ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
July 31, 2015

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

31 July 2015

Form 6-K

The Royal Bank of Scotland Group plc

Gogarburn

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Scotland

United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):__

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):__

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes __ No X

If "Yes" is marked, indicate below the file number assigned to

the registrant in connection with Rule 12g3-2(b): 82-_______

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-203157 and 333-203157-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

The Royal Bank of Scotland Group plc

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘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: The Royal Bank of Scotland Group plc’s (RBS) transformation plan (which includes RBS’s 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of CFG and Williams & Glyn, RBS’s information technology and operational investment plan, the proposed restructuring of RBS’s CIB business and the restructuring of RBS as a result of the implementation of the regulatory ring-fencing regime, together the “Transformation Plan”), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), Pillar 2A, Maximum Distributable Amount (MDA), total loss absorbing capacity (TLAC), minimum requirements for eligible liabilities (MREL), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, anticipated AT1 and other capital raising plans, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; investigations relating to business conduct and the costs of resulting customers redress and legal proceedings; RBS’s future financial performance; the level and extent of future impairments and write-downs; and RBS’s exposure to political risks, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk and other disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in RBS’s 2014 Annual Report on Form 20-F and this document. These include the significant risks for RBS presented by the execution of the Transformation Plan; RBS’s ability to successfully implement the various initiatives that are comprised in the Transformation Plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by RBS as a result of the implementation of the ring fence; whether RBS will emerge from implementing the Transformation Plan as a viable, competitive, customer focused and profitable bank; RBS’s ability to achieve its capital targets which depend on RBS’s success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the Transformation Plan, the risks of lower revenues resulting from lower customer retention and revenue generation as RBS refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; uncertainty relating to the referendum on the UK's membership of the EU and the consequences arising from it; operational risks that are inherent in RBS's business and that could increase as RBS implements its Transformation Plan; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default or exit by certain countries in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of RBS's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies and continued prolonged periods of low interest rates; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of RBS's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS's operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; and the success of RBS in managing the risks involved in the foregoing.

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

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

Presentation of information

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

Non-GAAP financial information

The directors manage RBS’s performance by class of business, before certain reconciling items, as is presented in the segment performance on pages 27 to 31 (the “non-statutory basis”). The following are reported as reconciling items: own credit adjustments, gain/(loss) on redemption of own debt, write-down of goodwill, strategic disposals and includes the results of Citizens which is classified as a discontinued operations in the statutory results. RFS Holdings minority interest was a reconciling item for the periods ended 30 June 2014.

Discussion of RBS’s performance in this report presents RBS’s results on a non-statutory basis as management believes that such measures allow a more meaningful analysis of RBS’s financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as ‘GAAP’. 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. Reconciliations of these non-GAAP measures to the closest equivalent GAAP measure are presented throughout this document and in the segment performance on pages 27 to 31. These non-GAAP financial measures are not a substitute for GAAP measures.

RBS has divided its operations into “RBS excluding RBS Capital Resolution (RCR)”. Certain measures disclosed in this document for RBS excluding RCR are non-GAAP financial measures used by management as they represent a combination of all reportable segments including Citizens Financial Group (CFG) with the exception of RCR. The presentation of Personal & Business Banking (“PBB”) which combines the reportable segments of UK Personal & Business Banking and Ulster Bank and the presentation of Commercial and Private Banking (“CPB”) which combines the reportable segments of Commercial Banking and Private Banking are non GAAP financial measures. In addition the presentation of operating profit, operating expenses and other performance measures excluding the impact of restructuring costs and litigation and conduct costs is a non-GAAP financial measure and is not a substitute for the equivalent GAAP measure. Lastly, the liquidity coverage ratio, stressed outflow coverage, net stable funding ratio and further metrics included in the Highlights, Analysis of results and Capital and risk management appendix represent non-GAAP financial measures and are being presented for informational purposes given they are metrics that are not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Following the announcement in February 2015 that RBS is committed to a leaner, less volatile business based around its core franchises of PBB and CPB a number of initiatives have been announced which include, but are not limited to the following:

- Corporate and Institutional Banking (CIB) is planning to restructure into “CIB Go-forward” and “CIB Capital Resolution” elements, the split is subject to further refinement, reference to these businesses are non-GAAP measures as CIB remains a single reportable segment.

- the sale of the “International Private Banking” business which has been reclassified to disposal groups (the retained business Private Banking UK is within the Go-forward Bank(Private Banking Go-forward)), references to these businesses are non-GAAP measures as Private Banking remains a single reportable segment.

- the exit of Williams & Glyn (W&G) which is mainly included within UK PBB and is presented on a carve out basis using management analysis and does not reflect the cost base, funding and capital profile of a standalone bank, references to this business are non-GAAP measures as UK PBB remains a single reportable segment.

Presentation of information

In addition the following reportable segments are also included within the Exit Bank

- the divestment of the remaining stake in Citizens Financial Group
- the continued run down of RCR

This document contains some information to illustrate the impact on certain key performance measures of these initiatives by showing the future profile of the bank (the ‘Go-forward Bank’(UK PBB excluding W&G, Ulster Bank, Commercial Banking, CIB Go-forward and Private Banking Go-forward)) and the segments, businesses and portfolios which it intends to exit (the ‘Exit-Bank’ (CIB Capital Resolution, W&G, international private banking, Citizens and RCR). References to these combinations of business are non-GAAP measures. This information is presented to illustrate the strategy and its impact on the business and is on a non-statutory basis and should be read in conjunction with the notes attached as well as the section titled “Forward-looking Statements”.

Condensed consolidated income statement for the period ended 30 June 2015

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Interest receivable	**6,107**	6,544		**3,031**	3,076	3,279
Interest payable	**(1,689)**	(2,038)		**(816)**	(873)	(980)
Net interest income	**4,418**	4,506		**2,215**	2,203	2,299
Fees and commissions receivable	**1,958**	2,243		**969**	989	1,126
Fees and commissions payable	**(363)**	(475)		**(186)**	(177)	(244)
Income from trading activities	**875**	1,450		**545**	330	528
Gain on redemption of own debt	**-**	20		**-**	-	-
Other operating income	**368**	805		**194**	174	154
Non-interest income	**2,838**	4,043		**1,522**	1,316	1,564
Total income	**7,256**	8,549		**3,737**	3,519	3,863
Staff costs	**(2,855)**	(2,997)		**(1,530)**	(1,325)	(1,558)
Premises and equipment	**(745)**	(1,126)		**(326)**	(419)	(546)
Other administrative expenses	**(2,366)**	(1,357)		**(1,027)**	(1,339)	(780)
Depreciation and amortisation	**(712)**	(466)		**(200)**	(512)	(237)
Write down of goodwill and other intangible assets	**(606)**	(212)		**(606)**	-	(130)
Operating expenses	**(7,284)**	(6,158)		**(3,689)**	(3,595)	(3,251)
(Loss)/profit before impairment losses	**(28)**	2,391		**48**	(76)	612
Impairment releases/(losses)	**321**	(165)		**192**	129	124
Operating profit before tax	**293**	2,226		**240**	53	736
Tax charge	**(293)**	(592)		**(100)**	(193)	(278)
Profit/(loss) from continuing operations	**-**	1,634		**140**	(140)	458
Profit/(loss) from discontinued operations, net of tax						

- Citizens	**354**	285		**674**	(320)	181
- Other	**4**	35		**-**	4	26
Profit/(loss) from discontinued operations,						
net of tax	**358**	320		**674**	(316)	207
Profit/(loss) for the period	**358**	1,954		**814**	(456)	665
Non-controlling interests	**(344)**	(42)		**(428)**	84	(23)
Preference shares	**(143)**	(140)		**(73)**	(70)	(75)
Other dividends	**(24)**	(27)		**(20)**	(4)	(17)
Dividend access share	**-**	(320)		**-**	-	(320)
(Loss)/profit attributable to ordinary and						
B shareholders	**(153)**	1,425		**293**	(446)	230
(Loss)/earnings per ordinary and equivalent						
B share (EPS) (1)						
Basic EPS from continuing and discontinued operations	**(1.3p)**	12.6p		**2.5p**	(3.9p)	2.0p
Basic EPS from continuing operations	**(1.9p)**	9.9p		**0.2p**	(2.1p)	0.3p

Note:

(1) Diluted EPS for continuing and discontinued operations for the half year ended 30 June 2014 was 0.1p lower than basic EPS. There was no dilutive impact in any other period.

Condensed consolidated balance sheet at 30 June 2015

	30 June 2015	31 March 2015	31 December 2014
	£m	£m	£m
Assets			
Cash and balances at central banks	**81,900**	75,521	74,872
Net loans and advances to banks	**20,714**	25,002	23,027
Reverse repurchase agreements and stock borrowing	**20,807**	16,071	20,708
Loans and advances to banks	**41,521**	41,073	43,735
Net loans and advances to customers	**314,993**	333,173	334,251
Reverse repurchase agreements and stock borrowing	**46,799**	53,329	43,987
Loans and advances to customers	**361,792**	386,502	378,238
Debt securities	**77,187**	79,232	86,649
Equity shares	**3,363**	6,325	5,635
Settlement balances	**9,630**	11,341	4,667
Derivatives	**281,857**	390,565	353,590
Intangible assets	**7,198**	7,619	7,781
Property, plant and equipment	**4,874**	5,336	6,167
Deferred tax	**1,479**	1,430	1,540
Prepayments, accrued income and other assets	**4,829**	5,995	5,878
Assets of disposal groups	**89,071**	93,673	82,011
Total assets	**964,701**	1,104,612	1,050,763
Liabilities			
Bank deposits	**30,978**	37,235	35,806
Repurchase agreements and stock lending	**21,612**	27,997	24,859
Deposits by banks	**52,590**	65,232	60,665
Customer deposits	**342,023**	349,289	354,288
Repurchase agreements and stock lending	**44,750**	41,386	37,351
Customer accounts	**386,773**	390,675	391,639
Debt securities in issue	**41,819**	45,855	50,280
Settlement balances	**7,335**	11,083	4,503
Short positions	**24,561**	19,716	23,029
Derivatives	**273,589**	386,056	349,805
Accruals, deferred income and other liabilities	**13,962**	14,242	13,346
Retirement benefit liabilities	**1,869**	1,843	2,579
Deferred tax	**363**	381	500

Subordinated liabilities	**19,683**	22,004	22,905
Liabilities of disposal groups	**80,388**	85,244	71,320
Total liabilities	**902,932**	1,042,331	990,571
Equity			
Non-controlling interests	**5,705**	5,473	2,946
Owners' equity*			
Called up share capital	**6,981**	6,925	6,877
Reserves	**49,083**	49,883	50,369
Total equity	**61,769**	62,281	60,192
Total liabilities and equity	**964,701**	1,104,612	1,050,763
* Owners' equity attributable to:			
Ordinary and B shareholders	**51,117**	51,861	52,149
Other equity owners	**4,947**	4,947	5,097
	56,064	56,808	57,246

Highlights

Q2 2015 performance

Profit attributable to ordinary and B shareholders of £293 million was reported in Q2 2015 including £1,050 million of restructuring costs as the pace of restructuring accelerated and £459 million of litigation and conduct costs. The profit attributable to ordinary and B shareholders for Q2 2015 was up from a loss attributable to ordinary and B shareholders of £446 million in Q1 2015 and a profit attributable to ordinary and B shareholders of £230 million in Q2 2014.

