ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 03, 2018

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 03, 2018
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 Company announcements in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Interim Results 2018

The Royal Bank of Scotland Group plc
Interim Results for the period ending 30 June 2018

RBS reported an operating profit before tax of £1,826 million for H1 2018, including an £801 million litigation and conduct charge. RBS announces its intention to declare an interim dividend of 2p per share.

H1 2018 attributable profit of £888 million and a Q2 2018 attributable profit of £96 million.

Q2 2018 operating profit before tax of £613 million, compared with £1,238 million in Q2 2017.

Continued track record of delivery

Income resilient in a competitive market:

Income was broadly stable compared with H1 2017 excluding NatWest Markets, Central items and one-off gains in Commercial Banking. Total income decreased by £217 million, or 3.1%.

Q2 2018 net interest margin of 2.01% decreased by 3 basis points compared with Q1 2018 reflecting increased liquidity and continued competitive margin pressure.

Lower costs through continued transformation and increased digitisation:

Compared with H1 2017, other expenses decreased by £133 million, or 3.6%, excluding a VAT release in 2017 and FTEs reduced by 6.7%.

6.0 million customers now regularly using our mobile app, 9% higher than December 2017. Over 80% of Commercial Banking customers are now interacting with us digitally, 41% of whom have migrated to new Bankline.

Legacy issues diminishing:

Reached civil settlement in principle with the US Department of Justice (DoJ) in relation to the DoJ's investigation into RBS's issuance and underwriting of US Residential Mortgage Backed Securities (RMBS) between 2005 and 2007, resulting in a £1,040 million additional provision in Q2 2018. In addition, a £241 million provision release relating to a RMBS litigation indemnity was recognised in the quarter.

Entered into a Memorandum of Understanding with the Trustees of the Main scheme of the RBS Group Pension Fund to address the historical funding weakness of the pension scheme, recognising a pre-tax £2.0 billion contribution against reserves and an equivalent reduction in CET1 capital.

Stronger capital position:

CET1 ratio of 16.1% includes the impact of the £2 billion pre-tax pension contribution, the civil settlement in principle with the DoJ and the accrual of the intended interim dividend. Excluding these items, CET1 ratio increased by 110 basis points in the quarter driven by underlying profitability and RWA reductions.

RWAs decreased by £3.9 billion in the quarter primarily reflecting reductions in NatWest Markets and continued active capital management in Commercial Banking.

Moody's upgraded The Royal Bank of Scotland Group plc's senior debt rating one notch to Baa2 from Baa3 and changed the outlook to positive.

Outlook (1)

We retain the outlook guidance we provided in the 2017 Annual Results document.

We intend to declare an interim dividend of 2p per ordinary share. Declaration of the interim dividend is subject to the timing of finalisation of the previously announced civil settlement in principle with the DoJ in relation to the DoJ's investigation into RBS's issuance and underwriting of US RMBS. We expect to finalise the settlement with the DoJ and will make a further announcement at the relevant time.

Note:

(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the "Risk Factors" on pages 48 and 49 of this document and on pages 372 to 402 of the 2017 Annual Report and Accounts. These statements constitute forward-looking statements; refer to Forward-looking statements in this document.

Business performance summary

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
Performance key metrics and ratios	2018	2017	2018	2018	2017
Operating profit before tax	£1,826m	£1,951m	£613m	£1,213m	£1,238m
Profit attributable to ordinary shareholders	£888m	£939m	£96m	£792m	£680m
Net interest margin	2.02%	2.18%	2.01%	2.04%	2.13%
Average interest earning assets	£431,211m	£413,598m	£434,928m	£427,394m	£421,981m
Cost:income ratio (1)	70.4%	69.8%	80.0%	60.5%	64.4%
Earnings per share					
- basic	7.4p	7.9p	0.8p	6.6p	5.7p
- basic fully diluted	7.4p	7.9p	0.8p	6.6p	5.7p
Return on tangible equity	5.3%	5.6%	1.1%	9.3%	8.0%
Average tangible equity	£33,754m	£33,705m	£33,522m	£34,216m	£33,974m
Average number of ordinary shares outstanding during the period (millions)					
- basic	11,980	11,817	12,003	11,956	11,841
- fully diluted (2)	12,039	11,897	12,062	12,015	11,923

	30 June	31 March	31 December
Balance sheet related key metrics and ratios	2018	2018	2017
Total assets	£748.3bn	£738.5bn	£738.1bn
Funded assets	£597.2bn	£588.7bn	£577.2bn

Loans and advances to customers (excludes reverse repos)	£320.0bn	£319.1bn	£323.2bn
Impairment provisions (3)	£3.9bn	£4.2bn	£3.8bn
Customer deposits (excludes repos)	£366.3bn	£358.3bn	£367.0bn
Liquidity coverage ratio (LCR)	167%	151%	152%
Liquidity portfolio	£198bn	£180bn	£186bn
Net stable funding ratio (NSFR) (4)	140%	137%	132%
Loan:deposit ratio	87%	89%	88%
Total wholesale funding	£75bn	£73bn	£70bn
Short-term wholesale funding	£13bn	£17bn	£18bn
Common Equity Tier (CET1) ratio	16.1%	16.4%	15.9%
Total capital ratio	21.5%	21.6%	21.3%
Pro forma CET 1 ratio, pre 2018 dividend accrual (5)	16.2%	16.4%	15.9%
Risk-weighted assets (RWAs)	£198.8bn	£202.7bn	£200.9bn
CRR leverage ratio	5.2%	5.4%	5.3%
UK leverage ratio	6.0%	6.2%	6.1%
Tangible net asset value (TNAV) per ordinary share	287p	297p	294p
Tangible net asset value (TNAV) per ordinary share - fully diluted	286p	295p	292p
Tangible equity	£34,564m	£35,644m	£35,164m
Number of ordinary shares in issue (millions)	12,028	11,993	11,965
Number of ordinary shares in issue (millions) - fully diluted (2,6)	12,095	12,075	12,031

Notes:

(1) Operating lease depreciation included in income for H1 2018 - £57 million and £26 million for Q2 2018; (Q1 2018 - £31 million; H1 2017 - £72 million; Q2 2017 - £36 million).

(2) Includes the effect of dilutive share options and convertible securities. Dilutive shares on an average basis for H1 2018 were 59 million shares and for Q2 2018 were 59 million shares; (Q1 2018 - 59 million shares; H1 2017 - 80 million shares; Q2 2017 - 82 million shares) and as at 30 June 2018 were 67 million shares (31 March 2018 - 82 million shares; 31 December 2017 - 66 million shares).

(3) 30 June 2018 and 31 March 2018 prepared under IFRS 9, 31 December 2017 prepared under IAS 39. Refer to the February 2018 IFRS 9 Transition Report for further details.

(4) In November 2016, the European Commission published its proposal for NSFR rules within the EU as part of its CRR2 package of regulatory reforms. CRR2 NSFR is expected to become the regulatory requirement in future within the EU and the UK. RBS has changed its policy on the NSFR to align with its interpretation of the CRR2 proposals with effect from 1 January 2018. The pro forma CRR2 NSFR at 31 December 2017 under CRR2 proposals is estimated to be 139%.

(5) The pro forma CET 1 ratio at 30 June 2018 excludes the impact of the foreseeable interim dividend of £240 million that RBS intends to declare.

(6) Includes 9 million treasury shares (31 March 2018 - 18 million shares; 31 December 2017 - 16 million shares).

Document navigation

The following are contained within this document:

Business performance summary

Summary consolidated income statement for the half year ended 30 June 2018

	Half year ended		Quarter ended		
	30 June 2018	30 June 2017	30 June 2018	31 March 2018	30 June 2017
	£m	£m	£m	£m	£m
Net interest income	4,326	4,472	2,180	2,146	2,238
Own credit adjustments	39	(73)	18	21	(44)
Loss on redemption of own debt	-	(7)	-	-	(9)
Strategic disposals	-	156	-	-	156
Other non-interest income	2,337	2,371	1,202	1,135	1,366
Non-interest income	2,376	2,447	1,220	1,156	1,469
Total income	6,702	6,919	3,400	3,302	3,707
Litigation and conduct costs	(801)	(396)	(782)	(19)	(342)
Strategic costs	(350)	(790)	(141)	(209)	(213)
Other expenses	(3,584)	(3,666)	(1,801)	(1,783)	(1,844)
Operating expenses	(4,735)	(4,852)	(2,724)	(2,011)	(2,399)
Profit before impairment losses	1,967	2,067	676	1,291	1,308
Impairment losses	(141)	(116)	(63)	(78)	(70)
Operating profit before tax	1,826	1,951	613	1,213	1,238
Tax charge	(741)	(727)	(412)	(329)	(400)
Profit for the period	1,085	1,224	201	884	838
Attributable to:					
Non-controlling interests	(16)	29	(23)	7	18
Other owners	213	256	128	85	140
Ordinary shareholders	888	939	96	792	680

Notable items within total income					
IFRS volatility in Central items (1)	(111)	154	17	(128)	172
UK PBB debt sale gain	26	8	-	26	-
FX gains/losses in Central items and other	4	(108)	19	(15)	(56)
Commercial Banking fair value and and disposal gain	192	-	115	77	-
NatWest Markets legacy business disposal losses	(57)	(103)	(41)	(16)	(53)
Own credit adjustments	39	(73)	18	21	(44)
Strategic disposals	-	156	-	-	156
Notable items within operating expenses					
Litigation and conduct costs	(801)	(396)	(782)	(19)	(342)

of which: US RMBS	(802)	(222)	(803)	1	(222)
of which: DoJ	(1,040)	-	(1,040)	-	-
Nomura	241	-	241	-	-
Strategic costs	(350)	(790)	(141)	(209)	(213)
VAT recovery in Central items and other	-	51	-	-	-

Note:

(1) IFRS volatility relates to loans which are economically hedged but for which hedge accounting is not permitted under IFRS.

Business performance summary

Income statement overview

Income

Total income decreased by £217 million, or 3.1%, compared with H1 2017 reflecting IFRS volatility movements, lower NatWest Markets income and a £156 million gain on disposal of RBS's stake in Vocalink in H1 2017, partially offset by £192 million of fair value and disposal gains in Commercial Banking. Net interest margin was 16 basis points lower than H1 2017 with an 11 basis points reduction relating to increased liquidity, 3 basis points from competitive pressures on margin and 2 basis points from mix impacts.

Operating expenses

Operating expenses decreased by £117 million, or 2.4%, compared with H1 2017 primarily reflecting £440 million lower strategic costs and an £82 million reduction in other expenses, partially offset by £405 million higher litigation and conduct costs. Other expenses decreased by £133 million, or 3.6%, excluding a £51 million VAT release in 2017 and FTEs reduced by 6.7%. Litigation and conduct costs of £801 million largely comprises the £1,040 million charge relating to the civil settlement in principle with the DoJ, partially offset by a £241 million provision release relating to an RMBS litigation indemnity. The cost:income ratio of 70.4% is elevated due to the inclusion of the net RMBS related conduct charge, excluding these items the cost:income ratio would be 58.3%.

