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

Edinburgh EH12 1HQ

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Form F-3 (File No. 333-222022) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.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.

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.

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	
		Ulster	Commercial	Private	RBS	NatWest	items &	Total
	UK PBB	Bank RoI	Banking	Banking	International	Markets	other (1)	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.										

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

Subordinated liabilities	**10,602**	12,722
Liabilities of disposal groups	**14**	10
Total liabilities	**699,845**	688,963
Equity		
Non-controlling interests	**734**	763
Owners' equity*		
Called up share capital	**12,028**	11,965
Reserves	**35,729**	36,365
Total equity	**48,491**	49,093
Total liabilities and equity	**748,336**	738,056
*Owners' equity attributable to:		
Ordinary shareholders	**41,134**	41,707
Other equity owners	**6,623**	6,623
	47,757	48,330

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

	Half year ended	
	30 June	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.		

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

	Half year ended	
	30 June	30 June
	2018	2017
	£m	£m
Own shares held - at beginning of period	**(43)**	(132)
Purchase of own shares	**(63)**	(69)
Shares issued under employee share schemes	**82**	156
At end of period	**(24)**	(45)
Owners' equity at end of period	**47,757**	49,205
Non-controlling interests - at beginning of period	**763**	795
Currency translation adjustments and other movements	**(12)**	20
(Loss)/profit attributable to non-controlling interests	**(16)**	29
Movements in Fair value through other comprehensive income - unrealised losses	**(1)**	-
At end of period	**734**	844
Total equity at end of period	**48,491**	50,049
Total equity is attributable to:		
Non-controlling interests	**734**	844
Preference shareholders	**2,565**	2,565
Paid-in equity holders	**4,058**	4,491
Ordinary shareholders	**41,134**	42,149
	48,491	50,049

Notes:

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

(2)

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

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

(4) No tax impact.

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

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

	Half year ended	
	30 June	30 June
	2018	2017
	£m	£m
Operating activities		
Operating profit before tax	**1,826**	1,951
Adjustments for non-cash items	**(1,280)**	(2,181)
Net cash inflow/(outflow) from trading activities	**546**	(230)
Changes in operating assets and liabilities	**9,408**	30,797
Net cash flows from operating activities before tax	**9,954**	30,567
Income taxes paid	**(156)**	(248)
Net cash flows from operating activities	**9,798**	30,319
Net cash flows from investing activities	**(3,769)**	(6,319)
Net cash flows from financing activities	**(2,307)**	(4,814)
Effects of exchange rate changes on cash and cash equivalents	**38**	(64)
Net increase in cash and cash equivalents	**3,760**	19,122
Cash and cash equivalents at beginning of year	**122,605**	98,570
Cash and cash equivalents at end of year	**126,365**	117,692

Notes

1. Basis of preparation

The Group condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting'. They should be read in conjunction with RBS's 2017 Annual Report 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.

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)

Liabilities	Held-for-trading (1) £m	DFV (4) £m	Amortised cost £m	Other liabilities £m	Total £m
Deposits by banks					
- repos	**6,255**	**-**	**2,396**		**8,651**
- other	**12,731**	**-**	**27,328**		**40,059**
Customer accounts					
- repos	**31,114**	**-**	**4,345**		**35,459**
- other	**11,266**	**435**	**354,640**		**366,341**
Debt securities in issue	**1,017**	**2,791**	**32,915**		**36,723**
Settlement balances	**-**	**-**	**7,799**		**7,799**
Short positions	**35,041**	**-**			**35,041**
Derivatives	**143,689**				**143,689**
Subordinated liabilities	**-**	**880**	**9,722**		**10,602**
Other liabilities	**-**	**-**	**2,160**	**13,321**	**15,481**
30 June 2018	**241,113**	**4,106**	**441,305**	**13,321**	**699,845**
	Held-for-trading (1) £m	DFV (4) £m	Amortised cost £m	Other liabilities £m	Total £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.							

Notes

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

Notes:

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

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

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

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

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

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

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

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

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

Movement in level 3 portfolios

	Half year ended 2018					Half year ended 2017			
	MFVPL	FVOCI	Total	Total		FVTPL	AFS	Total	Total
	assets (1)	assets	assets	liabilities		assets (1)	assets	assets	liabilities
	£m	£m	£m	£m		£m	£m	£m	£m
At 1 January	2,965	257	3,222	2,187		4,111	426	4,537	2,997
Amount recorded in the income statement (2)	23	20	43	(233)		(410)	1	(409)	(204)
Amount recorded in the statement of									
comprehensive income	-	17	17	-		-	(15)	(15)	-
Level 3 transfers in	513	84	597	198		255	266	521	292
Level 3 transfers out	(181)	(1)	(182)	(107)		(404)	-	(404)	(418)
Issuances	-	-	-	24		-	-	-	-
Purchases	596	17	613	191		810	1	811	269
Settlements	(473)	-	(473)	(108)		(96)	-	(96)	(117)
Sales	(706)	(5)	(711)	(122)		(876)	(156)	(1,032)	(323)
Foreign exchange and other adjustments	1	2	3	-		(17)	(1)	(18)	9
At 30 June	2,738	391	3,129	2,030		3,373	522	3,895	2,505
Amounts recorded in the income statement in									
respect of balances held at year end									
- unrealised	(10)	18	8	(222)		(96)	-	(96)	629
- realised	6	3	9	7		148	-	148	(262)

Notes:

(1) Mandatory fair value through profit or loss comprises held-for-trading predominantly.
(2) Net gains on HFT instruments of £240 million (H1 2017 - £197 million losses) were recorded in income from trading activities in continuing operations. Net gains on other instruments of £36 million (H1 2017 - £8 million losses) were recorded in other operating income and interest income as appropriate in continuing operations.

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Notes

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

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

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

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

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

8. Dividends

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

9. Contingent liabilities and commitments

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

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

Notes

10. Segmental analysis

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

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

Analysis of operating profit/(loss)

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

Half year ended 30 June 2018	Net interest income £m	Net fees and commissions £m	Other non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ releases £m	Operating profit/(loss) £m
UK Personal & Business Banking	2,542	546	73	3,161	(1,582)	(147)	1,432
Ulster Bank RoI	224	43	45	312	(252)	26	86
Personal & Business Banking	2,766	589	118	3,473	(1,834)	(121)	1,518
Commercial Banking	997	444	339	1,780	(849)	(19)	912
Private Banking	252	116	14	382	(225)	(1)	156
Commercial & Private Banking	1,249	560	353	2,162	(1,074)	(20)	1,068
RBS International	219	52	13	284	(114)	3	173
NatWest Markets	67	(7)	661	721	(671)	(4)	46

Central items & other	**25**	**1**	**36**	**62**	**(1,042)**	**1**	**(979)**
Total	**4,326**	**1,195**	**1,181**	**6,702**	**(4,735)**	**(141)**	**1,826**

Half year ended 30 June 2017							
UK Personal & Business Banking	2,564	568	40	3,172	(1,744)	(97)	1,331
Ulster Bank RoI	206	47	40	293	(293)	11	11
Personal & Business Banking	2,770	615	80	3,465	(2,037)	(86)	1,342
Commercial Banking	1,141	516	93	1,750	(996)	(94)	660
Private Banking	226	83	12	321	(232)	(7)	82
Commercial & Private Banking	1,367	599	105	2,071	(1,228)	(101)	742
RBS International	161	22	12	195	(94)	(5)	96
NatWest Markets	66	(10)	774	830	(1,092)	77	(185)
Central items & other	108	(8)	258	358	(401)	(1)	(44)
Total	4,472	1,218	1,229	6,919	(4,852)	(116)	1,951

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

Total	**8,271**	**-**	**8,271**		8,357	-	8,357

Notes

10. Segmental analysis (continued)

Analysis of net fees and commissions

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

- Underwriting fees	-	-	-	-	-	67	-	67
- Other	4	-	30	10	-	105	(112)	37
Total	815	52	537	96	26	252	(112)	1,666
Fees and commissions payable	(247)	(5)	(21)	(13)	(4)	(262)	104	(448)
Net fees and commissions	568	47	516	83	22	(10)	(8)	1,218

Total assets and liabilities

	30 June 2018			31 December 2017	
	Assets	**Liabilities**		Assets	Liabilities
	£m	**£m**		£m	£m
UK Personal & Business Banking	**192,283**	**184,624**		190,636	183,410
Ulster Bank RoI	**24,892**	**20,797**		24,564	19,853
Personal & Business Banking	**217,175**	**205,421**		215,200	203,263
Commercial Banking	**141,849**	**102,794**		149,545	105,144
Private Banking	**20,876**	**26,622**		20,290	27,049
Commercial & Private Banking	**162,725**	**129,416**		169,835	132,193
RBS International	**29,827**	**28,574**		25,867	29,077
NatWest Markets	**284,976**	**266,447**		277,886	248,553
Central items & other	**53,633**	**69,987**		49,268	75,877
Total	**748,336**	**699,845**		738,056	688,963

Notes

11. Litigation, investigations and reviews

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

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

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

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

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

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

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

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

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

Litigation

UK 2008 rights issue shareholder litigation

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

RBS has concluded full and final settlements with the claimants, for a total of £900 million (fully provisioned), thereby ending the proceedings. A validation and payment process for claims is well progressed.

Notes

11. Litigation, investigations and reviews continued

Residential mortgage-backed securities (RMBS) litigation in the US

RBS companies are defending a number of RMBS-related claims in the US. In general, plaintiffs in these actions claim that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued.

