ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 01, 2014

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 1, 2014

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:

The Royal Bank of Scotland Group plc
Interim Results 2014

Contents

Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: the Group's restructuring and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; and the Group's exposure to political risks, including the referendum on Scottish independence, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global and UK economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the simplification of the Group's structure, rationalisation of and investment in its IT systems, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the UK Financial Services (Banking Reform Act) 2013 and the EU Recovery and Resolution Directive; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the reliability and resilience of its IT system, the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Highlights

The Royal Bank of Scotland Group ("RBS") reports a profit before tax of £2,652 million for H1 2014, up from £1,374 million in H1 2013, driven by more favourable credit conditions and good results from RBS Capital Resolution, with a consequential beneficial impact on capital ratios.

Operating profit(1) for the period was £2,601 million, up from £708 million in H1 2013.

"The results show the steady progress we are making as we take the steps to be a much simpler, smaller and fairer bank. These results show that underneath all the noise and huge restructuring of recent years, RBS is a fundamentally stronger bank that can deliver good results for customers and shareholders."

"There is progress on all of our key priorities - capital is stronger, costs are lower and customer activity is gradually improving - although we have only just started with our programme to make it easier for customers to do more business with us."

"But let me sound a note of caution. We are actively managing down a slate of significant legacy issues. This includes significant conduct and litigation issues that will likely hit our profits going forward. I am pleased we have had two good quarters, but no one should get ahead of themselves here - there are bumps in the road ahead of us."

"These results are pleasing but no one at this bank is complacent about the challenges ahead."

Ross McEwan, Chief Executive

Note:
(1) Operating profit before tax, own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest ('operating profit'). Statutory operating profit before tax was £2,652 million for the half year ended 30 June 2014.

Highlights

Key financial data

	Half year ended		Quarter ended		
	30 June 2014 £m	30 June 2013* £m	30 June 2014 £m	31 March 2014* £m	30 June 2013* £m
Total income (1)	9,978	10,608	4,925	5,053	5,447
Operating expenses (2)	(7,108)	(7,750)	(3,700)	(3,408)	(4,156)

Operating profit before impairment losses (3)	2,870	2,858	1,225	1,645	1,291
Impairment (losses)/recoveries	(269)	(2,150)	93	(362)	(1,117)
Operating profit (3)	2,601	708	1,318	1,283	174
Own credit adjustments	(51)	376	(190)	139	127
Gain on redemption of own debt	20	191	-	20	242
Write-down of goodwill	(130)	-	(130)	-	-
Strategic disposals	191	-	-	191	6
RFS Holdings minority interest	21	99	12	9	(1)
Profit before tax	2,652	1,374	1,010	1,642	548
Profit attributable to ordinary and B shareholders	1,425	535	230	1,195	142

*Restated - refer to page 10.

Capital and balance sheet	30 June 2014	31 March 2014	31 December 2013
Funded balance sheet (4)	£736bn	£746bn	£740bn
Total assets	£1,011bn	£1,024bn	£1,028bn
Loan:deposit ratio (5)	96%	97%	94%
Common Equity Tier 1 ratio	10.1%	9.4%	8.6%
Leverage ratio (6)	3.7%	3.6%	3.4%
Tangible net asset value per ordinary and B share (7)	376p	376p	363p
Liquidity portfolio	£138bn	£131bn	£146bn
Liquidity coverage ratio (LCR) (8)	104%	103%	102%
Net stable funding ratio (NSFR) (9)	111%	110%	118%

Notes:

(1) Excluding own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest.

(2) Excluding RFS Holdings minority interest and write-down of goodwill.

(3) Operating profit before tax, own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals, and RFS Holdings minority interest.

(4) Funded balance sheet represents total assets less derivatives.

(5) Net of provisions, including disposal groups and excluding repurchase agreements.

(6) Leverage ratio represents CRR end-point Tier 1 capital as a percentage of the exposure based on the Basel Committee on Banking Supervision (BCBS) January 2014 proposal.

(7) Tangible net asset value per ordinary and B share represents total tangible equity divided by the number of ordinary shares in issue and the effect of convertible B shares.

(8) In January 2013, the BCBS published its final guidance for calculating LCR which is currently expected to come into effect from January 2015 on a phased basis. Pending the finalisation of the LCR rules within the EU, RBS monitors the LCR based on its own interpretations of current guidance available for EU LCR reporting. Therefore, the reported LCR will change over time with regulatory developments. Due to differences in interpretation of the rules RBS's ratio may not

be comparable with those of other financial institutions.

(9) The NSFR for all periods has been calculated using RBS's current interpretations of the existing rules relating to various BCBS guidance to date. Ratios for 31 March 2014 and 31 December 2013 have been revised accordingly. BCBS is expected to issue revised guidance on the NSFR towards the end of 2014 or early 2015.

Highlights

Key points

H1 2014 performance

Operating performance in the first half of 2014 was good, with all customer-facing businesses reporting improved operating profits compared with H1 2013. Operating profit(1) of £2,601 million included £514 million of restructuring costs (compared with £271 million in H1 2013) and £250 million of litigation and conduct costs, with £150 million added to provisions for Payment Protection Insurance and £100 million to interest rate swap redress provisions.

Operating profit(1), excluding restructuring and litigation and conduct costs ('adjusted operating profit'), improved to £3,365 million, compared with £1,599 million in H1 2013.

Total income declined 6% to £9,978 million. Growth of 3% in Personal & Business Banking (PBB) and 2% in Commercial & Private Banking (CPB) was more than offset by lower income, down 10%, in Corporate & Institutional Banking (CIB), reflecting its smaller balance sheet and reduced risk profile. Net interest margin improved to 2.17%, up 20 basis points compared with H1 2013, with continuing benefits from deposit repricing in PBB and CPB outweighing modest erosion of asset margins.

Total expenses were 8% lower at £7,108 million, including £514 million of restructuring costs and £250 million of litigation and conduct costs. Operating expenses, excluding restructuring and litigation and conduct costs ('adjusted operating expenses'), were down 8% to £6,344 million. Overall headcount has fallen by 8,000 over the past 12 months.

Impairment losses declined by £1,881 million to £269 million. All core businesses showed significant reductions in impairment losses as UK and Irish credit conditions continued to improve. In RBS Capital Resolution (RCR) there was a net write-back of provisions, reflecting disposals at favourable prices. At 30 June 2014, risk elements in lending (REIL) represented 8.3% of gross loans to customers, compared with 9.4% at 31 December 2013.

Profit before tax was £2,652 million compared with £1,374 million in the first half of 2013, including a gain of £191 million from the sale of the remaining interest in Direct Line Insurance Group in Q1 2014 and a write-down of goodwill of £130 million in Q2 2014. Own credit adjustment was a charge of £51 million compared with a credit of £376 million in H1 2013 which also included a gain of £191 million on redemption of own debt compared with £20 million in H1 2014.

The tax charge was £733 million, representing 27.6% of profit before tax, and included a £76 million write-off of deferred tax assets.

The Common Equity Tier 1 (CET1) capital ratio strengthened to 10.1%(2) from 8.6% at the end of 2013, principally driven by reductions in risk-weighted assets in CIB and RCR and the retained profit for the period. RBS remains on track to achieve its medium-term capital targets.

After charging the initial £320 million Dividend Access Share retirement dividend, profit attributable to ordinary and B shareholders was £1,425 million. Tangible net asset value per ordinary and B share was 376p at 30 June 2014 compared with 363p at the end of 2013.