Impairments

A net impairment loss of £141 million, 9 basis points of gross customer loans, increased by £25 million, or 21.6%, compared with H1 2017 primarily reflecting fewer provision releases in UK PBB and the NatWest Markets legacy business, partially offset by Commercial Banking releases in Q2 2018 related to data quality improvements.

Capital distributions

We intend to declare an interim dividend of 2p per ordinary share. Declaration of the interim dividend, and the timing of its payment, is subject to the timing of finalisation of the previously announced civil settlement in principle with the DoJ in relation to the DoJ's investigation into RBS's issuance and underwriting of US RMBS. We expect to finalise the settlement with the DoJ and will make a further announcement at the relevant time.

Our CET1 ratio of 16.1% includes a dividend accrual of £240 million, or 12 basis points of CET1 capital. We have agreed with the PRA that we will cease the current issuance programme of approximately £300 million of equity per annum as part immunisation of the coupon payments on capital securities upon declaration of the interim dividend.

Over time we expect to build to a regular dividend pay-out ratio in the order of 40%. We will consider further distributions in addition to regular dividend pay-outs. Such additional distributions remain to be agreed with the PRA and will be subject to passing the 2018 Bank of England stress test. We would not expect any such additional distributions until 2019.

In the near to medium term, we would expect the Bank to maintain a CET1 ratio in excess of our 13% target given a range of variables that are likely to impact us over the coming years. These include:

- future agreed pension contributions and the interplay with capital buffers for the bank for investment risk being run in the pension plan;
- RWA inflation as a result of IFRS 16, Bank of England mortgage floors and Basel 3 amendments;
- expected increased and pro-cyclical impairment volatility as a result of IFRS 9; and
- the collective impact of these items on our stress test results.

Business performance summary

Building the best bank for customers in the UK and Republic of Ireland
Delivery against our 2018 goal – Customer Segments

Our goal is to significantly increase net-promoter scores (NPS) or maintain No.1 in our chosen customer segments.

Strategy goal	Our 2018 goal	2018
Customer experience	Significantly increase NPS or maintain No.1 in our chosen customer segments	We are on target in one-third of our key customer segments.

Customer Advocacy – by Brand
Our brands are our main connection with customers. Each takes a clear and differentiated position with the aim of helping us strengthen our relationship with them. For this reason we also track customer advocacy, as measured by NPS, for our key brands. The table below shows NPS and Trust scores for our key brands:

Net Promoter Scores by Brand		Q2 2017	Q4 2017	Q2 2018
Personal Banking	NatWest (England & Wales)(1)	13	12	13
	Royal Bank of Scotland (Scotland)(1)	-21	-6	-21
	Ulster Bank (Northern Ireland)(2)	-8	-5	-11
	Ulster Bank (Republic of Ireland)(2)	-5	-7	-7
Business Banking	NatWest (England & Wales)(3)	-8	-7	-6
	Royal Bank of Scotland (Scotland)(3)	-12	-15	-23
Commercial Banking(4)		22	21	17
Trust Scores by Brand	NatWest (England & Wales)(5)	58	57	58
	Royal Bank of Scotland (Scotland)(5)	27	27	27

We are aware that customer advocacy is not where it should be consistently enough and that we have more work to do in order to achieve our ambition. Our digital strategy is delivering high NPS in these areas; specifically our mobile application, paperless mortgage process and new Bankline are all scoring highly for customer advocacy. Our Commercial Banking NPS has fallen recently; however it remains ahead of the rest of the market and we remain committed to supporting our Commercial and Business customers.

Notes:
(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest (England & Wales) (3103) Royal Bank of Scotland (Scotland) (432). Based on the question: "How likely is it that you would recommend (brand) to a

relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers.

(2) Source: Coyne Research 12 month rolling data. Question: "Please indicate to what extent you would be likely to recommend (brand) to your friends or family using a scale of 0 to 10 where 0 is not at all likely and 10 is extremely likely". Latest base sizes: Northern Ireland 291; Republic of Ireland 276.

(3) Source: Charterhouse Research Business Banking Survey, YE Q2 2018. Based on interviews with businesses with an annual turnover up to £2 million. Latest base sizes: NatWest England & Wales (1248), RBS Scotland (425). Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain.

(4) Source: Charterhouse Research Business Banking Survey, YE Q2 2018. Based on interviews with businesses with an annual turnover over £2 million in GB. Latest base size for RBSG is 887. Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain

(5) Source: Populus. Latest quarter's data. Measured as a net % of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest, England & Wales (994), RBS Scotland (208).

Business performance summary

Personal & Business Banking – UK Personal & Business Banking (UK PBB)

	Half year ended		Quarter ended		
	30 June 2018	30 June 2017	30 June 2018	31 March 2018	30 June 2017
	£m	£m	£m	£m	£m
Total income	3,161	3,172	1,570	1,591	1,589
Operating expenses	(1,582)	(1,744)	(746)	(836)	(809)
Impairment losses	(147)	(97)	(90)	(57)	(54)
Operating profit	1,432	1,331	734	698	726
Return on equity	28.9%	26.5%	30.0%	27.9%	29.2%

	As at		
	30 June 2018	31 March 2018	31 December 2017
	£bn	£bn	£bn
Net loans & advances to customers	161.9	160.5	161.7
Customer deposits	182.2	180.4	180.6
RWAs	43.4	43.4	43.0

H1 2018 compared with H1 2017

UK PBB now has 6 million regular mobile app users, 20% higher than H1 2017 and 9% higher than December 2017, supporting 70% digital penetration of active current account customers. Total digital sales increased by 27% in H1 2018 representing 42% of all sales. 57% of mortgage switching is now done digitally, compared with 34% in H1 2017. 56% of personal unsecured loans sales are via the digital channel, with digital volumes 38% higher than in H1 2017. In business banking, 88% of current accounts were opened digitally in H1 2018; 60% of loans less than £50,000 were originated digitally supporting very strong NPS; and accounting software provider FreeAgent was acquired on 1 June 2018.

Total income was £11 million, or 0.3%, lower driven by a £14 million impact associated with income recognition on impaired assets under IFRS 9 and a £24 million transfer to Private Banking(1), partially offset by an £18 million increase in debt sale gains in H1 2018. Net interest income of £2,542 million decreased by 0.9% as balance growth and deposit margin benefits were offset by mortgage margin compression associated with lower new business margins, with net interest margin down by 11 basis points to 2.81%. In addition, overdraft income decreased by £15

million following changes implemented in H2 2017, which included increasing the number of customer alerts.
Operating expenses were £162 million, or 9.3%, lower driven by a 4.8% reduction in staff costs associated with a 10.6% reduction in headcount, lower back-office operations costs and lower strategic costs. Further efficiencies from the integration of the business previously described as Williams and Glyn and lower fraud losses have been partially offset by increased technology investment spend as we build our digital capability.
Impairments were £50 million higher driven by fewer provision releases and recoveries following debt sales in prior years, with the underlying default charge remaining broadly stable.
Net loans and advances increased by 1.9% to £161.9 billion. Growth has slowed since 31 December 2017 as a result of higher mortgage redemptions and lower mortgage gross new business following intense mortgage competition. Gross new mortgage lending in H1 2018 was £13.6 billion. Mortgage market share was 11.5% in Q2 2018, supporting stock share of 10.0%, with mortgage approval share of approximately 14%. The paperless mortgage process has significantly improved customer NPS and supported improved completion rates. Momentum continued in lending in the personal advances and business banking sectors, increasing 8.8% and 1.5% respectively, supported by mobile and digital process improvements and personalised pre-approved limits.

Q2 2018 compared with Q1 2018

Total income was £21 million lower due to the non-repeat of debt sale income of £26 million and annual insurance profit share income of £21 million in Q1 2018. Net interest margin of 2.81% remained stable as mortgage margin pressure was offset by continued higher deposit margins.
Operating expenses were £90 million lower due to lower back-office operations costs, a 4.6% reduction in headcount and lower strategic costs.
Impairments were £33 million higher reflecting increases in the business banking and commercial sectors, the non-repeat of a model benefit in Q1 2018 and a few single name charges in Q2 2018.

Q2 2018 compared with Q2 2017

Total income was £19 million lower driven by an £8 million impact associated with income recognition on impaired assets under IFRS 9, an £12 million transfer to Private Banking and mortgage margin pressure.
Operating expenses were £63 million, or 7.8%, lower principally driven by reduced back-office operations costs and a 10.6% reduction in headcount.

Note:
(1) UK PBB Collective Investment Funds (CIFL) business was transferred to Private Banking on 1 October 2017.

Business performance summary

Personal & Business Banking – Ulster Bank RoI

	Half year ended		Quarter ended		
	30 June 2018	30 June 2017	30 June 2018	31 March 2018	30 June 2017
	€m	€m	€m	€m	€m
Total income	355	341	190	165	173
Operating expenses	(285)	(342)	(140)	(145)	(178)
Impairment releases/(losses)	30	13	39	(9)	(15)
Operating profit/(loss)	100	12	89	11	(20)
Return on equity	7.0%	0.8%	12.5%	1.6%	(2.4%)

	As at		
	30 June 2018	31 March 2018	31 December 2017
	€bn	€bn	€bn
Net loans & advances to customers	21.6	21.7	22.0
Customer deposits	19.9	19.3	19.8

RWAs	19.0	19.2	20.2

H1 2018 compared with H1 2017

Total income increased by €14 million, or 4.1%, driven by €28 million of one-off benefits, compared with €15 million of non-recurring benefits in 2017, and a continued reduction in the cost of customer deposits, partially offset by a decrease in income from free funds. Net interest margin increased by 18 basis points primarily reflecting a €13 million one-off funding benefit, a reduction in low yielding liquid assets following a dividend payment in January 2018, and an improvement in customer deposit margins.

Operating expenses decreased by €57 million, or 16.7%, principally due to a €45 million reduction in strategic costs and €20 million lower litigation and conduct costs, partially offset by €12 million of one-off accrual releases in H1 2017. Staff costs were €10 million, or 8.9%, lower reflecting the benefit of recent restructuring initiatives and lower pension costs.

A net impairment release of €30 million reflects a more positive economic outlook and improved credit metrics across all portfolios.

Net loans and advances reduced by €0.6 billion, principally reflecting a €0.8 billion reduction in the tracker mortgage book. Further progress was made towards building a more sustainable bank, including raising €1 billion from a recent issuance of mortgage backed bonds and the announcement of our intention to sell a portfolio of non-performing loans in H2 2018.