Total income was £3,737 million, with net interest income down 4% from Q2 2014, with good asset growth in UK mortgages and Commercial Banking partially offsetting declines in other portfolios. Non-interest income was down 3% from Q2 2014, reflecting the reduction in CIB's scale and with reductions in fees and commissions payable offset by gains in income from trading and other operating income.

Operating expenses totalled £3,689 million an increase of 3% from Q1 2015 and 13% from Q2 2014. Restructuring costs were significantly higher at £1,050 million, principally relating to CIB (£734 million) and to Williams & Glyn separation (£126 million). Litigation and conduct costs in Q2 2015 amounted to £459 million, principally related to mortgage-backed securities litigation in the United States.

Credit conditions remained generally benign, with net impairment releases of £192 million, up from £129 million in Q1 2015 and from £124 million in Q2 2014, principally reflecting the improvement in underlying collateral values within RCR.

Operating profit before tax was £240 million, up from £53 million in Q1 2015 and down from £736 million in Q2 2014. After a tax charge of £100 million, the profit from continuing operations was £140 million, compared with a loss of £140 million in Q1 2015 and a profit of £458 million in Q2 2014. Operating profit on a non-statutory basis excluding restructuring, litigation and conduct costs of £1,509 million (Q1 2015 - £1,309 million; Q2 2014 £635 million), was £1,813 million, up 11% from Q1 2015 but down 7% from Q2 2014.

Profit from discontinued operations of £674 million reflected the rise in the market value of Citizens shares during the quarter.

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Highlights

H1 2015 performance

Loss attributable to ordinary and B shareholders of £153 million was reported for the first half of 2015, including £1,503 million of restructuring costs and £1,315 million of litigation and conduct costs. The loss attributable to ordinary and B shareholders for H1 2015 was down from a profit of £1,425 million in H1 2014 as income attrition in the Exit Bank businesses preceded the delivery of cost reductions and higher restructuring, litigation, and conduct costs were incurred.

Total income was £7,256 million, 15% lower than in H1 2014, with net interest income stable with asset growth in UK PBB and Commercial Banking. Non-interest income was down 30%, principally reflecting reduced trading income, in line with CIB’s risk and resource reduction.

Operating expenses were up £1,126 million, 18%, to £7,284 million due to higher litigation and conduct costs of £1,315 million and restructuring costs of £1,503 million. Operating expenses on a non-statutory basis, excluding restructuring costs of £1,503 million (H1 2014 - £514 million) and litigation and conduct costs of £1,315 million (H1 2014 £250 million) were down 14% to £5,485 million reflecting cost reductions of £859 million relative to H1 2014, putting RBS on track to deliver its targeted £800 million of cost savings in 2015.

Net impairment releases of £321 million were reported in H1 2015, compared with net impairment losses of £165 million in H1 2014. Net releases were recorded in all reportable segments except Commercial Banking, and CFG where impairments nevertheless remained low at 0.1% and 0.3% respectively of loans and advances.

Operating profit before tax in H1 2015 was £293 million down from £2,226 million in H1 2014. Operating profit before tax on a non-statutory basis excluding restructuring, litigation and conduct costs of £2,818 million (H1 2014 - £764 million), was £3,447 million, up 2% from H1 2014. After a tax charge of £293 million, net profit from continuing operations was nil, while results from discontinued operations included a net profit of £354 million relating to Citizens.

Balance sheet and capital

Net loans and advances to customers at 30 June 2015 were £315 billion, down 5% from 31 March 2015 and 6% from 31 December 2014. This was driven by run-off in CIB and RCR, partially offset by strong UK mortgage growth.

Total assets fell by 8% in the first half of 2015 taking the balance down to £965 billion, principally reflecting run-off in CIB and RCR. Total assets excluding derivatives of £282 billion were £683 billion, down 4% from 31 March 2015 and 2% from 31 December 2014, principally reflecting run-off in CIB and RCR. RWAs decreased to £326 billion, down from £356 billion at the start of the year and £392 billion from 30 June 2014, driven by RCR and CIB.

Customer deposits of £342 billion at 30 June 2015 were down 2% from 31 March 2015 and 3% from 31 December 2014, with good growth in UK personal current and savings accounts more than offset by the reduction in scale of CIB and by the impact of the weakening euro on balances in Ulster Bank.

Common Equity Tier 1 (CET1) and leverage ratios improved from 11.5% and 4.3% at 31 March 2015 to 12.3% and 4.6% respectively at 30 June 2015, principally driven by asset reduction in CIB and RCR.

Highlights

The Royal Bank of Scotland Group (RBS) continues to deliver on its plan to build a stronger, simpler and fairer bank for both customers and shareholders.

A strong operating performance from UK PBB and Ulster Bank (Personal & Business Banking (PBB)) and Commercial Banking and Private Banking (Commercial & Private Banking (CPB)) contributed to a profit attributable to ordinary and B shareholders of £293 million for Q2 2015 (loss attributable to ordinary and B shareholders of £153 million for H1 2015):

- Q2 operating profit before tax was £240 million, compared with £53 million in Q1 2015. Litigation and conduct costs were lower at £459 million compared with £856 million in Q1 2015, while restructuring costs rose to £1,050 million from £453 million in Q1 2015 as the pace of restructuring accelerated.
- Operating profit before tax on a non-statutory basis excluding restructuring costs of £1,050 million (Q1 2014 - £453 million) and litigation and conduct costs of £459 million (Q1 2015 - £856 million) was £1,813 million, up 11% from Q1 2015 but down 7% from Q2 2014, principally driven by reduced income in Corporate & Institutional Banking (CIB) following the planned scaling back of the business. Q2 2015 income benefited from a £205 million credit for IFRS volatility[(1)], compared with a £123 million charge in Q1 2015. H1 2015 operating profit before tax on a non-statutory basis excluding restructuring costs of £1,503 million (H1 2014 - £514 million) and litigation and conduct costs of £1,315 million (H1 2014 - £250 million) was £3,447 million, up 2% from H1 2014.
- Discontinued operations included a fair value gain of £517 million, of which £211 million was attributable to RBS, reflecting the rise in market value of Citizens shares and broadly reversing the loss recorded in Q1 2015.

RBS is making good progress against its 2015 targets, moving faster in delivering its plan:

- Positive lending momentum across UK Personal & Business Banking (UK PBB) and Commercial Banking.
- Statistically significant improvement in Net Promoter Scores (NPS) year-on-year in four of the seven businesses where it is measured.
- Adjusted return on equity in the Go-forward Bank[(2,3)] is estimated at 14% for H1 2015. Return on equity for RBS for H1 2015 is (0.7%).
- Capital position strengthened further with Common Equity Tier 1 ratio up 80 basis points in Q2 2015 to 12.3%.
- Exit Bank ahead of plan with continuing progress on sales and run-off.
- On track to achieve £800 million cost reduction target[(4)].

Creating a strong Go-forward Bank

RBS continues to target lending growth in strategic segments, UK PBB and Commercial Banking, in line with or above nominal UK GDP growth. Annualised growth across these segments was 2% in H1 2015. Investment in these businesses is paying dividends through improving returns.

Following a slow start to 2015, the updated mortgage platform enabled RBS to meet increased demand for mortgage products through Q2 2015, with applications up 43% year-on-year and gross new lending up 43% to £5.4 billion relative to the previous quarter. Market share of new mortgages reached 9.7% for Q2 2015, well in excess of RBS's current stock share of 8.3%. Commercial Banking increased loans and advances by £1.4 billion year-on-year, excluding transfers, while continuing to run down non-strategic books.

Notes:

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

(2) Calculated using operating profit after tax on a non-statutory basis excluding restructuring costs of £1,503 million and litigation and conduct costs of £1,315 million divided by average notional equity (based on 13% of average RWAe). See appendix 3 for more information.

(3) Provided to illustrate the impact on the RBS ROE of the strategic initiatives announced in February 2015 by showing the 'Go-forward Bank' profile which is a non-GAAP measure and should be read in conjunction with the notes attached as well as the section titled "Forward-looking Statements". See presentation of information on page 3 and appendix 3 for more information.

(4) Excluding restructuring, litigation and conduct costs, write-off of intangible assets, and operating expenses of Citizens and Williams & Glyn.

Highlights

RBS's ambition is to be the number one bank for customer service, trust and advocacy. Customer NPS across our businesses have seen statistically significant improvement year-on-year, specifically NatWest Personal Banking, NatWest Business Banking, RBS Business Banking and Ulster Bank (Northern Ireland) Personal Banking reflecting recent initiatives to make the bank fairer and simpler to do business with.

RBS is focused on improving performance and returns in the remaining Go-forward Bank (Ulster Bank, Private Banking and CIB) by improving service and reducing operating costs and risk where appropriate.