Highlights

Key points (continued)

Q2 2014 performance

Operating profit(1) in Q2 2014 was £1,318 million, compared with £174 million in Q2 2013 and £1,283 million in Q1 2014. Restructuring costs totalled £385 million and litigation and conduct costs £250 million. Adjusted operating profit rose to £1,953 million, compared with £893 million in Q2 2013 and £1,412 million in Q1 2014.

Total income was 10% lower than in Q2 2013 at £4,925 million, with a 4% improvement in UK PBB more than offset by the 13% reduction in CIB, reflecting its smaller balance sheet and lower risk levels. Within CIB, Rates, Currencies and Credit income was £765 million, down 10% from Q2 2013 and 25% from Q1 2014. Citizens Financial Group benefited from a net gain of $283 million on the sale of its Illinois branch network.

Adjusted operating expenses were £3,065 million, down 11% from Q2 2013 and 7% from Q1 2014.

Impairments amounted to a net release of £93 million compared with losses of £1,117 million in Q2 2013 and £362 million in Q1 2014, benefiting from improvements in bad debt flows and latent provision releases totalling £258 million, primarily reflecting improving credit conditions.

Profit before tax totalled £1,010 million, after a write-down of goodwill of £130 million and a charge of £190 million for own credit. Profit attributable to ordinary and B shareholders was £230 million, after charging the initial £320 million Dividend Access Share retirement dividend.

Balance sheet

Funded assets fell to £736 billion, down £107 billion from June 2013, principally driven by the reduction in CIB's balance sheet and the run-off of RCR and Non-Core assets.

In UK PBB, gross new mortgage lending totalled £9.8 billion in H1 2014, a market share of 9.9%. Repayments remain high, with the low interest rate environment enabling higher levels of principal repayment.

In CPB, Commercial Banking, loans and advances in the growable book increased to £64.9 billion, up £2 billion from the prior year, but this was offset by a £2.8 billion planned decline in the non-growable book, which comprises real estate finance, businesses in restructuring and excess single-name concentrations.

Overall SME applications were 11% higher in H1 2014 than in the prior year and gross new lending was up 31% at £5.0 billion, with run-off remaining at a similar level to previous years.

Total net lending flows reported within the scope of the Funding for Lending Scheme were minus £1.5 billion in Q2 2014 with the majority of the decline in large corporates.

Risk-weighted assets (RWAs) fell to £392 billion at the end of June 2014, down £22 billion from the end of March 2014.

The CET1 ratio was 10.1%(2) at the end of June 2014, up from 8.6% at the end of 2013 and 9.4% at the end of March 2014 reflecting the attributable profit for the period and lower RWAs.

The bank's liquid asset buffer was £138 billion at the end of June 2014, up slightly from the first quarter but down from £146 billion at the end of 2013, leaving ample headroom to accommodate lending growth in H2 2014.

Key points (continued)

Segmental performance

Personal & Business Banking

Operating profit increased to £1,049 million from £307 million in the first half of 2013. Adjusted operating profit was £1,232 million in H1 2014, up from £622 million in H1 2013. The increase in adjusted operating profit was principally driven by a decline in impairment losses, predominantly in Ulster Bank. In addition, income grew by 5% in UK PBB with higher personal mortgage and deposit balances and stronger deposit margins.

Within PBB, UK Personal & Business Banking (UK PBB) operating profit increased to £994 million from £688 million in the first half of 2013. Adjusted operating profit rose 22% to £1,163 million, driven by strong income growth (up 5% compared with H1 2013) and a 42% decline in impairment losses.

Ulster Bank operating profit increased to £55 million from a loss of £381 million in the first half of 2013. Adjusted operating profit was £69 million compared with a loss of £335 million in H1 2013, principally as a result of the marked improvement in impairment losses.

Commercial & Private Banking

Operating profit increased to £780 million from £501 million in the first half of 2013. Adjusted operating profit of £895 million was 60% higher than in H1 2013, with net interest income benefiting from improving deposit margins and impairment losses substantially reduced.

Commercial Banking operating profit increased to £635 million from £413 million in the first half of 2013. Adjusted operating profit rose by 60% to £747 million, with the effect of repricing activity offsetting the impact of a decline in CIB (Markets) revenue share income. Lower impairments reflected fewer significant individual cases together with £60 million of latent provision releases.

Private Banking operating profit was £145 million compared with £88 million in the first half of 2013. Adjusted operating profit was 59% higher at £148 million, with net interest income benefiting from improved deposit margins and with cost saving initiatives contributing to an 8% reduction in adjusted expenses.

Corporate & Institutional Banking

Operating profit was £308 million, compared with a loss of £197 million in H1 2013. Adjusted operating profit was £549 million, up 85% from H1 2013. The improvement primarily reflected lower impairments (a net recovery of £39 million compared with losses of £223 million in the prior year).

While Rates income improved from a weak H1 2013 (up 40%), Currencies declined by 27% and Credit by 22%, reflecting lower market volatility and the reduction in CIB's RWA deployment.

RWAs fell from £147 billion to £128 billion driven by deleveraging, mitigation and risk-reduction.

Citizens Financial Group

Operating profit increased by £68 million ($158 million), or 19%, to £421 million ($704 million), reflecting the sale of the Illinois retail branches and small business and select middle market relationships in the Illinois market. Excluding the impact of the sale, $283 million net gain, and restructuring costs of $115 million (H1 2013 - $5 million), operating profit was down 3% driven by lower non-interest income and higher impairment losses partially offset by higher net interest income.

The Illinois branch transaction, completed on 20 June 2014, resulted in a net gain of $283 million and restructuring costs of $17 million.

Net interest income rose 14%, reflecting an expanded investment securities portfolio and 8% growth in average loans and advances, driven by the transfer of a $3.6 billion portfolio from Non-Core.

Key points (continued)

Segmental performance (continued)

RBS Capital Resolution

Over the course of H1 2014 RCR reduced funded assets by £8 billion, or 28%, to £21 billion. RWA equivalent(3) decreased by £21 billion, or 33%, to £44 billion.

Operating loss in H1 2014 was £48 million, with an operating profit of £66 million recorded in the second quarter of the year, driven by net impairment releases of £128 million.

The combined effect of the small operating loss and RWA equivalent reduction was net CET1 capital accretion of £2 billion.

Building the number one bank for trust and service in the UK

RBS is making steady progress towards building a simpler, smaller and fairer bank, and remains focused on delivering the commitments for personal and business customers it announced on 27 February 2014.

RBS now offers its best rates to existing credit card and home insurance customers, adding to earlier progress on savings, mortgages, loans and current accounts. There is now no deal across the entire Personal Banking product set that is not available to existing customers.

Customer letters and emails have been simplified, and simplification of the product set has continued, with the number of products on offer to Personal Banking customers reduced by 29% since 2012; this will reach over 50% by end 2014.
The branch refurbishment programme has continued with a further roll-out of WiFi.
RBS has reduced the time taken to open an account from five days to one for most personal customers.
By the end of the year, 84% of business banking frontline staff will be based in or above a branch. So that more time can be spent with customers, a further 40 experienced relationship managers have been allocated to serve commercial customers, with a central focus on lending.
Lending procedures are being improved. Lending decisions for commercial customers will by the end of the year be made within five days for all but the most complex applications.