NatWest Markets Securities Inc. was a defendant in a lawsuit relating to RMBS issued by Nomura Holding America Inc. (Nomura) and subsidiaries, filed by 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 May 2015, the United States District Court for the Southern District of New York found Nomura and NatWest Markets Securities Inc. liable with respect to the sale of certain RMBS on the ground that the offering documents had contained materially misleading statements about the mortgage loans that backed the securitisations. This decision was affirmed by the United States Court of Appeals for the Second Circuit in September 2017, and on 25 June 2018, the United States Supreme Court rejected the defendants' request for review of the judgment. In July 2018, Nomura paid the full amount due under the judgment, thereby extinguishing NatWest Markets Securities Inc.'s liability in the case. As a result, the provision previously established to cover this liability has been released.

NatWest Markets Securities Inc. remains a defendant in a purported RMBS class action entitled New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al., which remains pending in the United States District Court for the Southern District of New York. NatWest Markets Securities Inc. settled this matter for US$55.3 million, which has been paid into escrow pending court approval of the settlement.

In addition to the above, the remaining RMBS lawsuits against RBS companies consist of cases filed by the Federal Home Loan Banks of Boston and Seattle and the Federal Deposit Insurance Corporation that together involve the issuance of less than US$1 billion of RMBS issued primarily from 2005 to 2007.

London Interbank Offered Rate (LIBOR) and other rates litigation

NatWest Markets Plc and certain other members of the Group, including RBSG, have been named as defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints are substantially similar and allege that certain members of the Group and other panel banks individually and collectively violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, were made part of a coordinated proceeding in the United States District Court for the Southern District of New York. In December 2016, the district court held that it lacks personal jurisdiction over NatWest Markets Plc with respect to certain claims. As a result of that decision, all Group companies have been dismissed from each of the USD LIBOR-related class actions (including class actions on behalf of over-the-counter plaintiffs, exchanged-based purchaser plaintiffs, bondholder plaintiffs, and lender plaintiffs), but six non-class cases in the coordinated proceeding remain pending against Group defendants. The dismissal of Group companies for lack of personal jurisdiction is the subject of a pending appeal to the United States Court of Appeals for the Second Circuit.

Among the non-class claims dismissed by the New York federal court in December 2016 were claims that the US Federal Deposit Insurance Corporation (FDIC) had asserted on behalf of certain failed US banks. On 10 July 2017, the FDIC, on behalf of 39 failed US banks, commenced substantially similar claims against RBS companies and others in the High Court of Justice of England and Wales. The action alleges that the defendants breached English and European competition law as well as asserting common law claims of fraud under US law.

Notes

11. Litigation, investigations and reviews continued

Certain members of the Group have also been named as defendants in two class actions relating to JPY LIBOR and Euroyen TIBOR, both pending before the same judge in the United States District Court for the Southern District of New York. In the first class action, which relates to Euroyen TIBOR futures contracts, the court dismissed the plaintiffs' antitrust claims in March 2014, but declined to dismiss their contract claims under the Commodity Exchange Act for price manipulation, and the case is proceeding in the discovery phase. The second class action relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR. The court dismissed that case on 10 March 2017 on the ground that the plaintiffs lack standing. Plaintiffs have commenced an appeal of that decision.

Certain members of the Group have also been named as defendants in class actions relating to (i) Euribor, (ii) Swiss Franc LIBOR (iii) Pound sterling LIBOR, (iv) the Singapore Interbank Offered Rate and Singapore Swap Offer Rate, and (v) the Australian Bank Bill Swap Reference Rate, all of which are pending before other judges in the United States District Court for the Southern District of New York. On 21 February 2017, the court in the action relating to Euribor dismissed all claims alleged against RBS companies for lack of personal jurisdiction. On 18 August 2017, the court in the action relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate dismissed all claims against RBS companies for lack of personal jurisdiction; however, the court allowed the plaintiffs to replead their complaint, and defendants' renewed motion to dismiss the amended complaint is pending.

On 25 September 2017, the court in the action relating to Swiss Franc LIBOR dismissed all claims against all defendants on various grounds; however, the court held that it has personal jurisdiction over NatWest Markets Plc and allowed the plaintiffs to replead their complaint, and defendants' renewed motion to dismiss the amended complaint is pending. The other matters described in the preceding paragraph (relating to Pound Sterling LIBOR and the Australian Bank Bill Swap Reference Rate) are subject to motions to dismiss that are currently pending.

NatWest Markets Plc has also been named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel.

Details of UK litigation claims in relation to the sale of interest rate hedging products (IRHPs) involving LIBOR-related allegations are set out under 'Interest rate hedging products litigation' on page 40. Details of LIBOR investigations involving RBS are set out under 'Investigations and reviews' on page 43.

ISDAFIX antitrust litigation

In 2015, NatWest Markets Plc reached an agreement to settle class action claims filed in the United States District Court for the Southern District of New York relating to alleged manipulation of USD ISDAFIX rates. Pursuant to the settlement, NatWest Markets Plc paid US$50 million into escrow pending final court approval of the settlement, which was granted on 1 June 2018.

FX antitrust litigation

NatWest Markets Plc and certain other members of the Group, including RBSG, are defendants in several purported class action cases relating to NatWest Markets Plc’s foreign exchange (FX) business, each of which is pending before the same federal judge in the United States District Court for the Southern District of New York. In 2015, RBS companies settled the consolidated antitrust class action which asserted claims on behalf of persons who entered into (a) over-the-counter foreign exchange (FX) spot transactions, forwards, swaps, futures, options or other FX transactions the trading or settlement of which is related in any way to FX rates, or (b) exchange-traded FX instruments. Following the Court’s preliminary approval of the settlement in December 2015, NatWest Markets Plc paid the total settlement amount (US$255 million) into escrow pending final court approval of the settlement. A second FX-related class action on behalf of ‘consumers and end-user businesses,’ is proceeding in the discovery phase following the court’s denial of the defendants’ motions to dismiss in March 2018.

A third FX-related class action, asserting Employee Retirement Income Security Act claims on behalf of employee benefit plans that engaged in FX transactions, including claims based on alleged non-collusive FX-related conduct, was dismissed in September 2016 on the ground that the plaintiffs failed to plead that the defendants had ERISA-based fiduciary duties to the plaintiffs. On 10 July 2018, the United States Court of Appeals for the Second Circuit affirmed the dismissal of this case.

Notes

11. Litigation, investigations and reviews continued

A fourth FX-related class action asserts federal and state antitrust claims on behalf of 'indirect purchasers' of FX instruments, which plaintiffs define as persons who were indirectly affected by FX instruments that others entered into directly with defendant banks or on exchanges. On 15 March 2018, the court granted defendants' motion to dismiss this case on a number of grounds, including failure to plead proximate cause and antitrust standing. Plaintiffs are seeking permission to file an amended complaint.

On 12 July 2017, Alpari (US) LLC (Alpari) filed a class action complaint against RBS companies alleging they breached contracts with Alpari and other counterparties by rejecting FX orders placed over electronic trading platforms through the application of a function referred to as 'Last Look', and that the rejected orders were later filled at prices less favourable to putative class members. The complaint contains claims for breach of contract and unjust enrichment. On 12 April 2018, the court granted a motion by RBS to compel arbitration of Alpari's claims.

Certain other foreign exchange transaction related claims have been or may be threatened against RBS companies in the US and other jurisdictions. RBS cannot predict whether any of these claims will be pursued, but expects that several may.

US Treasury securities antitrust litigation

NatWest Markets Securities Inc. is a defendant in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that NatWest Markets Securities Inc. and the other defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The defendants' motion to dismiss this matter remains pending.

Swaps antitrust litigation

NatWest Markets Plc and other members of the Group, including RBSG, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the United States District Court for the Southern District of New York alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities, TeraExchange, Javelin, and trueEx (which filed its claims on 14 June 2018). The swap exchange facilities allege that they would have successfully established exchange-like trading of interest rate swaps if the defendant dealers had not unlawfully conspired to prevent that from happening through boycotts and other means.

In July 2017, the Court overseeing these matters dismissed all claims relating to the 2008 - 2012 time period, but declined to dismiss certain antitrust and unjust enrichment claims covering the 2013 - 2016 time period. Discovery is ongoing.

In addition, on 8 June 2017, TeraExchange filed a complaint against RBS companies, including RBSG, as well as a number of other credit default swap dealers, in the United States District Court for the Southern District of New York, this time relating to credit default swaps instead of interest rate swaps. TeraExchange alleges it would have established exchange-like trading of credit default swaps if the defendant dealers had not engaged in an unlawful antitrust conspiracy. The defendants have filed a motion to dismiss the complaint in this matter.

Total Value Annuity litigation

On 22 May 2018, a class action complaint was filed in the United States District Court for Kansas against Security Benefit Life, Guggenheim Partners and NatWest Markets Plc. The complaint alleges that the defendants conspired to defraud purchasers of Security Benefit Life’s Total Value Annuity, an annuity product linked to the Annuity Linked TVI Index maintained by NatWest Markets Plc.

Madoff

NatWest Markets N.V. (NWM N.V.) is a defendant in two actions filed by Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York. In both cases, the trustee alleges that certain transfers received by NatWest Markets N.V. amounted to fraudulent conveyances that should be clawed back for the benefit of the Madoff estate.

Notes

11. Litigation, investigations and reviews continued

In the primary action, filed in December 2010, the trustee seeks to recover US$75.8 million in redemptions that NatWest Markets N.V. allegedly received from certain Madoff feeder funds and US$162.1 million that NatWest Markets N.V. allegedly received from certain swap counterparties. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. In November 2016, the bankruptcy court dismissed the second case on international comity grounds, and that decision is currently on appeal to the United States Court of Appeals for the Second Circuit. The primary case remains pending before the bankruptcy court, where it will be subject to a further motion to dismiss.

