

The Royal Bank of Scotland plc
Results for the half year ended 30 June 2011

The Royal Bank of Scotland plc (the 'Bank', 'RBS plc' or 'RBS') is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (the 'holding company' or 'RBSG'). The 'Group' comprises the Bank and its subsidiary and associated undertakings. 'RBS Group' comprises the holding company and its subsidiary and associated undertakings.

Contents	Page
<hr/>	
Interim management report	
<hr/>	
Financial review	2
Condensed consolidated income statement	3
Condensed consolidated statement of comprehensive income	4
Condensed consolidated balance sheet	5
Commentary on condensed consolidated balance sheet	6
Condensed consolidated statement of changes in equity	8
Condensed consolidated cash flow statement	10
Notes	11
Independent review report	30
Risk factors	32
Statement of directors' responsibilities	36
<hr/>	
Additional information	
Contact	37
<hr/>	

Financial review

Operating profit

Operating profit before tax was £458 million compared with £1,720 million in the first half of 2010. The reduction was due to lower income which was affected by movements in the fair value of own debt and the Asset Protection Scheme (APS) credit default swap, and a charge in relation to Payment Protection Insurance (PPI) claims; these were partially offset by lower impairment losses.

Total income

Total income was down 10% to £12,460 million, reflecting lower gains on redemption of own debt, movements in the fair value of own debt and the APS credit default swap, lower gains on strategic disposals and a decline in revenues in Global Banking & Markets (GBM) reflecting less favourable market conditions than a year ago.

Net interest income fell by 5% to £5,849 million principally reflecting a narrowing Group net interest margin and lower interest-earning assets.

Non-interest income fell by 15% to £6,611 million principally due to lower gains on redemption of own debt, movements in the fair value of own debt and the APS credit default swap and a decline in trading income in GBM, partially offset by a strong performance in Non-Core.

Operating expenses

Operating expenses increased by 10% to £7,925 million compared with £7,196 million in the first half of 2010. This increase was due to a provision of £850 million in relation to PPI claims. This provision is in addition to an existing provision of £100 million, as well as £100 million already paid out to customers as at 30 June 2011.

Cost:income ratio

The Group's cost:income ratio was 63.6% compared with 51.9% in the first half of 2010. Excluding the gain on redemption of own debt and the additional PPI provision, the cost:income ratio was 58.0% compared with 53.8% in the first half of 2010.

Impairment losses

Impairment losses were £4,077 million compared with £4,953 million in the first half of 2010 with Core impairments falling by £241 million, 13%, and Non-Core by £635 million, 20%. Impairments were lower in all businesses except Global Transaction Services, which was affected by a single provision, and in Ulster Bank (Core and Non-Core) where the economic environment continues to be challenging.

Capital ratios

Capital ratios at 30 June 2011 were 8.7% (Core Tier 1), 10.6% (Tier 1) and 14.0% (Total).

**Condensed consolidated income statement
for the half year ended 30 June 2011 (unaudited)**

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Interest receivable	9,691	9,701	19,417
Interest payable	(3,842)	(3,566)	(7,306)
Net interest income	5,849	6,135	12,111
Fees and commissions receivable	3,044	3,751	7,591
Fees and commissions payable	(500)	(920)	(2,060)
Income from trading activities	1,994	2,924	3,361
Gain on redemption of own debt	255	502	502
Other operating income	1,818	1,477	2,199
Non-interest income	6,611	7,734	11,593
Total income	12,460	13,869	23,704
Operating expenses	(7,925)	(7,196)	(14,475)
Profit before impairment losses	4,535	6,673	9,229
Impairment losses	(4,077)	(4,953)	(9,400)
Operating profit/(loss) before tax	458	1,720	(171)
Tax charge	(706)	(916)	(713)
(Loss)/profit for the period	(248)	804	(884)
Non-controlling interests	8	(24)	(29)
Preference shareholders	(37)	(39)	(60)
(Loss)/profit attributable to ordinary shareholders	(277)	741	(973)

**Condensed consolidated statement of comprehensive income
for the half year ended 30 June 2011 (unaudited)**

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
(Loss)/profit for the period	(248)	804	(884)
Other comprehensive income			
Available-for-sale financial assets	331	1,832	1,506
Cash flow hedges	308	171	114
Currency translation	(360)	956	331
Actuarial gains on defined benefit plans	-	-	176
Other comprehensive income before tax	279	2,959	2,127
Tax charge	(180)	(580)	(519)
Other comprehensive income after tax	99	2,379	1,608
Total comprehensive (loss)/income for the period	(149)	3,183	724
Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable as follows:			
Non-controlling interests	(26)	113	96
Preference shareholders	37	39	60
Ordinary shareholders	(160)	3,031	568
	(149)	3,183	724

**Condensed consolidated balance sheet
at 30 June 2011 (unaudited)**

	30 June 2011 £m	31 December 2010 (audited) £m
Assets		
Cash and balances at central banks	52,090	49,838
Loans and advances to banks	89,335	87,505
Loans and advances to customers	508,100	518,321
Debt securities	188,039	166,029
Equity shares	2,375	2,340
Settlement balances	21,931	8,748
Derivatives	397,091	429,005
Intangible assets	11,945	11,832
Property, plant and equipment	16,961	16,143
Deferred tax	4,683	1,790
Prepayments, accrued income and other assets	5,550	6,237
Assets of disposal groups	1,556	9,542
Total assets	1,299,656	1,307,330
Liabilities		
Deposits by banks	90,989	85,220
Customer accounts	478,701	472,325
Debt securities in issue	158,356	164,662
Settlement balances	20,344	8,501
Short positions	53,149	41,130
Derivatives	385,808	420,969
Accruals, deferred income and other liabilities	18,541	13,734
Retirement benefit liabilities	2,179	2,229
Deferred tax	1,428	1,422
Subordinated liabilities	31,230	32,023
Liabilities of disposal groups	1,656	7,508
Total liabilities	1,242,381	1,249,723
Equity		
Non-controlling interests	356	597
Owners' equity		
Called up share capital	6,609	6,609
Reserves	50,310	50,401
Total equity	57,275	57,607
Total liabilities and equity	1,299,656	1,307,330

Commentary on condensed consolidated balance sheet

Total assets of £1,299.7 billion at 30 June 2011 were down £7.7 billion, 1%, compared with 31 December 2010. This was principally driven by the reduction in the mark-to-market value of derivatives and the continuing planned disposal of Non-Core assets. The decrease was offset in part by higher levels of debt securities held by Global Banking & Markets and Group Treasury, coupled with a rise in settlement balances as a result of increased activity from seasonal year-end lows.

Loans and advances to customers were down £10.2 billion, 2%, at £508.1 billion. Within this, reverse repos increased by 7%, £3.5 billion, to £52.6 billion. Excluding reverse repos, lending decreased by £13.7 billion, 3%, to £455.5 billion. This reflected planned reductions in Non-Core, along with declines in Global Banking & Markets, UK Corporate and Ulster Bank, offset in part by growth in UK Retail, Wealth, US Retail & Commercial and Global Transaction Services, together with the effect of exchange rate and other movements.