Performance measures(4)

	Measure	2013	H1 2014	Medium-term	Long-term
Efficiency	Cost:income ratio	95%	71%	~55%	~50%
	Adjusted cost:income ratio(5)	72%	64%		
Returns	Return on tangible equity	Negative	7%	~9-11%	~12%+
Capital strength	Common Equity Tier 1 ratio(6)	8.6%	10.1%	≥12%	≥12%
	Leverage ratio(7)	3.4%	3.7%	3.5-4%	≥4%

Notes:
(1) Operating profit before tax, own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest (‘operating profit’). Statutory operating profit before tax was £2,652 million for the half year ended 30 June 2014.
(2) The CET1 ratio includes the benefit of the retained profit for the period.
(3) RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in segments. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier of 10.
(4) This table contains forecasts with significant contingencies. Please refer to ‘Forward-looking statements’ and ‘Risk factors’.
(5) Excluding restructuring costs and litigation and conduct costs.
(6) CRR end-point basis.
(7) BCBS basis (refer to page 20 for further details).

Highlights

Outlook
These results reflect increasing economic confidence and improvements in asset values seen in RBS’s core UK and Irish markets. Economic growth is expected to continue, although the pace may moderate.

NIM is expected to remain close to H1 levels, with the majority of deposit re-pricing benefits having now taken place.

Income from the fixed income product suite is expected to be lower in the second half of 2014, reflecting both normal seasonal trends and the continuation of the bank's reduced balance sheet risk appetite.

RBS remains on track to deliver its target of £1 billion cost reductions in 2014. Restructuring costs are expected to be higher in the second half of 2014 as the pace of activity to reduce costs in later years picks up. A restructuring charge of around £1.5 billion is expected for 2014, with overall restructuring costs still expected to be around £5 billion over 2014 to 2017 as the change agenda across the bank from economic, legal and regulatory perspectives remains very full.

Credit impairment charges in the second half of the year are expected to remain low, subject to macro economic conditions, resulting in a full year charge of around £1 billion, although at these low levels there will be volatility from quarter to quarter.

RCR funded assets are expected to be down from £29 billion at its inception to around £15 to £18 billion at the end of 2014. The overall cost (comprising impairments, disposal losses and running expenses) for RCR to achieve its goals was originally expected to be around £4.0 to £4.5 billion between 2014 and 2016. In light of the strong performance in the first half and the more favourable economic environment, these costs are now expected to total around £2.5 to £3.0 billion, of which c.£0.8 billion in 2014, although outcomes are subject to significant potential volatility.

The bank is making good progress towards achieving its target CET1 ratio of 11% by the end of 2015 and at least 12% by the end of 2016. However, ongoing conduct and regulatory investigations and litigation continue to present challenges and uncertainties and are expected to be a drag on capital generation over the coming quarters. The timing and amounts of any further settlements or redress remain uncertain and could be significant.

Contacts

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Announcement and slides
This announcement and the background slides are available on www.rbs.com/results

Financial supplement
A financial supplement containing income statement and balance sheet information for the last nine quarters is available on www.rbs.com/results

Presentation of information

The financial information on pages 12 to 68, prepared using the Group's accounting policies, shows the operating performance of RBS on a non-statutory basis which excludes own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest (RFS MI). Information is provided in this form to give a better understanding of the results of RBS's operations.

Divisional Reorganisation

Organisational change
On 27 February 2014, RBS announced a refreshed strategic direction with the ambition of building a bank which earns its customers' trust by serving them better than any other bank.

Business structure
RBS is now structured to deliver this ambition by organising itself around the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services.

The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. The previously reported operating divisions are now realigned into three franchises:

- Personal & Business Banking (PBB) serves individual and mass affluent customers together with small businesses (generally up to £2 million turnover), with more business bankers moving back into branches. PBB comprises two reportable segments, UK Personal & Business Banking, including Williams & Glyn, (UK PBB) and Ulster Bank.

- Commercial & Private Banking (CPB) serves commercial and mid-corporate customers and high net worth individuals, deepening relationships with commercial clients, operating overseas through its market-leading trade and foreign exchange services, while connecting our private banking brands more effectively to successful business owners and entrepreneurs. CPB comprises two reportable segments, Commercial Banking and Private Banking.

- Corporate & Institutional Banking (CIB) serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients. CIB is a single reportable segment.

In addition to the segments noted above, RBS will continue to manage and report Citizens Financial Group (CFG) and RBS Capital Resolution (RCR) separately until disposal or wind-down. Residual unallocated costs will continue to be reported within Central items.

In the new reporting structure, US Retail & Commercial (US R&C) is now referred to as CFG and Wealth is now referred to as Private Banking.

Comparatives have been restated accordingly.

Presentation of information

Reporting changes
In order to present a more complete picture of funding, operational and business costs of the franchises and operating segments, the following reporting changes have been implemented:

To improve the transparency of the operating performance of the reportable segments, a number of previously reported reconciling items (Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, restructuring costs, amortisation of purchased intangible assets and bank levy) have now been allocated to the reportable segments. Only the following will now be reported as reconciling items:

- Own credit adjustments
- Gain on redemption of own debt
- Write-down of goodwill
- Strategic disposals
- RFS Holdings minority interest

Revised allocation of costs
As part of its internal reorganisation, RBS has centralised all services and functions. The costs relating to Services and Functions previously reported as direct expenses in the divisions are now reallocated to businesses using appropriate drivers and reported as indirect expenses in the segmental income statements.

Treasury allocations
The basis of allocation of Treasury costs has been amended to align the recovery of funding and hedging costs across RBS and for the transfer of certain assets and their associated costs out of Treasury.

Revised segmental return on equity
For the purposes of computing segmental return on equity, notional equity is calculated as a percentage of the monthly average of segmental RWAs. Previously, notional equity was allocated at 10% of RWAs after capital deductions (RWAe). This has been revised to 12% of RWAs across all businesses.

Comparatives have been restated accordingly.

For further information on the restatements refer to the Q2 2014 Restatement Document dated 21 July 2014, available on www.investors.rbs.com/restatement

Presentation of information

Statutory results
The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes presented on pages 69 to 131 inclusive are on a statutory basis. Reconciliations between the non-statutory basis and statutory basis are included in Appendix 2.

Non-Core
Non-Core was dissolved with effect from 31 December 2013.

RBS Capital Resolution
RBS Capital Resolution (RCR) was established with effect from 1 January 2014 by the transfer of capital intensive and higher risk assets from existing divisions. No business lines moved to RCR and prior period segmental reporting has not been restated. The results of RCR were reported separately for the first time in Q1 2014.

Summary consolidated income statement
for the period ended 30 June 2014

	Half year ended		Quarter ended		
	30 June 2014 £m	30 June 2013* £m	30 June 2014 £m	31 March 2014* £m	30 June 2013* £m
Net interest income	5,496	5,442	2,798	2,698	2,770
Non-interest income	4,482	5,166	2,127	2,355	2,677
Total income (1)	9,978	10,608	4,925	5,053	5,447
Operating expenses (2)	(7,108)	(7,750)	(3,700)	(3,408)	(4,156)
Operating profit before impairment losses (3)	2,870	2,858	1,225	1,645	1,291
Impairment (losses)/recoveries	(269)	(2,150)	93	(362)	(1,117)
Operating profit (3)	2,601	708	1,318	1,283	174
Own credit adjustments	(51)	376	(190)	139	127
Gain on redemption of own debt	20	191	-	20	242
Write-down of goodwill	(130)	-	(130)	-	-
Strategic disposals	191	-	-	191	6
RFS Holdings minority interest	21	99	12	9	(1)
Operating profit before tax	2,652	1,374	1,010	1,642	548
Tax charge	(733)	(678)	(371)	(362)	(328)
Profit from continuing operations	1,919	696	639	1,280	220
Profit from discontinued operations, net of tax	35	138	26	9	9
Profit for the period	1,954	834	665	1,289	229
Non-controlling interests	(42)	(117)	(23)	(19)	14
Other owners' dividends	(167)	(182)	(92)	(75)	(101)
Dividend Access Share dividend	(320)	-	(320)	-	-
Profit attributable to ordinary and B shareholders	1,425	535	230	1,195	142

*Restated - see page 10.

