28,177	-			43,396		71,573
Customer accounts							
- repos	57,716	-			31,106		88,822
- other	16,043	5,566			407,094		428,703
Debt securities in issue	10,474	42,395			160,928		213,797
Settlement balances	-	-			22,905		22,905
Short positions	56,106	-					56,106
Derivatives (5)	387,809						387,809
Accruals, deferred income and other liabilities	-	-			1,541	467	22,057
Retirement benefit liabilities					-	2,239	2,239
Deferred tax					-	2,092	2,092
Insurance liabilities					-	6,687	6,687
Subordinated liabilities	-	1,092			25,219		26,311
Liabilities of disposal groups						3,237	3,237
	576,223	49,053			707,672	467	36,312
							1,369,727
Equity							76,242
							1,445,969

For the notes to this table refer to page 94.

Notes (continued)

14. Financial instruments (continued)

Classification (continued)

	HFT (1)	DFV (2)	AFS (3)	LAR (4)	Other financial instruments (amortised cost)	Finance leases	Non financial assets/ liabilities	Total
31 March 2011	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and balances at central banks	-	-	-	59,591				59,591
Loans and advances to banks								
- reverse repos	39,838	-	-	5,310				45,148
- other	26,377	6	-	32,921				59,304
Loans and advances to customers								
- reverse repos	49,007	-	-	11,504				60,511
- other	17,540	1,053	-	465,673		9,882		494,148
Debt securities	113,139	332	111,128	6,785				231,384
Equity shares	19,134	1,051	2,027	-				22,212
Settlement balances	-	-	-	23,006				23,006
Derivatives (5)	361,048							361,048
Intangible assets							14,409	14,409
Property, plant and equipment							15,846	15,846
Deferred tax							6,299	6,299
Prepayments, accrued income and other assets	-	-	-	1,381			9,974	11,355
Assets of disposal groups							8,992	8,992
	626,083	2,442	113,155	606,171		9,882	55,520	1,413,253
Liabilities								
Deposits by banks								
- repos	24,204	-			15,411			39,615
- other	25,234	-			38,595			63,829
Customer accounts								

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- repos	59,246	-		31,186			90,432
- other	13,704	4,933		409,837			428,474
Debt securities in issue	9,383	43,681		162,904			215,968
Settlement balances	-	-		21,394			21,394
Short positions	50,065	-					50,065
Derivatives (5)	360,625						360,625
Accruals, deferred income and other liabilities	-	-		1,560	476	21,033	23,069
Retirement benefit liabilities				-		2,257	2,257
Deferred tax				-		2,094	2,094
Insurance liabilities				-		6,754	6,754
Subordinated liabilities	-	1,064		25,451		-	26,515
Liabilities of disposal groups						6,376	6,376
	542,461	49,678		706,338	476	38,514	1,337,467
Equity							75,786
							1,413,253

For the notes to this table refer to page 94.

Notes (continued)

14. Financial instruments (continued)

Classification (continued)

	HFT (1)	DFV (2)	AFS (3)	LAR (4)	Other financial instruments (amortised cost)	Finance leases	Non financial assets/liabilities	Total
31 December 2010	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and balances at central banks	-	-	-	57,014				57,014
Loans and advances to banks								
- reverse repos	38,215	-	-	4,392				42,607
- other	26,082	-	-	31,829				57,911

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Loans and advances to customers								
- reverse repos	41,110	-	-	11,402				52,512
- other	19,903	1,100	-	471,308	10,437			502,748
Debt securities	98,869	402	111,130	7,079				217,480
Equity shares	19,186	1,013	1,999	-				22,198
Settlement balances	-	-	-	11,605				11,605
Derivatives (5)	427,077							427,077
Intangible assets						14,448		14,448
Property, plant and equipment						16,543		16,543
Deferred tax						6,373		6,373
Prepayments, accrued income and other assets	-	-	-	1,306		11,270		12,576
Assets of disposal groups						12,484		12,484
	670,442	2,515	113,129	595,935	10,437	61,118		1,453,576
Liabilities								
Deposits by banks								
- repos	20,585	-			12,154			32,739
- other	28,216	-			37,835			66,051
Customer accounts								
- repos	53,031	-			29,063			82,094
- other	14,357	4,824			409,418			428,599
Debt securities in issue	7,730	43,488			167,154			218,372
Settlement balances	-	-			10,991			10,991
Short positions	43,118	-						43,118
Derivatives (5)	423,967							423,967
Accruals, deferred income and other liabilities	-	-			1,793	458	20,838	23,089
Retirement benefit liabilities					-		2,288	2,288
Deferred tax					-		2,142	2,142
Insurance liabilities					-		6,794	6,794
Subordinated liabilities	-	1,129			25,924			27,053
Liabilities of disposal groups							9,428	9,428
	591,004	49,441			694,332	458	41,490	1,376,725
Equity								76,851
								1,453,576