The Go-forward Bank is estimated(1) to have generated an adjusted operating profit(1,2) of £1.4 billion in the quarter, up 17% from Q1 2015, with adjusted return on equity estimated(1,2) at 16%, up from 12% in Q1 2015 (see appendix 3). RBS operating profit before tax was £240 million in the quarter (Q1 2015 - £53 million) with a return on equity of 2.7% (Q1 2015 - (4.1%)).

Accelerated run-down of the Exit Bank

RBS remains ahead of plans to exit a number of businesses through sale or run-off, with good execution to date. Good momentum has been maintained with risk-weighted assets (RWAs) down by an estimated(1,3) £24 billion since the start of 2015 to £148 billion.

- CIB is on course to reduce RWAs by £25 billion by the end of 2015, with substantial progress across exit portfolios.

- Plans to complete the exit from Citizens remain on track.

- RBS Capital Resolution (RCR) continued on its path to complete its targeted rundown before the end of 2015, one year ahead of schedule, as it continues to benefit from attractive exit values. RCR total assets fell to £16.5 billion, a reduction of £12.5 billion, or 43%, since the start of the year. RCR funded assets which excluded derivatives of £8 billion fell by 44% in the first half of 2015 taking the balance down to £8.4 billion. RWAs also decreased 35% to £14.4 billion in the same period.

- By 30 June 2015 considerable progress had been made toward the disposal of the North American corporate loan portfolio identified for exit, with a substantial proportion sold to Mizuho Bank through two separate transactions. Upon final settlement expected in Q3 2015, RWAs will have been reduced by approximately US$9 billion.

RBS has partnered with BNP Paribas to offer existing international customers an alternative to Global Transaction Services (GTS) as part of the decision to refocus the business. Businesses in the UK and Ireland, including those outwith the UK but with significant links to the UK, will continue to receive GTS capabilities from RBS.

The majority of the Australian and United Arab Emirates corporate loan books have been sold.

The sale of most of the RBS International Private Banking business to Union Bancaire Privée remains on track for Q4 2015.

RBS is continuing to work towards the separation of Williams & Glyn in the summer of 2016 and IPO by the end of 2016. In May 2015 the Competition & Markets Authority announced that it had been asked by the Chancellor to advise on the competition implications of the Williams & Glyn divestment. The review is expected to be completed later this year and at this stage its outcome cannot be predicted.

Notes:

(1) Provided to illustrate the impact on RBS operating profit, ROE and RWAs of the strategic initiatives announced in February 2015 by showing the 'Go-forward Bank' profile which is a non-GAAP measure and should be read in conjunction with the notes attached as well as the section titled "Forward-looking Statements". See presentation of information on page 3 and appendix 3 for more information.

(2) Excluding restructuring of £1,050 million (Q1 2015 - £453 million) and litigation and conduct costs of £459 million (Q1 2015 - £856 million).

(3) RBS RWAs £326.4 billion (31 December 2014 - £355.9 billion).

Highlights

Making RBS safer and dealing with ongoing issues

Balance sheet and capital strength and resilience continue to build. RWAs decreased to £326 billion, down from £356 billion at the start of the year and £392 billion from 30 June 2014, driven by RCR and CIB. A CET1 ratio of 12.3% at 30 June 2015 was up 80 basis points from 31 March 2015 and 110 basis points from 31 December 2014. Citizens Financial Group's RWAs (£70 billion) remain for the time being fully consolidated for regulatory purposes, although RBS's holding has been reduced to 40.8% as at 30 June 2015.

Risk elements in lending (REIL) fell to £18.7 billion, representing 4.8% of gross customer loans, down from 5.4% at 31 March 2015. REIL for RBS excluding RCR were £11.3 billion, down from £12.1 billion at 31 March 2015.

RBS plans to return excess capital to shareholders through dividends or buybacks, subject to regulatory approval. This is dependent on the achievement of certain strategic objectives, including sustained profitability, improved stress test results and resolving our major conduct and litigation issues. As a result we do not expect to be in a position to return capital before Q1 2017 at the earliest.

RBS continues to be party to legal proceedings and regulatory and governmental investigations, including with respect to US mortgage-backed securities, foreign exchange trading and its treatment of UK SME customers, and continues to incur conduct related costs, including in relation to payment protection insurance and interest rate hedging products. While addressing these ongoing issues, RBS is continuing its endeavours to embed a strong and comprehensive risk and compliance culture throughout the organisation.

In June 2015 RBS experienced an issue with its secure connection used to process BACS payments resulting in a one or two day delay to payments being applied to some customer accounts. RBS has agreed to reimburse customers for any loss suffered as a result. A comprehensive root cause analysis is ongoing and correspondence with our regulators continues.

Making good progress on 2015 targets

Strategy Goal	2015 Target	H1 2015 Progress
	Reduce RWAs to <£300 billion	£326 billion

	RCR exit substantially completed	Funded assets down 78% since initial pool of assets identified(1)
	Citizens deconsolidation	40.8% holding
	£2 billion AT1 issuance	Inaugural AT1 to be launched shortly(2)
Customer experience	Improve NPS in every UK franchise(3)	Year-on-year, statistically significant improvement in NPS in 4 of the 7 businesses where it is measured
Simplifying the bank	Reduce costs by £800 million(4)	Annualised cost savings of over £700 million achieved in H1
Supporting growth	Lending growth in strategic segments ≥ nominal UK GDP growth	2% annualised growth in UK PBB and Commercial Banking
Employee engagement	Raise employee engagement index to within 8% of Global Financial Services (GFS) norm	Annual metric

Notes:

(1) Funded assets are down 71% since 1 January 2014.
(2) Issuance subject to market conditions.
(3) Further details are available on page 13.
(4) Excluding restructuring, litigation and conduct costs, write-off of intangible assets, and operating expenses of Citizens and Williams & Glyn.

Highlights

Building the number one bank for customer service, trust and advocacy in the UK

Investment in new products - Reward, the new current account proposition, was launched in July to a small number of customers. Through the Reward account customers can receive 3% cashback on certain household bills paid by direct debit. Full launch is scheduled for later in the year.

Continued commitment to be fairer for customers - RBS is making overdrafts more accessible with 600,000 customers now newly eligible for a £100 overdraft. This is in addition to allowing a £250 limit to customers who have had positive behaviour with RBS but historical issues with other lenders.

Investment in service - The mortgage platform was upgraded and the number of mortgage advisors increased to 869 in UK PBB (up 8% compared with the start of 2015 or 28% compared with Q2 2014) which provides increased lending capacity. The NatWest mobile banking app customer NPS became joint number one in the market(1) during Q2 2015, with real time registration allowing customers to begin using the app as their account is opened. Around 2,800 staff registered for a bespoke lending skills training programme and RBS rolled out a customer relationship management (CRM) tool to around 3,000 staff, allowing them to have a single view of all customer needs and thus improve service.

Making RBS simpler to do business with - The time to open a personal current account has been halved to 30 minutes as the bank transforms its systems, becoming simpler and quicker. The Commercial Bank has delivered a 75% reduction in customer paperwork and a 25% reduction in the time to open an account.

Leading on innovation and collaboration - RBS is the first bank to launch TouchID login and adopt Apple Pay whilst launching the first Royal National Institute of Blind People (RNIB) approved cards.

Backing UK business - RBS launched a mid-market initiative to attract and support more businesses with a turnover of between £10 million and £50 million or borrowing in excess of £1 million. The aim is to achieve 300 new customer relationships, providing the means to grow and support UK business. In partnership with Entrepreneurial Spark, the first of eight business accelerator hubs was opened in Birmingham providing free space, mentoring and financial support to small businesses. A new £2.5 million Skills & Opportunities Fund to help people from disadvantaged communities learn new skills, get into the world of work or set up their own business was also launched.

Building a more capable and diverse workforce - RBS is raising professional standards by supporting staff to undertake the Chartered Banker foundation qualification. RBS is the first bank to achieve Investors in Young People Accreditation. In 2015 we will increase the number of apprentices from 50 to over 300. RBS has set a target of having 30% female leaders in every business by 2020.

RBS remains committed to achieving its target of being number one bank for customer service, trust and advocacy by 2020.

We use independent surveys to measure our customers' experience and track our progress against our goal in each of our markets.

Net Promoter Score (NPS)

Customers are asked how likely they would be to recommend their bank to a friend or colleague, and respond based on a 0-10 scale with 10 indicating 'extremely likely' and 0 indicating 'not at all likely'. Customers scoring 0 to 6 are termed detractors and customers scoring 9 to 10 are termed promoters. NPS is established by subtracting the proportion of detractors from the proportion of promoters.

Note:

(1) Source: internal NPD Drivers study, June 15 based on 3 month roll with latest base size 2234.

Highlights

The table below lists all of the businesses for which we have an NPS for Q2 2015. Year-on-year, NatWest Personal Banking, NatWest Business Banking, RBS Business Banking and Ulster Bank (Northern Ireland) Personal Banking have all seen statistically significant improvements in NPS.

In recent years, the bank has launched a number of initiatives to make it simpler, fairer and easier to do business, and it continues to deliver on the commitments that it made to its customers in 2014.

		Q2 2014	Q1 2015	Q2 2015	Year end 2015 target
Personal Banking	NatWest (England & Wales)(1)	4	5	8	9
	RBS (Scotland)(1)	-10	-18	-10	-10
	Ulster Bank (Northern Ireland)(2)	-34	-18	-11	-21
	Ulster Bank (Republic of Ireland)(2)	-22	-16	-14	-15
Business Banking	NatWest (England & Wales)(3)	-15	-6	4	-7
	RBS (Scotland)(3)	-30	-17	-17	-21
Commercial Banking(4)		9	12	10	15

Customer Trust

We also use independent experts to measure our customers' trust in the bank. Each quarter we ask customers to what extent they trust or distrust their bank to do the right thing. The score is a net measure of those customers that trust their bank (a lot or somewhat) minus those that distrust their bank (a lot or somewhat).

Trust in the RBS brand was impacted by the IT incident on 17 June 2015.