Notes:
(1) Excluding own credit adjustments, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest.
(2) Excluding RFS Holdings minority interest and write-down of goodwill.
(3) Operating profit before tax, own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals, and RFS Holdings minority interest.

Analysis of results is set out on pages 14 to 23.

Summary consolidated balance sheet

at 30 June 2014

	30 June 2014 £m	31 March 2014 £m	31 December 2013 £m
Cash and balances at central banks	68,670	69,647	82,659
Net loans and advances to banks (1,2)	28,904	28,302	27,555
Net loans and advances to customers (1,2)	385,554	390,780	390,825
Reverse repurchase agreements and stock borrowing	81,705	78,213	76,413
Debt securities and equity shares	120,628	130,498	122,410
Settlement balances	19,682	16,900	5,591
Intangible assets	12,173	12,428	12,368
Other assets (3)	18,886	19,708	22,018
Funded assets	736,202	746,476	739,839
Derivatives	274,906	277,294	288,039
Total assets	1,011,108	1,023,770	1,027,878
Bank deposits (2,4)	39,179	35,371	35,329
Customer deposits (2,4)	401,226	401,276	414,396
Repurchase agreements and stock lending	83,262	88,776	85,134
Debt securities in issue	59,087	61,755	67,819
Settlement balances	15,128	17,175	5,313
Short positions	39,019	37,850	28,022
Subordinated liabilities	24,809	24,139	24,012
Other liabilities (3)	18,348	21,986	23,112
Liabilities excluding derivatives	680,058	688,328	683,137
Derivatives	270,087	274,506	285,526
Total liabilities	950,145	962,834	968,663
Non-controlling interests	618	612	473
Owners' equity	60,345	60,324	58,742
Total liabilities and equity	1,011,108	1,023,770	1,027,878
Memo:			
Tangible equity (5)	42,880	42,604	41,082
Tangible net asset value per ordinary and B share	376p	376p	363p

Notes:

(1) Excludes reverse repurchase agreements and stock borrowing.

(2) Excludes disposal groups.

(3) Includes disposal groups.

(4) Excludes repurchase agreements and stock lending.

(5) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

Key points

30 June 2014 compared with 31 March 2014

· Funded assets decreased by £10 billion to £736 billion principally attributable to lower debt securities balances within CIB coupled with RCR disposals and run-off.

· Net loans and advances to customers decreased by £5 billion to £386 billion primarily driven by RCR run-off and disposals and the impact of sterling strengthening on US dollar denominated loans, partly offset by strong mortgage balance growth in UK PBB.

· Customer deposits remained stable at £401 billion as lower deposits in Private Banking, driven by repricing, and lower balances in CIB were offset by increased deposits in UK PBB.

Analysis of results

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
Net interest income	£m	£m	£m	£m	£m
Net interest income (1)	5,468	5,435	2,784	2,684	2,748
Average interest-earning assets (1)	507,268	556,294	502,347	512,244	552,072
Net interest margin					
- RBS	2.17%	1.97%	2.22%	2.12%	2.00%
- Personal & Business Banking	3.39%	3.15%	3.40%	3.37%	3.20%
- Commercial & Private Banking	2.90%	2.69%	2.91%	2.89%	2.77%
- Citizens Financial Group	2.94%	2.90%	2.93%	2.94%	2.89%

Note:

(1) For further analysis and details refer to pages 73 and 74.

Key points

H1 2014 compared with H1 2013

· Net interest income improved by 1% to £5,468 million. The increase was consistent across all businesses, with notable improvements in PBB (£97 million, 4%) and CPB (£90 million, 7%).

· Net interest margin (NIM) increased by 20 basis points to 2.17%, driven by deposit repricing initiatives across a number of businesses. The benefit of reduced funding costs outweighed lower yields on assets.

Q2 2014 compared with Q1 2014

· Net interest income improved by 4% to £2,784 million principally driven by improved margins and an additional day in the quarter.

· NIM increased by 10 basis points to 2.22%, driven by lower funding costs, reflecting repricing initiatives across a number of businesses, RCR run-off and a small number of one-off recoveries.

Q2 2014 compared with Q2 2013

· Net interest income improved by 1% to £2,784 million reflected by improved margins.

· NIM increased by 22 basis points to 2.22% benefiting from repricing initiatives across a number of businesses.

Analysis of results

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	2,118	2,248	1,063	1,055	1,142
Income from trading activities	1,482	1,890	626	856	874
Other operating income	882	1,028	438	444	661
Total non-interest income	4,482	5,166	2,127	2,355	2,677

Key points

H1 2014 compared with H1 2013

· Non-interest income declined by £684 million or 13%, principally reflecting a 22% reduction in income from trading activities, in line with CIB's smaller balance sheet and reduced risk profile.

· A net gain of £170 million ($283 million) was recorded on CFG's sale of its Illinois branch network.

· Gains on the disposal of available-for-sale securities in Treasury were down £245 million to £215 million for H1 2014 (Q2 2014 - £15 million; Q1 2014 - £200 million).

Q2 2014 compared with Q1 2014

· Non-interest income declined by £228 million or 10%, principally reflecting the seasonality of CIB income and lower disposal income in RCR. This was partly offset by the net gain on sale from CFG's branch sale.

Q2 2014 compared with Q2 2013

· Non-interest income declined by £550 million or 21%, which included the weaker performance of Currencies within CIB. This was largely in line with overall market trends and reflected weak client demand and low volatility.

· These movements were partly offset by the stronger performance of Rates in CIB and the net gain on sale of the Illinois retail branches, coupled with higher current account-related fee income.

Analysis of results

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013**	30 June 2014	31 March 2014**	30 June 2013**
Operating expenses	£m	£m	£m	£m	£m
Staff expenses	3,340	3,585	1,693	1,647	1,764
Premises and equipment	1,079	1,079	485	594	526
Other	1,292	1,479	605	687	801
Restructuring costs*	514	271	385	129	149
Litigation and conduct costs	250	620	250	-	570
Administrative expenses	6,475	7,034	3,418	3,057	3,810
Depreciation and amortisation	551	716	282	269	346
Write-down of other intangible assets	82	-	-	82	-
Operating expenses	7,108	7,750	3,700	3,408	4,156
Memo item					
Adjusted operating expenses (1)	6,344	6,859	3,065	3,279	3,437
*Restructuring costs impact:					
- staff expenses	196	142	153	43	76
- premises and equipment	196	25	137	59	22
- other	122	104	95	27	51
Restructuring costs	514	271	385	129	149
Staff costs as a % of total income	33%	34%	34%	33%	32%
Cost:income ratio	71%	73%	75%	67%	76%
Cost:income ratio - adjusted (1)	64%	65%	62%	65%	63%

**Restated - see page 10.

Note:
(1) Excluding restructuring costs and litigation and conduct costs.

Key points

H1 2014 compared with H1 2013

- Operating expenses were £642 million, 8%, lower. Adjusted operating expenses decreased by £515 million or 8% to £6,344 million. Much of the decrease was achieved in CIB through headcount reductions and tight control of discretionary expenditure. Overall operating expense trends are starting to show the benefits of the reshaping of the bank's cost base.

- Litigation and conducts costs totalled £250 million compared with £620 million in H1 2013, with an additional provision of £150 million (H1 2013 - £160 million) for Payment Protection Insurance redress recorded in UK PBB and a further £100 million (H1 2013 - £150 million) relating to interest rate hedging product redress booked within Commercial Banking and CIB. H1 2013 included provisions for other regulatory and legal actions of

£385 million in CIB.