Thornburg adversary proceeding

NatWest Markets Securities Inc. and certain other RBS companies, as well as several other financial institutions, are defendants in an adversary proceeding filed in the US bankruptcy court in Maryland by the trustee for TMST, Inc. (formerly known as Thornburg Mortgage, Inc.). The trustee seeks recovery of transfers made under certain restructuring agreements as, among other things, avoidable fraudulent and preferential conveyances and transfers. In September 2014, the Court largely denied the defendants' motion to dismiss this matter and, as a result, discovery is ongoing.

Interest rate hedging products and similar litigation

RBS is dealing with a large number of active litigation claims in the UK in relation to the alleged mis-selling of interest rate hedging products (IRHPs). In general claimants allege that the relevant IRHPs were mis-sold to them, with some also alleging that misrepresentations were made in relation to LIBOR. Claims have been brought by customers who were considered under the UK Financial Conduct Authority (FCA) redress programme for IRHPs, as well as customers who were outside of the scope of that programme, which was closed to new entrants on 31 March 2015. RBS remains exposed to potential claims from customers who were either ineligible to be considered for redress or who are dissatisfied with their redress offers.

Property Alliance Group (PAG) v NatWest Markets Plc was the leading case before the English High Court involving both IRHP mis-selling and LIBOR misconduct allegations. The amount claimed was £34.8 million and the trial ended in October 2016. In December 2016 the Court dismissed all of PAG's claims. PAG appealed that decision, and the Court of Appeal's judgment dismissing the appeal was handed down on 2 March 2018. The decision may impact other IRHP and LIBOR-related cases currently pending in the English courts, some of which involve substantial amounts. On 24 July 2018 the Supreme Court declined the request from PAG for permission to appeal an aspect of the judgment relating to implied representations of Sterling LIBOR rates.

The case of London Bridge Holdings Ltd and others v NatWest Markets Plc had been stayed pending the outcome of the application to appeal to the Supreme Court by PAG. The sum claimed in that case is £446.7 million.

Separately, NatWest Markets Plc is defending claims filed in France by five French local authorities relating to structured interest rate swaps. The plaintiffs allege, among other things, that the swaps are void for being illegal transactions, that they were mis-sold, and that information / advisory duties were breached. Four of the claims were dismissed but are the subject of pending appeals. The fifth claim remains to be heard before the lower courts.

Tax dispute

HMRC issued a tax assessment in 2012 against NatWest Markets Plc for approximately £86 million regarding a value-added-tax ('VAT') matter in relation to the trading of European Union Allowances ('EUAs') by an RBS joint venture subsidiary in 2009. RBS has commenced legal proceedings before the First-tier Tribunal (Tax), a specialist tax tribunal, challenging the assessment (the 'Tax Dispute'). In the event that the assessment is upheld, interest and costs would be payable, and a penalty of up to 100 per cent of the VAT held to have been legitimately denied by HMRC could also be levied. Separately, RBS is a named defendant in proceedings before the High Court brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in EUAs in 2009 and are alleged to be defaulting traders within (or otherwise connected to) the EUA supply chains forming the subject of the Tax Dispute. The Claimants claim approximately £80 million plus interest and costs and allege that NatWest Markets Plc dishonestly assisted the directors of the Liquidated Companies in the breach of their statutory duties and/or knowingly participated in the carrying on of the business of the Liquidated Companies with intent to defraud creditors. The trial in that matter concluded on 20 July 2018 and judgment is awaited.

Notes

11. Litigation, investigations and reviews continued

US Anti-Terrorism Act litigation

NatWest Bank Plc is defending a lawsuit filed in the United States District Court for the Eastern District of New York by a number of US nationals (or their estates, survivors, or heirs) who were victims of terrorist attacks in Israel. The plaintiffs allege that NatWest Bank Plc is liable for damages arising from those attacks pursuant to the US Anti-Terrorism Act because NatWest Bank Plc previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks.

In October 2017, the trial court dismissed claims against NatWest Bank Plc with respect to two of the 18 terrorist attacks at issue. On 14 March 2018, the trial court granted a request by NatWest Bank Plc for leave to file a renewed summary judgment motion in respect of the remaining claims, which has now been filed. No trial date has been set.

NatWest Markets N.V. and certain other financial institutions are defendants in an action pending in the United States District Court for the Eastern District of New York, filed in November 2014, by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in more than 90 attacks in Iraq between 2004 and 2011.

The attacks were allegedly perpetrated by Hezbollah and certain Iraqi terror cells allegedly funded by the Islamic Republic of Iran. According to the plaintiffs' allegations, NatWest Markets N.V. and the other defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected. On 27 July 2018, a magistrate issued a report to the district court recommending that the district court deny the defendants' pending motion to dismiss. NatWest Markets N.V. anticipates requesting that the district court grant the motion to dismiss notwithstanding the magistrate's recommendation.

An additional set of plaintiffs filed a second, substantially similar action against NatWest Markets N.V. and other financial institutions in November 2016. That case was pending in the United States District Court for the Eastern District of New York until October 2017, when the plaintiffs, instead of responding to defendants' motion to dismiss, voluntarily dismissed their claims without prejudice to re-filing at a later date.

In November 2017, a third set of plaintiffs filed an action against NatWest Markets N.V., NatWest Markets Plc, and others in the United States District Court for the Southern District of New York. The allegations are substantially similar to the allegations contained in the complaints described above and concern 55 attacks in Iraq between 2003 and 2011. The defendants have made a motion to dismiss this matter which is currently pending.

Securities underwriting litigation

NatWest Markets Securities Inc. is an underwriter defendant in several securities class actions in the US in which plaintiffs generally allege that an issuer of public debt or equity securities, as well as the underwriters of the securities (including NatWest Markets Securities Inc.), are liable to purchasers for misrepresentations and omissions made in connection with the offering of such securities.

Investigations and reviews

RBS's businesses and financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. RBS has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, business conduct, competition/anti-trust, anti-bribery, anti-money laundering and sanctions regimes.

The NatWest Markets business in particular has been providing information regarding a variety of matters, including, for example, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, and various issues relating to the issuance, underwriting, and sales and trading of fixed-income securities, including structured products and government securities.

Notes

11. Litigation, investigations and reviews continued

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by RBS, remediation of systems and controls, public or private censure, restriction of RBS's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on RBS, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

RBS is co-operating fully with the investigations and reviews described below.

RMBS and other securitised products investigations

In the US, RBS companies are or have been involved in reviews, investigations and proceedings (both formal and informal) by federal and state governmental law enforcement and other agencies and self-regulatory organisations, including the US Department of Justice (DoJ) and certain state attorneys general, relating to, among other things, issuance, underwriting and trading in RMBS and other mortgage-backed securities and collateralised debt obligations (CDOs).

On 10 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$4.9 billion. Of this amount, US$3.46 billion is covered by existing provisions, with an additional provision of US$1.44 billion taken in H1 2018.

On 6 March 2018, the New York Attorney General announced that it had resolved its RMBS investigation. RBS Financial Products Inc. paid US$100 million to the State of New York, and provided US$400 million of consumer relief credits at a cost of approximately US$130 million. On 3 July 2018, the Illinois Attorney General announced that it too had resolved its RMBS investigation. RBS Financial Products Inc. paid US$20 million to the State of Illinois to settle this matter.

Certain other state attorneys general sought information regarding the same or similar issues, and RBS is aware that at least one such investigation is ongoing.

On 26 October 2017, the United States Attorney for the District of Connecticut (USAO) announced that it had entered into a Non-Prosecution Agreement (NPA) with NatWest Markets Securities Inc. in connection with alleged misrepresentations to counterparties relating to secondary trading in various forms of asset-backed securities. The NPA required NatWest Markets Securities Inc. to pay a penalty of US$35 million, reimburse customers at least US$9.1 million, and continue to co-operate with the investigation.

The USAO agreed in the NPA not to file criminal charges against NatWest Markets Securities Inc. relating to certain conduct and information described in the NPA if NatWest Markets Securities Inc. complies with the NPA during its one-year term. In March and December 2015, two former NatWest Markets Securities Inc. traders entered guilty pleas in the United States District Court for the District of Connecticut, each to one count of conspiracy to commit securities fraud while employed at NatWest Markets Securities Inc.

US mortgages - loan repurchase matters

RBS's NatWest Markets business in North America was a purchaser of non-agency residential mortgages in the secondary market, and an issuer and underwriter of non-agency RMBS.

In issuing RMBS, NatWest Markets in some circumstances made representations and warranties regarding the characteristics of the underlying loans. As a result, NatWest Markets may be, or may have been, contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of such representations and warranties. Depending on the extent to which such loan repurchase related claims are pursued against and not rebutted by NatWest Markets on timeliness or other grounds, the aggregate potential impact on RBS, if any, may be material.

Notes

11. Litigation, investigations and reviews continued

LIBOR and other trading rates

From February 2013 to December 2016, RBS entered into settlements with various governmental authorities in relation to investigations into submissions, communications and procedures around the setting of LIBOR and other interest rates and interest rate trading, which, among other things, required RBS to pay significant penalties. As part of these resolutions, RBS made certain undertakings regarding benchmark interest rates, including the undertakings contained in its February 2013 resolution with the Commodity Futures Trading Commission (CFTC).

RBS continues to co-operate with investigations and requests for information by various other governmental and regulatory authorities, including in the UK, US and APAC.

On 3 February 2017, it was announced that RBS and the CFTC entered into a civil settlement resolving the CFTC's investigation of ISDAFIX and related trading activities. As part of the settlement, RBS has paid a penalty of US$85 million and agreed to certain undertakings.