Debt securities were up £22.0 billion, 13%, to £188.0 billion, driven mainly by increased holdings of government and financial institution bonds within Global Banking & Markets and Group Treasury.

Settlement balances rose £13.2 billion to £21.9 billion as a result of increased customer activity from seasonal year-end lows.

Movements in the value of derivative assets, down £31.9 billion, 7%, to £397.1 billion, and liabilities, down £35.2 billion, 8%, to £385.8 billion, primarily reflect decreases in interest contracts, together with the combined effect of currency movements, with Sterling strengthening against the US dollar but weakening against the Euro.

Deferred tax assets increased £2.9 billion to £4.7 billion largely as a result of the transfer of deferred tax assets relating to past losses in businesses transferred from RBS N.V..

Decreases in assets and liabilities of disposal groups resulted mainly from the disposal of substantially all of the RBS Sempra Commodities JV business.

Deposits by banks rose £5.8 billion, 7%, to £91.0 billion due to increased inter-bank deposits, up £6.1 billion, 11%, to £62.8 billion offset in part by lower repurchase agreements and stock lending ('repos'), down £0.3 billion, 1%, to £28.2 billion.

Customer accounts increased by £6.4 billion, 1%, to £478.7 billion. Within this, repos increased £4.2 billion, 5%, to £82.0 billion. Excluding repos, deposits were up by £2.2 billion, 1%, to £396.7 billion, reflecting growth in Global Transaction Services, Wealth and Ulster Bank, partially offset by decreases in Global Banking & Markets and UK Corporate.

Debt securities in issue were down £6.3 billion, 4%, to £158.4 billion, mainly as a result of reductions in Global Banking & Markets and Ulster Bank.

Settlement balances rose £11.8 billion to £20.3 billion and short positions were up £12.0 billion, 29%, to £53.1 billion due to increased customer activity from seasonal year-end lows.

Commentary on condensed consolidated balance sheet (continued)

Subordinated liabilities decreased £0.8 billion, 2%, to £31.2 billion, primarily reflecting the redemption of £0.2 billion US dollar and £0.4 billion Euro denominated dated loan capital.

Owners' equity was down at £56.9 billion. Negative movements in foreign exchange reserves of £0.3 billion and the £0.2 billion attributable loss for the period were partially offset by increases in available-for-sale reserves of £0.2 billion and cash flow hedging reserves of £0.2 billion.

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

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Called-up share capital			
At beginning and end of period	6,609	6,609	6,609
Share premium account			
At beginning and end of period	25,375	25,375	25,375
Merger reserve			
At beginning and end of period	10,881	10,881	10,881
Available-for-sale reserve			
At beginning of period	917	(168)	(168)
Unrealised gains	710	1,934	1,765
Realised gains	(379)	(102)	(259)
Tax	(100)	(536)	(421)
At end of period	1,148	1,128	917
Cash flow hedging reserve			
At beginning of period	(81)	(129)	(129)
Amount recognised in equity	772	154	173
Amount transferred from equity to earnings	(464)	17	(59)
Tax	(91)	(58)	(66)
At end of period	136	(16)	(81)
Foreign exchange reserve			
At beginning of period	3,027	2,722	2,722
Retranslation of net assets	(306)	1,291	795
Foreign currency losses on hedges of net assets	(36)	(424)	(531)
Tax	11	14	41
At end of period	2,696	3,603	3,027
Retained earnings			
At beginning of period	10,282	9,761	9,761
(Loss)/profit attributable to ordinary shareholders and other equity owners	(240)	780	(913)
Equity preference dividends paid	(37)	(39)	(60)
Actuarial losses recognised in retirement benefit schemes			
- gross	-	-	176
- tax	-	-	(73)
Shares issued under employee share schemes	(191)	-	-
Capital contribution	191	-	1,000
Share-based payments			
- gross	67	61	385
- tax	2	5	6
At end of period	10,074	10,568	10,282
Owners' equity at end of period	56,919	58,148	57,010

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

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Non-controlling interests			
At beginning of period	597	1,146	1,146
Currency translation adjustments and other movements	(18)	89	67
(Loss)/profit attributable to non-controlling interests	(8)	24	29
Dividends paid	(39)	(132)	(154)
Equity raised	-	-	58
Equity withdrawn and disposals	(176)	-	(549)
At end of period	356	1,127	597
Total equity at end of period	57,275	59,275	57,607
Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable as follows:			
Non-controlling interests	(26)	113	96
Preference shareholders	37	39	60
Ordinary shareholders	(160)	3,031	568
	(149)	3,183	724

**Condensed consolidated cash flow statement
for the half year ended 30 June 2011 (unaudited)**

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Operating activities			
Operating profit/(loss) before tax	458	1,720	(171)
Adjustments for non-cash items	2,580	1,490	2,473
Net cash flows from trading activities	3,038	3,210	2,302
Changes in operating assets and liabilities	8,576	10,502	29,919
Net cash flows from operating activities before tax	11,614	13,712	32,221
Income taxes (paid)/received	(56)	433	771
Net cash flows from operating activities	11,558	14,145	32,992
Net cash flows from investing activities	(5,279)	(1,295)	3,971
Net cash flows from financing activities	(1,551)	(1,480)	(1,480)
Effects of exchange rate changes on cash and cash equivalents	593	(260)	756
Net increase in cash and cash equivalents	5,321	11,110	36,239
Cash and cash equivalents at beginning of period	129,177	92,938	92,938
Cash and cash equivalents at end of period	134,498	104,048	129,177

Notes

1. Basis of preparation

The condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The Group's business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 2 to 29. A summary of the risk factors which could materially affect the Group's future results are described on pages 32 to 35. 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.

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 132 to 141 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.

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. Loan impairment provisions

Operating profit/(loss) is stated after charging loan impairment losses of £3,987 million (first half 2010 - £4,871 million; full year 2010 - £9,299 million). The balance sheet loan impairment provisions increased in the half year ended 30 June 2011 from £16,770 million to £19,340 million and the movements thereon were:

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
At beginning of period	16,770	12,020	12,020
Transfers to disposal groups	-	(13)	(72)
Currency translation and other adjustments	305	(38)	(5)
Disposals	-	-	(13)
Amounts written-off	(1,760)	(2,230)	(4,375)
Recoveries of amounts previously written-off	280	142	360
Charged to income statement	3,987	4,871	9,299
Unwind of discount	(242)	(212)	(444)
At end of period	19,340	14,540	16,770

Provisions at 30 June 2011 include £92 million (30 June 2010 - £84 million; 31 December 2010 - £88 million) in respect of loans and advances to banks.

Impairment losses charged to the income statement comprise:

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Loan impairment losses	3,987	4,871	9,299
Securities impairment losses	90	82	101
Impairment losses	4,077	4,953	9,400

4. 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.

Notes (continued)

5. 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.

If the levy had been applied to the balance sheet at 30 June 2011, the cost of the levy for the RBS Group 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.