		Q2 2014	Q1 2015	Q2 2015	Year end 2015 target
Customer Trust(5)	NatWest (England & Wales)(1)	49%	44%	48%	46%

	RBS (Scotland)	0%	10%	-2%	11%

Notes:

Suitable measures for Private Banking and for Corporate & Institutional Banking are in development. NPS for Ulster Bank Business Banking is measured at Q4.

(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest England & Wales (3,444) RBS Scotland (520). 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?"

(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".

(3) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with an annual turnover up to £2 million. 12 month rolling data. Latest base sizes: NatWest England & Wales (1,240), RBS Scotland (419). Weighted by region and turnover to be representative of businesses in England & Wales/Scotland.

(4) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with annual turnover between £2 million and £1 billion. Latest base size: RBSG Great Britain (965). 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 (916), RBS Scotland (209).

Highlights

Recent developments

Citizens

On 29 July 2015, RBS announced the final pricing for a further offering of 86 million shares in Citizens and the grant of a 15% over-allotment option to underwriters giving them a 30-day option to purchase an additional 12.9 million shares. Gross proceeds will be US$2.2 billion (£1.4 billion), ($2.6 billion (£1.6 billion) assuming exercise in full of the over-allotment option). Concurrently, Citizens intends to repurchase 9.6 million shares (US$250 million) from RBS. Once these transactions have completed and assuming the over-allotment option is exercised in full, RBS will own 110.5 million shares - 20.9% of Citizens' common stock and will record an estimated £1.1 billion profit (including £0.9 billion reclassified from equity).

Following this significant reduction in its voting interest, RBS will no longer control Citizens for accounting purposes and will cease to consolidate it; reducing total assets by approximately £78 billion. RBS's remaining investment in Citizens will be an associate classified as held for sale.

Citizens will however continue to be consolidated for the purposes of regulatory capital as RBS will retain certain veto rights notwithstanding the reduction in its interest in CFG.

Capital

AT1 securities

As part of our commitment to continue building our capital ratios, we plan to launch our inaugural Additional Tier 1 securities offering over the next few days, subject to market conditions.

Preference shares

RBS intends to redeem US$1.9 billion of its outstanding Series M, N, P and Q non-cumulative dollar preference shares, represented by American depositary shares, on 1 September 2015.

July Budget

On 8 July 2015 a number of proposed changes to the UK corporate tax system were announced. In accordance with IFRS these changes will be accounted for when they are substantively enacted which is expected to be in October 2015.

The most relevant proposed measures include:

- Cuts in the rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Existing temporary differences on which deferred tax has been provided may reverse at these reduced rates;

- A corporation tax surcharge of 8% on UK banking entities from 1 January 2016. This is expected to increase RBS's corporation tax liabilities and vary the carrying value of its deferred tax balances;

- A reduction in the bank levy rate from 0.21% to 0.18% from 1 January 2016 and subsequent annual reductions to 0.1% from 1 January 2021; and

- Making compensation in relation to misconduct non-deductible for corporation tax.

It is expected that these measures will increase the normalised tax rate to around 27% in the medium term and trending lower thereafter. The bank levy for 2015 is expected to be £280 million and is projected to fall progressively to £150 million by 2019.

Highlights

Outlook

Following the sale of a further tranche of shares, RBS now plans to complete the exit from Citizens by the end of 2015, subject to market conditions.

The divestment, together with the strong progress being made in CIB and RCR, will enable RBS to meet its target of reducing RWAs to below £300 billion in 2015.

The restructuring of CIB is planned to accelerate during the second half of 2015. This is expected to result in lower revenues, partially due to higher disposal losses, and elevated restructuring costs.

Targeted cost savings of £800 million in 2015 are expected to be delivered, notwithstanding the adverse impact of the increased UK bank levy.

RBS expects to meet its objective of lending growth in strategic segments, UK PBB and Commercial Banking, in line with or above nominal UK GDP growth.

Investments to make the bank simpler and fairer for customers are having a positive impact on NPS. The target to improve NPS in all customer franchises is stretching but achievable.

Whilst legacy issues continue to be addressed, material further and incremental costs and provisions related to historical conduct are expected. The timing and quantum of any future costs, provisions and settlements, however, remain uncertain.

Letter from the Chairman

These results demonstrate the strength of our underlying customer businesses with operating profit - excluding restructuring and conduct charges of £1.8 billion(1) for the quarter, up 11% on Q1. We have reported an attributable profit for the quarter, albeit a loss for the half year, which reflects the restructuring and conduct costs we are continuing to work through.

We are seeing progress in our UK retail and commercial businesses. More customers are choosing us to help them buy their homes than ever before, while the commercial business grew its loan book by £1.4 billion since 30 June 2014.

RBS is closely involved in the UK's improving economic performance. In partnership with Entrepreneurial Spark, RBS is opening business accelerator hubs in Birmingham, Brighton, Bristol and Leeds, with plans to open further hubs in major cities across the UK as we continue to support UK entrepreneurs and businesses providing free space, mentoring and financial support. The latest data from UK Export Finance shows that we are currently the biggest backer (by volume and value) of export contracts for 2015/16 and we are well on track to exceed our business for the previous financial year.

In the first six months of the year we have increased our UK focus by further reducing our stake in Citizens in the US and by agreeing to sell our International Private Bank. We have made excellent progress running down the parts of the business that no longer fit with our strategy.

We have also once again improved our core capital position, and have had six consecutive quarters of capital growth. RBS is now a much better capitalised bank.

The RBS of today is of course very different from the bank of 2009. It has a greater focus on the quality of earnings and the control of risks.

There have naturally been ups and downs along the way, which have required the strategy to change, but the focus on making this a stronger, simpler and fairer organisation has been the right one. The decisions to sell or run-off significant parts of the business while investing in our core customer franchises has meant we are better positioned to deal with the constraints of structural regulatory reform, notably ring-fencing.

Of course there are still some obstacles to overcome especially the resolution of outstanding conduct issues, including the investigations into our sale of residential mortgage-backed securities in the US between 2005-07, and the investigation by UK authorities into the bank's approach to distressed businesses.

Past experience at RBS and many other banks has demonstrated the readiness of regulators to impose substantial fines and costly redress schemes. These conduct and litigation costs have greatly exceeded the expectations of banks and their investors. Judging the ultimate scale of conduct costs remains extremely challenging.

Looking forward, however, making customer service, trust and advocacy the focus of our strategy is starting to deliver results and by the end of this year I am confident that shareholders will see a clearer picture of the bank that RBS will become.

This is an appropriate backdrop to the sale of shares by the UK government, which will be a significant moment for this bank.

Philip Hampton

Chairman

Note:

(1) On a non-statutory basis excluding restructuring costs of £1.1 billion (Q1 15 - £0.5 billion) and conduct charges of £0.5 billion (Q1 15 – £0.9 billion)

Analysis of results

The following table reconciles the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
Net interest income	**£m**	£m		**£m**	£m	£m
Net interest income						
- UK Personal & Business Banking	**2,290**	2,276		**1,147**	1,143	1,152
- Ulster Bank	**265**	323		**132**	133	169
- Commercial Banking	**1,108**	999		**562**	546	511
- Private Banking	**254**	344		**126**	128	174
- Corporate & Institutional Banking	**376**	365		**174**	202	186
- Central items	**150**	203		**88**	62	100
- RCR	**(25)**	(1)		**(14)**	(11)	7
- Citizens	**1,104**	987		**551**	553	499
- non-statutory basis	**5,522**	5,496		**2,766**	2,756	2,798
- Citizens	**(1,104)**	(987)		**(551)**	(553)	(499)
- RFS Holdings minority interest	**-**	(3)		**-**	-	-
	-	-		**-**	-	-
Net interest income - statutory basis	**4,418**	4,506		**2,215**	2,203	2,299
Average interest-earning assets						
- RBS	**416,207**	439,250		**417,135**	415,579	433,920
- UK Personal & Business Banking	**128,468**	126,696		**128,569**	128,366	126,964
- Ulster Bank	**27,518**	28,089		**27,404**	27,633	28,884
- Commercial Banking	**77,985**	74,749		**78,880**	77,079	74,971
- Private Banking	**15,850**	18,663		**15,729**	15,973	18,698
- Corporate & Institutional Banking	**71,269**	83,778		**69,437**	73,114	83,477
- Central items	**77,681**	70,892		**82,358**	73,270	66,393
- RCR	**17,436**	36,383		**14,758**	20,144	34,533
Net interest margin						
- RBS	**2.14%**	2.07%		**2.13%**	2.15%	2.13%
- UK Personal & Business Banking	**3.59%**	3.62%		**3.58%**	3.61%	3.64%
- Ulster Bank	**1.94%**	2.32%		**1.93%**	1.95%	2.35%
- Commercial Banking	**2.87%**	2.70%		**2.86%**	2.87%	2.73%
- Private Banking	**3.23%**	3.72%		**3.21%**	3.25%	3.73%

- Corporate & Institutional Banking	**1.06%**	0.88%		**1.00%**	1.12%	0.90%
- Central items	**0.39%**	0.58%		**0.43%**	0.34%	0.60%
- RCR	**(0.29%)**	(0.01%)		**(0.38%)**	(0.22%)	0.08%

Analysis of results

Key points

H1 2015 compared with H1 2014

- Net interest income was stable, with asset growth in UK PBB and Commercial Banking. Segmental splits are affected by the transfer of a number of portfolios between businesses, including the transfer to Commercial Banking of the UK corporate coverage business from CIB and of the RBS International business from Private Banking.

- Net interest margin (NIM) rose 7 basis points, with progressive repricing of deposits helping to offset continuing competitive pressures on asset margins.

Q2 2015 compared with Q1 2015

- Asset growth was driven by rising mortgage volumes, supported by increased mortgage adviser capacity and increasingly competitive pricing.

- Modest downward pressure on NIM reflected competitive conditions in domestic markets and a further slight decline in the standard variable rate mortgage book, partially offset by some further small adjustments to deposit pricing.

Q2 2015 compared with Q2 2014

- Net interest income was down 4%, with good asset growth in UK mortgages and Commercial Banking partially offsetting declines in other portfolios.

- NIM remained stable, with deposit repricing offsetting continuing pressure on asset margins.