Foreign exchange related investigations

In 2014 and 2015, NatWest Markets Plc paid significant penalties to resolve investigations into its FX business by the FCA, the CFTC, the DoJ, and the Board of Governors of the Federal Reserve System (Federal Reserve). As part of its plea agreement with the DoJ, NatWest Markets Plc pled guilty to a one-count information charging an antitrust conspiracy occurring between as early as December 2007 to at least April 2010. NatWest Markets Plc admitted that it knowingly, through one of its euro/US dollar currency traders, joined and participated in a conspiracy to eliminate competition in the purchase and sale of the euro/US dollar currency pair exchanged in the FX spot market. On 5 January 2017, the United States District Court for the District of Connecticut imposed a sentence on NatWest Markets Plc consisting of a US$395 million fine and a three-year probation, which among other things, prohibits NatWest Markets Plc from committing another crime in violation of US law or engaging in the FX trading practices that form the basis for the charged crime and requires NatWest Markets Plc to implement a compliance program designed to prevent and detect the unlawful conduct at issue and to strengthen its compliance and internal controls as required by other regulators (including the FCA and the CFTC). A violation of the terms of probation could lead to the imposition of additional penalties.

As part of the settlement with the Federal Reserve, NatWest Markets Plc and NatWest Markets Securities Inc. entered into a cease and desist order (the FX Order). In the FX Order, which is publicly available and will remain in effect until terminated by the Federal Reserve, NatWest Markets Plc and NatWest Markets Securities Inc. agreed to take certain remedial actions with respect to FX activities and certain other designated market activities, including the creation of an enhanced written internal controls and compliance program, an improved compliance risk management program, and an enhanced internal audit program. NatWest Markets Plc and NatWest Markets Securities Inc. are obligated to implement and comply with these programs as approved by the Federal Reserve, and are also required to conduct, on an annual basis, a review of applicable compliance policies and procedures and a risk-focused sampling of key controls.

NatWest Markets Plc is co-operating with investigations and responding to inquiries from other governmental and regulatory (including competition) authorities on similar issues relating to failings in its FX business. The timing and amount of financial penalties with respect to any further settlements and related litigation risks and collateral consequences remain uncertain and may well be material.

FCA review of RBS's treatment of SMEs

In November 2013, a report by Lawrence Tomlinson, entrepreneur in residence at the UK Government's Department for Business Innovation and Skills, was published ('Tomlinson Report'). The Tomlinson Report was critical of RBS's treatment of SMEs.

The Tomlinson Report was passed to the PRA and FCA. Shortly thereafter, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act to review the allegations in the Tomlinson Report. The Skilled Person's review was focused on RBS's UK small and medium sized business customers with credit exposures of up to £20 million whose relationship was managed within RBS's Global Restructuring Group (GRG).

Notes

11. Litigation, investigations and reviews continued

The Skilled Person delivered its final report to the FCA during September 2016, and the FCA published an update in November 2016. In response, RBS announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an Independent Third Party. They were developed with the involvement of the FCA, which agreed that they were appropriate steps for RBS to take. On 20 July 2018, RBS wrote to all eligible UK customers who had yet to submit a complaint to the GRG complaints process to provide three months' notice that the complaints process will close to new complaints on 22 October 2018. The closure date for new complaints in the Republic of Ireland is still to be agreed.

RBS estimates the costs associated with the complaints review process and the automatic refund of complex fees to be approximately £400 million, which was recognised as a provision in 2016. This includes operational costs together with the cost of refunded complex fees and the additional estimated redress costs arising from the complaints process. Of the £400 million provision, £216 million had been utilised by 30 June 2018.

On 23 October 2017, the FCA published an interim report incorporating a summary of the Skilled Person's report and confirmed that the FCA had decided to carry out a more focused investigation. The FCA published its final summary of the Skilled Person's report on 28 November 2017. The UK House of Commons Treasury Select Committee, seeking to rely on Parliamentary powers, published the full version of the Skilled Person's report on 20 February 2018. On 31 July 2018, the FCA confirmed that it had concluded its investigation and that it does not intend to take disciplinary or prohibitory action against any person in relation to these matters.

Judicial Review of Skilled Person's role in IRHP review

RBS has been named as an interested party in a number of claims for judicial review of KPMG's decisions as Skilled Person in RBS's previously disclosed IRHP redress programme. This follows a similar claim from a customer of another UK bank, also against KPMG.

All of these claims were stayed pending the outcome of the other bank's case. The trial in that case was heard in January 2016. The court decided in favour of KPMG, finding that (1) KPMG is not a body amenable to judicial review in respect of its role as Skilled Person in this matter; and (2) that there was no unfairness by the other bank in the procedure adopted. The claimant was granted permission to appeal that decision, and the appeal hearing took place in May 2018.

The majority of the claims that name RBS as an interested party have been discontinued but there are still several cases which remain stayed pending the outcome of the appeal in the other bank's case. If the appeal court finds that a section 166-appointed Skilled Person is susceptible to judicial review, these remaining claims against RBS may then proceed to full hearing to assess the fairness of KPMG's role in the redress programme in those particular cases. If deemed unfair, this could have a consequential impact on the reasonableness of the methodology applied to reviewed and settled IRHP files generally. As there remains some uncertainty, it is not practicable reliably to estimate the impact of this matter, if any, on RBS which may be material.

Investment advice review

In February 2013, the FSA announced the results of a mystery shopping review it undertook into the investment advice offered by banks and building societies to retail clients. As a result of that review, the FCA required RBS to carry out a past business review and customer contact exercise on a sample of historic customers that received investment advice on certain lump sum products, during the period from March 2012 until December 2012. The review was conducted under section 166 of the Financial Services and Markets Act, under which a Skilled Person was appointed to carry out the exercise. Redress was paid to certain customers in that sample group.

Notes

11. Litigation, investigations and reviews continued

Following discussions with the FCA after issue of the draft section 166 report, RBS agreed with the FCA that it would carry out a wider review/remediation exercise relating to certain investment, insurance and pension sales from 1 January 2011 to 1 April 2015. That was due to finish at the end of Q1 2018 but the deadline was extended, with completion now anticipated by the end of Q3 2018. This is due to additional products being brought into scope. Phase 2 (covering sales in 2010) started in April 2018 and is targeted for completion by the end of Q4 2018.

In addition, RBS agreed with the FCA that it would carry out a remediation exercise, for a specific customer segment who were sold a particular structured product, in response to concerns raised by the FCA with regard to (a) the target market for the product and (b) how the product may have been described to certain customers. Redress was paid to certain customers who took out the structured product.

RBS provisions in relation to investment advice total £204 million to date for these matters, of which £116 million had been utilised by 30 June 2018.

Packaged accounts

As a result of an uplift in packaged current account complaints, RBS proactively put in place dedicated resources in 2013 to investigate and resolve complaints on an individual basis. RBS has made gross provisions totalling £444 million to date for this matter.

The FCA conducted a thematic review of packaged bank accounts across the UK from October 2014 to April 2016, the results of which were published in October 2016. RBS continues to take into consideration and, where relevant, address the findings from this review.

FCA investigation into RBS plc’s compliance with the Money Laundering Regulations 2007

On 21 July 2017, the FCA notified RBS that it was undertaking an investigation into RBS plc’s compliance with the Money Laundering Regulations 2007 in relation to certain customers. Following amendment to the scope of the investigation, there are currently two areas under review: (1) compliance with Money Laundering Regulations in respect of Money Service Business customers; and (2) the Suspicious Transactions regime in relation to the events surrounding particular customers. The investigations in both areas are assessing both criminal and civil culpability. RBS is cooperating with the investigations.

Payment Protection Insurance (PPI)

Since 2011, RBS has been implementing the FCA's policy statement for the handling of complaints about the mis-selling of PPI (Policy Statement 10/12). In August 2017, the FCA's new rules and guidance on PPI complaints handling (Policy Statement 17/3) came into force. The Policy Statement introduced new so called 'Plevin' rules, under which customers may be eligible for redress if the bank earned a high level of commission from the sale of PPI, but did not disclose this detail at the point of sale. The Policy Statement also introduced a two year PPI deadline, due to expire in August 2019, before which new PPI complaints must be made. RBS is implementing the Policy Statement.

RBS has made provisions totalling £5.1 billion to date for PPI claims. Of the £5.1 billion cumulative provision, £4.4 billion had been utilised by 30 June 2018.

UK retail banking

In November 2014, the CMA announced its decision to proceed with a market investigation reference (MIR) into retail banking, which would cover personal current account (PCA) and SME banking. On 9 August 2016, the CMA published its final report, which outlined a number of remedies making it easier for customers to compare products, ensure customers benefit from technological advantages around open banking, improve the current account switching service and provide PCA overdraft customers with greater control over their charges, together with additional measures targeted at SME customers.

On 2 February 2017 the CMA published the Retail Banking Market Investigation Order 2017, which is the primary legal framework setting out the obligations for the implementation of the majority of remedies. At this stage there remains uncertainty around the financial impact of the remedies and so it is not practicable to estimate the potential impact on RBS, which may be material.

Notes

11. Litigation, investigations and reviews continued

FCA Mortgages Market Study

In December 2016, the FCA launched a market study into the provision of mortgages. On 4 May 2018 the interim report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. Following a period of consultation, the final report is due to be published towards the end of 2018. At this stage, as there is considerable uncertainty around the outcome of this market study, it is not practicable reliably to estimate the aggregate impact, if any, on RBS which may be material.

FCA Strategic Review of Retail Banking Models

On 11 May 2017 the FCA announced a two phase strategic review of retail banking models. The FCA will use the review to understand how these models operate, including how ‘free if in credit’ banking is paid for and the impact of changes such as increased use of digital channels and reduced branch usage.

Phase 1 allowed the FCA to enhance its understanding of existing models and how these impact competition and conduct. On 27 June 2018 the FCA published a project update outlining findings from Phase 1. Phase 2 will now evaluate the impacts of economic, technological, social and regulatory factors on these models.

At this early stage, as there is considerable uncertainty around the outcome of this review, it is not practicable reliably to estimate the aggregate impact, if any, on RBS, which in due course may be material.