6. Tax

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

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Profit/(loss) before tax	458	1,720	(171)
Tax (charge)/credit based on the standard UK corporation tax rate of 26.5% (2010 - 28%)	(121)	(482)	48
Losses in period where no deferred tax asset recognised	(147)	(134)	(292)
Foreign profits taxed at other rates	(294)	(284)	(496)
UK tax rate change - deferred tax impact	(72)	-	31
Unrecognised timing differences	(10)	-	11
Items not allowed for tax			
- losses on strategic disposals and write-downs	(5)	(18)	(95)
- other disallowable items	(127)	(53)	(300)
Non-taxable items			
- gain on sale of Global Merchant Services	12	-	221
- gain on redemption of own debt	-	2	1
- other non-taxable items	36	6	218
Taxable foreign exchange movements	10	(10)	(5)
Losses brought forward and utilised	5	5	-
Adjustments in respect of prior periods	7	52	(55)
Actual tax charge	(706)	(916)	(713)

The Group has recognised a deferred tax asset at 30 June 2011 of £4,683 million (31 December 2010 - £1,790 million), of which £3,398 million (31 December 2010 - £473 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.

Notes (continued)

7. Dividends

RBS Group has undertaken that, unless otherwise agreed with the European Commission, RBSG 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.

8. Segmental analysis

There have been no significant changes in the Group's divisions as set out on page 226 of the 2010 Report and Accounts. Total revenue, operating profit/(loss) before tax and total assets by division are shown in the tables below.

	First half 2011			First half 2010			Full year 2010		
	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Total revenue									
UK Retail	3,416	187	3,603	3,258	162	3,420	6,665	358	7,023
UK Corporate	2,269	33	2,302	2,151	46	2,197	4,348	126	4,474
Wealth	502	352	854	467	296	763	956	616	1,572
Global Transaction Services	503	9	512	1,197	-	1,197	2,330	6	2,336
Ulster Bank	637	2	639	754	70	824	1,386	133	1,519
US Retail & Commercial	1,647	105	1,752	1,932	148	2,080	3,660	286	3,946
Global Banking & Markets	4,011	2,437	6,448	4,702	2,402	7,104	7,824	4,331	12,155
Central items	1,611	6,574	8,185	785	4,781	5,566	2,228	12,251	14,479
Core	14,596	9,699	24,295	15,246	7,905	23,151	29,397	18,107	47,504
Non-Core	2,384	96	2,480	2,250	77	2,327	4,107	194	4,301
	16,980	9,795	26,775	17,496	7,982	25,478	33,504	18,301	51,805
Eliminations	-	(9,795)	(9,795)	-	(7,982)	(7,982)	-	(18,301)	(18,301)
	16,980	-	16,980	17,496	-	17,496	33,504	-	33,504
Reconciling items									
Fair value of own debt	205	-	205	281	-	281	(31)	-	(31)
Asset Protection Scheme credit default swap - fair value changes	(637)	-	(637)	-	-	-	(1,550)	-	(1,550)
Gain on redemption of own debt	255	-	255	502	-	502	502	-	502
Strategic disposals	(1)	-	(1)	76	-	76	645	-	645
	16,802	-	16,802	18,355	-	18,355	33,070	-	33,070

Notes (continued)

8. Segmental analysis (continued)

	First half 2011 £m	First half 2010 £m	Full year 2010 (audited) £m
Operating profit/(loss) before tax			
UK Retail	1,111	425	1,476
UK Corporate	950	747	1,581
Wealth	138	137	287
Global Transaction Services	304	434	864
Ulster Bank	(533)	(243)	(624)
US Retail & Commercial	269	233	427
Global Banking & Markets	1,643	2,470	3,235
Central items	(657)	(353)	(1,309)
Core	3,225	3,850	5,937
Non-Core	(1,378)	(2,595)	(4,735)
	1,847	1,255	1,202
Reconciling items			
Fair value of own debt	205	281	(31)
Asset Protection Scheme credit default swap - fair value changes	(637)	-	(1,550)
Payment Protection Insurance costs	(850)	-	-
Amortisation of purchased intangible assets	(23)	(41)	(63)
Integration and restructuring costs	(301)	(303)	(825)
Gain on redemption of own debt	255	502	502
Strategic disposals	(1)	76	645
Bonus tax	(37)	(50)	(50)
Write-down of goodwill and other intangible assets	-	-	(1)
	458	1,720	(171)
		30 June 2011 £m	31 December 2010 (audited) £m
Total assets			
UK Retail		113,891	112,070
UK Corporate		113,100	114,008
Wealth		22,213	21,178
Global Transaction Services		16,154	14,652
Ulster Bank		38,696	40,090
US Retail & Commercial		70,909	71,200
Global Banking & Markets		716,646	726,124
Central items		83,628	68,970
Core		1,175,237	1,168,292
Non-Core		124,419	139,038
		1,299,656	1,307,330

Notes (continued)

9. Contingent liabilities and commitments

	30 June 2011 £m	31 December 2010 (audited) £m
Contingent liabilities		
Guarantees and assets pledged as collateral security	19,900	22,946
Other contingent liabilities	9,318	10,033
	29,218	32,979
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- less than one year	109,025	114,112
- one year and over	117,572	120,091
Other commitments	3,092	4,053
	229,689	238,256
Total contingent liabilities and commitments	258,907	271,235

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

The Bank, together with other members of the RBS Group, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Bank's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Bank may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Bank from other parties to the CSD becomes immediately repayable, such repayment being limited to the Bank's available resources.

10. Litigation and investigations

Litigation

As a participant in the financial services industry, RBS Group operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Bank and other members of the RBS Group are involved in various disputes and legal proceedings in the United Kingdom, the United States and other jurisdictions, including litigation. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, particularly in the earlier stages of a case.

Other than as set out in this note (excluding the sub-heading "Summary of other disputes, legal proceedings and litigation"), neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the 12 months prior to the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Bank and/or the Group taken as a whole.

10. Litigation and investigations (continued)

Shareholder litigation

RBSG and certain of its subsidiaries, together with certain current and former individual officers and directors have been named as defendants in class actions filed in the United States District Court for the Southern District of New York. There are parallel proceedings involving holders of RBS Group preferred shares (the “Preferred Shares litigation”) and holders of American Depositary Receipts (the “ADR claims”).

In the Preferred Shares litigation, the consolidated amended complaint alleges certain false and misleading statements and omissions in public filings and other communications during the period 1 March 2007 to 19 January 2009, and variously asserts claims under Sections 11, 12 and 15 of the US Securities Act of 1933. The putative class is composed of all persons who purchased or otherwise acquired RBS Group Series Q, R, S, T and/or U non-cumulative dollar preference shares issued pursuant or traceable to the 8 April 2005 US Securities and Exchange Commission (SEC) registration statement and were damaged thereby. Plaintiffs seek unquantified damages on behalf of the putative class. The defendants have moved to dismiss the complaint. Briefing on this motion is expected to be completed by September 2011.

With respect to the ADR claims, a complaint was filed in January 2011 and a further complaint was filed in February 2011 asserting claims under Sections 10 and 20 of the Securities Exchange Act of 1934 on behalf of all persons who purchased or otherwise acquired RBS Group US American Depositary Receipts (“ADRs”) between 1 March 2007 and 19 January 2009. There is a motion pending to consolidate these cases, as well as various motions for appointment of lead plaintiff and counsel.