Analysis of results

The following tables reconcile the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
Non-interest income	**£m**	£m	**£m**	£m	£m
Fees and commissions receivable					
- non-statutory basis	**2,347**	2,605	**1,169**	1,178	1,314
- Citizens	**(389)**	(362)	**(200)**	(189)	(188)
Statutory basis	**1,958**	2,243	**969**	989	1,126
Fees and commissions payable					
- non-statutory basis	**(381)**	(487)	**(195)**	(186)	(251)
- Citizens	**18**	12	**9**	9	7
Statutory basis	**(363)**	(475)	**(186)**	(177)	(244)
Net fees and commissions - non-statutory basis	**1,966**	2,118	**974**	992	1,063
Net fees and commissions - statutory basis	**1,595**	1,768	**783**	812	882
Income from trading activities					
- non-statutory basis	**734**	1,482	**464**	270	626
- own credit adjustments	**210**	11	**115**	95	(84)
- Citizens	**(69)**	(43)	**(34)**	(35)	(13)
- RFS Holdings minority interest	**-**	-	**-**	-	(1)
Statutory basis	**875**	1,450	**545**	330	528
Gain on redemption of own debt - statutory basis	**-**	20	**-**	-	-
Other operating income					

- non-statutory basis	**478**	882		**165**	313	438
- own credit adjustments	**78**	(62)		**53**	25	(106)
- strategic disposals	**(135)**	191		**-**	(135)	-
- Citizens	**(53)**	(231)		**(24)**	(29)	(191)
- RFS Holdings minority interest	**-**	25		**-**	-	13
Statutory basis	**368**	805		**194**	174	154
Total non-interest income - non-statutory basis	**3,178**	4,482		**1,603**	1,575	2,127
Total non-interest income - statutory basis	**2,838**	4,043		**1,522**	1,316	1,564

Key points

H1 2015 compared with H1 2014

- Non-interest income was down 30%, principally reflecting reduced trading income, in line with CIB's risk and resource reduction.

- Losses of £69 million were recorded on the disposal of available-for-sale securities, compared with gains of £215 million in H1 2014.

Q2 2015 compared with Q1 2015

- Non-interest income was up 16% due to charges in Q1 of £122 million relating to strategic disposals in respect of International Private Banking and £13 million mainly in relation to RBS Kazakhstan. On a non-statutory basis non-interest income was up 2%, reflecting seasonal movements offset by volatile items under IFRS.

Analysis of results

Key points (continued)

Q2 2015 compared with Q2 2014

- Non-interest income was 3% lower reflecting the reduction in CIB's scale and with reductions in fees and commissions payable offset by gains in income from trading and other operating income. On a non-statutory basis non-interest income was 25% lower, principally reflecting the reduction in CIB's scale.

- A loss of £42 million on the disposal of available-for-sale securities compared with a gain of £13 million in Q2 2014.

Analysis of results

The following tables reconcile the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
Operating expenses	**£m**	£m	**£m**	£m	£m
Staff costs					
- non-statutory basis	**(3,075)**	(3,340)	**(1,517)**	(1,558)	(1,693)
- restructuring costs	**(348)**	(196)	**(293)**	(55)	(153)
- Citizens	**568**	539	**280**	288	287
- RFS Holdings minority interest	**-**	-	**-**	-	1
Statutory basis	**(2,855)**	(2,997)	**(1,530)**	(1,325)	(1,558)
Premises and equipment					
- non-statutory basis	**(859)**	(1,079)	**(372)**	(487)	(485)
- restructuring costs	**(47)**	(196)	**(37)**	(10)	(137)
- Citizens	**161**	149	**83**	78	76
Statutory basis	**(745)**	(1,126)	**(326)**	(419)	(546)
Other administrative expenses					
- non-statutory basis	**(1,133)**	(1,292)	**(622)**	(511)	(605)
- litigation and conduct costs	**(1,315)**	(250)	**(459)**	(856)	(250)
- restructuring costs	**(208)**	(119)	**(100)**	(108)	(94)
- Citizens	**290**	305	**154**	136	171
- RFS Holdings minority interest	**-**	(1)	**-**	-	(2)
Statutory basis	**(2,366)**	(1,357)	**(1,027)**	(1,339)	(780)
Depreciation and amortisation					
- non-statutory basis	**(418)**	(551)	**(186)**	(232)	(282)
- Citizens	**-**	88	**-**	-	45
- restructuring costs	**(294)**	(3)	**(14)**	(280)	(1)
- RFS Holdings minority interest	**-**		**-**		1

Statutory basis	**(712)**	(466)		**(200)**	(512)	(237)
Restructuring costs (1)						
- non-statutory basis	**(1,503)**	(514)		**(1,050)**	(453)	(385)
- staff costs	**348**	196		**293**	55	153
- premises and equipment	**47**	196		**37**	10	137
- other administrative expenses	**208**	119		**100**	108	94
- write off of intangible assets	**606**	-		**606**	-	-
- depreciation and amortisation	**294**	3		**14**	280	1
Statutory basis	**-**	-		**-**	-	-
Litigation and conduct costs (1)						
- non-statutory basis	**(1,315)**	(250)		**(459)**	(856)	(250)
- other administrative expenses	**1,315**	250		**459**	856	250
Statutory basis	**-**	-		**-**	-	-
Write down of goodwill and other intangible assets						
- non-statutory basis	**-**	(82)		**-**	-	-
- write down of goodwill and other intangible assets	**(606)**	(130)		**(606)**	-	(130)
Statutory basis	**(606)**	(212)		**(606)**	-	(130)
Operating expenses - non-statutory basis	**(8,303)**	(7,108)		**(4,206)**	(4,097)	(3,700)
Operating expenses - statutory basis	**(7,284)**	(6,158)		**(3,689)**	(3,595)	(3,251)

Note:

(1) Items reallocated to other expense lines, not reconciling items.

Analysis of results

Key points

H1 2015 compared with H1 2014

- Operating expenses rose as a result of higher restructuring and litigation and conduct costs partially offset by the benefits of the bank's cost reduction programme. This included a 5% reduction in staff expenses, driven by a reduction in headcount, principally in higher cost businesses.

- Operating expenses excluding litigation and conduct costs of £1,315 million (H1 2014 - £250 million) and restructuring costs of £1,503 million (H1 2014 - £514 million) were 17% lower.

Q2 2015 compared with Q1 2015

- Operating expenses were 3% higher, with an increase in restructuring costs (up £597 million) partially offset by lower litigation and conduct costs (down £397 million).

- Operating expenses excluding litigation and conduct costs of £459 million (Q1 2015 - £856 million) and restructuring costs of £1,050 million (Q1 2015 - £453 million) fell by 5%, including an 8% reduction within CIB.

Q2 2015 compared with Q2 2014

- Operating expenses were 13% higher reflecting increased restructuring and litigation and conduct costs.

- Operating expenses excluding litigation and conduct costs of £459 million (Q2 2014 - £250 million) and restructuring costs of £1,050 million (Q2 2014 - £385 million) fell by 17%, driven by a reduction in staff expenses.

Restructuring costs

- Restructuring costs totalled £1,050 million for Q2 2015 and £1,503 million for H1 2015, principally relating to CIB (Q2 2015 - £734 million) and to Williams & Glyn separation (Q2 2015 - £126 million). Restructuring costs included intangible software write-offs in CIB and Private Banking totalling £606 million, which have no impact on CET1 capital or tangible net asset value.

-

Total restructuring charges are still expected to total c.£5 billion over the five year period 2015-2019 including:

- Williams & Glyn separation c.£1.1 billion of which £259 million was taken in H1 2015. The remainder is expected to be incurred over the period to Q4 2016;
- Independent Commission on Banking (ICB) preparation c.£800 million. The bulk is expected to be incurred in 2016-2018; and
- Restructuring of CIB and Go-forward Bank transformation just over c.£3 billion, of which £1,244 million was taken in H1 2015, with the majority relating to CIB. Most of the CIB restructuring is expected to be incurred in 2015.

Litigation and conduct costs

- £459 million of additional litigation and conduct costs taken in Q2 2015 related principally to mortgage-backed securities litigation in the United States. An additional £69 million provision was taken in relation to interest rate hedging products redress.

Analysis of results

The following tables reconcile the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
Impairment (releases)/losses	**£m**	£m		**£m**	£m	£m
Loans						
- non-statutory basis	**(342)**	271		**(152)**	(190)	(89)
- Citizens	**(89)**	(102)		**(51)**	(38)	(29)
Statutory basis	**(431)**	169		**(203)**	(228)	(118)
Securities						
- non-statutory basis	**110**	(2)		**11**	99	(4)
- Citizens	**-**	(2)		**-**	-	(2)
Statutory basis	**110**	(4)		**11**	99	(6)
Impairment (releases)/losses - non-statutory basis	**(232)**	269		**(141)**	(91)	(93)
Impairment (releases)/losses - statutory basis	**(321)**	165		**(192)**	(129)	(124)
Loan impairment (releases)/losses						
Individually assessed						
- non-statutory basis	**(102)**	113		**(96)**	(6)	(42)
- Citizens	**(18)**	(19)		**(9)**	(9)	(5)
Statutory basis	**(120)**	94		**(105)**	(15)	(47)
Collectively assessed						
- non-statutory basis	**90**	348		**21**	69	221
- Citizens	**(84)**	(71)		**(28)**	(56)	(32)
Statutory basis	**6**	277		**(7)**	13	189

Latent						
- non-statutory basis	**(330)**	(180)		**(77)**	(253)	(258)
- Citizens	**13**	(13)		**(14)**	27	8
Statutory basis	**(317)**	(193)		**(91)**	(226)	(250)
Loan impairment (releases)/losses - non-statutory basis	**(342)**	281		**(152)**	(190)	(79)
Loan impairment (releases)/losses - statutory basis	**(431)**	178		**(203)**	(228)	(108)
Bank loans	**-**	(10)		**-**	-	(10)
Loan impairment (releases)/losses						
RBS excluding RCR	**13**	290		**43**	(30)	36
RCR	**(355)**	(19)		**(195)**	(160)	(125)
	(342)	271		**(152)**	(190)	(89)
Customer loan impairment (releases)/losses						
as a % of gross loans and advances (1)						
RBS non-statutory	**(0.2%)**	0.1%		**(0.2%)**	(0.2%)	(0.1%)
RBS	**(0.3%)**	0.1%		**(0.2%)**	(0.3%)	(0.1%)
RBS excluding RCR	**0.0%**	0.2%		**(0.0%)**	-	-
RCR	**(6.5%)**	(0.1%)		**(7.1%)**	(4.2%)	(1.7%)

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

Analysis of results

	30 June 2015	31 March 2015	31 December 2014
Loan impairment provisions (1)			
- RBS	**£11.3bn**	£13.8bn	£18.0bn
- RBS excluding RCR	**£6.2bn**	£6.6bn	£7.1bn
- RCR	**£5.1bn**	£7.2bn	£10.9bn
Risk elements in lending (REIL) (1)			
- RBS	**£18.7bn**	£22.3bn	£28.2bn
- RBS excluding RCR	**£11.3bn**	£12.1bn	£12.8bn
- RCR	**£7.4bn**	£10.2bn	£15.4bn
Provisions as a % of REIL (1)			
- RBS	**60%**	62%	64%
- RBS excluding RCR	**54%**	55%	55%
- RCR	**69%**	70%	71%
REIL as a % of gross customer loans (1)			
- RBS	**4.8%**	5.4%	6.8%
- RBS excluding RCR	**3.0%**	3.0%	3.3%
- RCR	**67%**	68%	70%

Note:

(1) Excludes reverse repurchase agreements and includes disposal groups.