Customer deposits increased by €0.6 billion, supporting a reduction in the loan:deposit ratio to 108% from 115%.

RWAs reduced by €1.5 billion, or 7.3%, principally reflecting an improvement in credit metrics.

Q2 2018 compared with Q1 2018

Total income increased by €25 million primarily due to €23 million of non-recurring items in Q2 2018 including a one-off funding benefit, a gain on sale of the Easycash ATM business and a benefit associated with a previous asset disposal. Net interest margin increased by 11 basis points principally driven by the one-off funding benefit, partially offset by an increase in low yielding liquid assets in Q2 2018.

A net impairment release of €39 million compared to a charge of €9 million in Q1 2018 reflecting a more positive economic outlook and improved credit metrics.

Q2 2018 compared with Q2 2017

Total operating expenses decreased by €38 million primarily due to a €31 million reduction in litigation and conduct costs and €10 million lower strategic costs.

Business performance summary

Commercial & Private Banking – Commercial Banking

	Half year ended		Quarter ended		
	30 June 2018	30 June 2017	30 June 2018	31 March 2018	30 June 2017
	£m	£m	£m	£m	£m
Total income	1,780	1,750	915	865	885
Operating expenses	(849)	(996)	(404)	(445)	(446)
Impairment (losses)/releases	(19)	(94)	4	(23)	(33)
Operating profit	912	660	515	397	406
Return on equity	14.1%	8.2%	15.9%	12.2%	10.7%

	As at		
	30 June 2018	31 March 2018	31 December 2017
	£bn	£bn	£bn
Net loans & advances to customers	90.7	90.7	97.0

Customer deposits	96.4	93.7	98.0
RWAs	71.7	72.4	71.8

Comparisons with prior periods are impacted by the transfer of shipping and other activities from NatWest Markets, the transfer of whole business securitisations and Relevant Financial Institutions to NatWest Markets in preparation for ring-fencing and the transfer of the funds and trustee depository business to RBS International. The net impact of the transfers on H1 2017 operating profit would have been to reduce income by £142 million, operating expenses by £4 million and impairments by £38 million. The net impact on the H1 2017 balance sheet would have been to reduce net loans and advances by £1.9 billion and RWAs by £0.4 billion, and increase customer deposits by £0.6 billion. The net impact of the transfers on Q2 2017 operating profit would have been to reduce income by £104 million, operating expenses by £2 million and impairments by £35 million. Q1 2018 income would have reduced by £4 million and the net impact on the Q1 2018 balance sheet would have been to reduce net loans and advances by £0.7 billion, customer deposits by £1.7 billion and RWAs by £0.1 billion. The variances in the commentary below have been adjusted for the impact of these transfers, unless otherwise stated.

H1 2018 compared with H1 2017 (comparisons adjusted for transfers)

Over 80% of customers regularly interact with us through a digital channel, 41% of whom are using our updated Bankline platform, and we have launched our Bankline Mobile app, which is planned to roll out in H2 2018.

Total income increased by £172 million, or 10.7%, to £1,780 million reflecting asset disposal and fair value gains of £192 million and disposal losses of £46 million in 2017, partially offset by lower lending. On an unadjusted basis, net interest margin decreased by 9 basis points to 1.65% reflecting a reclassification of net interest income to non-interest income under IFRS 9 partially offset by higher funding benefits from deposit balances.

Operating expenses decreased by £143 million, or 14.4%, to £849 million primarily reflecting £76 million lower strategic costs and £28 million lower staff costs, driven by a 13.5% headcount reduction. In addition, operating lease depreciation reduced by £15 million and litigation and conduct costs were £10 million lower.

Impairments reduced by £37 million, or 66.0%, to £19 million with £55 million of single name charges partially offset by net releases of £36 million, largely related to data quality improvements on the performing book.

Net lending reduced by £5.5 billion, or 5.8%, primarily driven by active capital management of the lending book.

RWAs reduced by £4.1 billion, or 5.5%, reflecting gross RWA reductions associated with active capital management, partially offset by £3.9 billion of model updates.

Q2 2018 compared with Q1 2018 (comparisons adjusted for transfers)

Total income increased by £46 million to £915 million primarily reflecting a £38 million increase in asset disposal and fair value gains to £115 million. On an unadjusted basis, net interest margin increased by 2 basis points to 1.66% principally reflecting increased deposit income.

Operating expenses decreased by £41 million to £404 million driven by a reduction in strategic, back-office operations and staff costs, partially offset by the non-repeat of one-off items in Q1 2018.

Net loans and advances decreased by £0.7 billion to £90.7 billion and RWAs reduced by £0.8 billion driven by the continued impact of capital management actions.

Q2 2018 compared with Q2 2017 (comparisons adjusted for transfers)

Total income increased by £134 million, or 17.2%, to £915 million primarily reflecting asset disposal and fair value gains of £115 million, disposal losses of £35 million in Q2 2017 and deposit income benefits, partially offset by lower lending volumes.

Operating expenses decreased by £40 million, or 9.0%, to £404 million primarily reflecting a 13.5% reduction in headcount, £13 million lower strategic costs and a £10 million reduction in operating lease depreciation.

Business performance summary

Commercial & Private Banking – Private Banking

	Half year ended	Quarter ended

	30 June 2018 £m	30 June 2017 £m	30 June 2018 £m	31 March 2018 £m	30 June 2017 £m
Total income	382	321	198	184	161
Operating expenses	(225)	(232)	(104)	(121)	(108)
Impairment losses	(1)	(7)	--	(1)	(4)
Operating profit	156	82	94	62	49
Return on equity	15.8%	7.7%	19.3%	12.5%	9.6%

	As at		
	30 June 2018 £bn	31 March 2018 £bn	31 December 2017 £bn
Net loans & advances to customers	13.8	13.7	13.5
Customer deposits	26.4	25.3	26.9
RWAs	9.4	9.4	9.1
AUM	21.3	20.3	21.5

Comparisons with prior periods are impacted by the transfer of the Collective Investment Fund business from UK PBB and by the transfers of Coutts Crown Dependency and the International Client Group Jersey to RBS International. The net impact of the transfers on H1 2017 operating profit would have been to increase income by £18 million and increase operating expenses by £6 million. The net impact on the H1 2017 balance sheet would have been to reduce net loans and advances by £0.3 billion, RWAs by £0.1 billion and to increase assets under management by £1.6 billion. The net impact of the transfers on Q2 2017 operating profit would have been to increase income by £9 million and increase operating expenses by £3 million. The variances in the commentary below have been adjusted for the impact of these transfers, unless otherwise stated.

H1 2018 compared with H1 2017 (comparisons adjusted for transfers)

Total income of £382 million increased by £43 million, or 12.7%, largely due to increased lending and assets under management, partially offset by asset margin pressure. On an unadjusted basis, net interest margin remained stable at 2.53% as increased deposit income was offset by asset margin pressure.

Operating expenses of £225 million decreased by £13 million, or 5.6%, reflecting £6 million lower strategic costs, a £6 million reduction in back-office operations costs and a £5 million decrease in staff costs driven by a 17.6% headcount reduction.

Net loans and advances of £13.8 billion increased by £1.3 billion, or 10.1%, primarily in mortgages, whilst RWAs of £9.4 billion increased by £0.5 billion, or 5.7%, reflecting a continued focus on capital efficient lending.

Assets under management increased by £1.8 billion, or 9.3%, reflecting new business inflows and investment performance. In addition, Private Banking currently manage a further £7.2 billion of assets under management on behalf of RBS Group which sit outside of Private Banking. Total assets under management overseen by Private Banking have increased by 7.1% to £28.6 billion.

Q2 2018 compared with Q1 2018

Total income increased by £14 million to £198 million reflecting increased lending, higher deposit income and a one-off investment income benefit of £4 million.

Operating expenses were £17 million lower at £104 million, primarily driven by £10 million lower strategic costs and a £6 million reduction in back-office operations costs reflecting one-off releases in Q2 2018.

Assets under management increased by £1.0 billion primarily reflecting new business inflows and investment performance.

Q2 2018 compared with Q2 2017 (comparisons adjusted for transfers)

Total income increased by £28 million, or 16.7%, to £198 million reflecting increased lending and assets under management, partially offset by margin pressure.

Operating expenses decreased by £7 million, or 6.3%, to £104 million primarily reflecting lower staff costs, driven by a 17.6% headcount reduction, lower strategic costs and a reduction in back-office operations costs.

Business performance summary

RBS International

	Half year ended		Quarter ended		
	30 June 2018	30 June 2017	30 June 2018	31 March 2018	30 June 2017
	£m	£m	£m	£m	£m
Total income	284	195	147	137	97
Operating expenses	(114)	(94)	(55)	(59)	(48)
Impairment releases/(losses)	3	(5)	3	-	2
Operating profit	173	96	95	78	51
Return on equity	25.7%	13.1%	27.9%	23.2%	14.0%

	As at		
	30 June 2018	31 March 2018	31 December 2017
	£bn	£bn	£bn
Net loans & advances to customers	13.0	13.1	8.7
Customer deposits	28.5	27.0	29.0
RWAs	6.8	7.0	5.1

Comparisons with prior periods are impacted by the transfer of the funds and trustee depositary business from Commercial Banking and by the transfers of Coutts Crown Dependency and the International Client Group from Private Banking. The net impact of the transfers on H1 2017 would have increased income by £82 million and increased operating expenses by £7 million. The net impact on the H1 2017 balance sheet would have been to increase net loans and advances by £4.5 billion, customer deposits by £0.9 billion and RWAs by £2.2 billion. The net impact of the transfers on Q2 2017 would have increased income by £42 million and increased operating expenses by £4 million. The net impact of transfers on Q1 2018 would have decreased income by £5 million. The variances in the commentary below have been adjusted for the impact of these transfers, unless otherwise stated.

H1 2018 compared with H1 2017 (comparisons adjusted for transfers)

Operating profit of £173 million increased by £2 million, or 1.1%, as higher income, lower impairments and a litigation and conduct release were partially offset by higher operating costs. Return on equity increased to 25.7% from 19.4% driven by the benefit of receiving the advanced internal rating based waiver at the end of 2017.

Total income of £284 million increased by £7 million, or 2.4%, largely driven by deposit margin benefits. On an unadjusted basis, net interest margin increased by 29 basis points to 1.64% primarily driven by the impact of transfers and a change in product mix.

Operating expenses increased by £13 million, or 12.7%, to £114 million due to £16 million higher back-office costs associated with becoming a non ring-fenced bank and £5 million of remediation costs, partially offset by a £10 million litigation and conduct provision release.

Net loans and advances decreased by £0.3 billion, or 2.3%, due to customer activity in the Funds sector. Customer deposits increased by £2.1 billion reflecting a large inflow of short term placements in the Funds sector.