RBS Group has also received notification of similar prospective claims in the United Kingdom and elsewhere but no court proceedings have been commenced in relation to these claims.

RBS Group considers that it has substantial and credible legal and factual defences to the remaining and prospective claims and will defend them vigorously. RBS Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that might arise or its effect on RBS Group’s consolidated net assets, operating results or cash flows in any particular period.

Other securitisation and securities related litigation in the United States

RBS Group companies have been named as defendants in their various roles as issuer, depositor and/or underwriter in a number of claims in the United States that relate to the securitisation and securities underwriting businesses. These cases include purported class action suits and actions by individual purchasers of securities. The cases involve the issuance of mortgage backed securities and/or collateralised debt obligations for more than US\$35 billion of securities issued by over one hundred securitisation trusts. Although the allegations vary by claim, in general, plaintiffs in these actions claim that certain disclosures made in connection with the relevant offerings of such securities contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued.

10. Litigation and investigations (continued)

Other securitisation and securities related litigation in the United States (continued)

In many of these actions, RBS Group has contractual rights to indemnification from the issuers of the securities (where an RBS Group company is underwriter) and/or the underlying mortgage originator (where an RBS Group company is issuer), but certain of those indemnity rights may prove effectively unenforceable where the issuers or originators are defunct or otherwise unable to perform.

Certain other institutional investors have threatened to assert claims against RBS Group in connection with various mortgage-related offerings. RBS Group cannot predict with any certainty whether any of these individual investors will pursue these threatened claims.

With respect to all of the mortgage-backed securities related claims, RBS Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. RBS Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that may arise or its effect on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

Unarranged overdraft charges

In the US, Citizens Financial Group, in common with other US banks, has been named as a defendant in a class action asserting that Citizens charges excessive overdraft fees. The plaintiffs claim that overdraft fees resulting from point of sale and automated teller machine (ATM) transactions violate the duty of good faith implied in Citizens' customer account agreement and constitute an unfair trade practice. RBS Group considers that it has substantial and credible legal and factual defences to these claims and will defend them vigorously. RBS Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that might arise or its effect on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

London Interbank Offered Rate (LIBOR)

Certain members of RBS Group have been named as defendants in a number of class action claims filed in the US with respect to the setting of LIBOR. The complaints are substantially similar and allege, through various means, that certain members of RBS Group and other panel banks individually and collectively violated US commodities and antitrust laws and state common law by manipulating LIBOR and prices of LIBOR-based derivatives in various markets. RBS Group considers that it has substantial and credible legal and factual defences to these and prospective claims. RBS Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that might arise or its effect on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

Summary of other disputes, legal proceedings and litigation

Members of RBS Group are engaged in other litigation in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them arising in the ordinary course of business. RBS Group has reviewed these other actual, threatened and known potential claims and proceedings and, after consulting with its legal advisers, does not expect that the outcome of any of these other claims and proceedings will have a significant effect on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

10. Litigation and investigations (continued)

Investigations

RBS Group's businesses and financial condition can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the United Kingdom, the European Union, the United States and elsewhere. RBS Group has engaged, and will continue to engage, in discussions with relevant regulators, including in the United Kingdom and the United States, on an ongoing and regular basis regarding operational, systems and control evaluations and issues including those related to compliance with applicable anti-bribery, anti-money laundering and sanctions regimes. It is possible that any matters discussed or identified may result in investigatory or other action being taken by the regulators, increased costs being incurred by RBS Group, remediation of systems and controls, public or private censure, restriction of RBS Group's business activities or fines. Any of these events or circumstances could have a significant effect on RBS Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

Political and regulatory scrutiny of the operation of retail banking and consumer credit industries in the United Kingdom and elsewhere continues. The nature and impact of future changes in policies and regulatory action are not predictable and are beyond RBS Group's control but could have a significant effect on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

Retail banking

In the European Union, regulatory actions included an inquiry into retail banking initiated on 13 June 2005 in all of the then 25 member states by the European Commission's Directorate General for Competition. The inquiry examined retail banking in Europe generally. On 31 January 2007, the European Commission ("EC") announced that barriers to competition in certain areas of retail banking, payment cards and payment systems in the European Union had been identified. The EC indicated that it will consider using its powers to address these barriers and will encourage national competition authorities to enforce European and national competition laws where appropriate. In addition, in late 2010, the EC launched an initiative pressing for increased transparency of bank fees. RBS Group cannot predict the outcome of these actions at this stage and is unable reliably to estimate the effect, if any, that these may have on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

Multilateral interchange fees

In 2007, the EC issued a decision that while interchange is not illegal per se, MasterCard's current multilateral interchange fee ("MIF") arrangements for cross border payment card transactions with MasterCard and Maestro branded consumer credit and debit cards in the European Union are in breach of competition law. MasterCard was required by the decision to withdraw the relevant cross-border MIF (i.e. set these fees to zero) by 21 June 2008.

10. Litigation and investigations (continued)

Multilateral interchange fees (continued)

MasterCard appealed against the decision to the European Court of First Instance (subsequently re-named the General Court) on 1 March 2008, and RBS Group has intervened in the appeal proceedings. In addition, in summer 2008, MasterCard announced various changes to its scheme arrangements. The EC was concerned that these changes might be used as a means of circumventing the requirements of the infringement decision. In April 2009, MasterCard agreed an interim settlement on the level of cross-border MIF with the EC pending the outcome of the appeal process and, as a result, the EC has advised it will no longer investigate the non-compliance issue (although MasterCard is continuing with its appeal). The appeal was heard on 8 July 2011 by the General Court and judgment is awaited.

Visa's cross-border MIFs were exempted in 2002 by the EC for a period of five years up to 31 December 2007 subject to certain conditions. On 26 March 2008, the EC opened a formal inquiry into Visa's current MIF arrangements for cross border payment card transactions with Visa branded debit and consumer credit cards in the European Union and on 6 April 2009 the EC announced that it had issued Visa with a formal Statement of Objections. At the same time Visa announced changes to its interchange levels and introduced some changes to enhance transparency. There is no deadline for the closure of the inquiry. However, on 26 April 2010 Visa announced it had reached an agreement with the EC as regards immediate cross border debit card MIF rates only and in December 2010 the commitments were finalised for a four year period commencing December 2010 under Article 9 of Regulation 1/2003. The EC is continuing its investigations into Visa's cross border MIF arrangements for deferred debit and credit transactions.

In the UK, the Office of Fair Trading ("OFT") has carried out investigations into Visa and MasterCard domestic credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the Competition Appeal Tribunal ("CAT") in June 2006. The OFT's investigations in the Visa interchange case and a second MasterCard interchange case are ongoing. On 9 February 2007, the OFT announced that it was expanding its investigation into domestic interchange rates to include debit cards. In January 2010 the OFT advised that it did not anticipate issuing a Statement of Objections prior to the General Court's judgment, although it has reserved the right to do so if it considers it appropriate.