Key points

H1 2015 compared with H1 2014

- Net impairment releases of £321 million were recorded in H1 2015, compared with net impairment losses of £165 million in H1 2014. Net loan impairment releases were recorded in all operating segments except Commercial Banking and CFG, where impairments nevertheless remained low at 0.1% and 0.3% respectively of gross loans and advances.

- RCR saw loan impairment releases of £355 million, largely arising from disposals.

- REIL totalled £18.7 billion at 30 June 2015, and represented 4.8% of gross customer loans, down

£9.5 billion from 31 December 2014, when they represented 6.8% of gross customer loans.

- The £114 million increase in securities impairments related to a small number of single name exposures, predominantly an exposure in the RBS N.V. liquidity portfolio.

Q2 2015 compared with Q1 2015

- Net impairment releases of £192 million were up from net releases of £129 million in Q1 2015. Loan impairment releases were lower, reflecting reduced latent releases, but securities impairments recorded in Q1 2015 were not repeated on the same scale.

- REIL were £3.6 billion lower, representing 4.8% of gross customer loans, with the bulk of the reduction in RCR.

- Provision coverage of REIL was 60%, compared with 62% at 31 March 2015, reflecting the continuing reduction in the more heavily provisioned portfolios of RCR.

Q2 2015 compared with Q2 2014

- Net impairment releases of £192 million were up from Q2 2014, during which higher latent releases were partially offset by greater collectively assessed impairment charges.

Analysis of results

Capital and leverage ratios						
	End-point CRR basis (1)			PRA transitional basis		
	30 June	31 March	31 December	**30 June**	31 March	31 December
	2015	2015	2014	**2015**	2015	2014
Risk asset ratios	**%**	%	%	**%**	%	%
CET1	**12.3**	11.5	11.2	**12.3**	11.5	11.1
Tier 1	**12.3**	11.5	11.2	**14.3**	13.3	13.2
Total	**14.8**	14.0	13.7	**18.5**	17.0	17.1
Capital	**£m**	£m	£m	**£m**	£m	£m
Tangible equity	**43,919**	44,242	44,368	**43,919**	44,242	44,368
Expected loss less impairment provisions	**(1,319)**	(1,512)	(1,491)	**(1,319)**	(1,512)	(1,491)
Prudential valuation adjustment	**(366)**	(393)	(384)	**(366)**	(393)	(384)
Deferred tax assets	**(1,206)**	(1,140)	(1,222)	**(1,206)**	(1,140)	(1,222)
Own credit adjustments	**345**	609	500	**345**	609	500
Pension fund assets	**(250)**	(245)	(238)	**(250)**	(245)	(238)
Other deductions	**(1,070)**	(1,436)	(1,614)	**(1,047)**	(1,414)	(1,884)
Total deductions	**(3,866)**	(4,117)	(4,449)	**(3,843)**	(4,095)	(4,719)
CET1 capital	**40,053**	40,125	39,919	**40,076**	40,147	39,649
AT1 capital	**-**	-	-	**6,709**	6,206	7,468
Tier 1 capital	**40,053**	40,125	39,919	**46,785**	46,353	47,117
Tier 2 capital	**8,181**	8,689	8,717	**13,573**	12,970	13,626
Total regulatory capital	**48,234**	48,814	48,636	**60,358**	59,323	60,743
Risk-weighted assets						
Credit risk						
- non-counterparty	**245,000**	263,000	264,700	**245,000**	263,000	264,700
- counterparty	**27,500**	31,200	30,400	**27,500**	31,200	30,400
Market risk	**22,300**	22,800	24,000	**22,300**	22,800	24,000
Operational risk	**31,600**	31,600	36,800	**31,600**	31,600	36,800

Total RWAs	**326,400**	348,600	355,900		**326,400**	348,600	355,900
Leverage (2)							
Derivatives	**282,300**	391,100	354,000				
Loans and advances	**402,800**	429,400	419,600				
Reverse repos	**67,800**	69,900	64,700				
Other assets	**211,800**	214,200	212,500				
Total assets	**964,700**	1,104,600	1,050,800				
Derivatives							
- netting	**(266,600)**	(379,200)	(330,900)				
- potential future exposures	**83,500**	96,000	98,800				
Securities financing transactions gross up	**6,200**	20,200	25,000				
Undrawn commitments	**84,700**	94,900	96,400				
Regulatory deductions and other adjustments (3)	**2,000**	900	(600)				
Leverage exposure	**874,500**	937,400	939,500				
CET1 capital	**40,053**	40,125	39,919				
Leverage ratio %	**4.6**	4.3	4.2				

Notes:

(1) Capital Requirements Regulation (CRR) as implemented by the Prudential Regulation Authority in the UK, with effect from 1 January 2014. All regulatory adjustments and deductions to CET1 have been applied in full for the end-point CRR basis with the exception of unrealised gains on AFS securities which has been included from 2015 for the PRA transitional basis.

(2) Based on end-point CRR Tier 1 capital and leverage exposure under the revised 2014 Basel III leverage ratio framework and the CRR Delegated Act.

(3) The increase in regulatory adjustments in Q2 2015 was driven by higher disallowable settlement balances.

Analysis of results

Key points

30 June 2015 compared with 31 March 2015

- RBS's CET1 ratio improved by 80 basis points to 12.3%, driven by good progress in RWA reduction in RCR and CIB.
- Citizens, in which RBS had a 40.8% stake at 30 June 2015, remains fully consolidated for regulatory capital purposes. Assuming the full deconsolidation of all Citizens credit and counterparty risk RWAs at 30 June 2015, the CET1 ratio would have been 300 basis points higher.
- RBS's leverage ratio improved by 30 basis points to 4.6% at 30 June 2015, with leverage exposures down 7% to £875 billion.
- On 29 July 2015, RBS approved plans for an issue of AT1 instruments.

30 June 2015 compared with 31 December 2014

- The CET1 ratio was 110 basis points higher at 12.3%, while the leverage ratio improved by 40 basis points to 4.6%. The improvement was principally driven by continued good progress on run-off and disposals in RCR and CIB.

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Segment performance

	Half year ended 30 June 2015										
	PBB			CPB			CIB				Non-
		Ulster		Commercial	Private			Central			statutory
	UK PBB	Bank	Total	Banking	Banking	Total		items (1)	CFG	RCR	total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement											
Net interest income	2,290	265	2,555	1,108	254	1,362	376	150	1,104	(25)	5,522
Non-interest income	631	103	734	606	167	773	948	43	490	190	3,178
Total income	2,921	368	3,289	1,714	421	2,135	1,324	193	1,594	165	8,700
Direct expenses											
- staff costs	(456)	(120)	(576)	(255)	(143)	(398)	(322)	(1,159)	(564)	(56)	(3,075)
- other costs**	(140)	(33)	(173)	(110)	(26)	(136)	(149)	(1,517)	(422)	(13)	(2,410)
Indirect expenses	(913)	(126)	(1,039)	(433)	(194)	(627)	(1,061)	2,759	-	(32)	-
Restructuring costs											
- direct	-	(18)	(18)	(10)	(3)	(13)	(211)	(1,228)	(33)	-	(1,503)
- indirect	(50)	-	(50)	(8)	(80)	(88)	(814)	952	-	-	-
Litigation and conduct costs	(364)	8	(356)	(59)	(28)	(87)	(873)	1	-	-	(1,315)
Operating expenses	(1,923)	(289)	(2,212)	(875)	(474)	(1,349)	(3,430)	(192)	(1,019)	(101)	(8,303)
Profit/(loss) before impairment losses	998	79	1,077	839	(53)	786	(2,106)	1	575	64	397
Impairment releases/(losses)	17	52	69	(27)	3	(24)	31	(48)	(89)	293	232
Operating profit/(loss)	1,015	131	1,146	812	(50)	762	(2,075)	(47)	486	357	629

Additional information											
Return on equity (3)	**23.6%**	**8.0%**	**18.4%**	**11.6%**	**(7.5%)**	**9.2%**	**(24.6%)**	**nm**	**6.8%**	**nm**	**(0.7%)**
Cost:income ratio	**66%**	**79%**	**67%**	**51%**	**113%**	**63%**	**259%**	**nm**	**64%**	**nm**	**95%**
Total assets (£bn)	**135.4**	**26.5**	**161.9**	**94.5**	**17.0**	**111.5**	**482.4**	**105.2**	**87.2**	**16.5**	**964.7**
Funded assets (£bn) (4)	**135.4**	**26.4**	**161.8**	**94.5**	**16.9**	**111.4**	**211.1**	**102.9**	**86.8**	**8.4**	**682.4**
Risk-weighted assets (RWAs) (£bn)	**41.0**	**21.2**	**62.2**	**66.9**	**9.8**	**76.7**	**88.0**	**15.3**	**69.8**	**14.4**	**326.4**
RWA equivalent (£bn) (5)	**44.6**	**20.7**	**65.3**	**72.0**	**9.8**	**81.8**	**89.7**	**15.4**	**70.0**	**17.9**	**340.1**
Employee numbers (FTEs - thousands)	**25.4**	**4.2**	**29.6**	**6.2**	**2.7**	**8.9**	**3.1**	**49.5**	**17.6**	**0.5**	**109.2**

*Operating profit/(loss) for the segments is presented before certain reconciling items, namely own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and Citizens (‘non-statutory’). The following adjustments are reallocations within segment operating profit/(loss): restructuring costs and litigation and conduct costs. These excluded or reallocated costs for the period presented reflect the following; non-interest income - £135 million loss on strategic disposals and gain on own credit adjustment of £288 million; staff costs - reallocation of £348 million loss from restructuring costs; and other costs – reallocation of £549 million loss from restructuring costs, £1,315 million loss from litigation and conduct costs and £606 million loss from write-downs of goodwill and other intangible assets.