RWAs of £6.8 billion were £4.8 billion lower, in line with reduced lending and the benefit of receiving the advanced internal rating based waiver on the wholesale corporate book in Q4 2017.

Q2 2018 compared with Q1 2018 (comparisons adjusted for transfers)

Total income of £147 million was £15 million higher, principally driven by deposit margin benefits.
Operating expenses were £4 million lower due to an £8 million conduct provision release, partially offset by higher remediation costs.
A net impairment release of £3 million reflects revised credit rating metrics in the quarter.

Q2 2018 compared with Q2 2017 (comparisons adjusted for transfers)

Total income increased by £8 million, or 5.7%, to £147 million driven by deposit margin benefits. On an unadjusted basis, net interest margin increased by 42 basis points to 1.72% primarily reflecting the impact of transfers and change in product mix.
Operating expenses increased by £3 million, or 6.5%, to £55 million due to higher back-office costs associated with becoming a non ring-fenced bank and increased remediation costs, partially offset by a conduct provision release.

Business performance summary

NatWest Markets(1)

	Half year ended		Quarter ended		
	30 June 2018	30 June 2017	30 June 2018	31 March 2018	30 June 2017
	£m	£m	£m	£m	£m
Total income	721	830	284	437	401
Operating expenses	(671)	(1,092)	(322)	(349)	(511)
Impairment (losses)/releases	(4)	77	(13)	9	32
Operating profit/(loss)	46	(185)	(51)	97	(78)
Return on equity	(0.5%)	(4.2%)	(3.0%)	2.0%	(3.9%)

	As at		
	30 June 2018	31 March 2018	31 December 2017
	£bn	£bn	£bn
Funded assets	134.5	135.2	118.7
RWAs	50.1	53.1	52.9

Note:
(1) The NatWest Markets operating segment should not be assumed to be the same as the NatWest Markets Plc legal entity or group following completion of the capital reduction on 2 July 2018.

Comparisons with prior periods are impacted by the transfer of shipping and other activities to Commercial Banking and the transfer of whole business securitisations and Relevant Financial Institutions from Commercial Banking in preparation for ring-fencing. The net impact of the transfers on H1 2017 operating profit would have been to increase total income by £66 million and reduce operating expenses by £1 million and the net release of impairments by £38 million. The net impact on the H1 2017 balance sheet would have been to reduce funded assets by £2.4 billion and RWAs by £1.8 billion. The net impact of the transfers on Q2 2017 operating profit would have been to increase total income by £65 million and reduce the impairment release by £35 million to a net impairment loss. The variances in the commentary below have been adjusted for the impact of these transfers, unless stated otherwise.

H1 2018 compared with H1 2017 (comparisons adjusted for transfers)

Total income decreased by £175 million, or 19.5%, primarily reflecting reduced income in the core Rates business, which was impacted by some turbulence in European bond markets during Q2 2018, compared to a strong H1 2017.

Income of £721 million includes core income of £728 million, legacy losses of £46 million driven by disposals and own credit adjustments of £39 million.
Operating expenses decreased by £420 million, or 38.5%, to £671 million reflecting lower strategic, litigation and conduct costs and lower other expenses, as the legacy business winds down.
Funded assets decreased by £4.8 billion, or 3.5%, to £134.5 billion principally reflecting the wind down of the legacy business.
RWAs decreased by £6.4 billion to £50.1 billion primarily reflecting a reduction in legacy RWAs.

Q2 2018 compared with Q1 2018

Total income decreased by £153 million, having been impacted by some turbulence in European bond markets in Q2 2018. Income of £284 million includes core income of £316 million, legacy losses of £50 million driven by disposals and own credit adjustments of £18 million.
RWAs decreased by £3.0 billion to £50.1 billion reflecting a reduction of £1.9 billion in legacy RWAs and lower market risk in core RWAs, down £1.1 billion to £34.5 billion.

Q2 2018 compared with Q2 2017 (comparisons adjusted for transfers)

Total income decreased by £182 million to £284 million reflecting a strong Q2 2017 and some turbulence in European bond markets in Q2 2018.
Operating expenses of £322 million decreased by £189 million principally reflecting the legacy business wind down and lower strategic and litigation and conduct costs.

Central items & other

Central items not allocated represented a charge of £979 million in H1 2018, compared with a £44 million charge in H1 2017. Litigation and conduct costs of £783 million increased by £521 million compared with H1 2017 as RMBS related charges are now included within central items. H1 2018 Treasury funding costs were a charge of £68 million, compared with gain of £132 million in H1 2017, and included a £111 million IFRS volatility charge compared with a £154 million IFRS volatility gain in H1 2017.

Business performance summary

Capital and leverage ratios

	End-point CRR basis (1)	
	30 June 2018	31 December 2017
Risk asset ratios	%	%
CET1	16.1	15.9
Tier 1	18.1	17.9
Total	21.5	21.3
Capital	£m	£m
Tangible equity	34,564	35,164
Expected loss less impairment provisions	(636)	(1,286)
Prudential valuation adjustment	(608)	(496)
Deferred tax assets	(746)	(849)
Own credit adjustments	(224)	(90)
Pension fund assets	(316)	(287)
Cash flow hedging reserve	151	(227)
Other deductions	(235)	28
Total deductions	(2,614)	(3,207)

CET1 capital	31,950	31,957
AT1 capital	4,051	4,041
Tier 1 capital	36,001	35,998
Tier 2 capital	6,659	6,765
Total regulatory capital	42,660	42,763
Risk-weighted assets		
Credit risk		
- non-counterparty	144,000	144,700
- counterparty	15,100	15,400
Market risk	17,300	17,000
Operational risk	22,400	23,800
Total RWAs	198,800	200,900
Leverage		
Cash and balances at central banks	102,600	98,300
Derivatives	151,100	160,800
Loans and advances	338,100	339,400
Reverse repos	38,900	40,700
Other assets	117,600	98,900
Total assets	748,300	738,100
Derivatives		
- netting and variation margin	(153,400)	(161,700)
- potential future exposures	46,200	49,400
Securities financing transactions gross up	2,700	2,300
Undrawn commitments	50,700	53,100
Regulatory deductions and other adjustments	(1,200)	(2,100)
CRR leverage exposure	693,300	679,100
CRR leverage ratio %	5.2	5.3
UK leverage exposure (2)	597,700	587,100
UK leverage ratio % (2)	6.0	6.1

Notes:
(1) Based on end-point CRR Tier 1 capital and leverage exposure under the CRR Delegated Act.
(2) Based on end-point CRR Tier 1 capital and UK leverage exposures reflecting the post EU referendum measures announced by the Bank of England in the third quarter of 2016.

Segment performance

	Half year ended 30 June 2018		
	PBB	CPB	Central

	UK PBB £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBS International £m	NatWest Markets £m	items & other (1) £m	Total RBS £m
Income statement								
Net interest income	2,542	224	997	252	219	67	25	4,326
Other non-interest income	619	88	783	130	65	615	37	2,337
Own credit adjustments	-	-	-	-	-	39	-	39
Total income	3,161	312	1,780	382	284	721	62	6,702
Direct expenses - staff costs	(374)	(90)	(217)	(69)	(51)	(309)	(793)	(1,903)
- other costs	(85)	(41)	(85)	(21)	(33)	(115)	(1,301)	(1,681)
Indirect expenses	(997)	(100)	(512)	(126)	(37)	(201)	1,973	-
Strategic costs - direct	(25)	2	(5)	(1)	-	(28)	(293)	(350)
- indirect	(97)	(6)	(36)	(7)	(3)	(6)	155	-
Litigation and conduct costs	(4)	(17)	6	(1)	10	(12)	(783)	(801)
Operating expenses	(1,582)	(252)	(849)	(225)	(114)	(671)	(1,042)	(4,735)
Operating profit/(loss) before impairment (losses)/releases	1,579	60	931	157	170	50	(980)	1,967
Impairment (losses)/releases	(147)	26	(19)	(1)	3	(4)	1	(141)
Operating profit/(loss)	1,432	86	912	156	173	46	(979)	1,826
Additional information								
Return on equity (2)	28.9%	7.0%	14.1%	15.8%	25.7%	(0.5%)	nm	5.3%
Cost:income ratio (3)	50.0%	80.8%	46.0%	58.9%	40.1%	93.1%	nm	70.4%
Impairments as a % of gross loans and advances to customers	0.18%	(0.26%)	0.04%	nm	nm	nm	nm	0.09%
Net interest margin %	2.81%	1.85%	1.65%	2.53%	1.64%	0.50%	nm	2.02%
Third party customer asset rate %	3.42%	2.39%	2.77%	2.85%	2.44%	nm	nm	nm
Third party customer funding rate %	(0.27%)	(0.21%)	(0.31%)	(0.18%)	(0.09%)	nm	nm	nm
Average interest earning assets (£bn)	182.4	24.4	121.7	20.1	26.9	27.1	28.6	431.2
Total assets (£bn)	192.3	24.9	141.8	20.9	29.8	285.0	53.6	748.3
Funded assets (£bn)	192.3	24.8	141.8	20.9	29.8	134.5	53.1	597.2
Net loans and advances to customers (£bn)	161.9	19.1	90.7	13.8	13.0	21.2	0.3	320.0
Impairment provisions (£bn) (4)	(1.5)	(1.1)	(1.1)	(0.1)	-	(0.2)	0.1	(3.9)
Customer deposits (£bn)	182.2	17.6	96.4	26.4	28.5	14.8	0.4	366.3
Risk-weighted assets (RWAs) (£bn)	43.4	16.8	71.7	9.4	6.8	50.1	0.6	198.8
RWA equivalent (RWAes) (£bn)	44.5	17.3	74.9	9.5	6.8	54.1	0.8	207.9
Employee numbers (FTEs - thousands)	18.6	2.8	4.5	1.4	1.7	5.6	35.4	70.0

For the notes to this table refer to the following page. nm = not meaningful.