The outcome of these investigations is not known, but they may have a significant effect on the consumer credit industry in general and, therefore, on RBS Group's business in this sector. Accordingly, RBS Group is unable reliably to estimate the effect, if any, which these investigations may have on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

10. Litigation and investigations (continued)

Payment Protection Insurance

Having conducted a market study relating to Payment Protection Insurance (“PPI”), on 7 February 2007 the OFT referred the PPI market to the Competition Commission (“CC”) for an in-depth inquiry. The CC published its final report on 29 January 2009 and announced its intention to order a range of remedies, including a prohibition on actively selling PPI at point of sale of the credit product (and for 7 days thereafter), a ban on single premium policies and other measures to increase transparency (in order to improve customers’ ability to search and improve price competition). Barclays Bank PLC subsequently appealed certain CC findings to the CAT. On 16 October 2009, the CAT handed down a judgment remitting the matter back to the CC for review. Following further review, on 14 October 2010, the CC published its final decision on remedies following the remittal which confirmed the point of sale prohibition. On 24 March 2011, the CC made a final order with a commencement date of 6 April 2011. The key measures will come into force in October 2011 and April 2012.

The Financial Services Authority (FSA) conducted a broad industry thematic review of PPI sales practices and in September 2008, the FSA announced that it intended to escalate its level of regulatory intervention. Substantial numbers of customer complaints alleging the mis-selling of PPI policies have been made to banks and to the Financial Ombudsman Service (FOS) and many of these are being upheld by the FOS against the banks.

Following unsuccessful negotiations with the industry, the FSA issued consultation papers on PPI complaint handling and redress in September 2009 and again in March 2010. The FSA published its final policy statement on 10 August 2010 and instructed firms to implement the measures contained in it by 1 December 2010. The new rules impose significant changes with respect to the handling of mis-selling PPI complaints. On 8 October 2010, the British Bankers’ Association (BBA) filed an application for judicial review of the FSA’s policy statement and of related guidance issued by the FOS. The application was heard in January 2011. On 20 April 2011 the High Court issued judgment in favour of the FSA and the FOS. The BBA announced on 9 May 2011 that it would not appeal that judgment. RBS Group supports this position. RBS Group has recorded an additional provision of £850 million in the second quarter of 2011, supplementing its existing provision of approximately £100 million.

RBS Group has now reached agreement with the FSA on a process for implementation of the FSA’s policy statement and for the future handling of PPI complaints to ensure that redress is offered to any customers identified as having suffered detriment.

Personal current accounts

On 16 July 2008, the OFT published the results of its market study into Personal Current Accounts (“PCAs”) in the United Kingdom. The OFT found evidence of competition and several positive features in the personal current account market but believed that the market as a whole was not working well for consumers and that the ability of the market to function well had become distorted.

10. Litigation and investigations (continued)

Personal current accounts (continued)

On 7 October 2009, the OFT published a follow-up report summarising the initiatives agreed between the OFT and personal current account providers to address the OFT's concerns about transparency and switching, following its market study. Personal current account providers will take a number of steps to improve transparency, including providing customers with an annual summary of the cost of their account and making charges prominent on monthly statements. To improve the switching process, a number of steps are being introduced following work with Bacs, the payment processor, including measures to reduce the impact on consumers of any problems with transferring direct debits.

On 22 December 2009, the OFT published a further report in which it stated that it continued to have significant concerns about the operation of the personal current account market in the United Kingdom, in particular in relation to unarranged overdrafts, and that it believed that fundamental changes are required for the market to work in the best interests of bank customers. The OFT stated that it would discuss these issues intensively with banks, consumer groups and other organisations, with the aim of reporting on progress by the end of March 2010. On 16 March 2010, the OFT announced that it had secured agreement from the banks on four industry-wide initiatives, namely minimum standards on the operation of opt-outs from unarranged overdrafts, new working groups on information sharing with customers, best practice for PCA customers in financial difficulties and incurring charges, and PCA providers to publish their policies on dealing with PCA customers in financial difficulties. The OFT also announced its plan to conduct six-monthly ongoing reviews, fully to review the market again in 2012 and to undertake a brief analysis on barriers to entry.

The first six-monthly ongoing review was completed in September 2010. The OFT noted progress in the areas of switching, transparency and unarranged overdrafts for the period March to September 2010, as well as highlighting further changes the OFT expects to see in the market. On 29 March 2011, the OFT published its update report in relation to personal current accounts. This noted further progress in improving consumer control over the use of unarranged overdrafts. In particular, the Lending Standards Board has led on producing standards and guidance to be included in a revised Lending Code published on 31 March 2011. The OFT will continue to monitor the market and will consider the need for, and appropriate timing of, further update reports in light of other developments, in particular the work of the Independent Commission on Banking ("ICB"). The OFT intends to conduct a more comprehensive review of the market in 2012.

On 26 May 2010, the OFT announced its review of barriers to entry. The review concerns retail banking for individuals and small and medium size enterprises (up to £25 million turnover) and will look at products which require a banking licence to sell mortgages, loan products and, where appropriate, other products such as insurance or credit cards where cross-selling may facilitate entry or expansion. The OFT published its report in November 2010. It advised that it expected its review to be relevant to the ICB, the FSA, HM Treasury and the Department for Business, Innovation and Skills and to the devolved governments in the United Kingdom. The OFT has not indicated whether it will undertake any further work. The report maintained that barriers to entry remain, in particular regarding switching, branch networks and brands. At this stage, it is not possible to estimate the effect of the OFT's report and recommendations regarding barriers to entry upon RBS Group.

10. Litigation and investigations (continued)

Equity underwriting

On 6 August 2010, the OFT launched a market study into equity underwriting and related services. The OFT looked at the way that the market works and in particular: (i) how underwriting services are purchased; (ii) how underwriting services are provided; and (iii) how the regulatory environment affects the provision of underwriting services. On 27 January 2011 the OFT published its market study report. The OFT decided not to refer the market to the CC (this decision was confirmed on 17 May 2011 following a public consultation) but identified certain concerns around the level of equity underwriting fees. The OFT therefore identified a number of options which would enable companies and institutional shareholders to address these concerns and allow them to drive greater competition in the market. It is not possible to estimate with any certainty what effect this development and any related developments may have on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

Independent Commission on Banking

On 16 June 2010, HM Treasury published the terms of reference for the Government's ICB. The ICB is considering the structure of the United Kingdom banking sector and is looking at structural and non-structural measures to reform the banking system and to promote competition. It is mandated to formulate policy recommendations with a view to: (i) reducing systemic risk in the banking sector, exploring the risk posed by banks of different size, scale and function; (ii) mitigating moral hazard in the banking system; (iii) reducing the likelihood and impact of a bank's failure; and (iv) promoting competition in retail and investment banking with a view to ensuring that the needs of banks' customers are served efficiently and considering the extent to which large banks can gain competitive advantage from being perceived as "too big to fail". The ICB reports to the Cabinet Committee on Banking Reform and will issue a final report on 12 September 2011. The interim report published on 11 April 2011 (the "Interim Report") set out the ICB's provisional views on possible reforms and sought responses to those views. Reform options for stability include additional capital and the ring-fencing of retail banking operations (on a basis yet to be defined). Reform options for competition include structural measures to improve competition, improved means of switching and transparency and a primary duty for the Financial Conduct Authority to promote effective competition. The Interim Report also supported the introduction of rules as to contingent capital, bail-in debt and depositor preferences.