** Other costs include the following: premises and equipment of £745 million, other administrative expenses of £2,366 million, depreciation and amortisation of £712 million and write-down of goodwill and other intangible assets of £606 million.

For the notes to this table refer to page 31. nm = not meaningful

Segment performance

	Quarter ended 30 June 2015											
	PBB			CPB			CIB				Non-	
		Ulster		Commercial	Private			Central			statutory	Rec
	UK PBB	Bank	Total	Banking	Banking	Total		items (1)	CFG	RCR	total	Oth
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Income statement												
Net interest income	1,147	132	1,279	562	126	688	174	88	551	(14)	2,766	
Non-interest income	322	46	368	330	81	411	346	173	246	59	1,603	1
Total income	1,469	178	1,647	892	207	1,099	520	261	797	45	4,369	1
Direct expenses												
- staff costs	(231)	(60)	(291)	(126)	(67)	(193)	(142)	(585)	(275)	(31)	(1,517)	(2
- other costs**	(69)	(16)	(85)	(56)	(14)	(70)	(71)	(732)	(215)	(7)	(1,180)	(1,2
Indirect expenses	(463)	(63)	(526)	(208)	(96)	(304)	(521)	1,366	-	(15)	-	
Restructuring costs												
- direct	-	(18)	(18)	(10)	(3)	(13)	(195)	(797)	(27)	-	(1,050)	1,0
- indirect	(20)	(1)	(21)	(7)	(81)	(88)	(539)	648	-	-	-	
Litigation and conduct costs	(10)	8	(2)	(59)	(26)	(85)	(373)	1	-	-	(459)	4
Operating expenses	(793)	(150)	(943)	(466)	(287)	(753)	(1,841)	(99)	(517)	(53)	(4,206)	
Profit/(loss) before impairment losses	676	28	704	426	(80)	346	(1,321)	162	280	(8)	163	1
Impairment (losses)/releases	(9)	52	43	(26)	2	(24)	(13)	2	(51)	184	141	
Operating profit/(loss)	667	80	747	400	(78)	322	(1,334)	164	229	176	304	1

Additional information													
Return on equity (3)	**32.1%**	**9.9%**	**24.7%**		**11.3%**	**(20.1%)**	**7.5%**		**(33.0%)**	**nm**	**6.5%**	**nm**	**2.7%**
Cost:income ratio	**54%**	**84%**	**57%**		**52%**	**139%**	**69%**		**354%**	**nm**	**65%**	**nm**	**96%**
Total assets (£bn)	**135.4**	**26.5**	**161.9**		**94.5**	**17.0**	**111.5**		**482.4**	**105.2**	**87.2**	**16.5**	**964.7**
Funded assets (£bn) (4)	**135.4**	**26.4**	**161.8**		**94.5**	**16.9**	**111.4**		**211.1**	**102.9**	**86.8**	**8.4**	**682.4**
Risk-weighted assets (£bn)	**41.0**	**21.2**	**62.2**		**66.9**	**9.8**	**76.7**		**88.0**	**15.3**	**69.8**	**14.4**	**326.4**
RWA equivalent (£bn) (5)	**44.6**	**20.7**	**65.3**		**72.0**	**9.8**	**81.8**		**89.7**	**15.4**	**70.0**	**17.9**	**340.1**
Employee numbers (FTEs - thousands)	**25.4**	**4.2**	**29.6**		**6.2**	**2.7**	**8.9**		**3.1**	**49.5**	**17.6**	**0.5**	**109.2**

*Operating profit/(loss) for the segments is presented before certain reconciling items, namely own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and Citizens ('non-statutory'). The following adjustments are reallocations within segment operating profit/(loss): restructuring costs and litigation and conduct costs. These excluded or reallocated costs for the period presented reflect the following; non-interest income – gain on own credit adjustment of £168 million; staff costs - reallocation of £293 million loss from restructuring costs; and other costs – reallocation of £151 million loss from restructuring costs, £459 million loss from litigation and conduct costs and a loss on write-down of goodwill and other intangible assets of £606 million.

** Other costs include the following: premises and equipment of £326 million, other administrative expenses of £1,027 million, depreciation and amortisation of £200 million and write-down of goodwill and other intangible assets of £606 million.

For the notes to this table refer to page 31. nm = not meaningful

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Segment performance

	Half year ended 30 June 2014											
	PBB			CPB			CIB				Non-	
		Ulster		Commercial	Private			Central			statutory	Re
	UK PBB	Bank	Total	Banking	Banking	Total		items (1)	CFG	RCR	total	Oth
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Income statement												
Net interest income	2,276	323	2,599	999	344	1,343	365	203	987	(1)	5,496	
Non-interest income	686	89	775	569	201	770	2,062	146	620	109	4,482	18
Total income	2,962	412	3,374	1,568	545	2,113	2,427	349	1,607	108	9,978	18
Direct expenses												
- staff costs	(469)	(125)	(594)	(266)	(151)	(417)	(487)	(1,241)	(512)	(89)	(3,340)	(19
- other costs**	(224)	(35)	(259)	(122)	(29)	(151)	(250)	(1,811)	(501)	(32)	(3,004)	(69
Indirect expenses	(958)	(126)	(1,084)	(402)	(217)	(619)	(1,180)	2,938	-	(55)	-	
Restructuring costs												
- direct	(6)	8	2	(40)	(2)	(42)	(22)	(383)	(69)	-	(514)	51
- indirect	(13)	(22)	(35)	(22)	(1)	(23)	(169)	227	-	-	-	
Litigation and conduct costs	(150)	-	(150)	(50)	-	(50)	(50)	-	-	-	(250)	25
Operating expenses	(1,820)	(300)	(2,120)	(902)	(400)	(1,302)	(2,158)	(270)	(1,082)	(176)	(7,108)	(13
Profit/(loss) before impairment losses	1,142	112	1,254	666	145	811	269	79	525	(68)	2,870	5
Impairment (losses)/releases	(148)	(57)	(205)	(31)	-	(31)	39	12	(104)	20	(269)	
Operating profit/(loss)	994	55	1,049	635	145	780	308	91	421	(48)	2,601	5

Additional information													
Return on equity (3)	21.8%	2.9%	15.5%		9.5%	12.9%	10.0%		1.6%	nm	6.9%	nm	6.9%
Cost:income ratio	61%	73%	63%		58%	73%	62%		89%	nm	67.0%	nm	71%
Total assets (£bn)	133.6	26.7	160.3		88.6	20.8	109.4		537.6	93.3	76.1	34.4	1,011.1
Funded assets (£bn) (4)	133.6	26.6	160.2		88.6	20.8	109.4		278.7	91.3	75.7	20.9	736.2
Risk-weighted assets (£bn)	47.0	27.7	74.7		63.0	11.8	74.8		127.8	19.0	60.7	35.1	392.1
RWA equivalent (£bn) (5)	48.8	23.0	71.8		69.2	11.8	81.0		129.8	19.3	60.7	43.5	406.1
Employee numbers (FTEs - thousands)	25.1	4.5	29.6		7.1	3.4	10.5		4.3	50.6	17.7	0.9	113.6

*Operating profit/(loss) for the segments is presented before certain reconciling items, namely own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals, RFS Holdings minority interest and Citizens (‘non-statutory’). The following adjustments are reallocations within segment operating profit/(loss): restructuring costs and litigation and conduct costs. These excluded or reallocated costs for the period presented reflect the following; net interest income - £3 million loss on FRS Holdings minority interest; non-interest income - £191 million gain on strategic disposals, loss on own credit adjustment of £51 million, gain on RFS Holdings minority interest of £25 million and gain on redemption of own debt of £20 million; staff costs - reallocation of £196 million loss from restructuring costs; and other costs – reallocation of £318 million loss from restructuring costs, £250 million loss from litigation and conduct costs, loss on RFS Holdings minority interest of £1 million and a loss on write-down of goodwill and other intangible assets of £130 million.

** Other costs include the following: premises and equipment of £1,126 million, other administrative expenses of £1,357 million, depreciation and amortisation of £466 million and write-down of goodwill and other intangible assets of £212 million.