Segment performance

	Quarter ended 30 June 2018							
	PBB		CPB				Central	
	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	items & other (1)	Total RBS
	£m	£m	£m	£m	£m	£m	£m	£m
Income statement								
Net interest income	1,283	118	505	129	115	31	(1)	2,180
Other non-interest income	287	48	410	69	32	235	121	1,202
Own credit adjustments	-	-	-	-	-	18	-	18
Total income	1,570	166	915	198	147	284	120	3,400
Direct expenses - staff costs	(188)	(45)	(107)	(34)	(27)	(144)	(394)	(939)
- other costs	(37)	(24)	(49)	(10)	(18)	(62)	(662)	(862)
Indirect expenses	(476)	(47)	(250)	(60)	(17)	(99)	949	-
Strategic costs - direct	(19)	3	(7)	-	-	(11)	(107)	(141)
- indirect	(23)	(3)	2	1	(2)	-	25	-
Litigation and conduct costs	(3)	(8)	7	(1)	9	(6)	(780)	(782)
Operating expenses	(746)	(124)	(404)	(104)	(55)	(322)	(969)	(2,724)
Operating profit/(loss) before impairment (losses)/releases	824	42	511	94	92	(38)	(849)	676
Impairment (losses)/releases	(90)	34	4	-	3	(13)	(1)	(63)
Operating profit/(loss)	734	76	515	94	95	(51)	(850)	613
Additional information								
Return on equity (2)	30.0%	12.5%	15.9%	19.3%	27.9%	(3.0%)	nm	1.1%
Cost:income ratio (3)	47.5%	74.7%	42.5%	52.5%	37.4%	113.4%	nm	80.0%
Impairments as a % of gross loans and advances to customers	0.22%	(0.67%)	(0.02%)	nm	nm	nm	nm	0.08%
Net interest margin %	2.81%	1.91%	1.66%	2.54%	1.72%	0.46%	nm	2.01%
Third party customer asset rate %	3.41%	2.40%	2.79%	2.82%	2.34%	nm	nm	nm
Third party customer funding rate %	(0.27%)	(0.21%)	(0.31%)	(0.17%)	(0.11%)	nm	nm	nm
Average interest earning assets (£bn)	183.1	24.8	121.9	20.3	26.9	27.0	30.9	434.9
Total assets (£bn)	192.3	24.9	141.8	20.9	29.8	285.0	53.6	748.3
Funded assets (£bn)	192.3	24.8	141.8	20.9	29.8	134.5	53.1	597.2
Net loans and advances to customers (£bn)	161.9	19.1	90.7	13.8	13.0	21.2	0.3	320.0
Impairment provisions (£bn) (4)	(1.5)	(1.1)	(1.1)	(0.1)	-	(0.2)	0.1	(3.9)
Customer deposits (£bn)	182.2	17.6	96.4	26.4	28.5	14.8	0.4	366.3
Risk-weighted assets (RWAs) (£bn)	43.4	16.8	71.7	9.4	6.8	50.1	0.6	198.8
RWA equivalent (RWAes) (£bn)	44.5	17.3	74.9	9.5	6.8	54.1	0.8	207.9
Employee numbers (FTEs - thousands)	18.6	2.8	4.5	1.4	1.7	5.6	35.4	70.0

nm = not meaningful

Notes:

(1) Central items include unallocated transactions which principally comprise volatile items under IFRS and RMBS related charges.

(2) RBS's CET 1 target is in excess of 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 14% (Ulster Bank RoI), 11% (Commercial Banking), 13.5% (Private Banking), 16% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). RBS Return on equity is calculated using profit for the period attributable to ordinary shareholders.

(3) Operating lease depreciation included in income (H1 2018 - £57 million; Q2 2018 - £26 million).

(4) Prepared under IFRS 9. Refer to the February 2018 IFRS 9 Transition report for further details.

Condensed consolidated income statement for the period ended 30 June 2018 (unaudited)

	Half year ended	
	30 June	30 June
	2018	2017
	£m	£m
Interest receivable	5,444	5,462
Interest payable	(1,118)	(990)
Net interest income (1)	4,326	4,472
Fees and commissions receivable	1,646	1,666
Fees and commissions payable	(451)	(448)
Income from trading activities	847	884
Loss on redemption of own debt	-	(7)
Other operating income	334	352
Non-interest income	2,376	2,447
Total income	6,702	6,919
Staff costs	(2,086)	(2,447)
Premises and equipment	(644)	(678)
Other administrative expenses	(1,636)	(1,208)
Depreciation and amortisation	(338)	(511)
Write down of other intangible assets	(31)	(8)
Operating expenses	(4,735)	(4,852)
Profit before impairment losses	1,967	2,067
Impairment losses	(141)	(116)
Operating profit before tax	1,826	1,951
Tax charge	(741)	(727)
Profit for the period	1,085	1,224
Attributable to:		
Non-controlling interests	(16)	29
Preference share and other dividends	213	256
Ordinary shareholders	888	939
Basic earnings per ordinary share (2)	7.4p	7.9p

Notes:

(1) Negative interest on loans and advances is reported as interest payable. Negative interest on customer deposits is reported as interest receivable.

(2) There is no dilutive impact in any period.

Condensed consolidated statement of comprehensive income for the period ended 30 June 2018 (unaudited)

	Half year ended	
	30 June 2018	30 June 2017
	£m	£m
Profit for the period	1,085	1,224
Items that do not qualify for reclassification		
Loss on remeasurement of retirement benefit schemes	-	(26)
Profit/(loss) on fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk	95	(77)
Fair value through other comprehensive income (FVOCI) (1)	3	-
Funding commitment to retirement benefit schemes (2)	(2,000)	-
Tax	500	(8)
	(1,402)	(111)
Items that do qualify for reclassification		
FVOCI financial assets (1)	199	29
Cash flow hedges	(521)	(611)
Currency translation	18	103
Tax	97	161
	(207)	(318)
Other comprehensive loss after tax	(1,609)	(429)
Total comprehensive (loss)/income for the period	(524)	795
Total comprehensive (loss)/income is attributable to:		
Non-controlling interests	(29)	49
Preference shareholders	74	85
Paid-in equity holders	139	171
Ordinary shareholders	(708)	490
	(524)	795

Notes:

(1) Refer to Note 2 for further information on the impact of IFRS 9 on classification and basis of preparation, half year ended 30 June 2018 prepared under IFRS 9 and half year ended 30 June 2017 under IAS 39.

(2) On 17 April 2018 RBS agreed a Memorandum of Understanding (MoU) with the Trustees of the RBS Group Pension Fund in connection with the requirements of ring-fencing. NatWest Markets Plc cannot continue to be a participant in the Main section and separate arrangements are required for its employees. Under the MoU NatWest Bank will make a contribution of £2 billion to strengthen funding of the Main section in recognition of the changes in covenant. The contribution will be made later in 2018.

Condensed consolidated balance sheet as at 30 June 2018 (unaudited)

	30 June 2018 £m	31 December 2017 £m
Assets		
Cash and balances at central banks	102,590	98,337
Net loans and advances to banks	18,100	16,254
Reverse repurchase agreements and stock borrowing	9,739	13,997
Loans and advances to banks	27,839	30,251
Net loans and advances to customers	319,961	323,184
Reverse repurchase agreements and stock borrowing	29,177	26,735
Loans and advances to customers	349,138	349,919
Debt securities	92,269	78,933
Equity shares	581	450
Settlement balances	8,325	2,517
Derivatives	151,136	160,843
Intangible assets	6,570	6,543
Property, plant and equipment	4,370	4,602
Deferred tax	1,815	1,740
Prepayments, accrued income and other assets	3,620	3,726
Assets of disposal groups	83	195
Total assets	748,336	738,056
Liabilities		
Bank deposits	40,059	39,479
Repurchase agreements and stock lending	8,651	7,419
Deposits by banks	48,710	46,898
Customer deposits	366,341	367,034
Repurchase agreements and stock lending	35,459	31,002
Customer accounts	401,800	398,036
Debt securities in issue	36,723	30,559
Settlement balances	7,799	2,844
Short positions	35,041	28,527
Derivatives	143,689	154,506
Provisions for liabilities and charges	6,995	7,757
Accruals and other liabilities	5,841	6,392
Retirement benefit liabilities	2,130	129
Deferred tax	501	583
Subordinated liabilities	10,602	12,722
Liabilities of disposal groups	14	10
Total liabilities	699,845	688,963
Equity		
Non-controlling interests	734	763
Owners' equity*		
Called up share capital	12,028	11,965

Reserves	35,729	36,365
Total equity	48,491	49,093
Total liabilities and equity	748,336	738,056
*Owners' equity attributable to:		
Ordinary shareholders	41,134	41,707
Other equity owners	6,623	6,623
	47,757	48,330

Condensed consolidated statement of changes in equity for the period ended 30 June 2018 (unaudited)

	Half year ended	
	30 June 2018	30 June 2017
	£m	£m
Called-up share capital - at beginning of period	11,965	11,823
Ordinary shares issued	63	53
At end of period	12,028	11,876
Paid-in equity - at beginning of period	4,058	4,582
Redemption call by RBS Capital Trust III (1)	-	(91)
At end of period	4,058	4,491
Share premium account - at beginning of period	887	25,693
Ordinary shares issued	108	96
Capital reduction (2)	-	(25,789)
At end of period	995	-
Merger reserve - at beginning and end of period	10,881	10,881
Fair value through other comprehensive income reserve - at beginning of period (3)	255	238
Implementation of IFRS 9 on 1 January 2018	34	-
Unrealised gains	203	100
Realised gains	(3)	(71)
Tax	(47)	(8)
At end of period	442	259
Cash flow hedging reserve - at beginning of period	227	1,030
Amount recognised in equity	(156)	(240)
Amount transferred from equity to earnings	(365)	(371)
Tax	143	156

At end of period	(151)	575
Foreign exchange reserve - at beginning of period	2,970	2,888
Retranslation of net assets	(58)	124
Foreign currency gains/(losses) on hedges of net assets	14	(8)
Tax	1	13
Recycled to profit or loss on disposal of businesses (4)	74	(33)
At end of period	3,001	2,984
Capital redemption reserve - at beginning of period	-	4,542
Capital reduction (2)	-	(4,542)
At end of period	-	-
Retained earnings - at beginning of period	17,130	(12,936)
Implementation of IFRS 9 on 1 January 2018	(105)	-
Profit attributable to ordinary shareholders and other equity owners	1,101	1,195
Equity preference dividends paid	(74)	(85)
Paid-in equity dividends paid, net of tax	(139)	(171)
Capital reduction (2)	-	30,331
Realised gains in period on FVOCI equity shares	3	-
Remeasurement of retirement benefit schemes		
- gross	-	(26)
- tax	-	(20)
Funding commitment to retirement benefit schemes (5)		
- gross	(2,000)	-
- tax	516	-
Changes in fair value of credit in financial liabilities designated at fair value through profit		
- gross	95	(77)
- tax	(16)	12
Shares issued under employee share schemes	(2)	(5)
Share-based payments		
- gross	18	(34)
At end of period	16,527	18,184

For notes to this table, refer to the following page.

Condensed consolidated statement of changes in equity for the period ended 30 June 2018 (unaudited)

	Half year ended	
	30 June	30 June

	2018	2017
	£m	£m
Own shares held - at beginning of period	(43)	(132)
Purchase of own shares	(63)	(69)
Shares issued under employee share schemes	82	156
At end of period	(24)	(45)
Owners' equity at end of period	47,757	49,205
Non-controlling interests - at beginning of period	763	795
Currency translation adjustments and other movements	(12)	20
(Loss)/profit attributable to non-controlling interests	(16)	29
Movements in Fair value through other comprehensive income - unrealised losses	(1)	-
At end of period	734	844
Total equity at end of period	48,491	50,049
Total equity is attributable to:		
Non-controlling interests	734	844
Preference shareholders	2,565	2,565
Paid-in equity holders	4,058	4,491
Ordinary shareholders	41,134	42,149
	48,491	50,049

Notes:

(1) Paid in equity reclassified to liabilities as a result of the call of RBS capital Trust D in March 2017, redeemed in June 2017.