RBS Group has responded to the Interim Report and set out its views on the reform options outlined in that Report. RBS Group will continue to participate in the debate and to consult with the ICB during the coming weeks and with the UK Government thereafter. Prior to the publication of a final report by the ICB it is not possible to estimate the effect of the ICB's report and recommendations upon RBS Group but they could have a negative impact on its consolidated net assets, operating results or cash flows in any particular period.

10. Litigation and investigations (continued)

Securitisation and collateralised debt obligation business

In September and October 2010, the SEC requested voluntary production of information concerning residential mortgage-backed securities underwritten by subsidiaries of RBSG during the period from September 2006 to July 2007 inclusive. In November 2010, the SEC commenced formal proceedings and requested testimony from RBS Group employees. The investigation is in its preliminary stages and it is difficult to predict any potential exposure that may result.

Also in October 2010, the SEC commenced an inquiry into document deficiencies and repurchase requests with respect to certain securitisations, and in January 2011, this was converted to a formal investigation. Among other matters, the investigation seeks information related to document deficiencies and remedial measures taken with respect to such deficiencies. The investigation also seeks information related to early payment defaults and loan repurchase requests. RBS Group is fully co-operating with this investigation.

In June 2009, in connection with an investigation into the role of investment banks in the origination and securitisation of sub-prime loans in Massachusetts, the Massachusetts Attorney General issued subpoenas to various banks, including an RBSG subsidiary, seeking information related to residential mortgage lending practices and sales and securitisation of residential mortgage loans. This investigation is ongoing and RBS Group is co-operating.

Previously, in 2008, the New York State Attorney General issued subpoenas to a wide array of participants in the securitisation and securities industry, focusing on the information underwriters obtained as part of the due diligence process from the independent due diligence firms. RBS Group completed its production of documents requested by the New York State Attorney General in 2009, principally producing documents related to loans that were pooled into one securitisation transaction. In May 2011, at the New York State Attorney General's request, representatives of RBS Group attended an informal meeting to provide additional information about RBS Group's mortgage securitisation business. The investigation is ongoing and RBS Group is co-operating. It is difficult to predict the potential exposure from this investigation.

In September 2010, RBSG subsidiaries received a request from the Nevada State Attorney General requesting information related to securitisations of mortgages issued by three specific originators. The investigation by the Nevada State Attorney General is in the early stages and therefore it is difficult to predict the potential exposure from any such investigation. RBSG and its subsidiaries are co-operating with these various investigations and requests. At this stage it is not possible to estimate the effect of the matters discussed in this section headed "Securitisation and collateralised debt obligation business" upon RBS Group, if any.

US mortgages

RBS Group's Global Banking & Markets N.A. ("GBM N.A."), has been a purchaser of non-agency US residential mortgages in the secondary market, and an issuer and underwriter of non-agency residential mortgage-backed securities ("RMBS"). GBM N.A. did not originate or service any US residential mortgages and it was not a significant seller of mortgage loans to government sponsored enterprises ("GSEs") (e.g., the Federal National Mortgage Association and the Federal Home Loan Mortgage Association).

10. Litigation and investigations (continued)

US mortgages (continued)

In issuing RMBS, GBM N.A. generally assigned certain representations and warranties regarding the characteristics of the underlying loans made by the originator of the residential mortgages; however, in some circumstances, GBM N.A. made such representations and warranties itself. Where GBM N.A. has given those or other representations and warranties (whether relating to underlying loans or otherwise), GBM N.A. may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of such representations and warranties. In certain instances where it is required to repurchase loans or related securities, GBM N.A. may be able to assert claims against third parties who provided representations or warranties to GBM N.A. when selling loans to it; although the ability to make recoveries against such parties and outcome of such claims would be uncertain. During the two and a half year period ended 30 June 2011, GBM N.A. has received approximately US\$48 million in repurchase demands in respect of loans made and related securities sold where obligations in respect of contractual representations or warranties were undertaken by GBM N.A. However, repurchase demands presented to GBM N.A. are subject to challenge and, to date, GBM N.A. has rebutted a significant percentage of these claims.

Citizens Financial Group (“CFG”) has not been an issuer or underwriter of non-agency RMBS. However, CFG is an originator and servicer of residential mortgages, and it routinely sells such mortgage loans in the secondary market and to GSEs. In the context of such sales, CFG makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of the representations and warranties concerning the underlying loans. During the two and a half year period ended 30 June 2011, CFG has received approximately US\$28.7 million in repurchase demands in respect of loans originated. However, repurchase demands presented to CFG are subject to challenge and, to date, CFG has rebutted a significant percentage of these claims.

Although there has been disruption in the ability of certain financial institutions operating in the United States to complete foreclosure proceedings in respect of US mortgage loans in a timely manner (or at all) over the last year (including as a result of interventions by certain states and local governments), to date, CFG has not been materially impacted by such disruptions and RBS Group has not ceased making foreclosures.

RBS Group cannot estimate what the future level of repurchase demands or ultimate exposure of GBM N.A. or CFG may be, and cannot give any assurance that the historical experience will continue in the future. Furthermore, RBS Group is unable to estimate the extent to which the matters described above will impact it and future developments may have an adverse impact on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

10. Litigation and investigations (continued)

LIBOR

RBS Group has received requests from various regulators, including the US Commodity Futures Trading Commission, the US Department of Justice and the European Commission, seeking documents and communications related to the process and procedures for setting LIBOR and other interest rates, together with related trading information. RBS Group is co-operating with these investigations and is keeping relevant regulators informed. It is not possible to estimate with any certainty what effect these investigations and any related developments may have on RBS Group.

Other investigations

The Federal Reserve and state banking supervisors have been reviewing RBS Group's US operations and RBSG and its subsidiaries have been required to make improvements with respect to various matters, including enterprise-wide governance, Bank Secrecy Act and anti-money laundering compliance, risk management and asset quality. RBS Group is in the process of implementing measures for matters identified to date. RBS Group may become subject to formal and informal supervisory actions and may be required by its US banking supervisors to take further actions and implement additional remedial measures with respect to these and additional matters. Any limitations or conditions placed on RBS Group's activities in the United States, as well as the terms of any supervisory action applicable to RBSG and its subsidiaries, could have a material adverse effect on RBS Group's consolidated net assets, operating results or cash flows in any particular period.

On 27 July 2011, RBS Group consented to the issuance of a Cease and Desist Order ("the Order") setting forth measures required to address deficiencies related to governance, risk management and compliance systems and controls identified by the Federal Reserve and state banking supervisors during examinations of the RBS plc and RBS N.V. branches in 2010. The Order requires RBS Group to strengthen its US corporate governance structure, to develop an enterprise-wide risk management programme, and to develop and enhance its programmes to ensure compliance with US law, particularly the US Bank Secrecy Act and anti-money laundering laws, rules and regulations. RBS Group has established a strategic and remedial programme of change to address the identified concerns and is committed to working closely with the US bank regulators to implement the remedial measures required by the Order.