Notes:

(1) Held-for-trading.

(2) Designated as at fair value.

- (3) Available-for-sale.
 (4) Loans and receivables.
 (5) Held-for-trading derivatives include hedging derivatives.

Notes (continued)

14. Financial instruments (continued)

Reclassifications

There were no reclassifications in 2011 or 2010.

Financial instruments carried at fair value

Refer to Note 12 Financial instruments - valuation of the Group's 2010 Annual Report and Accounts for valuation techniques. Certain aspects relating to the valuation of financial instruments carried at fair value are discussed below.

Valuation reserves

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk.

The table below shows the valuation reserves and adjustments.

	30 June 2011 £m	31 March 2011 £m	31 December 2010 £m
Credit valuation adjustments (CVA)			
Monoline insurers	2,321	2,178	2,443
Credit derivative product companies (CDPCs)	532	445	490
Other counterparties	1,719	1,629	1,714
	4,572	4,252	4,647
Bid-offer, liquidity and other reserves	2,572	2,931	2,797
	7,144	7,183	7,444

CVA represent an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.

Key points

30 June 2011 compared with 31 March 2011

- The increase in monoline CVA primarily reflected higher exposure, due to lower prices of underlying reference instruments, and wider credit spreads.
- CDPC CVA increased due to higher exposure resulting from wider credit spreads of the underlying reference loans and bonds. This was partially offset by a decrease in the relative value of senior tranches compared with the underlying reference portfolios.
- The CVA held against exposures to other counterparties increased over the period due to several factors including changes in credit spreads and counterparty exposures due to market moves, together with the impact of

counterparty rating downgrades.

- The decrease in bid-offer, liquidity and other reserves primarily reflects Non-Core de-risking.

Notes (continued)

14. Financial instruments (continued)

Valuation reserves (continued)

Key points (continued)

30 June 2011 compared with 31 December 2010

- Monoline CVA decreased primarily driven by a reduction in exposure due to higher prices of underlying reference instruments and sterling strengthening against the US dollar.
- CDPC CVA was higher primarily due to an increase in the estimated cost of hedging expected underlying portfolio default losses in excess of the capital available in each vehicle.
- The CVA held against exposures to other counterparties was stable over the period with the impact of several factors offsetting including changes in credit spreads and counterparty exposures due to market moves, together with the impact of realised defaults and counterparty rating downgrades.
- The decrease in bid-offer, liquidity and other reserves primarily reflects Non-Core de-risking.

Own credit

Cumulative own credit adjustment	Debt securities		Total	Derivatives	Total
	in issue	Subordinated liabilities			
	£m	£m	£m	£m	£m
30 June 2011	1,933	377	2,310	434	2,744
31 March 2011	1,566	372	1,938	447	2,385
31 December 2010	2,091	325	2,416	534	2,950

Carrying values of underlying liabilities

	£bn	£bn	£bn
30 June 2011	52.9	1.1	54.0
31 March 2011	53.1	1.1	54.2
31 December 2010	51.2	1.1	52.3

Notes (continued)

14. Financial instruments (continued)

Valuation hierarchy

	30 June 2011				Level 3 sensitivity (6)	
	Total £bn	Level 1 £bn	Level 2 £bn	Level 3 £bn	Favourable £m	Unfavourable £m
Assets						
Loans and advances to banks						
- reverse repos	36.1	-	36.1	-		