(2) On 15 June 2017, the Court of Session approved a reduction of RBSG plc capital so that the amounts which stood to the credit of share premium account and capital redemption reserve were transferred to retained earnings.

(3) Refer to Note 2 for further information on the impact of IFRS 9 on classification and basis of preparation, half year ended 30 June 2018 prepared under IFRS 9 and half year ended 30 June 2017 under IAS 39.

(4) No tax impact.

(5) On 17 April 2018 RBS agreed a Memorandum of Understanding (MoU) with the Trustees of the RBS Group Pension Fund in connection with the requirements of ring-fencing. NatWest Markets Plc cannot continue to be a participant in the Main section and separate arrangements are required for its employees. Under the MoU NatWest Bank will make a contribution of £2 billion to strengthen funding of the Main section in recognition of the changes in covenant. The contribution will be made later in 2018.

Condensed consolidated cash flow statement for the period ended 30 June 2018 (unaudited)

	Half year ended	
	30 June	30 June
	2018	2017
	£m	£m
Operating activities		

Operating profit before tax	1,826	1,951
Adjustments for non-cash items	(1,280)	(2,181)
Net cash inflow/(outflow) from trading activities	546	(230)
Changes in operating assets and liabilities	9,408	30,797
Net cash flows from operating activities before tax	9,954	30,567
Income taxes paid	(156)	(248)
Net cash flows from operating activities	9,798	30,319
Net cash flows from investing activities	(3,769)	(6,319)
Net cash flows from financing activities	(2,307)	(4,814)
Effects of exchange rate changes on cash and cash equivalents	38	(64)
Net increase in cash and cash equivalents	3,760	19,122
Cash and cash equivalents at beginning of year	122,605	98,570
Cash and cash equivalents at end of year	126,365	117,692

Notes

1. Basis of preparation
The Group condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 ‘Interim Financial Reporting’. They should be read in conjunction with RBS’s 2017 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

Going concern
The Group’s business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 1 to 45. The risk factors which could materially affect the Group’s future results are described on pages 48 to 49.

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 results for the half year ended 30 June 2018 have been prepared on a going concern basis.

2. Accounting policies
In July 2014, the IASB published IFRS 9 ‘Financial instruments’ with an effective date of 1 January 2018. For further details see pages 261 and 262 of the Group’s 2017 Annual Report and Accounts and Appendix 2, which is consistent with the RBS Group February 2018 IFRS 9 Transition report. There has been no restatement of accounts prior to 2018. The impact on the Group’s balance sheet at 1 January 2018 is as follows:

		Impact of IFRS 9		
			Expected	
	31 December	Classification &	credit	1 January

	2017	measurement	losses	Tax	2018
	£m	£m	£m	£m	£m
Cash and balances at central banks	98,337	-	(1)	-	98,336
Net loans and advances to banks	30,251	-	(3)	-	30,248
Net loans and advances to customers	349,919	517	(524)	-	349,912
Debt securities and equity shares	79,383	44	(3)	-	79,424
Other assets	19,323	-	-	25	19,348
Total assets	738,056	561	(531)	25	738,111
Total liabilities	688,963	-	85	41	689,089
Total equity	49,093	561	(616)	(16)	49,022
Total liabilities and equity	738,056	561	(531)	25	738,111

	Total
Key differences in moving from IAS 39 to IFRS 9 on impairment loss	£m
31 December 2017 - IAS 39 impairment provision (1)	3,832
Removal of IAS 39 latent provision	(390)
IFRS 9 12 month expected credit loss (ECL) on Stage 1 and 2	513
Increase in Stage 2 ECL to lifetime (discounted)	356
Stage 3 loss estimation (EAD, LGD)	73
Impact of multiple economic scenarios	64
1 January 2018 - IFRS 9 ECL	4,448

Note:
(1) IAS 39 provision includes £28 million relating to AFS and LAR debt securities and £3,814 million relating to loans less £10 million on loans that are now carried at fair value.

The Group's principal accounting policies are as set out on pages 251 to 263 of the Group's 2017 Annual Report and Accounts. From 1 January 2018 the accounting policies have been updated to reflect the adoption of IFRS 9 as mentioned above. Other than in relation to IFRS 9 other amendments to IFRS effective for 2018, including IFRS 15 'Revenue from contracts with customers', IFRS 2 'Share-based payments' and IAS 40 'Investment Property' have not had a material effect on the Group's 2018 Interim results.

Notes

2. Accounting policies continued

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to goodwill, provisions for liabilities, deferred tax, loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgements are described on pages 259 to 261 of the Group's 2017 Annual Report and Accounts. From 1 January 2018, the previous critical accounting policy relating to loan impairment provisions has been superceded on the adoption of IFRS 9 for which details are included in Appendix 2, which is consistent with the details included in the RBS Group February 2018 IFRS 9 Transition report.

3. Analysis of income, expenses and impairment losses

	Half year ended	
	30 June	30 June

	2018 £m	2017 £m
Loans and advances to customers	4,978	5,152
Loans and advances to banks	236	120
Debt securities	230	190
Interest receivable	5,444	5,462
Customer accounts	415	328
Balances by banks	113	70
Debt securities in issue	337	254
Subordinated liabilities	226	317
Internal funding of trading businesses	27	21
Interest payable	1,118	990
Net interest income	4,326	4,472
Net fees and commissions	1,195	1,218
Foreign exchange	336	228
Interest rate	275	652
Credit	187	58
Own credit adjustments	39	(73)
Other	10	19
Income from trading activities	847	884
Loss on redemption of own debt	-	(7)
Operating lease and other rental income	128	142
Changes in the fair value of financial assets and liabilities designated as at fair value through profit or loss and related derivatives	(76)	41
Changes in fair value of investment properties	(7)	(10)
Profit on sale of securities	1	33
Profit on sale of property plant equipment	21	3
(Loss)/profit on sale of subsidiaries and associates	(9)	206
Profit/(loss) on disposal or settlement of loans and advances	22	(150)
Share of profits of associated undertakings	17	60
Other income	237	27
Other operating income	334	352
Total non-interest income	2,376	2,447
Total income	6,702	6,919

Notes

3. Analysis of income, expenses and impairment losses

	Half year ended	
	30 June 2018	30 June 2017
	£m	£m
Staff costs	(2,086)	(2,447)
Premises and equipment	(644)	(678)
Other (1)	(1,636)	(1,208)
Administrative expenses	(4,366)	(4,333)
Depreciation and amortisation	(338)	(511)
Write down of other intangible assets	(31)	(8)
Operating expenses	(4,735)	(4,852)
Impairment losses	(141)	(116)
Impairments as a % of gross loans and advances to customers	0.09%	0.07%

Note:

(1) Includes costs relating to customer redress, DoJ and litigation and other regulatory (including RMBS) – refer to Note 4 for further details.

4. Provisions for liabilities and charges

	Payment protection insurance	Other customer redress	DoJ (1)	Litigation and other regulatory (incl. RMBS)	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2018	1,053	870	3,243	641	1,950	7,757
Implementation of IFRS 9 on 1 January 2018 (2)	-	-	-	-	85	85
Currency translation and other movements	-	(5)	(119)	(4)	(1)	(129)
Charge to income statement	-	19	-	3	111	133
Releases to income statement	-	(10)	(1)	(5)	(15)	(31)
Provisions utilised	(152)	(115)	(90)	(52)	(100)	(509)
At 31 March 2018	901	759	3,033	583	2,030	7,306
RMBS transfers (1)	-	-	(567)	567	-	-
Currency translation and other movements	-	-	209	32	(24)	217
Charge to income statement	-	46	1,040	23	93	1,202
Releases to income statement	-	(51)	-	(305)	(119)	(475)
Provisions utilised	(156)	(104)	-	(189)	(806)	(1,255)
At 30 June 2018	745	650	3,715	711	1,174	6,995

Notes:

(1)

RMBS provision has been redesignated ‘DoJ’ and the remaining RMBS litigation matters transferred to Litigation and other regulatory as of 1 April 2018 to reflect progress on resolution.

(2) Refer to Note 2 for further details on the impact of IFRS 9 on classification and basis of preparation.

Notes

4. Provisions for liabilities and charges (continued)

Payment Protection Insurance (PPI)

The cumulative charge in respect of PPI is £5.1 billion, of which £4.0 billion (78%) in redress and £0.4 billion in administrative expenses had been utilised by 30 June 2018. Of the £5.1 billion cumulative charge, £4.6 billion relates to redress and £0.5 billion to administrative expenses.

The principal assumptions underlying RBS’s provision in respect of PPI sales are: assessment of the total number of complaints that RBS will receive before 29 August 2019; the proportion of these that will result in redress; and the average cost of such redress. The number of complaints has been estimated from an analysis of RBS’s portfolio of PPI policies sold by vintage and by product. Estimates of the percentage of policyholders that will lodge complaints (the take up rate) and of the number of these that will be upheld (the uphold rate) have been established based on recent experience, guidance in FCA policy statements and the expected rate of responses from proactive customer contact. The average redress assumption is based on recent experience and FCA calculation rules. The table below shows the sensitivity of the provision to changes in the principal assumptions (all other assumptions remaining the same).

			Sensitivity	
Assumption	Actual to date	Future expected	Change in assumption %	Consequential change in provision £m
Customer initiated complaints (1)	2,578k	371k	+/-5	+/-26
Uphold rate (2)	90%	89%	+/-1	+/-6
Average redress (3)	£1,673	£1,559	+/-5	+/-26
Processing cost per claim (4)	£156	£113	+/-20k claims	+/-2

Notes:

(1) Claims received directly by RBS to date, including those received via CMCs and Plevin (commission) only. Excluding those for proactive mailings and where no PPI policy exists.

(2) Average uphold rate per customer initiated claims received directly by RBS to end of timebar for both PPI (mis-sale) and Plevin (commission), excluding those for which no PPI policy exists.

(3) Average redress for PPI (mis-sale) and Plevin (commission) pay-outs.

(4) Processing costs per claim on a valid complaints basis, includes direct staff costs and associated overhead - excluding FOS fees.

Interest that will be payable on successful complaints has been included in the provision as has the estimated cost to RBS of administering the redress process. There are uncertainties as to the eventual cost of redress which will depend on actual complaint volumes, take up and uphold rates and average redress costs. Assumptions related to these are inherently uncertain and the ultimate financial impact may be different from the amount provided. We continue to monitor the position closely and refresh the underlying assumptions. Background information in relation to PPI claims is given in Note 11.