RBS Group's operations include businesses outside the United States that are responsible for processing US dollar payments. RBS Group is conducting a review of its policies, procedures and practices in respect of such payments and has initiated discussions with UK and US authorities to discuss its historical compliance with applicable laws and regulations, including US economic sanctions regulations. Although RBS Group cannot currently determine when the review of its operations will be completed or what the outcome of its discussions with UK and US authorities will be, the investigation costs, remediation required or liability incurred could have a material adverse impact on RBS Group's business, results of operations or value of the securities.

10. Litigation and investigations (continued)

Other investigations (continued)

In April 2009, the FSA notified RBS Group that it was commencing a supervisory review of the acquisition of ABN AMRO in 2007 and the 2008 capital raisings and an investigation into conduct, systems and controls within the Global Banking & Markets division of RBS Group. RBSG and its subsidiaries co-operated fully with this review and investigation. On 2 December 2010, the FSA confirmed that it had completed its investigation and had concluded that no enforcement action, either against RBS Group or against individuals, was warranted. RBS Group is engaging constructively with the FSA with regard to the publication of a report by the FSA relating to the supervisory review, subject to any necessary commercial constraints.

In July 2010, the FSA notified RBS Group that it was commencing an investigation into the sale by Coutts & Co of the ALICO (American Life Insurance Company) Premier Access Bond Enhanced Variable Rate Fund to customers between 2001 and 2008 as well as its subsequent review of those sales. On 11 January 2011 the FSA amended the date range on which their investigation is focused and the investigation start date is now December 2003. RBSG and its subsidiaries are co-operating fully with this investigation.

In the United States, RBSG and certain subsidiaries have received requests for information from various governmental agencies, self-regulatory organisations, and state governmental agencies including in connection with sub-prime mortgages and securitisations, collateralised debt obligations and synthetic products related to sub-prime mortgages. In particular, during March 2008, RBS Group was advised by the SEC that it had commenced a non-public, formal investigation relating to RBS Group's United States sub-prime securities exposures and United States residential mortgage exposures. In December 2010, the SEC contacted RBS Group and indicated that it would also examine valuations of various RBS NV structured products, including Collateralised Debt Obligations ("CDOs"). RBSG and its subsidiaries are co-operating with these various requests for information and investigations.

11. Other developments

Proposed transfers of a substantial part of the business activities of The Royal Bank of Scotland N.V. (RBS N.V.) to The Royal Bank of Scotland plc (RBS plc)

On 19 April 2011, the Group announced its intention to transfer a substantial part of the business activities of RBS N.V. to RBS plc (the "Proposed Transfers"), subject, amongst other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures.

The Proposed Transfers will streamline the manner in which the GBM and GTS businesses of the Group interact with clients with simplified access to the GBM and GTS product suites.

It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending 31 December 2013. A large part of the Proposed Transfers (including the transfers of certain securities issued by RBS N.V.) is expected to have taken place by the end of 2012.

11. Other developments (continued)

Rating agencies

RBSG and RBS long-term and short-term ratings have remained unchanged in the quarter. On 9 March 2011, Standard & Poor's affirmed the A+ counterparty rating of RBS plc and upgraded its standalone credit profile to a- from bbb+. The agency highlighted that they expect RBS plc's standalone credit profile to move toward the A+ counterparty rating by 2012 if continued progress is made, following the strategic plan. The counterparty rating contains 2 notches of uplift to account for the systemic importance of the Group. On 29 June 2011, Fitch affirmed the AA- Issuer Default Rating of RBS plc and RBSG and also upgraded the individual rating to C from C/D. Fitch noted the significant progress RBSG made in implementing its strategic plan and improving its funding and liquidity profile. Further to this, on 20 July 2011 Fitch changed its individual rating methodology for financial institutions, moving from an 'A to E' scale to a viability rating on a more familiar scale (aaa, aa+ etc). It was announced that RBS plc had an assigned viability rating of bbb. On 24 May 2011 Moody's placed the long term rating of RBSG and several of its primary operating subsidiaries on review for possible downgrade following Moody's reassessment of extraordinary levels of systemic support in its ratings of UK financial institutions. This review is due to conclude following the publication of the final Independent Commission on Banking report in September.

12. Related party transactions

Related party transactions in the half year ended 30 June 2011 were similar in nature to those for the year ended 31 December 2010.

Full details of the Group's related party transactions for the year ended 31 December 2010 are included in the Group's 2010 Annual Report and Accounts.

13. Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2010 have been filed with the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

14. Auditors' review

The interim results for the half year ended 30 June 2011 have been reviewed by the Group's auditor, Deloitte LLP, and their review report is set out on pages 30 and 31.

15. Date of approval

The interim results for the half year ended 30 June 2011 were approved by the Board of directors on 25 August 2011.

16. Post balance sheet events

There have been no significant events between 30 June 2011 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

Independent review report to The Royal Bank of Scotland plc

We have been engaged by The Royal Bank of Scotland plc (“the Company”) to review the condensed financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 16 (together “the condensed financial statements”). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting,’ as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the half-yearly financial report for the six months ended 30 June 2011 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
25 August 2011

Risk factors

The principal risks and uncertainties facing the Group are unchanged from those disclosed on pages 238 to 254 of the 2010 Annual Report & Accounts (the “2010 R&A”), however the operational, legal and regulatory landscape in which the Group operates has continued to evolve since the 2010 R&A was approved. In particular, set out in further detail below in the Summary of our Principal Risks and Uncertainties, the Group has identified two additional risks which were not included in the 2010 R&A, namely those arising from the Independent Commission on Banking review and the transfer of a substantial part of the business activities of RBS N.V. to RBS plc.

Summary of our Principal Risks and Uncertainties

RBS plc is a principal operating subsidiary of RBSG and accounts for a substantial proportion of the consolidated assets, liabilities and operating profits of RBSG. Accordingly, risk factors below which relate to RBSG and the RBS Group will also be of relevance to the Bank and the Group.

Set out below is a summary of certain risks which could adversely affect the Group. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. A fuller description of these and other risk factors is included in the 2010 R&A.

- RBSG or any of its UK bank subsidiaries may face the risk of full nationalisation or other resolution procedures and various actions could be taken by or on behalf of the UK Government, including actions in relation to any securities issued, new or existing contractual arrangements and transfers of part or all of RBS's businesses.
- The RBS Group's ability to implement its strategic plan depends on the success of its efforts to refocus on its core strengths and its balance sheet reduction programme. As part of the RBS Group's strategic plan and implementation of the State Aid restructuring plan agreed with the EC and HM Treasury, the RBS Group is undertaking an extensive restructuring which may adversely affect the RBS Group's business, results of operations and financial condition and give rise to increased operational risk and may impair the RBS Group's ability to raise new Tier 1 capital due to restrictions on its ability to make discretionary dividend or coupon payments on certain securities.
- The RBS Group's businesses, earnings and financial condition have been and will continue to be affected by geopolitical conditions, the global economy, the instability in the global financial markets and increased competition. These have resulted in significant changes in market conditions including interest rates, foreign exchange rates, credit spreads, and other market factors and consequent changes in asset valuations.
- The RBS Group requires access to sources of liquidity, which have been constrained in recent years, and a failure to access liquidity due to market conditions or otherwise could adversely affect the RBS Group's financial condition. In addition, the RBS Group's borrowing costs and its access to the debt capital markets and other sources of liquidity depend significantly on its and the UK Government's credit ratings.
- The actual or perceived failure or worsening credit of the RBS Group's counterparties or borrowers and depressed asset valuations resulting from poor market conditions have adversely affected and could continue to adversely affect the RBS Group.