- Restructuring costs increased by £243 million to £514 million, including significant charges in relation to Williams & Glyn and to the restructuring of the property portfolio.

Analysis of results

Key points (continued)

Q2 2014 compared with Q1 2014

- Operating expenses were up £292 million, 9% reflecting higher restructuring and litigation and conduct costs. Adjusted operating expenses decreased by £214 million or 7%. This was principally driven by lower staff costs in CIB, operational cost saving initiatives in CPB and lower costs in PBB. This was only partly offset by higher staff costs in RCR.

Q2 2014 compared with Q2 2013

- Operating expenses were down £456 million, 11%, reflecting lower litigation and conduct costs. Adjusted operating expenses decreased by £372 million or 11%. The fall was consistent across all businesses, with notable declines in CIB (£114 million, 11%), CPB (£46 million, 7%). The decrease was helped by favourable foreign exchange movements.

Analysis of results

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
Impairment losses/(recoveries)	£m	£m	£m	£m	£m
Loans	271	2,161	(89)	360	1,125
Securities	(2)	(11)	(4)	2	(8)
Total impairment losses/(recoveries)	269	2,150	(93)	362	1,117
Loan impairment losses/(recoveries)					
- individually assessed	113	1,472	(42)	155	826
- collectively assessed	348	734	221	127	293
- latent	(180)	(36)	(258)	78	15
Customer loans	281	2,170	(79)	360	1,134
Bank loans	(10)	(9)	(10)	-	(9)
Loan impairment losses/(recoveries)	271	2,161	(89)	360	1,125
RBS excluding RCR/Non-Core	290	1,258	36	254	659
RCR	(19)	n/a	(125)	106	n/a

Non-Core	n/a	903	n/a	n/a	466
RBS	271	2,161	(89)	360	1,125
Customer loan impairment charge as a % of gross loans and advances (1)					
RBS excluding RCR/Non-Core	0.2%	0.6%	-	0.3%	0.7%
RCR	(0.1%)	n/a	(1.7%)	1.2%	n/a
Non-Core	n/a	3.9%	n/a	n/a	4.0%

	30 June 2014	31 March 2014	31 December 2013
Loan impairment provisions	£22.4bn	£24.2bn	£25.2bn
Risk elements in lending	£34.1bn	£37.4bn	£39.4bn
Provision coverage (2)	66%	65%	64%

Notes:
(1) Excludes reverse repurchase agreements and includes disposals groups.
(2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

H1 2014 compared with H1 2013

· Loan impairment losses declined sharply by £1,890 million or 87%, including £180 million of releases of latent provisions (H1 2013 - £36 million). Asset quality continued to improve in the UK and Ireland.

· Loan impairments in RCR amounted to a net recovery of £19 million.

· Provision coverage strengthened to 66% compared with 64% at the end of 2013. REIL were £5.3 billion lower and represented 8.3% of gross customer loans, compared with 9.4% at the end of 2013.

Q2 2014 compared with Q1 2014

· A net recovery of £89 million was recorded in Q2 2014, compared with losses of £360 million in Q1 2014.

· The improvement in loan impairment losses was driven by the release of latent provisions in CPB and CIB and by a strong credit performance in RCR (a net recovery of £125 million compared with losses of £106 million in Q1 2014).

· REIL fell by £3.3 billion. As a percentage of gross loans to customers, REIL declined to 8.3% from 9.0% at 31 March 2014.

Analysis of results

Key points (continued)

Q2 2014 compared with Q2 2013

- Loan impairment recoveries totalled £89 million compared with losses of £1,125 million in Q2 2013 which included £466 million in respect of Non-Core.

- The improvement in impairments reflected significantly lower losses in Ulster Bank reflecting stronger credit metrics and the benefits of the investment in programmes to support customers in financial difficulty, and continued strong recoveries across UK PBB and release of latent provisions and non-repeat of significant individual cases in CPB.

- In Q2 2014 loan impairment recoveries in RCR were £125 million.

Analysis of results

Capital and leverage ratios

	CRR end-point basis (1)		
	30 June 2014	31 March 2014	31 December 2013 (2)
Capital	£bn	£bn	£bn
CET1	39.7	39.1	36.8
Tier 1	39.7	39.1	36.8
Total	48.7	47.3	45.5
RWAs by risk			
Credit risk			
- non-counterparty	283.3	295.2	317.9
- counterparty	38.6	41.3	39.1
Market risk	33.4	41.0	30.3
Operational risk	36.8	36.8	41.8
	392.1	414.3	429.1
Risk asset ratios	%	%	%
CET1	10.1	9.4	8.6
Tier 1	10.1	9.4	8.6
Total	12.4	11.4	10.6

Leverage ratio (3)	30 June 2014	31 March 2014	31 December 2013
Tier 1 capital - £bn	39.7	39.1	36.8
Exposure - £bn	1,070.2	1,083.4	1,082.0
Leverage ratio - % (3)	3.7	3.6	3.4

Notes:
(1) Capital Requirements Regulation (CRR) as implemented by the Prudential Resolution Authority in the UK, with effect from 1 January 2014.
(2) Estimated.
(3) Leverage ratio is calculated using:
· CRR end-point Tier 1 capital; and
· Exposure measure based on guidance in the BCBS 270 proposal issued in January 2014, supplemented by the instructions in the March 2014 Basel III Quantitative Impact Study and the related FAQs.

See Appendix 1 for further details on capital and leverage.

Key points

30 June 2014 compared with 31 March 2014
· The CRR end-point CET 1 ratio improved to 10.1% from 9.4%, principally driven by retained earnings after charging the initial DAS dividend of £320 million, and continuing reduction in RWAs and expected loss.

· RWAs decreased by £22 billion principally reflecting the £12 billion fall in CIB driven by risk reductions and mitigation costs and £5 billion of run-off and disposals in RCR.

Key points (continued)

Capital and leverage ratios (continued)

30 June 2014 compared with 31 December 2013
· The CRR end-point CET 1 ratio improved to 10.1% from 8.6%, principally driven by retained earnings, continuing reduction in RWAs and regulatory capital deductions relating to deferred tax assets and expected loss.

· RWAs decreased by £37 billion principally attributable to the risk reductions and mitigation actions in CIB, and run-off and disposals in RCR.

· Leverage ratio improved by 30 basis points reflecting attributable profit, lower regulatory deductions as well as lower leverage exposure, particularly relating to derivatives in CIB.

For further details of RBS's capital and leverage ratios refer to Appendix 1.

Balance sheet	30 June 2014	31 March 2014	31 December 2013

Funded balance sheet (1)	£736bn	£746bn	£740bn
Total assets	£1,011bn	£1,024bn	£1,028bn
Net loans and advances to customers (2)	£387bn	£392bn	£393bn
Customer deposits (3)	£401bn	£404bn	£418bn
Loan:deposit ratio - RBS (4)	96%	97%	94%
Loan:deposit ratio - RBS excluding RCR/Non-Core (4)	93%	93%	89%
Equity attributable to ordinary and B shareholders	£55bn	£55bn	£53bn
Intangible assets	£12bn	£12bn	£12bn
Tangible net assets	£43bn	£43bn	£41bn
Number of ordinary and equivalent B shares in issue	11,400m	11,341m	11,303m
Tangible net asset value per ordinary and B share (5)	376p	376p	363p

Notes:
(1) Funded balance sheet represents total assets less derivatives.
(2) Excludes reverse repurchase agreements and stock borrowing, and includes disposal groups.
(3) Excludes repurchase agreements and stock lending, and includes disposal groups.
(4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios for RBS at 30 June 2014 was 96% (31 March 2014 - 97%; 31 December 2013 - 94%).
(5) Tangible net asset value per ordinary and B share represents total tangible equity divided by the number of ordinary shares in issue and the effect of convertible B shares.

