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

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

3 August 2018

Commission file number: 001-10306

Form 6-K

The Royal Bank of Scotland Group plc

Gogarburn

PO Box 1000

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Scotland

United Kingdom

(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-_______

This report on Form 6-K, except for any information contained on any websites linked in this report, shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-222022) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Forward-looking statements

Cautionary statement regarding forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS's transformation programme, the satisfaction of the Group's residual EU State Aid obligations; the continuation of RBS's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; RBS's exposure to political and economic risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group's strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document, including in the risk factors and other uncertainties set out in the Group’s 2017 Annual Report on Form 20-F and other materials filed with, or furnished to, the US Securities and Exchange Commission, and other risk factors and uncertainties discussed in this document. These include the significant risks for RBS presented by RBS’s ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS’s ability to successfully implement the various initiatives that are comprised in its restructuring and transformation programme, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; economic, regulatory and political risks, including as may result from the uncertainty arising from Brexit and from the outcome of general elections in the UK and changes in government policies; the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); the dependence of the Group’s operations on its IT systems; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS’s ability to achieve its capital, funding, liquidity and leverage requirements or targets which will depend in part on RBS’s success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS’s ability to access sufficient sources of capital, liquidity and funding when required; RBS’s ability to satisfy its residual EU State Aid obligations and the timing thereof; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS’s strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.

Forward-looking statements

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring and transformation initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks, including risks arising out of geopolitical events and political developments; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; RBS's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny (including by competition authorities) and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS's IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the application of stabilisation or resolution powers in significant stress situations; the execution of the run-down and/or sale of certain portfolios and assets; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

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

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

Introduction

Presentation of information

In this document, 'RBSG plc' or the 'parent company' refers to The Royal Bank of Scotland Group plc, and 'RBS' or the 'Group' refers to RBSG plc and its subsidiaries.

Any information contained on any websites linked or report references in this report is for information only and shall not be deemed to be incorporated by reference in this report.

Non-GAAP financial information

RBS prepares its financial statements in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles ('GAAP'). This document contains a number of non-GAAP (or non-IFRS) financial measures. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure.

The non-GAAP financial measures used in this document generally exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management, in conjunction with IFRS financial measures, to measure performance and make decisions regarding the future direction of the business. Management believes these non-GAAP financial measures, when provided in combination with reported IFRS results, provide helpful supplementary information for investors. These adjusted measures, derived from the reported results are non-IFRS financial measures but are not a substitute to IFRS reported measures.

The main non-GAAP measures used in this document include:

- Performance, funding and credit metrics such as 'return on tangible equity', and related RWA equivalents incorporating the effect of capital deductions (RWAes), total assets excluding derivatives (funded assets), net interest margin (NIM) adjusted for items designated at fair value through profit or loss (non-statutory NIM), cost:income ratio and loan:deposit ratio. These are internal metrics used to measure business performance;
- Personal & Business Banking (PBB) franchise results, combining the reportable segments of UK Personal & Business Banking (UK PBB) and Ulster Bank RoI, Commercial & Private Banking (CPB) franchise results, combining the reportable segments of Commercial Banking and Private Banking results which are presented to provide investors with a summary of the Group's business performance; and

The Commercial Banking, Private Banking, RBS International and NatWest Markets operating segment period on period comparison is impacted by a number of business transfers executed in preparation for ring-fencing. Commentary on the movements in the period for these segments has been adjusted for these item and reconciliation notes provided.

3

Introduction

Key operating indicators

This document includes a number of operational metrics which management believes may be helpful to investors in understanding the Group's business, including the Group's position against its own targets. These metrics include performance, funding and credit metrics such as 'return on tangible equity' and related RWA equivalents incorporating the effect of capital deductions (RWAes), total assets excluding derivatives (funded assets) and net interest margin (NIM) adjusted for items designated at fair value through profit or loss (non-statutory NIM), cost:income ratio, and loan:deposit ratio. These are internal metrics used to measure business performance.

Capital and liquidity measures

Certain liquidity and capital measures and ratios are presented in this document as management believes they are helpful for investors' understanding of the liquidity and capital profile of the business and the Group's position against its own targets and applicable regulatory requirements. Some of these measures are used by management for risk management purposes and may not yet be required to be disclosed by a government, governmental authority or self-regulatory organisation. As a result, the basis of calculation of these measures may not be the same as that used by the Group's peers. These capital and liquidity measures and ratios include: the liquidity coverage ratio, stressed outflow coverage and net stable funding ratio. The Group also presents a pro forma CET1 ratio which is on an adjusted basis, this has not been prepared in accordance with Regulation S-X and should be read in conjunction with the notes provided as well as the section titled "Forward-looking Statements" on page 1.

Recent developments

It has now been confirmed by the independent body tasked with managing the previously announced alternative remedies package, Banking Competition Remedies Limited, that package is due to launch in November 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:

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

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.

Outlook [1]

We retain the outlook guidance we provided in the 2017 Annual Report on Form 20-F.