Governance and risk management consent order

In July 2011, RBS agreed with the Board of Governors of the Federal Reserve System, the New York State Banking Department, the Connecticut Department of Banking, and the Illinois Department of Financial and Professional Regulation to enter into a consent Cease and Desist Order (‘the Governance Order’) to address deficiencies related to governance, risk management and compliance systems and controls in the US branches of NatWest Markets Plc and NatWest Markets N.V.. The RBS entities’ obligations under the Governance Order were terminated by the regulators in the first half of 2018.

US dollar processing consent order

In December 2013 RBS and NatWest Markets Plc agreed a settlement with the Federal Reserve, the New York State Department of Financial Services (DFS), and the Office of Foreign Assets Control (OFAC) with respect to NatWest Markets Plc's historical compliancewith US economic sanction regulations outside the US by business lines that were then located within that entity. As part of the settlement, RBS and NatWest Markets Plc entered into a consent Cease and Desist Order with the Federal Reserve (US Dollar Processing Order), which remains in effect until terminated by the Federal Reserve. The US Dollar Processing Order (which is publicly available) indicated, among other things, that RBS and NatWest Markets Plc lacked adequate risk management and legal review policies and procedures to ensure that activities conducted outside the US comply with applicable OFAC regulations.

RBS agreed to create an OFAC compliance programme to ensure compliance with OFAC regulations by RBS's global business lines outside the US, and to adopt, implement, and comply with the programme. Prior to and in connection with the US Dollar Processing Order, RBS has made investments in technology, hired and trained personnel, and revised compliance, risk management, and other policies and procedures.

Under the US Dollar Processing Order (as part of the OFAC compliance programme) RBS was required to appoint an independent consultant to conduct an annual review of OFAC compliance policies and procedures and their implementation and an appropriate risk-focused sampling of US dollar payments. RBS appointed the independent consultant and their reports have been submitted annually. No reportable issues have been identified.

US/Swiss tax programme

In December 2015, Coutts & Co Ltd., a member of the Group incorporated in Switzerland, entered into a non-prosecution agreement (the NPA) with the DoJ. This was entered into as part of the DoJ's programme for Swiss banks, related to its investigations of the role that Swiss banks played in concealing the assets of US tax payers in offshore accounts (US related accounts). Coutts & Co Ltd. paid a US$78.5 million penalty and acknowledged responsibility for certain conduct set forth in a statement of facts accompanying the agreement. Under the NPA, which has a term of four years, Coutts & Co Ltd. is required, among other things, to provide certain information, cooperate with DoJ's investigations, and commit no U.S. federal offences. If Coutts & Co Ltd. abides by the NPA, the DoJ will not prosecute it for certain tax-related and monetary transaction offences in connection with US related accounts. Since the signing of the NPA in 2015, Coutts & Co Ltd has identified and disclosed to the DoJ a number of US related accounts that were not included in its original submission supporting the NPA. Coutts & Co Ltd is in discussions with the DoJ regarding these additional accounts.

Notes

11. Litigation, investigations and reviews continued

Enforcement proceedings and investigations in relation to Coutts & Co Ltd

In February 2017, the Swiss Financial Market Supervisory Authority (FINMA) took enforcement action against Coutts & Co Ltd, a member of RBS incorporated in Switzerland, with regard to failures of money laundering checks and controls on certain client accounts that were connected with the Malaysian sovereign wealth fund, 1MDB, and were held with Coutts & Co Ltd. FINMA accordingly required Coutts & Co Ltd to disgorge profits of CHF 6.5 million. FINMA is currently investigating two former employees in connection with 1MDB.

In addition, the Monetary Authority of Singapore (MAS)'s supervisory examination of Coutts & Co Ltd's Singapore branch revealed breaches of anti-money laundering requirements. MAS imposed on Coutts & Co Ltd financial penalties amounting to SGD 2.4 million in December 2016.

In addition, Coutts & Co Ltd continues to assist with investigations and enquiries from authorities where requested to do so.

Regulator requests concerning certain historic Russian transactions

Media coverage in 2017 highlighted an alleged money laundering scheme involving Russian entities between 2010 and 2014. Allegedly certain European banks, including RBS and 16 other UK based financial institutions, and certain US banks, were involved in processing certain transactions associated with this scheme. RBS has responded to requests for information from the FCA, PRA and regulators in other jurisdictions.

Review and investigation of treatment of tracker mortgage customers in Ulster Bank Ireland DAC (formerly Ulster Bank Ireland Limited)

In December 2015, the Central Bank of Ireland (CBI) announced that it had written to a number of lenders requiring them to put in place a robust plan and framework to review the treatment of customers who have been sold mortgages with a tracker interest rate or with a tracker interest rate entitlement. The CBI stated that the intended purpose of the review was to identify any cases where customers' contractual rights under the terms of their mortgage agreements were not fully honoured, or where lenders did not fully comply with various regulatory requirements and standards regarding disclosure and transparency for customers. The CBI has required Ulster Bank Ireland DAC (UBI DAC), a member of the Group incorporated in the Republic of Ireland, to participate in this review and UBI DAC is co-operating with the CBI in this regard. UBI DAC submitted its phase 2 report to the CBI in March 2017, identifying impacted customers. The redress and compensation phase (phase 3) commenced in Q4 2017 and is ongoing.

RBS has made provisions totaling €297 million (£263 million) to date for this matter. Of the €297 million (£263 million) cumulative provision, €149 million (£132 million) had been utilised by 30 June 2018.

Separately, in April 2016, the CBI notified UBI DAC that it was also commencing an investigation under its Administrative Sanctions Procedure into suspected breaches of the Consumer Protection Code 2006 during the period 4 August 2006 to 30 June 2008 in relation to certain customers who switched from tracker mortgages to fixed rate mortgages. This investigation is ongoing and UBI DAC continues to co-operate with the CBI.

As part of an internal review of the wider retail and commercial loan portfolios extending from the tracker mortgage examination programme, UBI DAC identified further legacy business issues. A programme is ongoing to identify and remediate impacted customers. RBS has made provisions totaling €114 million (£101 million) to date based on expected remediation and project costs in relation to this matter. Of the €114 million (£101 million) cumulative provision, €9 million (£8 million) had been utilised by 30 June 2018.

Notes

12. Related party transactions

UK Government

During 2018 the UK Government's interest reduced from 70.1% to 62.4%. The Group continued to transact with bodies controlled by or related to the UK Government on an arm's length basis.

Bank of England facilities

In the ordinary course of business, the Group may from time to time access market-wide facilities provided by the Bank of England.

The Group's other transactions with the UK Government include the payment of taxes, principally UK corporation tax and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies (including the bank levy and FSCS levies).

Other related parties

There have been no material changes to the disclosures concerning the Group's other related parties included in the 2017 Annual Report on Form 20-F.

13. Post balance sheet events

Professional indemnity insurance policies agreement

On 27 July 2018, the RBS Group reached an agreement with certain insurers and third parties in respect of claims made under certain 2007 – 2009 insurance policies which provided coverage to RBS Group subsidiaries for certain losses. As a result of the settlement, RBS Group will receive pre-tax payments in the amount of £272 million from third parties.

Other than as disclosed, there have been no further significant events between 30 June 2018 and the date of approval of this announcement.

14. Date of approval

This announcement was approved by the Board of Directors on 2 August 2018.

Notes

15. Consolidating financial information

On the 30 April 2018 The Royal Bank of Scotland plc was renamed NatWest Markets Plc following the completion of the Ring-fencing Transfer Scheme. NatWest Markets Plc ('NWM Plc') is a wholly owned subsidiary of The Royal Bank of Scotland Group plc ('RBSG plc') and was able to offer and sell certain securities in the US from time to time pursuant to a registration statement on Form F-3 filed with the SEC with a full and unconditional guarantee from RBSG plc.

NWM Plc utilises an exception provided in Rule 3-10 of Regulation S-X, and therefore does not file its financial statements with the SEC. In accordance with the requirements to qualify for the exception, presented below is condensed consolidating financial information for:

- RBSG plc on a stand-alone basis as guarantor;
- NWM Plc on a stand-alone basis as issuer;
- Non-guarantor Subsidiaries of RBSG plc and NWM Plc on a combined basis ('Subsidiaries');
- Consolidation adjustments; and
- RBSG plc consolidated amounts ('RBSG Group').

Under IAS 27, RBSG plc and NWM Plc account for investments in their subsidiary undertakings at cost less impairment. Rule 3-10 of Regulation S-X requires a company to account for its investments in subsidiary undertakings using the equity method, which would decrease the results for the period of RBSG plc and increase NWM Plc in the information below by £32,713 million and £1,316 million respectively for the half year ended 30 June 2018 (increase £1,146 million and £712 million respectively for the half year ended 30 June 2017).

The net assets of RBSG plc and NWM Plc in the information below would also be decreased by £41,231 million and increased by £774 million respectively at 30 June 2018 (decreased by £6,631 million and £9,319 million respectively at 31 December 2017).

NWM Plc Disposal groups and discontinued operations NatWest Holdings Limited (NatWest Holdings)

The transfer of the NWM Plc Personal & Business Banking (PBB) Commercial & Private Banking (CPB) and certain parts of Central items and NatWest Markets, due to be included in the ring-fenced bank, to subsidiaries of NatWest Holdings, completed on 30 April 2018. Accordingly, all of the NWM Plc activities to be undertaken by NatWest Holdings and its subsidiaries are classified as disposal groups in the NWM Plc accounts at 30 June 2018 and presented as discontinued operations, with comparatives re-presented. On 29 June 2018 the distribution of NatWest Holdings by NWM plc to RBSG plc was approved and accounted for as income by RBSG plc.