Key points

30 June 2014 compared with 31 March 2014

· Funded assets decreased by £10 billion to £736 billion principally attributable to lower debt securities in CIB coupled with RCR run-off.

· Net loans and advances to customers decreased by £5 billion to £387 billion principally driven by RCR run-off and disposals, the impact of stronger sterling on US dollar denominated loans, partly offset by good mortgage balance growth in UK PBB.

· Customer deposits decreased by £3 billion driven by lower balances in CFG adversely impacted by foreign exchange movements, deposit repricing in Private Banking and lower balances in CIB. This was partly offset by increased deposit balances in UK PBB.

30 June 2014 compared with 31 December 2013

· Funded assets decreased by £4 billion to £736 billion principally driven by RCR run-off.

· Net loans and advances to customers decreased by £6 billion reflecting RCR run-off and the impact of currency movements.

· Customer deposits fell by £17 billion reflecting a managed run-down of surplus liquidity. The customer funding surplus decreased to £14 billion, while the loan:deposit ratio increased by 2 percentage points to 96%.

Analysis of results

Funding and liquidity metrics	30 June 2014	31March 2014	31 December 2013
Deposits (1)	£440bn	£440bn	£453bn
Deposits as a percentage of funded balance sheet	60%	59%	61%
Short-term wholesale funding (2)	£34bn	£31bn	£32bn
Wholesale funding (2)	£102bn	£102bn	£108bn
Wholesale funding as a percentage of funded balance sheet	14%	14%	15%
Short-term wholesale funding as a percentage of funded balance sheet	5%	4%	4%
Short-term wholesale funding as a percentage of total wholesale funding	33%	30%	30%
Liquidity portfolio	£138bn	£131bn	£146bn
Liquidity portfolio as a percentage of funded balance sheet	19%	18%	20%
Liquidity portfolio as a percentage of short-term wholesale funding	406%	423%	456%

Notes:
(1) Customer and bank deposits excluding repurchase agreements and stock lending and includes disposal groups.
(2) Excludes derivative collateral.

Key points

30 June 2014 compared with 31 March 2014
- The bank remains highly liquid with short-term wholesale funding covered 4 times by its liquidity portfolio as at 30 June 2014 (4.2 times as at 31 March 2014).

- The liquidity portfolio increased by £7 billion to £138 billion, mainly driven by decreases in customer loan balances and higher Discount Window Facility assets.

30 June 2014 compared with 31 December 2013
- The liquidity portfolio decreased by £8 billion to £138 billion, mainly driven by a targeted reduction in volatile financial institution deposits in the first quarter of 2014, partly offset by decreases in customer loan balances and higher Discount Window Facility assets in the second quarter.

- Targeted reductions in long-term wholesale funding and customer deposits contributed to a 700 basis point decrease in the net stable funding ratio to 111%.

Segment performance

Key measures for each segment are shown in the tables below:

	Half year ended		Quarter ended		
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £m
Operating profit/(loss) (1) before impairment losses by segment					
UK Personal & Business Banking	1,142	944	544	598	394
Ulster Bank	112	122	56	56	53
Personal & Business Banking	1,254	1,066	600	654	447
Commercial Banking	666	695	305	361	384
Private Banking	145	95	71	74	49
Commercial & Private Banking	811	790	376	435	433
Corporate & Institutional Banking	269	26	(70)	339	(251)
Central items	79	550	73	6	349
Citizens Financial Group	525	404	308	217	199
RCR	(68)	n/a	(62)	(6)	n/a
Non-Core	n/a	22	n/a	n/a	114
RBS operating profit before impairment losses	2,870	2,858	1,225	1,645	1,291
Impairment losses/(recoveries) by segment					
UK Personal & Business Banking	148	256	60	88	126
Ulster Bank	57	503	10	47	263
Personal & Business Banking	205	759	70	135	389
Commercial Banking	31	282	(9)	40	155
Private Banking	-	7	1	(1)	2
Commercial & Private Banking	31	289	(8)	39	157
Corporate & Institutional Banking	(39)	223	(45)	6	144
Central items	(12)	(3)	(13)	1	(3)
Citizens Financial Group	104	51	31	73	32
RCR	(20)	n/a	(128)	108	n/a
Non-Core	n/a	831	n/a	n/a	398
RBS impairment losses/(recoveries)	269	2,150	(93)	362	1,117
Operating profit/(loss) (1) by segment					
UK Personal & Business Banking	994	688	484	510	268
Ulster Bank	55	(381)	46	9	(210)
Personal & Business Banking	1,049	307	530	519	58

Commercial Banking	635	413	314	321	229
Private Banking	145	88	70	75	47
Commercial & Private Banking	780	501	384	396	276
Corporate & Institutional Banking	308	(197)	(25)	333	(395)
Central items	91	553	86	5	352
Citizens Financial Group	421	353	277	144	167
RCR	(48)	n/a	66	(114)	n/a
Non-Core	n/a	(809)	n/a	n/a	(284)
RBS operating profit	2,601	708	1,318	1,283	174

Note:
(1) Operating profit/(loss) before own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest.

Segment performance

	Half year ended		Quarter ended		
	30 June 2014 %	30 June 2013 %	30 June 2014 %	31 March 2014 %	30 June 2013 %
Net interest margin by segment					
UK Personal & Business Banking	3.62	3.50	3.64	3.61	3.56
Ulster Bank	2.32	1.82	2.35	2.29	1.84
Personal & Business Banking	3.39	3.15	3.40	3.37	3.20
Commercial Banking	2.70	2.53	2.73	2.68	2.63
Private Banking	3.72	3.33	3.73	3.70	3.34
Commercial & Private Banking	2.90	2.69	2.91	2.89	2.77
Corporate & Institutional Banking	0.88	0.72	0.90	0.85	0.67
Citizens Financial Group	2.94	2.90	2.93	2.94	2.89
RCR	(0.01)	n/a	0.08	(0.08)	n/a
Non-Core	n/a	(0.06)	n/a	n/a	0.15
RBS net interest margin	2.17	1.97	2.22	2.12	2.00

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
Funded assets by segment			
UK Personal & Business Banking	133.6	132.8	132.2

Ulster Bank	26.6	26.0	28.0
Personal & Business Banking	160.2	158.8	160.2
Commercial Banking	88.6	89.6	87.9
Private Banking	20.8	21.1	21.0
Commercial & Private Banking	109.4	110.7	108.9
Corporate & Institutional Banking	278.7	286.6	268.6
Central items	90.3	89.5	101.9
Citizens Financial Group	75.7	75.7	71.3
RCR	20.9	24.3	n/a
Non-Core	n/a	n/a	28.0
	735.2	745.6	738.9
RFS Holdings minority interest	1.0	0.9	0.9
RBS funded assets	736.2	746.5	739.8