Risk factors (continued)

- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.
- The RBS Group's business performance, financial condition and capital and liquidity ratios could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements, including those arising out of Basel III implementation (globally or by UK authorities), or if the RBS Group is unable to issue Contingent B Shares to HM Treasury under certain circumstances.
- The RBS Group could fail to attract or retain senior management, which may include members of the Board, or other key employees, and it may suffer if it does not maintain good employee relations.
- Any significant developments in regulatory or tax legislation could have an effect on how the RBS Group conducts its business and on its results of operations and financial condition, and the recoverability of certain deferred tax assets recognised by the RBS Group is subject to uncertainty.
- The RBS Group is subject to substantial regulation and oversight, and any significant regulatory or legal developments could have an adverse effect on how the RBS Group conducts its business and on its results of operations and financial condition. In addition, the RBS Group is and may be subject to litigation and regulatory investigations that may impact its business, results of operations and financial condition.
- Operational and reputational risks are inherent in the RBS Group's operations.
- The RBS Group may be required to make contributions to its pension schemes and government compensation schemes, either of which may have an adverse impact on the RBS Group's results of operations, cash flow and financial condition.

As a result of the UK Government's majority shareholding in the RBS Group it can, and in the future may decide to, exercise a significant degree of influence over the RBS Group including suspending dividends and certain coupon payments, modifying or cancelling contracts or limiting the RBS Group's operations. The offer or sale by the UK Government of all or a portion of its shareholding in the company could affect the market price of the equity shares and other securities and acquisitions of ordinary shares by the UK Government (including through conversions of other securities or further purchases of shares) may result in the delisting of the RBS Group from the Official List.

The RBS Group's participation in the APS is costly and complex and may not produce the benefits expected and the occurrence of associated risks may have a material adverse impact on the RBS Group's business, capital or tax position, financial condition and results of operations. Any changes to the regulatory treatment of the APS may negatively impact the RBS Group's capital position and any withdrawal from, or termination of, the APS will be costly.

Risk factors (continued)

In addition, the risk faced by the RBS Group as a result of the actual or perceived failure or worsening credit of the Group's counterparties has been exacerbated by an increase in the perceived risk of sovereign default relating to certain EU member states. This has also had a negative impact on capital and credit markets. In particular, the RBS Group has significant exposure to customers and counterparties within the European Union (including the United Kingdom and Ireland), which includes sovereign debt exposures that have been, and may in the future be, affected by restructuring of their terms, principal, interest and maturity. These exposures have resulted in the RBS Group making significant provisions and recognising significant write-downs in prior periods, which may also occur in future periods.

The RBS Group is also subject to the following additional risk factors which were not included in the 2010 R&A:

The Independent Commission on Banking is reviewing competition in the UK banking industry and possible structural reforms. The outcomes of this review could have a material adverse effect on the interests of the RBS Group.

The UK Government has appointed an Independent Commission on Banking (the "ICB") to review possible structural measures to reform the banking system in order to promote, amongst other things, stability and competition. The ICB has confirmed it will publish its final report on 12 September 2011. The interim report published on 11 April 2011 (the "Interim Report") set out the ICB's provisional views on possible reforms to improve stability and competition in UK banking and sought responses to those views. Reform options for stability include additional capital and the ring-fencing of retail banking operations (on a basis yet to be defined). Reform options for competition include structural measures to improve competition, improved means of switching and transparency and a primary duty for the Financial Conduct Authority to promote effective competition. The Interim Report also supported the introduction of rules as to contingent capital, bail-in debt and depositor preferences. The Treasury Select Committee (the "TSC") has also recently conducted an examination into competition and choice in the retail banking sector and issued a report on 2 April 2011. According to the UK Government's response to the TSC's report, published on 12 July 2011, the majority of the issues raised by the TSC will be addressed in the ICB's final report. The RBS Group will continue to participate in the debate and to consult with the ICB during the coming weeks and with the UK Government thereafter. However, there can be no assurance that the final report will not recommend that additional obligations be imposed upon the RBS Group. The implementation of the recommendations set out in the Interim Report and any further obligations to be imposed upon the RBS Group could negatively affect the RBS Group's structure, results of operations, financial condition and prospects.

The occurrence of a delay in the implementation of (or any failure to implement) the approved proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc may have an adverse effect on the RBS Group

As part of the restructuring of its businesses, operations and assets, on 19 April 2011, the boards of RBSG, RBS plc, RBS Holdings N.V. and RBS N.V. approved the proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc (the "Proposed Transfers"), subject, among other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures. It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending on 31 December 2013. A large part of the Proposed Transfers is expected to have taken place by the end of 2012.

Risk factors (continued)

The process for implementing the Proposed Transfers is complex and any failure to satisfy any conditions or complete any preliminary steps to each Proposed Transfer may cause a delay in its completion (or result in its non-completion). If any of the Proposed Transfers are delayed (or are not completed) for any reason, such as a failure to secure required regulatory approvals, it is possible that the relevant regulatory authorities could impose sanctions which could adversely impact the minimum regulatory requirements for capital and liquidity of RBS N.V. and RBS plc. In addition, the FSA may impose additional requirements in relation to RBS plc to the extent that such a delay in implementation (or non-completion) of any of the Proposed Transfers has consequential financial implications for RBS plc (for example increased intra-group large exposures). A delay in implementation of (or any failure to implement) any of the Proposed Transfers may therefore adversely impact RBS N.V.'s and RBS plc's capital and liquidity resources and requirements, with consequential adverse impacts on their funding resources and requirements.

The occurrence of a delay in the implementation of (or any failure to implement) any of the Proposed Transfers may therefore have a material adverse effect on the RBS Group's business, results of operations, financial condition, and could result in a loss of value in any securities issued by the company.

Statement of directors' responsibilities

We, the directors listed below, confirm that to the best of our knowledge:

- the condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Philip Hampton
Chairman

Stephen Hester
Group Chief Executive

Bruce Van Saun
Group Finance Director

25 August 2011

Board of directors

Chairman
Philip Hampton

Executive directors
Stephen Hester
Bruce Van Saun

Non-executive directors
Sandy Crombie
Alison Davis
Penny Hughes
Joe MacHale
John McFarlane
Brendan Nelson
Sheila Noakes
Arthur 'Art' Ryan
Philip Scott

Additional Information

Contact

Richard O'Connor

Head of Investor Relations

+44 (0) 20 7672 1758