Notes

15. Consolidating financial information (continued)					
Income statement					
				Consolidation	**RBSG**
	RBSG plc	**NWM Plc**	**Subsidiaries**	**adjustments**	**Group**
For the six months ended 30 June 2018	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**(136)**	**(72)**	**3,468**	**1,066**	**4,326**
Non-interest income	**33,980**	**62**	**1,459**	**(33,125)**	**2,376**
Total income	**33,844**	**(10)**	**4,927**	**(32,059)**	**6,702**
Operating expenses	**(60)**	**(627)**	**(2,756)**	**(1,292)**	**(4,735)**
Impairment losses	**(4)**	**(13)**	**(69)**	**(55)**	**(141)**
Operating profit/(loss) before tax	**33,780**	**(650)**	**2,102**	**(33,406)**	**1,826**
Tax credit/(charge)	**34**	**37**	**(621)**	**(191)**	**(741)**
Profit/(loss) from continuing operations	**33,814**	**(613)**	**1,481**	**(33,597)**	**1,085**
Profit/(loss) from discontinued operations, net of tax	**-**	**262**	**-**	**(262)**	**-**
Profit/(loss) for the period	**33,814**	**(351)**	**1,481**	**(33,859)**	**1,085**
Attributable to:					
Non-controlling interests	**-**	**-**	**1**	**(17)**	**(16)**
Preference shareholders	**74**	**-**	**-**	**-**	**74**
Paid-in equity holders	**139**	**-**	**-**	**-**	**139**
Ordinary shareholders	**33,601**	**(351)**	**1,480**	**(33,842)**	**888**
	33,814	**(351)**	**1,481**	**(33,859)**	**1,085**

Statement of comprehensive income					
				Consolidation	**RBSG**
	RBSG plc	**NWM Plc**	**Subsidiaries**	**adjustments**	**Group**
For the six months ended 30 June 2018	**£m**	**£m**	**£m**	**£m**	**£m**
Profit/(loss) for the period	**33,814**	**(351)**	**1,481**	**(33,859)**	**1,085**
Items that do not qualify for reclassification					
Funding commitment to retirement benefit schemes	**-**	**-**	**(2,000)**	**-**	**(2,000)**

Changes in fair value of credit in financial liabilities					
designated at fair value through profit	-	59	36	-	95
Fair value through other comprehensive income	-	-	(3)	6	3
Tax (charge)/credit	-	(16)	516	-	500
	-	43	(1,451)	6	(1,402)
Items that do qualify for reclassification					
Fair value through other comprehensive income	-	(323)	532	(10)	199
Cash flow hedges	28	234	(433)	(350)	(521)
Currency translation	-	56	(393)	355	18
Tax (charge)/credit	(5)	27	(20)	95	97
	23	(6)	(314)	90	(207)
Other comprehensive income/(loss) after tax	23	37	(1,765)	96	(1,609)
Total comprehensive income/(loss) for the period	33,837	(314)	(284)	(33,763)	(524)
Total comprehensive income/(loss) is attributable to:					
Non-controlling interests	-	-	2	(31)	(29)
Preference shareholders	74	-	-	-	74
Paid-in equity holders	139	-	-	-	139
Ordinary shareholders	33,624	(314)	(276)	(33,742)	(708)
	33,837	(314)	(274)	(33,773)	(524)

Notes

15. Consolidating financial information (continued)					
Income statement					
	RBSG plc	NWM Plc	Subsidiaries	Consolidation adjustments (1)	RBSG Group
For the six months ended 30 June 2017	£m	£m	£m	£m	£m
Net interest income	105	(34)	3,063	1,338	4,472
Non-interest income	37	953	864	593	2,447
Total income	142	919	3,927	1,931	6,919
Operating expenses	(78)	(779)	(1,753)	(2,242)	(4,852)
Impairment releases/(losses)	-	22	(91)	(47)	(116)
Operating profit/(loss) before tax	64	162	2,083	(358)	1,951
Tax charge	(19)	(100)	(441)	(167)	(727)
Profit/(loss) from continuing operations	45	62	1,642	(525)	1,224
Profit/(loss) from discontinued operations, net of tax	-	395	(1)	(394)	-
Profit/(loss) for the period	45	457	1,641	(919)	1,224
Attributable to:					
Non-controlling interests	-	-	2	27	29
Preference shareholders	85	-	-	-	85
Paid-in equity holders	167	-	-	4	171
Ordinary shareholders	(207)	457	1,639	(950)	939
	45	457	1,641	(919)	1,224

Statement of comprehensive income					
	RBSG plc	NWM Plc	Subsidiaries	Consolidation adjustments	RBSG Group
For the six months ended 30 June 2017	£m	£m	£m	£m	£m
Profit/(loss) for the period	45	457	1,641	(919)	1,224
Items that do not qualify for reclassification					
Loss on remeasurement of retirement benefit schemes	-	-	(26)	-	(26)
Changes in fair value of credit in financial liabilities					

designated at fair value through profit	-	(45)	(32)	-	(77)
Tax (charge)/credit	-	(13)	5	-	(8)
	-	(58)	(53)	-	(111)
Items that do qualify for reclassification					
Available-for-sale financial assets	-	30	(312)	311	29
Cash flow hedges	(111)	(224)	(2)	(274)	(611)
Currency translation	-	(46)	313	(164)	103
Tax credit	21	52	16	72	161
	(90)	(188)	15	(55)	(318)
Other comprehensive loss after tax	(90)	(246)	(38)	(55)	(429)
Total comprehensive (loss)/income for the period	(45)	211	1,603	(974)	795
Total comprehensive (loss)/income is attributable to:					
Non-controlling interests	-	-	-	49	49
Preference shareholders	85	-	-	-	85
Paid-in equity holders	167	-	-	4	171
Ordinary shareholders	(297)	211	1,603	(1,027)	490
	(45)	211	1,603	(974)	795

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Notes

15. Consolidating financial information (continued)					
Balance sheet					
	RBSG plc	NWM Plc	Subsidiaries	Consolidation adjustments	RBSG Group
At 30 June 2018	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	-	93	102,269	228	102,590
Loans and advances to banks	13,271	37,430	2,443	(25,305)	27,839
Loans and advances to customers	16,556	43,151	304,175	(14,744)	349,138
Debt securities	230	37,606	58,354	(3,921)	92,269
Equity shares	3	56	354	168	581
Investments in Group undertakings	47,559	376	1,816	(49,751)	-
Settlement balances	-	7,747	1,557	(979)	8,325
Derivatives	436	154,469	2,471	(6,240)	151,136
Intangible assets	-	-	6,272	298	6,570
Property, plant and equipment	-	2	4,034	334	4,370
Deferred tax	-	-	2,152	(337)	1,815
Prepayments, accrued income and other assets	33,901	677	3,486	(34,444)	3,620
Assets of disposals groups	-	70,275	83	(70,275)	83
Total assets	111,956	351,882	489,466	(204,968)	748,336
Liabilities					
Deposits by banks	-	22,765	23,110	2,835	48,710
Customer accounts	-	41,253	402,346	(41,799)	401,800
Debt securities in issue	14,155	15,790	7,412	(634)	36,723
Settlement balances	-	7,090	1,683	(974)	7,799
Short positions	-	32,552	2,833	(344)	35,041
Derivatives	454	145,618	4,581	(6,964)	143,689
Provisions for liabilities and charges	72	2,335	4,585	3	6,995
Accruals, deferred income and other liabilities	236	34,486	5,927	(34,808)	5,841
Retirement benefit liabilities	-	53	2,063	14	2,130
Deferred tax	35	333	460	(327)	501
Subordinated liabilities	8,016	6,467	2,043	(5,924)	10,602
Liabilities of disposal groups	-	32,564	14	(32,564)	14
Total liabilities	22,968	341,306	457,057	(121,486)	699,845

Non-controlling interests	**-**	**-**	**59**	**675**	**734**
Owners’ equity	**88,988**	**10,576**	**32,350**	**(84,157)**	**47,757**
Total equity	**88,988**	**10,576**	**32,409**	**(83,482)**	**48,491**
Total liabilities and equity	**111,956**	**351,882**	**489,466**	**(204,968)**	**748,336**

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Notes

15. Consolidating financial information (continued)					
Balance sheet					
				Consolidation	RBSG
	RBSG plc	NWM Plc	Subsidiaries	adjustments	Group
At 31 December 2017	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	-	93	36,707	61,537	98,337
Loans and advances to banks	14,503	18,814	7,647	(10,713)	30,251
Loans and advances to customers	10,480	45,658	203,988	89,793	349,919
Debt securities	104	27,334	8,317	43,178	78,933
Equity shares	3	50	244	153	450
Investments in Group undertakings	47,559	496	320	(48,375)	-
Settlement balances	-	1,640	938	(61)	2,517
Derivatives	163	162,005	3,101	(4,426)	160,843
Intangible assets	-	-	531	6,012	6,543
Property, plant and equipment	-	5	3,221	1,376	4,602
Deferred tax	-	165	1,361	214	1,740
Prepayments, accrued income and other assets	50	591	2,325	760	3,726
Assets of disposals groups	-	269,038	195	(269,038)	195
Total assets	72,862	525,889	268,895	(129,590)	738,056
Liabilities					
Deposits by banks	-	18,304	(72,131)	100,725	46,898
Customer accounts	-	37,097	303,086	57,853	398,036
Debt securities in issue	9,202	12,362	1,137	7,858	30,559
Settlement balances	-	1,411	1,477	(44)	2,844
Short positions	-	26,207	2,552	(232)	28,527
Derivatives	284	155,098	3,289	(4,165)	154,506
Provisions for liabilities and charges	127	2,230	3,354	2,046	7,757
Accruals, deferred income and other liabilities	165	479	3,629	2,119	6,392
Retirement benefit liabilities	-	52	59	18	129
Deferred tax	146	100	443	(106)	583
Subordinated liabilities	7,977	-	(3,523)	8,268	12,722
Liabilities of disposal groups	-	228,027	10	(228,027)	10