Segment performance

	FLB3			Basel 2.5
	30 June 2014 £bn	31 March 2014 £bn	1 January 2014 £bn	31 December 2013 £bn
Risk-weighted assets by segment				
UK Personal & Business Banking	47.0	48.5	49.7	51.2
Ulster Bank	27.7	28.7	28.2	30.7
Personal & Business Banking	74.7	77.2	77.9	81.9
Commercial Banking	63.0	63.5	61.5	65.8
Private Banking	11.8	12.0	12.0	12.0
Commercial & Private Banking	74.8	75.5	73.5	77.8
Corporate & Institutional Banking	127.8	140.2	147.1	120.4
Other	14.8	15.5	19.4	16.2
Citizens Financial Group	60.7	61.3	60.6	56.1
RCR	35.1	40.5	46.7	n/a
Non-Core	n/a	n/a	n/a	29.2
RBS before RFS Holdings minority interest	387.9	410.2	425.2	381.6
RFS Holdings minority interest	4.2	4.1	3.9	3.9
RBS risk-weighted assets	392.1	414.3	429.1	385.5

Employee numbers by segment (full time equivalents rounded to the nearest hundred)	30 June 2014	31 March 2014	31 December 2013
UK Personal & Business Banking	25,700	26,300	26,700
Ulster Bank	4,500	4,600	4,700
Personal & Business Banking	30,200	30,900	31,400
Commercial Banking	7,100	7,300	7,300
Private Banking	3,500	3,500	3,500
Commercial & Private Banking	10,600	10,800	10,800
Corporate & Institutional Banking	4,500	4,400	4,700
Centre	12,800	13,100	12,800
Citizens Financial Group	17,700	18,500	18,800
RCR	800	1,100	n/a
Non-Core	n/a	n/a	1,300
	76,600	78,800	79,800
Services	36,900	37,800	38,600
Integration and restructuring	100	100	200
RBS employee numbers	113,600	116,700	118,600

Personal & Business Banking

	Half year ended		Quarter ended		
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £m
Income statement					
Net interest income	2,599	2,502	1,321	1,278	1,270
Net fees and commissions	703	693	338	365	351
Other non-interest income	72	78	51	21	57
Non-interest income	775	771	389	386	408
Total income	3,374	3,273	1,710	1,664	1,678
Direct expenses					
- staff costs	(576)	(593)	(288)	(288)	(302)
- other costs	(260)	(227)	(113)	(147)	(108)
Indirect expenses	(1,101)	(1,072)	(518)	(583)	(549)
Restructuring costs					

- direct	2	(85)	2	-	(61)
- indirect	(35)	(45)	(43)	8	(26)
Litigation and conduct costs	(150)	(185)	(150)	-	(185)
Operating expenses	(2,120)	(2,207)	(1,110)	(1,010)	(1,231)
Profit before impairment losses	1,254	1,066	600	654	447
Impairment losses	(205)	(759)	(70)	(135)	(389)
Operating profit	1,049	307	530	519	58
Operating profit - adjusted (1)	1,232	622	721	511	330

Note:
(1) Excluding restructuring costs and litigation and conduct costs.

Key metrics

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
Performance ratios					
Return on equity (1)	17.0%	4.3%	17.4%	16.7%	1.7%
Return on equity - adjusted (1,2)	20.0%	8.8%	23.6%	16.4%	9.5%
Net interest margin	3.39%	3.15%	3.40%	3.37%	3.20%
Cost:income ratio	63%	67%	65%	61%	73%
Cost:income ratio - adjusted (2)	57%	58%	54%	61%	57%

Notes:
(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).
(2) Excluding restructuring costs and litigation and conduct costs.

Personal & Business Banking

	30 June 2014 £bn	31 March 2014 £bn	Change	31 December 2013 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)	154.9	155.0	-	159.2	(3%)
Loan impairment provisions	(6.1)	(6.3)	(3%)	(8.4)	(27%)
Net loans and advances to customers	148.8	148.7	-	150.8	(1%)
Funded assets	160.2	158.8	1%	160.2	-

Risk elements in lending	9.1	9.2	(1%)	13.2	(31%)
Provision coverage (1)	67%	68%	(100bp)	63%	400bp
Customer deposits	166.7	165.7	1%	166.6	-
Assets under management (excluding deposits)	5.3	5.5	(4%)	5.8	(9%)
Loan:deposit ratio (excluding repos)	89%	90%	(100bp)	91%	(200bp)
Total risk-weighted assets	74.7	77.2	(3%)	81.9	(9%)

Note:
(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

Key points
Personal & Business Banking (PBB) comprises the former UK Retail and business banking elements of former UK Corporate (UK Personal & Business Banking - UK PBB) and Ulster Bank reportable segments. PBB supports individuals in managing their personal and business banking, with a full range of financial services and advice. Through the RBS, NatWest, and Ulster Bank brands, PBB serves over 18 million personal and business customers in the UK and Ireland. Customers can choose how they manage their finances through access to our branches, online banking, fixed and mobile technology and one of the largest ATM networks in the UK and Ireland.

UK Personal & Business Banking

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
	£m	£m	£m	£m	£m
Income statement					
Net interest income	2,276	2,200	1,152	1,124	1,118
Net fees and commissions	637	624	304	333	316
Other non-interest income	49	5	43	6	4
Non-interest income	686	629	347	339	320
Total income	2,962	2,829	1,499	1,463	1,438
Direct expenses					
- staff costs	(451)	(469)	(226)	(225)	(235)
- other costs	(225)	(200)	(95)	(130)	(96)
Indirect expenses	(975)	(947)	(455)	(520)	(484)
Restructuring costs					
- direct	(6)	(70)	(6)	-	(47)
- indirect	(13)	(39)	(23)	10	(22)
Litigation and conduct costs	(150)	(160)	(150)	-	(160)
Operating expenses	(1,820)	(1,885)	(955)	(865)	(1,044)
Profit before impairment losses	1,142	944	544	598	394

Impairment losses	(148)	(256)	(60)	(88)	(126)
Operating profit	994	688	484	510	268
Operating profit - adjusted (1)	1,163	957	663	500	497

Note:
(1) Excluding restructuring costs and litigation and conduct costs.

UK Personal & Business Banking

	Half year ended		Quarter ended		
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £m
Analysis of income by product					
Personal advances	467	443	232	235	220
Personal deposits	302	227	160	142	124
Mortgages	1,287	1,277	649	638	649
Cards	374	419	176	198	210
Business banking	490	481	245	245	247
Other	42	(18)	37	5	(12)
Total income	2,962	2,829	1,499	1,463	1,438
Analysis of impairments by sector					
Personal advances	79	84	40	39	49
Mortgages	5	26	4	1	16
Business banking	30	87	1	29	37
Cards	34	59	15	19	24
Total impairment losses	148	256	60	88	126
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Personal advances	2.1%	2.0%	2.1%	2.0%	2.4%
Mortgages	-	0.1%	-	-	0.1%
Business banking	0.4%	1.1%	-	0.8%	1.0%
Cards	1.3%	2.1%	1.1%	1.4%	1.7%
Total	0.2%	0.4%	0.2%	0.3%	0.4%

Key metrics

	Half year ended	Quarter ended

	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
Performance ratios					
Return on equity (1)	25.7%	16.4%	25.3%	26.0%	12.8%
Return on equity - adjusted (1,2)	30.0%	22.8%	34.7%	25.5%	23.8%
Net interest margin	3.62%	3.50%	3.64%	3.61%	3.56%
Cost:income ratio	61%	67%	64%	59%	73%
Cost:income ratio - adjusted (2)	56%	57%	52%	60%	57%

Notes:
(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).
(2) Excluding restructuring costs and litigation and conduct costs.