Department of Justice

In May 2018, RBSG reached a civil settlement in principle to resolve the DoJ's RMBS investigation. Under the terms of the proposed settlement, RBSG agreed, in principle, to pay a civil monetary cash penalty of US$4,901 million (£3,715 million). Of this amount, US$3,461 million (£2,675 million) is covered by existing provisions. An additional charge of US$1,440 million (£1,040 million) was taken in May 2018.

Litigation and other regulatory (incl. RMBS)
RBS is party to certain legal proceedings and regulatory investigations and continues to co-operate with a number of regulators. All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of RBS incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made.

In the US, RBS companies are subject to civil litigation and investigations relating to their issuance and underwriting of US RMBS. Detailed descriptions of such matters are given in Note 11.

Notes

4. Provisions for liabilities and charges (continued)

In March 2018, the New York Attorney General announced that it had resolved its RMBS investigation. RBS Financial Products Inc. paid US$100 million (£73 million) to the State of New York, and provided US$400 million of consumer relief credits at a cost of approximately US$130 million (£94 million). In July 2018, the Illinois Attorney General announced that it too had resolved its RMBS investigation. RBS Financial Products Inc. paid US$20 million (£15 million) to the State of Illinois to settle this matter.

RBS has released a provision of US$318 million (£241 million) which had been established to cover a judgment in favour of the US Federal Housing Finance Agency (FHFA) as conservator for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) in civil RMBS litigation against NatWest Markets Securities Inc. and Nomura Holding America Inc. and subsidiaries. In July 2018, Nomura paid the full amount due under the judgment, thereby extinguishing NatWest Markets Securities Inc.'s liability in this case.

Other
RBS recognised a £800 million provision as a consequence of the announcement in 2017 that HM Treasury is seeking a revised package of remedies that would conclude its remaining State Aid commitments. In the last quarter, costs totalling £722 million have been utilised against this provision.

5. Tax
The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 19% (2017 - 19.25%), as analysed below.

	Half year ended	
	30 June 2018	30 June 2017
	£m	£m
Profit before tax	1,826	1,951
Expected tax charge	(347)	(376)
Losses and temporary differences in period where no deferred tax asset recognised	(8)	(156)

Foreign profits taxed at other rates	1	72
Items not allowed for tax		
- losses on disposals and write-downs	(26)	(59)
- UK bank levy	(16)	(20)
- regulatory and legal actions	(154)	(21)
- other disallowable items	(34)	(34)
Non-taxable items	8	62
Taxable foreign exchange movements	(5)	9
Losses brought forward and utilised	18	3
Reduction in carrying value of deferred tax in respect of UK losses	(15)	-
Banking surcharge	(188)	(199)
Adjustments in respect of prior periods	25	(8)
Actual tax charge	(741)	(727)

At 30 June 2018, the Group has recognised a deferred tax asset of £1,815 million (31 December 2017 - £1,740 million) and a deferred tax liability of £501 million (31 December 2017 - £583 million). These include amounts recognised in respect of UK trading losses of £665 million (31 December 2017 - £680 million). Under UK tax legislation, these UK losses can be carried forward indefinitely. The Finance Act 2016 limited the offset of the UK banking losses carried forward to 25% of taxable profits. The Group has considered the carrying value of this asset as at 30 June 2018 and concluded that it is recoverable based on future profit projections.

Notes

6. Profit attributable to non-controlling interests

	Half year ended	
	30 June 2018	30 June 2017
	£m	£m
RFS Holdings BV Consortium Members	(17)	27
Other	1	2
(Loss)/profit attributable to non-controlling interests	(16)	29

7. Financial instruments: classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9/IAS 39. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and liabilities.

	MFVPL (1,2)	FVOCI (3)	Amortised cost	Other assets	Total
Assets	£m	£m	£m	£m	£m
Cash and balances at central banks	-	-	102,590		102,590
Loans and advances to banks					
- reverse repos	9,192	-	547		9,739
- other	8,003	-	10,097		18,100
Loans and advances to customers					
- reverse repos	29,167	-	10		29,177

- other	15,825	-	304,136		319,961
Debt securities	38,339	45,582	8,348		92,269
Equity shares	94	487	-		581
Settlement balances	-	-	8,325		8,325
Derivatives	151,136				151,136
Other assets	-	-	-	16,458	16,458
30 June 2018	251,756	46,069	434,053	16,458	748,336

	Held-for-trading (1) £m	DFV (4) £m	AFS (5) £m	Loans and receivables £m	Held-to-maturity £m	Other assets £m	Total £m
Cash and balances at central banks	-	-	-	98,337	-		98,337
Loans and advances to banks							
- reverse repos	11,845	-	-	2,152	-		13,997
- other	6,889	-	-	9,365	-		16,254
Loans and advances to customers							
- reverse repos	24,427	-	-	2,308	-		26,735
- other	15,320	56	-	307,808	-		323,184
Debt securities	27,481	-	43,681	3,643	4,128		78,933
Equity shares	29	134	287	-	-		450
Settlement balances	-		-	2,517			2,517
Derivatives	160,843						160,843
Other assets	-	-	-	-	-	16,806	16,806
31 December 2017	246,834	190	43,968	426,130	4,128	16,806	738,056

For the notes to this table refer to the following page.

Notes

7. Financial instruments: classification (continued)

Liabilities	Held-for-trading (1) £m	DFV (4) £m	Amortised cost £m	Other liabilities £m	Total £m
Deposits by banks					
- repos	6,255	-	2,396		8,651
- other	12,731	-	27,328		40,059
Customer accounts					
- repos	31,114	-	4,345		35,459
- other	11,266	435	354,640		366,341
Debt securities in issue	1,017	2,791	32,915		36,723
Settlement balances	-	-	7,799		7,799
Short positions	35,041	-			35,041
Derivatives	143,689				143,689
Subordinated liabilities	-	880	9,722		10,602

Other liabilities	-	-	2,160	13,321	15,481
30 June 2018	241,113	4,106	441,305	13,321	699,845

	Held-for-trading (1)	DFV (4)	Amortised cost	Other liabilities	Total
	£m	£m	£m	£m	£m
Deposits by banks					
- repos	4,030	-	3,389		7,419
- other	12,472	-	27,007		39,479
Customer accounts					
- repos	24,333	-	6,669		31,002
- other	11,513	874	354,647		367,034
Debt securities in issue	1,107	3,403	26,049		30,559
Settlement balances	-	-	2,844		2,844
Short positions	28,527	-	-		28,527
Derivatives	154,506				154,506
Subordinated liabilities	-	939	11,783		12,722
Other liabilities	-	-	2,181	12,690	14,871
31 December 2017	236,488	5,216	434,569	12,690	688,963

Notes:

(1) Includes derivative assets held for hedging purposes of £2,502 million (31 December 2017 - £2,967 million) and derivative liabilities held for hedging purposes of £3,116 million (31 December 2017 - £3,571 million).
(2) Mandatory fair value through profit or loss.
(3) Fair value through other comprehensive income.
(4) Designated as at fair value through profit or loss.
(5) Available-for-sale.

With the exception of change to IFRS 9 from IAS 39 on 1 January 2018, there were no other reclassifications in either the half year ended 30 June 2018 or the year ended 31 December 2017.

Notes

7. Financial instruments: carried at fair value - valuation hierarchy

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in the 2017 Annual Report and Accounts. Valuation, sensitivity methodologies and inputs at 30 June 2018 are consistent with those described in Note 9 to the 2017 Annual Report and Accounts.

The tables below show financial instruments carried at fair value on the balance sheet by valuation hierarchy - level 1, level 2 and level 3 and valuation sensitivities for level 3 balances.

					Level 3 sensitivity	
	Level 1	Level 2	Level 3	Total	Favourable	Unfavourable
30 June 2018	£bn	£bn	£bn	£bn	£m	£m

Assets						
Loans and advances	-	62.0	0.2	62.2	20	(10)
Debt securities	72.0	11.0	0.9	83.9	10	(10)
- of which FVOCI	42.2	3.3	0.1	45.6	-	-
Equity shares	0.2	-	0.4	0.6	40	(30)
- of which FVOCI	0.2	-	0.3	0.5	40	(30)
Derivatives	-	149.5	1.6	151.1	130	(110)
	72.2	222.5	3.1	297.8	200	(160)
Proportion	24.2%	74.8%	1.0%	100%		

31 December 2017

Assets						
Loans and advances	-	58.3	0.2	58.5	-	-
Debt securities	56.8	13.2	1.2	71.2	30	(10)
- of which AFS	37.2	6.2	0.3	43.7	-	-
Equity shares	-	0.3	0.2	0.5	20	(30)
- of which AFS	-	0.1	0.2	0.3	20	(20)
Derivatives	-	159.1	1.7	160.8	160	(170)
	56.8	230.9	3.3	291.0	210	(210)
Proportion	19.6%	79.3%	1.1%	100%		

30 June 2018

Liabilities						
Deposits	-	61.5	0.3	61.8	30	(30)
Debt securities in issue	-	3.5	0.3	3.8	-	-
Short positions	29.6	5.4	-	35.0	-	-
Derivatives	-	142.3	1.4	143.7	90	(90)
Subordinated liabilities	-	0.9	-	0.9	-	-
	29.6	213.6	2.0	245.2	120	(120)
Proportion	12.1%	87.1%	0.8%	100%		

31 December 2017

Liabilities						
Deposits	-	53.0	0.2	53.2	20	(20)
Debt securities in issue	-	4.2	0.3	4.5	10	(10)
Short positions	23.7	4.8	-	28.5	-	-
Derivatives	-	152.9	1.7	154.6	140	(140)
Subordinated liabilities	-	0.9	-	0.9	-	-
	23.7	215.8	2.2	241.7	170	(170)
Proportion	9.8%	89.3%	0.9%	100%		

For the notes to this table
refer to the following page.

Notes

7. Financial instruments: carried at fair value - valuation hierarchy (continued)

Notes:

(1) Level 1: valued using unadjusted quoted prices in active markets, for identical financial instruments. Examples include G10 government securities, listed equity shares, certain exchange-traded derivatives and certain US agency securities.

Level 2: valued using techniques based significantly on observable market data. Instruments in this category are valued using:

(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) valuation techniques where all the inputs that have a significant effect on the valuations are directly or indirectly based on observable market data.

Level 2 instruments included non-G10 government securities, most government agency securities, investment-grade corporate bonds, certain mortgage products, most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, and certain money market securities and loan commitments and most OTC derivatives.