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 55 and 56 of this document and on pages 349 to 379 of the 2017 Annual Report on Form 20-F. 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 published on our website 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. The Group presents a pro forma CET1 ratio on an adjusted basis, which has not been prepared in accordance with Regulation S-X and should be read in conjunction the section titled “Forward-looking Statements” on page 1.

(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:

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Business performance summary

Summary consolidated income statement for the half year ended 30 June 2018						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2018	2017		**2018**	2018	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.

7

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	30 June		**30 June**	31 March	30 June
	2018	2017		**2018**	2018	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	31 March	31 December
				2018	2018	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	30 June	**30 June**	31 March	30 June
	2018	2017	**2018**	2018	2017
	£m	£m	**£m**	£m	£m
Total income	**312**	293	**166**	146	148
Operating expenses	**(252)**	(293)	**(124)**	(128)	(151)
Impairment releases/(losses)	**26**	11	**34**	(8)	(13)
Operating profit/(loss)	**86**	11	**76**	10	(16)
Return on equity	**7.0%**	0.8%	**12.5%**	1.6%	(2.4%)
			As at		
			30 June	31 March	31 December
			2018	2018	2017
			£bn	£bn	£bn
Net loans & advances to customers			**19.1**	19.0	19.5
Customer deposits			**17.6**	16.9	17.5
RWAs			**16.8**	16.9	18.0

H1 2018 compared with H1 2017

Total income increased by £19 million, or 6.5% (€14 million, or 4.1%), driven by £25 million (€28 million) of one-off benefits, compared with £13 million (€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 £11 million (€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 £41 million, or £14.0% (€57 million, or 16.7%), principally due to a £39 million (€45 million) reduction in strategic costs and £16 million (€20 million) lower litigation and conduct costs, partially offset by £11 million (€12 million) of one-off accrual releases in H1 2017. Staff costs were £6 million, or 6.3% (€10 million, or 8.9%), lower reflecting the benefit of recent restructuring initiatives and lower pension costs.

A net impairment release of £26 million (€30 million) reflects a more positive economic outlook and improved credit metrics across all portfolios.

Net loans and advances reduced by £0.4 billion (€0.6 billion), principally reflecting a £0.7 billion (€0.8 billion) reduction in the tracker mortgage book. Further progress was made towards building a more sustainable bank, including raising £0.9 billion (€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 £0.7 billion (€0.6 billion), supporting a reduction in the loan:deposit ratio to 108% from 115%.

RWAs reduced by £1.2 billion, or 6.7% (€1.5 billion, or 7.3%), principally reflecting an improvement in credit metrics.

Q2 2018 compared with Q1 2018

Total income increased by £20 million (€25 million) primarily due to £20 million (€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 £34 million (€39 million) compared to a charge of £8 million (€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 £27 million (€38 million) primarily due to a £25 million (€31 million) reduction in litigation and conduct costs and £9 million (€10 million) lower strategic costs.

Business performance summary

Commercial & Private Banking – Commercial Banking

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2018	2017	**2018**	2018	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	31 March	31 December
			2018	2018	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	30 June		**30 June**	31 March	30 June
	2018	2017		**2018**	2018	2017
	£m	£m		**£m**	£m	£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	31 March	31 December
				2018	2018	2017
				£bn	£bn	£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	30 June	**30 June**	31 March	30 June
	2018	2017	**2018**	2018	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	31 March	31 December
			2018	2018	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	30 June	**30 June**	31 March	30 June
	2018	2017	**2018**	2018	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	31 March	31 December
			2018	2018	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	31 December
	2018	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	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	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.										

17

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	30 June
	2018	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	31 December 2017
	£m	£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	30 June
	2018	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

23

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 on Form 20-F 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 3 to 54. The risk factors which could materially affect the Group's future results are described on pages 55 to 56.

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 252 and 253 of the Group's 2017 Annual Report on Form 20-F 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 2017	Classification & measurement	credit losses	Tax	**1 January 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 242 to 254 of the Group's 2017 Annual Report on Form 20-F. 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 250 to 252 of the Group's 2017 Annual Report on Form 20-F. 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	2017
	£m	£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	30 June
	2018	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

				Litigation		
	Payment	**Other**		**and other**		
	protection	**customer**		**regulatory**		
		redress	**DoJ (1)**		**Other**	**Total**

	insurance			(incl. RMBS)		
	£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.

26

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	
			Change in	Consequential change in
Assumption	Actual to date	Future expected	assumption %	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	30 June
	2018	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	30 June
	2018	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.

					Amortised	Other	
			MFVPL (1,2)	FVOCI (3)	cost	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)	DFV (4)	AFS (5)	Loans and receivables	Held-to-maturity	Other assets	Total
	£m	£m	£m	£m	£m	£m	£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)

	Held-for-trading (1)	DFV (4)	Amortised cost	Other liabilities	Total
Liabilities	**£m**	**£m**	**£m**	**£m**	**£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 on Form 20-F. Valuation, sensitivity methodologies and inputs at 30 June 2018 are consistent with those described in Note 9 to the 2017 Annual Report on Form 20-F.

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.