UK Personal & Business Banking

	30 June 2014 £bn	31 March 2014 £bn	Change	31 December 2013 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- personal advances	7.5	7.9	(5%)	8.1	(7%)
- mortgages	101.8	100.4	1%	99.3	3%
- business	14.6	14.6	-	14.6	-
- cards	5.3	5.5	(4%)	5.8	(9%)
	129.2	128.4	1%	127.8	1%
Loan impairment provisions	(2.8)	(2.9)	(3%)	(3.0)	(7%)
Net loans and advances to customers	126.4	125.5	1%	124.8	1%
Funded assets	133.6	132.8	1%	132.2	1%
Risk elements in lending	4.2	4.5	(7%)	4.7	(11%)
Provision coverage (1)	66%	65%	100bp	63%	300bp
Customer deposits					
- personal current accounts	34.2	33.8	1%	32.5	5%
- personal savings	80.9	81.1	-	82.3	(2%)
- business/commercial	30.9	29.7	4%	30.1	3%
Total customer deposits	146.0	144.6	1%	144.9	1%
Assets under management (excluding deposits)	5.3	5.5	(4%)	5.8	(9%)

Loan:deposit ratio (excluding repos)	87%	87%	-	86%	100bp
Risk-weighted assets (2)					
- Credit risk (non-counterparty)	37.5	39.0	(4%)	41.4	(9%)
- Operational risk	9.5	9.5	-	9.8	(3%)
Total risk-weighted assets	47.0	48.5	(3%)	51.2	(8%)

Notes:
(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

UK Personal & Business Banking

Key points
The strategic goal of UK PBB is to become the number one personal and business bank for customer trust and advocacy in the UK. To support this, investment of over £1 billion is planned between 2014 and 2017. Through to the end of June 2014 these initiatives included:

· Further enhancements to the customer experience were introduced to UK PBB's mobile and digital services. The business currently has more than 5.5 million online users, and 2.8 million customers now using its mobile application, transacting more than £10 billion in digital payments on an annual basis.

· UK PBB continued its branch refurbishment programme and completed the roll-out of WiFi across the branch network and expanded its ATM network to include increased presence at shopping centres and train stations across the UK.

· UK PBB continued to focus on streamlining processes offering pre-approved loans through online banking and allowing mortgage customers to service their accounts online. We are moving further towards our goal of responding intelligently to each individual customer via their channel of choice.

In line with UK PBB's goal of responsible lending, we introduced the new Clear Rate Credit card in March 2014 ending zero percent balance transfer deals that then revert to higher rates when the deal expires. This product is designed specifically for those customers that want to control and reduce their debt over time without the need to move their balance from card to card or remember when their introductory offer comes to an end.

The CashBack Plus scheme, which rewards personal debit card users through selected retailers, was launched in August 2013 and continued to expand, with more than 1.2 million customers now registered. In February 2014, CashBack Plus won 'Best Card Benefits Programme' at the annual Cards and Payments awards.

Business Banking is the number one business banking franchise in the UK, with a 23% current account market share. The bank's share of business start-ups increased by 2 percentage points to 24% in the 6 months to June with strong gross new lending over the same period. Net promoter scores improved in the relationship-managed space and UK PBB believes that bringing together Personal and Business banking will enable it to more ably satisfy customer needs.

H1 2014 compared with H1 2013

- Operating profit increased by 44% to £994 million, with restructuring costs down £90 million to £19 million. Adjusted operating profit increased by 22% to £1,163 million, driven by income growth of 5% and a 42% decline in impairment losses.

- Net interest income increased by 3% to £2,276 million, driven by strong deposit growth of 4%, improved margins, and increased personal mortgage balances, up 4%, partly offset by lower income from unsecured lending.

- Non-interest income increased by 9%, to £686 million, primarily driven by higher current account-related fee income and higher insurance profit share. Debit card transactional spend increased by 8%, supported by the CashBack Plus programme.

UK Personal & Business Banking

Key points (continued)

H1 2014 compared with H1 2013 (continued)

- Direct costs were up 1% at £676 million, with higher customer compensation and marketing costs only partly offset by a decrease in staff costs driven by lower headcount. Indirect costs were 3% higher at £975 million, reflecting a technology write-off in Q1 2014 of £60 million.

- Impairments were £108 million lower due to improved asset quality and lower default volumes.

- Risk-weighted assets decreased by 10%, reflecting improvements in the quality of the book and business model enhancements, partly offset by mortgage balance growth.

Q2 2014 compared with Q1 2014

- Operating profit decreased by 5% to £484 million, reflecting additional conduct costs of £150 million for Payment Protection Insurance redress. Adjusted operating profit increased by 33% to £663 million, driven by income growth of 2% and lower costs (down 11%). Impairments also continued to improve.

- Net interest income increased by 2% to £1,152 million, primarily due to improved deposit income from increased balances and margins. Strong mortgage balance growth of £1.4 billion (gross new business lending market share was 10%) was offset by modest pressure on mortgage margins.

- Non-interest income increased by 2% to £347 million, largely due to higher insurance profit share. Card transaction-related fee income improved with transaction levels up 6%.

- Direct costs decreased by 10% to £321 million driven by a remediation provision of £15 million in Q1 2014. Indirect costs declined by 13% to £455 million.

- Impairments were £28 million lower due to lower customer defaults across all products, reflecting continued improvement in asset quality. Recoveries across personal and business banking continued to improve.

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Risk-weighted assets decreased by 3%, reflecting personal unsecured balance reductions partly offset by mortgage balance growth.

Q2 2014 compared with Q2 2013

· Operating profit increased by 81% to £484 million, with restructuring, litigation and conduct costs down £50 million to £179 million. Adjusted operating profit increased by 33% to £663 million, with income up 4% and expenses, excluding restructuring and litigation and conduct costs, down 5%. Impairments also improved, halving to £60 million.

· Net interest income increased by 3% to £1,152 million, driven by strong deposit income with balance growth of 4% and improved margins.

· Non-interest income increased by 8% to £347 million, benefiting from higher current account-related fee income and higher insurance profit share.

· Direct costs of £321 million were 3% lower, with staff cost benefits from lower headcount. Indirect costs were down 6%.

· Impairments decreased by 52%, to £60 million, reflecting improvements in the quality of the book and continued strong recoveries across UK PBB.

Ulster Bank

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
	£m	£m	£m	£m	£m
Income statement					
Net interest income	323	302	169	154	152
Net fees and commissions	66	69	34	32	35
Other non-interest income	23	73	8	15	53
Non-interest income	89	142	42	47	88
Total income	412	444	211	201	240
Direct expenses					
- staff costs	(125)	(124)	(62)	(63)	(67)
- other costs	(35)	(27)	(18)	(17)	(12)
Indirect expenses	(126)	(125)	(63)	(63)	(65)
Restructuring costs					
- direct	8	(15)	8	-	(14)
- indirect	(22)	(6)	(20)	(2)	(4)
Litigation and conduct costs	-	(25)	-	-	(25)

Operating expenses	(300)	(322)	(155)	(145)	(187)
Profit before impairment losses	112	122	56	56	53
Impairment losses	(57)	(503)	(10)	(47)	(263)
Operating profit/(loss)	55	(381)	46	9	(210)
Operating profit/(loss) - adjusted (1)	69	(335)	58	11	(167)

Note:
(1) Excluding restructuring costs and litigation and conduct costs.

Ulster Bank

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
	£m	£m	£m	£m	£m
Analysis of income by business					
Corporate	134	170	65	69	88
Retail	190	209	100	90	120
Other	88	65	46	42	32
Total income	412	444	211	201	240
Analysis of impairments by sector					
Mortgages	35	181	16	19	91
Commercial real estate					
- investment	9	97	1	8	51
- development	(6)	26	(3)	(3)	12
Other corporate	8	186	(9)	17	111
Other lending	11	13	5	6	(2)
Total impairment losses	57	503	10	47	263