Level 3: instruments in this category have been valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Level 3 instruments primarily include cash instruments which trade infrequently, certain syndicated mortgage loans, unlisted equity shares, certain residual interests in securitisations, asset-backed products and less liquid debt securities, certain structured debt securities in issue, and OTC derivatives where valuation depends upon unobservable inputs such as certain credit and exotic derivatives. No gain or loss is recognised on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

(2) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.

(3) For an analysis of derivatives refer to Appendix 1 - Capital and risk management - Credit risk.

(4) See Note 2 for further information on the impact of IFRS 9 on classification and basis of preparation, half year ended 30 June 2018 prepared under IFRS 9 and year ended 31 December 2017 under IAS 39.

Movement in level 3 portfolios

	Half year ended 2018				Half year ended 2017			
	MFVPL assets (1)	FVOCI assets	Total assets	Total liabilities	FVTPL assets (1)	AFS assets	Total assets	Total liabilities
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	2,965	257	3,222	2,187	4,111	426	4,537	2,997
Amount recorded in the income statement (2)	23	20	43	(233)	(410)	1	(409)	(204)
Amount recorded in the statement of comprehensive income	-	17	17	-	-	(15)	(15)	-
Level 3 transfers in	513	84	597	198	255	266	521	292
Level 3 transfers out	(181)	(1)	(182)	(107)	(404)	-	(404)	(418)
Issuances	-	-	-	24	-	-	-	-
Purchases	596	17	613	191	810	1	811	269

Settlements	(473)	-	(473)	(108)	(96)	-	(96)	(117)
Sales	(706)	(5)	(711)	(122)	(876)	(156)	(1,032)	(323)
Foreign exchange and other adjustments	1	2	3	-	(17)	(1)	(18)	9
At 30 June	2,738	391	3,129	2,030	3,373	522	3,895	2,505
Amounts recorded in the income statement in respect of balances held at year end								
- unrealised	(10)	18	8	(222)	(96)	-	(96)	629
- realised	6	3	9	7	148	-	148	(262)

Notes:

(1) Mandatory fair value through profit or loss comprises held-for-trading predominantly.

(2) Net gains on HFT instruments of £240 million (H1 2017 - £197 million losses) were recorded in income from trading activities in continuing operations. Net gains on other instruments of £36 million (H1 2017 - £8 million losses) were recorded in other operating income and interest income as appropriate in continuing operations.

Notes

7. Financial instruments: fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

	30 June 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
	£bn	£bn	£bn	£bn
Financial assets				
Loans and advances to banks	9.5	9.5	10.5	10.5
Loans and advances to customers	304.1	299.4	310.1	306.8
Debt securities	8.3	8.5	7.8	7.9
Financial liabilities				
Deposits by banks	25.0	25.1	25.9	26.0
Customer accounts	52.1	52.1	39.8	39.9
Debt securities in issue	32.9	33.8	26.0	27.3
Subordinated liabilities	9.7	10.4	11.8	12.6

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore, there is a wide range of potential valuation techniques. Changes in these assumptions would affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The table above excludes short-term financial instruments for which fair value approximates to carrying value: cash and balances at central banks, items in the course of collection from and transmission to other banks, settlement balances, demand deposits and notes in circulation.

8. Dividends

RBS has issued new ordinary shares to partially neutralise any impact on CET1 of coupon and dividend payments in respect of hybrid capital instruments. We have discussed this with the PRA and will stop the programme when we start paying ordinary dividends. Allotments in 2017 raised £300 million. In H1 2018 £85 million was raised and approximately £51 million has been raised since 30 June 2018.

9. Contingent liabilities and commitments

	30 June 2018 £m	31 December 2017 £m
Guarantees and assets pledged as collateral security	6,262	7,718
Other contingent liabilities	3,278	3,391
Standby facilities, credit lines and other commitments	122,526	124,941
Contingent liabilities and commitments	132,066	136,050

Contingent liabilities arise in the normal course of RBS's business; credit exposure is subject to the bank's normal controls. The amounts shown do not, and are not intended to, provide any indication of RBS's expectation of future losses.

Notes

10. Segmental analysis

The business is organised into the following franchises and reportable segments:

- Personal & Business Banking (PBB), comprising two reportable segments, UK Personal & Business Banking (UK PBB) and Ulster Bank RoI;
- Commercial & Private Banking (CPB), comprising two reportable segments: Commercial Banking and Private Banking;
- RBS International (RBSI) which is a single reportable segment;
- NatWest Markets (NWM), which is a single reportable segment; and
- Central items & other which comprises corporate functions.

Analysis of operating profit/(loss)

The following tables provide a segmental analysis of operating profit/(loss) by main income statement captions.

Half year ended 30 June 2018	Net interest income £m	Net fees and commissions £m	Other non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ releases £m	Operating profit/(loss) £m
UK Personal & Business Banking	2,542	546	73	3,161	(1,582)	(147)	1,432
Ulster Bank RoI	224	43	45	312	(252)	26	86
Personal & Business Banking	2,766	589	118	3,473	(1,834)	(121)	1,518
Commercial Banking	997	444	339	1,780	(849)	(19)	912

Private Banking	252	116	14	382	(225)	(1)	156
Commercial & Private Banking	1,249	560	353	2,162	(1,074)	(20)	1,068
RBS International	219	52	13	284	(114)	3	173
NatWest Markets	67	(7)	661	721	(671)	(4)	46
Central items & other	25	1	36	62	(1,042)	1	(979)
Total	4,326	1,195	1,181	6,702	(4,735)	(141)	1,826
Half year ended 30 June 2017							
UK Personal & Business Banking	2,564	568	40	3,172	(1,744)	(97)	1,331
Ulster Bank RoI	206	47	40	293	(293)	11	11
Personal & Business Banking	2,770	615	80	3,465	(2,037)	(86)	1,342
Commercial Banking	1,141	516	93	1,750	(996)	(94)	660
Private Banking	226	83	12	321	(232)	(7)	82
Commercial & Private Banking	1,367	599	105	2,071	(1,228)	(101)	742
RBS International	161	22	12	195	(94)	(5)	96
NatWest Markets	66	(10)	774	830	(1,092)	77	(185)
Central items & other	108	(8)	258	358	(401)	(1)	(44)
Total	4,472	1,218	1,229	6,919	(4,852)	(116)	1,951

	Half year ended 30 June 2018			30 June 2017		
Total revenue	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
UK Personal & Business Banking	3,577	33	3,610	3,589	17	3,606
Ulster Bank RoI	339	-	339	330	(1)	329
Personal & Business Banking	3,916	33	3,949	3,919	16	3,935
Commercial Banking	1,873	39	1,912	1,808	31	1,839
Private Banking	333	88	421	273	70	343
Commercial & Private Banking	2,206	127	2,333	2,081	101	2,182
RBS International	235	79	314	156	62	218
NatWest Markets	953	259	1,212	1,051	456	1,507
Central items & other	961	(498)	463	1,150	(635)	515
Total	8,271	-	8,271	8,357	-	8,357

Notes

10. Segmental analysis (continued)
Analysis of net fees and commissions

Half year ended 30 June 2018	UK PBB £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total £m
Fees and commissions receivable								
- Payment services	223	12	145	17	11	1	-	409
- Credit and debit card fees	257	12	51	6	-	-	-	326
- Lending (credit facilities)	237	15	154	1	17	39	-	463
- Brokerage	37	4	-	3	-	22	-	66
- Investment management	25	2	-	95	21	-	-	143
- Trade finance	1	1	66	1	2	2	-	73
- Underwriting fees	-	-	22	-	-	93	-	115
- Other	3	-	29	8	1	66	(56)	51
Total	783	46	467	131	52	223	(56)	1,646
Fees and commissions payable	(237)	(3)	(23)	(15)	-	(230)	57	(451)
Net fees and commissions	546	43	444	116	52	(7)	1	1,195
Half year ended 30 June 2017								
Fees and commissions receivable								
- Payment services	208	14	152	18	13	-	-	405
- Credit and debit card fees	263	14	48	6	-	-	-	331
- Lending (credit facilities)	253	15	208	1	6	46	-	529
- Brokerage	47	7	-	4	1	29	-	88
- Investment management	40	2	18	57	3	1	-	121
- Trade finance	-	-	81	-	3	4	-	88
- Underwriting fees	-	-	-	-	-	67	-	67
- Other	4	-	30	10	-	105	(112)	37
Total	815	52	537	96	26	252	(112)	1,666
Fees and commissions payable	(247)	(5)	(21)	(13)	(4)	(262)	104	(448)
Net fees and commissions	568	47	516	83	22	(10)	(8)	1,218

Total assets and liabilities

	30 June 2018		31 December 2017	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
UK Personal & Business Banking	192,283	184,624	190,636	183,410
Ulster Bank RoI	24,892	20,797	24,564	19,853
Personal & Business Banking	217,175	205,421	215,200	203,263

Commercial Banking	141,849	102,794	149,545	105,144
Private Banking	20,876	26,622	20,290	27,049
Commercial & Private Banking	162,725	129,416	169,835	132,193
RBS International	29,827	28,574	25,867	29,077
NatWest Markets	284,976	266,447	277,886	248,553
Central items & other	53,633	69,987	49,268	75,877
Total	748,336	699,845	738,056	688,963

Notes

11. Litigation, investigations and reviews
The Royal Bank of Scotland Group plc (the 'company' or RBSG) and certain members of the Group are party to legal proceedings and the subject of investigation and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

RBS recognises a provision for a liability in relation to these Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

While the outcome of these Matters is inherently uncertain, the directors believe that, based on the information available to them, appropriate provisions have been made in respect of the Matters as at 30 June 2018 (refer to Note 4).

In many proceedings and investigations, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and investigations or as a result of adverse impacts or restrictions on RBS's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. RBS cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

In respect of certain Matters described below, RBS has established a provision and in certain of those Matters, it has indicated that it has established a provision. RBS generally does not disclose information about the establishment or existence of a provision for a particular Matter where disclosure of the information can be expected to prejudice seriously RBS's position in the Matter.

There are situations where RBS may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations, even for those Matters for which RBS believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that RBS has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised.

Other than those discussed below, no member of the Group is or has been involved in governmental, legal or regulatory proceedings (including those which are pending or threatened) that are expected to be material, individually or in aggregate. RBS expects that in future periods additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances.

For a discussion of certain risks associated with the Group's litigation, investigations and reviews, see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out in RBS's 2017 Annual Report and Accounts on page 372 and in RBS's 2017 Annual Report on Form 20-F on page 349.

Litigation

UK 2008 rights issue shareholder litigation

Commencing from March 2013, claims were issued in the High Court of Justice of England and Wales by sets of current and former shareholders, against RBSG (and in one of those claims, also against certain former individual officers and directors) alleging that untrue and misleading statements and/or improper omissions, in breach of the Financial Services and Markets Act 2000, were made in connection with the rights issue announced by RBS on 22 April 2008.