Total liabilities	17,901	481,367	243,382	(53,687)	688,963
Non-controlling interests	-	-	131	632	763
Owners' equity	54,961	44,522	25,382	(76,535)	48,330
Total equity	54,961	44,522	25,513	(75,903)	49,093
Total liabilities and equity	72,862	525,889	268,895	(129,590)	738,056

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Notes

15. Consolidating financial information (continued)					
Cash flow statement					
				Consolidation	**RBSG**
	RBSG plc	**NWM Plc**	**Subsidiaries**	**adjustments**	**Group**
For the six months ended 30 June 2018	**£m**	**£m**	**£m**	**£m**	**£m**
Net cash flows from operating activities	**273**	**25,094**	**(17,109)**	**1,540**	**9,798**
Net cash flows from investing activities	**-**	**(617)**	**(51,681)**	**48,529**	**(3,769)**
Net cash flows from financing activities	**(345)**	**(1,082)**	**(1,925)**	**1,045**	**(2,307)**
Effects of exchange rate changes on cash and cash equivalents	**(1)**	**708**	**(192)**	**(477)**	**38**
Net (decrease)/increase in cash and cash equivalents	**(73)**	**24,103**	**(70,907)**	**50,637**	**3,760**
Cash and cash equivalents at 1 January 2018	**245**	**13,058**	**196,214**	**(86,912)**	**122,605**
Cash and cash equivalents at 30 June 2018	**172**	**37,161**	**125,307**	**(36,275)**	**126,365**
For the six months ended 30 June 2017					
Net cash flows from operating activities	2,245	18,024	10,724	(674)	30,319
Net cash flows from investing activities	(2,179)	(1,781)	3,531	(5,890)	(6,319)
Net cash flows from financing activities	(716)	(4,032)	(820)	754	(4,814)
Effects of exchange rate changes on cash and cash equivalents	(9)	7	(566)	504	(64)
Net (decrease)/increase in cash and cash equivalents	(659)	12,218	12,869	(5,306)	19,122
Cash and cash equivalents at 1 January 2017	1,195	99,073	89,431	(91,129)	98,570
Cash and cash equivalents at 30 June 2017	536	111,291	102,300	(96,435)	117,692

Trust preferred securities

The Group has issued trust preferred securities through trusts 100% owned by the Group (through partnership interests held by RBSG Capital Corporation and RBS) which meet the definition of a finance subsidiary in Regulation S-X, Rule 3-10. The securities represent undivided beneficial interests in the assets of the trusts, which consist of partnership preferred securities representing non-cumulative perpetual preferred limited partnership interests issued by Delaware limited partnerships. The Royal Bank of Scotland Group plc has provided subordinated guarantees for the benefit of the holders of the trust preferred securities and the partnership preferred securities. Under the terms of the guarantees, the Group has fully and unconditionally guaranteed on a subordinated basis, payments on such trust preferred securities and partnership preferred securities, to the extent they are due to be paid and have not been paid by, or on behalf of the trusts and the partnerships, as the case may be. Following implementation of IFRS 10 the trusts are no longer consolidated by the Group, for those securities that were classified as subordinated liabilities, the Group's outstanding instruments with the trusts are classified as subordinated liabilities.

Summary risk factors

Summary of our principal risks and uncertainties

Set out below is a summary of certain risks which could adversely affect the Group; it should be read in conjunction with the Capital and risk management section of the Group's 2017 Annual Report on Form 20-F. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties or of the Group's 2017 Annual Report on Form 20-F risk factor disclosures. A fuller description of these and other risk factors is included on pages 349 to 379 of the Group's 2017 Annual Report on Form 20-F which should be read together with the Group's other public disclosures.

The Group's operations are highly dependent on its IT systems and it is exposed to cyberattacks. A failure of the Group's IT systems (including as a result of the lack of or untimely investments) or a failure to prevent or defend itself from cyberattacks (and provide, as appropriate, notification of them) could adversely affect the Group's operations, results of operations, competitive position and reputation and could expose the Group to regulatory sanctions and costly remediation work.

The Group's businesses and performance can be negatively affected by actual or perceived economic conditions in the UK and globally and other risks arising out of geopolitical events and political developments. In particular, the Group is subject to political risks, as well as economic, regulatory and political uncertainty arising from the vote to leave in the referendum on the UK's membership of the European Union (EU Referendum) and more generally arising from changes in UK government policies, including as a shareholder. Following the EU Referendum, and pursuant to the exit process triggered under Article 50 of the Treaty on the European Union, the UK is scheduled to leave the EU on 29 March 2019. The terms of such departure, including any transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties are currently unclear and subject to significant uncertainty. In preparation for leaving the EU, the European Union (Withdrawal) Act received Royal Assent on 26 June 2018 and secondary legislation is in the process of being released. Together with other global risks including risks arising out of geopolitical events, these uncertainties as well as the impact on the UK's political, economic, trading and legal frameworks could adversely impact the Group's business, results of operations, financial condition and prospects.

The Group has been, and will remain, in a period of major business transformation and structural change through to at least 2019 as it implements its own transformation programme and seeks to comply with the UK ring-fencing regime and recovery and resolution requirements as well as the Alternative Remedies Package. Material structural changes to the Group's operations and business will also be required as a result of Brexit. These various transformation and restructuring activities (including the run-down or sale of certain portfolios and assets) are costly and complex and are required to occur concurrently, which carries significant execution and operational risk.

Effective management of the Group's capital is critical to its ability to operate its businesses, comply with its regulatory obligations, pursue its transformation programme and current strategies, resume dividend payments on its ordinary shares, maintain discretionary payments and pursue its strategic opportunities. In the context of the evolving regulatory framework relating to the resolution of financial institutions in the UK, changes to the funding and regulatory capital framework may be made requiring the Group to meet higher capital levels than the Group anticipated within its strategic plans and affect the Group's funding costs. Failure by the Group to comply with regulatory capital, funding, liquidity and leverage requirements may result in intervention by its regulators and loss of investor confidence, and may have a material adverse effect on its results of operations, financial condition and reputation and may result in distribution restrictions and adversely impact existing shareholders. In addition, the Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings and, to a lesser extent, on the UK sovereign ratings.

The Group relies on valuation, capital and stress test models to conduct its business, assess its risk exposure and anticipate capital and funding requirements. Failure of these models to provide accurate results or accurately reflect changes in the micro and macroeconomic environment in which the Group operates or findings of deficiencies by the Group's regulators, including as part of mandated stress testing, may result in increased regulatory capital requirements or management actions and could have a material adverse effect on the Group's business, capital and results as well as the ability of the Group to make distributions to shareholders.

The Group's ability to meet the targets and expectations which accompany the Group's transformation programme, including with respect to its cost reduction programme, its strategic costs and its ability to produce a profit, are subject to various internal and external risks and are based on a number of key assumptions and judgments any of which may prove to be inaccurate.

HM Treasury (or UKGI on its behalf) may be able to exercise a significant degree of influence over the Group and any further offer or sale of its interests may affect the price of securities issued by the Group.

Summary risk factors

As a result of the commercial and regulatory environment in which it operates, the Group may be unable to attract or retain senior management (including members of the board) and other skilled personnel of the appropriate qualification and competence. The Group may also suffer if it does not maintain good employee relations.

The Group's business and results of operations may be adversely affected by increasing competitive pressures and technological developments in the markets in which it operates.

The Group is subject to a number of legal, regulatory and governmental actions and investigations. Unfavourable outcomes in such actions and investigations could have a material adverse effect on the Group's operations, operating results, reputation, financial position and future prospects.

Operational risks are inherent in the Group's businesses and these risks are heightened as the Group implements its transformation programme, including significant cost reductions, the UK ring-fencing regime and implementation of the Alternative Remedies Package against the backdrop of legal and regulatory changes.

The cost of implementing the Alternative Remedies Package regarding the business previously described as Williams & Glyn could be more onerous than anticipated and any failure to comply with the terms of the Alternative Remedies Package could result in the imposition of additional measures or limitations on the Group's operations.

The financial performance of the Group has been, and may continue to be, materially affected by customer and counterparty credit quality and deterioration in credit quality or depressed asset valuations could arise due to prevailing economic and market conditions and legal and regulatory developments (including, for example, ongoing reforms with respect to LIBOR and other benchmark rates).

The Group's businesses are exposed to the effect of movements in interest rates and currency rates, which could have a material adverse effect on the results of operations, financial condition or prospects of the Group.

The Group's businesses are subject to substantial regulation and oversight, including from prudential and competition authorities. Significant regulatory developments (including, for example, ongoing reform with respect to LIBOR and other benchmark rates and the recent General Data Protection Regulation, which came into effect in May 2018) and increased scrutiny by the Group's key regulators have had, and may continue to have, the effect of increasing financial, operational, compliance and conduct risks as well as related costs. These regulatory developments could have a material adverse effect on how the Group conducts its business and on its results of operations and financial condition.

The Group's operations entail inherent reputational risk (i.e., the risk of brand damage and/or financial loss due to a failure to meet stakeholders' expectations of the Group's conduct, performance and business profile).

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group's results in future periods may be affected by changes to applicable accounting rules and standards.

A failure in the Group's risk management framework (including in respect of, but not limited to, conduct risk) could adversely affect the ability of the Group to achieve its strategic objectives.

The Group may become subject to the application of stabilisation or resolution powers in certain significant stress situations, which may result in various actions being taken in relation to the Group and any securities of the Group, including the write-off, write-down or conversion of the Group's securities.

The value or effectiveness of any credit protection that the Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.
The Group’s results could be adversely affected in the event of goodwill impairment.
Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by the Group.

Statement of directors' responsibilities

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

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

  related parties' transactions and changes therein).

By order of the Board

Howard Davies	Ross McEwan	Ewen Stevenson
Chairman	Chief Executive	Chief Financial Officer

2 August 2018

Board of directors

Chairman	Executive directors	Non-executive directors
Howard Davies	Ross McEwan	Frank Dangeard
	Ewen Stevenson	Alison Davis
		Patrick Flynn
		Morten Friis
		Robert Gillespie
		Brendan Nelson
		Baroness Noakes
		Mike Rogers
		Mark Seligman
		Dr Lena Wilson

Additional information

Share information

	30 June 2018	31 March 2018	31 December 2017
Ordinary share price	**256.1p**	258.8p	278.0p
Number of ordinary shares in issue	**12,028m**	11,993m	11,965m

Other financial data

The following table shows RBS's issued and fully paid share capital, owners' equity and indebtedness on a consolidated basis in accordance with IFRS as at 30 June 2018.

	As at 30 June 2018 £m
Share capital - allotted, called up and fully paid	
Ordinary shares of £1	**12,028**
Retained income and other reserves	**35,729**
Owners' equity	**47,757**
RBS indebtedness	
Subordinated liabilities	**10,602**
Debt securities in issue	**36,723**
Total indebtedness	**47,325**
Total capitalisation and indebtedness	**95,082**

Under IFRS, certain preference shares are classified as debt and are included in subordinated liabilities in the table above.

The information contained in the table above has not changed materially since 30 June 2018.

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Additional information

Other financial data (continued)

	Half year ended 30 June 2018 (1)	Year ended 31 December 2017	2016	2015	2014	2013
Return on average total assets (2)	**0.3%**	0.1%	(0.8%)	(0.2%)	(0.3%)	(0.7%)
Return on average ordinary shareholders' equity (3)	**4.4%**	1.9%	(15.3%)	(4.0%)	(6.5%)	(14.7%)
Average total equity as a percentage of average total assets	**7.3%**	7.0%	6.2%	6.0%	5.8%	5.5%
Ratio of earnings to combined fixed charges and preference share dividends (4,5)						
- including interest on deposits	**2.18**	1.58	(0.45)	0.17	1.52	(0.51)
- excluding interest on deposits	**4.37**	2.25	(2.13)	(1.17)	2.61	(5.12)
Ratio of earnings to fixed charges only (4,5)						
- including interest on deposits	**2.58**	2.05	(0.53)	0.19	1.67	(0.55)
- excluding interest on deposits	**7.86**	4.37	(3.25)	(1.60)	3.58	(6.95)

Notes:

(1) Based on unaudited numbers.
(2) Return on average total assets represents loss attributable to ordinary shareholders as a percentage of average total assets.
(3) Return on average ordinary shareholders' equity represents loss attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity.
(4) For this purpose, earnings consist of income before tax and non-controlling interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends

received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).

(5) The earnings for the years ended 31 December 2016, 2015 and 2013 were inadequate to cover total fixed charges and preference share dividends. The coverage deficiency for total fixed charges and preference share dividends for the years ended 31 December 2016, 2015 and 2013 was £4,586 million, £3,088 million and £9,247 million respectively. The coverage deficiency for fixed charges for the years ended 31 December 2016, 2015 and 2013 was £4,082 million, £2,703 million and £8,849 million respectively.

Appendix 1

Capital and risk management

Document navigation

The following are contained within this appendix:

Appendix 1 Capital and risk management

Capital, liquidity and funding risk

Capital risk is the risk that the Group has insufficient capital and other loss absorbing debt instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals. Liquidity risk is the risk that RBS cannot meet its actual or potential obligations when they fall due. Funding risk is the risk that RBS cannot maintain a diversified, stable and cost effective funding base.

Key developments

- The CET1 ratio increased by 20 basis points to 16.1% as a result of the £888 million attributable profit and the 30 basis point impact on 1 January 2018 of the implementation of IFRS 9.
- RWAs decreased by £2.0 billion[1] driven by decreases in credit and counterparty credit risk (£0.9 billion) and operational risk (£1.4 billion) partly offset by an increase in market risk of £0.3 billion. Revisions to the loss given default models, predominantly impacting Commercial Banking, have been offset by reductions in asset size including wind down of legacy business in NatWest Markets.
- Both the CRR end-point and UK leverage ratios decreased marginally to 5.2% and 6.0% respectively.
- Average leverage ratios both decreased to 5.1% for CRR and 5.8% for UK.
- The total loss absorbing capital ratio of 29.6% is above the BOE requirement of 24.0% by 1 January 2020.
- In the first half of 2018, RBS issued £9.4 billion new securities (£4.9 billion MREL eligible senior debt from RBSG, £0.9 billion RMBS from Ulster Bank Ireland DAC and £3.6 billion senior unsecured notes from NatWest Markets Plc). Issuance is partially offset by £3.9 billion maturities and redemptions.
- RBS participation in the Bank of England's Term Funding Scheme remained stable at £19 billion.
- The liquidity coverage ratio increased from 152% to 167% driven by lower NatWest Markets funding usage, reflecting debt issuance and secured funding.
- The net stable funding ratio increased by 100 basis points to 140% on a comparable basis[2] primarily driven by debt issuance.

Minimum capital requirements

The Group is subject to minimum requirements in relation to the amount of capital it must hold in relation to its RWAs. The table below summarises the minimum ratios of capital to RWAs that the Group is expected to have to meet once all currently adopted regulation is fully implemented by 1 January 2019. For the applicable regulation rules and effective dates see page 166 in the RBSG 2017 Annual Report on Form 20-F. In June 2018 the UK countercyclical capital buffer (CCyB), which is set by the Bank of England's Financial Policy Committee, increased from 0.0% to 0.5%. The UK CCyB may be set between 0% and 2.5% and is linked to the state of the UK economy. In November 2017 the FPC announced a further increase to 1.0% effective 28 November 2018.

Minimum requirements	Type	CET1	Total Tier 1	Total capital
System wide	Pillar 1 minimum requirements	4.5%	6.0%	8.0%
	Capital conservation buffer	2.5%	2.5%	2.5%
	UK countercyclical capital buffer	1.0%	1.0%	1.0%
	G-SIB buffer	1.0%	1.0%	1.0%
Bank specific	Pillar 2A	2.2%	2.9%	3.9%
Total (excluding PRA buffer)		11.2%	13.4%	16.4%
Capital ratios at 30 June 2018		16.1%	18.1%	21.5%

Notes:

(1) The RWA movements reflect the impact of IFRS 9 implemented on 1 January 2018.

(2) Refer to page 6 in the business performance summary.

Appendix 1 Capital and risk management

Capital, liquidity and funding risk continued

Capital flow statement

Refer to Business performance summary - Capital and leverage for information on Capital, RWAs and leverage and the Pillar 3 supplement for capital and leverage relating to significant subsidiaries and also CRR templates. The table below analyses the movement in end-point CRR CET1, AT1 and Tier 2 capital for the half year ended 30 June 2018.

	CET1	AT1	Tier 2	Total
Capital flow statement	£m	£m	£m	£m
At 1 January 2018	31,957	4,041	6,765	42,763
Profit for the period	888	-	-	888
Own credit adjustments	(134)	-	-	(134)
Share capital and reserve movements in respect of employee share schemes	206	-	-	206
Foreign exchange reserve	31	-	-	31
FVOCI reserves	187	-	-	187
Goodwill and intangibles deduction	(27)	-	-	(27)
Deferred tax assets	103	-	-	103
Prudential valuation adjustments	(112)	-	-	(112)
Expected loss over impairment provisions	650	-	-	650
Pension contribution	(1,484)	-	-	(1,484)
Net capital instruments	-	-	(89)	(89)
Net dated subordinated debt/grandfathered instruments	-	-	(159)	(159)
Foreign exchange movements	-	-	132	132
Other movements	(315)	10	10	(295)
At 30 June 2018	31,950	4,051	6,659	42,660

Risk-weighted assets

The table below analyses the movement in RWAs on the end-point CRR basis during the half year, by key drivers.

	Non-counterparty credit risk	Counterparty credit risk	Market risk	Operational risk	Total	

	£bn	£bn	£bn	£bn	£bn
At 1 January 2018	144.6	15.4	17.0	23.8	200.8
Foreign exchange movement	0.2	-	-	-	0.2
Business movements	(4.5)	(0.2)	0.3	(1.4)	(5.8)
Risk parameter changes	(0.5)	(0.1)	-	-	(0.6)
Model updates	4.2	-	-	-	4.2
At 30 June 2018	144.0	15.1	17.3	22.4	198.8

The table below analyses segmental RWAs.

		Ulster					Central	
		Bank	Commercial	Private			items	
	UK PBB	RoI	Banking	Banking	RBSI	NWM	& other	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
At 1 January 2018	43.0	18.0	71.8	9.1	5.1	52.9	0.9	200.8
Foreign exchange movement	-	-	0.1	-	-	0.1	-	0.2
Business movements	(0.5)	(0.5)	(2.5)	0.3	0.3	(2.8)	(0.1)	(5.8)
Risk parameter changes (1)	0.6	(0.7)	(0.1)	-	(0.1)	(0.1)	(0.2)	(0.6)
Methodology changes	-	-	-	-	-	-	-	-
Model updates (2)	0.4	-	3.9	-	(0.1)	-	-	4.2
Other changes	(0.1)	-	(1.5)	-	1.6	-	-	-
At 30 June 2018	43.4	16.8	71.7	9.4	6.8	50.1	0.6	198.8
Credit risk								
- non-counterparty	34.1	15.8	65.1	8.3				