For the notes to this table refer to page 31. nm = not meaningful

Segment performance

	Quarter ended 31 March 2015											
	PBB			CPB			CIB				Non-	
	UK PBB	Ulster Bank	Total	Commercial Banking	Private Banking	Total		Central items (1)	CFG	RCR	statutory total	Reco ite Othe
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£r
Income statement												
Net interest income	1,143	133	1,276	546	128	674	202	62	553	(11)	2,756	-
Non-interest income	309	57	366	276	86	362	602	(130)	244	131	1,575	(15
Total income	1,452	190	1,642	822	214	1,036	804	(68)	797	120	4,331	(15
Direct expenses												
- staff costs	(225)	(60)	(285)	(129)	(76)	(205)	(180)	(574)	(289)	(25)	(1,558)	(55
- other costs**	(71)	(17)	(88)	(54)	(12)	(66)	(78)	(785)	(207)	(6)	(1,230)	(1,254
Indirect expenses	(450)	(63)	(513)	(225)	(98)	(323)	(540)	1,393	-	(17)	-	-
Restructuring costs												
- direct	-	-	-	-	-	-	(16)	(431)	(6)	-	(453)	453
- indirect	(30)	1	(29)	(1)	1	-	(275)	304	-	-	-	-
Litigation and conduct costs	(354)	-	(354)	-	(2)	(2)	(500)	-	-	-	(856)	856
Operating expenses	(1,130)	(139)	(1,269)	(409)	(187)	(596)	(1,589)	(93)	(502)	(48)	(4,097)	-
Profit/(loss) before impairment losses	322	51	373	413	27	440	(785)	(161)	295	72	234	(15
Impairment releases/(losses)	26	-	26	(1)	1	-	44	(50)	(38)	109	91	-
Operating profit/(loss)	348	51	399	412	28	440	(741)	(211)	257	181	325	(15

Additional information												
Return on equity (3)	15.4%	6.2%	12.3%	11.9%	4.4%	10.9%	(17.1%)	nm	7.2%	nm	(4.1%)	-
Cost:income ratio	78%	73%	77%	50%	87%	58%	198%	nm	63%	nm	95%	-
Total assets (£bn)	134.6	26.6	161.2	93.3	17.9	111.2	623.8	93.8	91.8	22.8	1,104.6	-
Funded assets (£bn) (4)	134.6	26.5	161.1	93.3	17.8	111.1	248.4	90.6	91.3	11.1	713.6	-
Risk-weighted assets (£bn)	42.6	22.4	65.0	65.5	10.2	75.7	102.8	15.9	72.0	17.2	348.6	-
RWA equivalent (£bn) (5)	46.4	21.5	67.9	71.0	10.2	81.2	105.1	16.2	72.2	21.7	364.3	-
Employee numbers (FTEs - thousands)	25.1	4.3	29.4	6.2	2.8	9.0	3.5	49.2	17.5	0.6	109.2	-

*Operating profit/(loss) for the segments is presented before certain reconciling items, namely own credit adjustments, gain on redemption of own debt, strategic disposals, RFS Holdings minority interest and Citizens (‘non-statutory’). The following adjustments are reallocations within segment operating profit/(loss): restructuring costs and litigation and conduct costs. These excluded or reallocated costs for the period presented reflect the following; non-interest income - £135 million loss on strategic disposals and gain on own credit adjustment of £120 million; staff costs - reallocation of £55 million loss from restructuring costs; and other costs – reallocation of £398 million loss from restructuring costs and £856 million from litigation and conduct costs.

** Other costs include the following: premises and equipment of £419 million, other administrative expenses of £1,339 million and depreciation and amortisation of £512 million.

For the notes to this table refer to page 31. nm = not meaningful

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Segment performance

	Quarter ended 30 June 2014											
	PBB			CPB			CIB				Non-	
	UK PBB	Ulster Bank	Total	Commercial Banking	Private Banking	Total		Central items (1)	CFG	RCR	statutory total	Reconc item Other*
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement												
Net interest income	1,152	169	1,321	511	174	685	186	100	499	7	2,798	-
Non-interest income	347	42	389	287	98	385	890	44	391	28	2,127	(178)
Total income	1,499	211	1,710	798	272	1,070	1,076	144	890	35	4,925	(178)
Direct expenses												
- staff costs	(235)	(62)	(297)	(133)	(75)	(208)	(217)	(659)	(261)	(51)	(1,693)	(152)
- other costs**	(95)	(18)	(113)	(60)	(14)	(74)	(140)	(779)	(252)	(14)	(1,372)	(613)
Indirect expenses	(446)	(63)	(509)	(189)	(109)	(298)	(587)	1,426	-	(32)	-	-
Restructuring costs												
- direct	(6)	8	2	(40)	(2)	(42)	(9)	(267)	(69)	-	(385)	385
- indirect	(23)	(20)	(43)	(21)	(1)	(22)	(143)	208	-	-	-	-
Litigation and conduct costs	(150)	-	(150)	(50)	-	(50)	(50)	-	-	-	(250)	250
Operating expenses	(955)	(155)	(1,110)	(493)	(201)	(694)	(1,146)	(71)	(582)	(97)	(3,700)	(130)
Profit/(loss) before impairment losses	544	56	600	305	71	376	(70)	73	308	(62)	1,225	(308)
Impairment (losses)/releases	(60)	(10)	(70)	9	(1)	8	45	13	(31)	128	93	-
Operating profit/(loss)	484	46	530	314	70	384	(25)	86	277	66	1,318	(308)

Additional information															
Return on equity (3)	21.6%	4.9%	15.8%		9.3%	12.3%	9.7%		(1.5%)	nm	9.0%	nm	2.2%		
Cost:income ratio	64%	73%	65%		62%	74%	65%		107%	nm	65%	nm	75%		
Total assets (£bn)	133.6	26.7	160.3		88.6	20.8	109.4		537.6	93.3	76.1	34.4	1011.1		
Funded assets (£bn) (4)	133.6	26.6	160.2		88.6	20.8	109.4		278.7	91.3	75.7	20.9	736.2		
Risk-weighted assets (£bn)	47	27.7	74.7		63	11.8	74.8		127.8	19	60.7	35.1	392.1		
RWA equivalent (£bn) (5)	48.8	23	71.8		69.2	11.8	81		129.8	19.3	60.7	43.5	406.1		
Employee numbers (FTEs - thousands)	25.1	4.5	29.6		7.1	3.4	10.5		4.3	50.6	17.7	0.9	113.6		(

*Operating profit/(loss) for the segments is presented before certain reconciling items, namely own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals, RFS Holdings minority interest and Citizens ('non-statutory'). The following adjustments are reallocations within segment operating profit/(loss): restructuring costs and litigation and conduct costs. These excluded or reallocated costs for the period presented reflect the following; non-interest income - £12 million gain on RFS Holdings minority interest and a loss on own credit adjustment of £190 million; staff costs - reallocation of £153 million loss from restructuring costs and gain on RFS Holdings minority interest of £1 million; and other costs – reallocation of £232 million loss from restructuring costs £250 million loss from litigation and conduct costs, £1 million loss on RFS Holdings minority interest and £130 million loss on write down of goodwill and other intangible assets.

** Other costs include the following: premises and equipment of £546 million, other administrative expenses of £780 million, depreciation and amortisation of £237 million and write-down of goodwill and other intangible assets of £130 million.

Notes:

(1) Central items include unallocated transactions, principally Treasury AFS portfolio sales of £69 million loss in H1 2015 (H1 2014 - £215 million gain; Q2 2015 - £42 million loss; Q1 2015 - £27 million loss; Q2 2014 - £13 million gain) and profit and loss on hedges that do not qualify for hedge accounting.
(2) Excluding restructuring costs and litigation and conduct costs.
(3) Segmental return on equity based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average RWA equivalents (RWAe)).
(4) Total assets excluding derivatives.
(5) RWAe is an internal metric based on target CET 1 ratio of 13%, for all segments except RCR, set at 10% at creation. RWAe converts performing and non-performing exposures into a consistent capital measure comprising RWAs and capital deductions.

UK Personal & Business Banking

	Half year ended		Quarter ended		
	30 June 2015	30 June 2014	**30 June 2015**	31 March 2015	30 June 2014
	£m	£m	**£m**	£m	£m
Income statement					
Net interest income	**2,290**	2,276	**1,147**	1,143	1,152
Net fees and commissions	**603**	637	**309**	294	304
Other non-interest income	**28**	49	**13**	15	43
Non-interest income	**631**	686	**322**	309	347
Total income	**2,921**	2,962	**1,469**	1,452	1,499
Direct expenses					
- staff costs	**(456)**	(469)	**(231)**	(225)	(235)
- other costs	**(140)**	(224)	**(69)**	(71)	(95)
Indirect expenses	**(913)**	(958)	**(463)**	(450)	(446)
Restructuring costs					
- direct	**-**	(6)	**-**	-	(6)
- indirect	**(50)**	(13)	**(20)**	(30)	(23)
Litigation and conduct costs	**(364)**	(150)	**(10)**	(354)	(150)
Operating expenses	**(1,923)**	(1,820)	**(793)**	(1,130)	(955)
Profit before impairment losses	**998**	1,142	**676**	322	544
Impairment releases/(losses)	**17**	(148)	**(9)**	26	(60)
Operating profit	**1,015**	994	**667**	348	484
Of which: Williams & Glyn (1)					
Total income	**414**	423	**211**	203	213
Operating expenses	**(168)**	(169)	**(90)**	(78)	(83)
Impairment releases/(losses)	**10**	(31)	**(11)**	21	(9)
Operating profit	**256**	223	**110**	146	121

Note:

(1) Williams & Glyn has not operated as a separate legal entity therefore these figures are not necessarily reflect the cost base, funding and capital profile of a stand alone bank see appendix 4.

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Analysis of income by product					
Personal advances	**433**	467	**217**	216	232
Personal deposits	**400**	302	**210**	190	160
Mortgages	**1,234**	1,287	**617**	617	649
Cards	**337**	374	**162**	175	176
Business banking	**547**	490	**278**	269	245
Other	**(30)**	42	**(15)**	(15)	37
Total income	**2,921**	2,962	**1,469**	1,452	1,499
Analysis of impairments by sector					
Personal advances	**53**	79	**18**	35	40
Mortgages	**(2)**	5	**-**	(2)	4
Business banking	**(79)**	30	**(13)**	(66)	1
Cards	**11**	34	**4**	7	15
Total impairment (releases)/losses	**(17)**	148	**9**	(26)	60
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Personal advances	**1.5%**	2.1%	**1.0%**	1.9%	2.1%
Business banking	**(1.2%)**	0.4%	**(0.4%)**	(1.8%)	-
Cards	**0.5%**	1.3%	**0.4%**	0.6%	1.1%
Total	**-**	0.2%	**-**	(0.1%)	0.2%

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UK Personal & Business Banking

Key metrics						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
Performance ratios						
Return on equity (1)	**23.6%**	21.8%		**32.1%**	15.4%	21.6%
Net interest margin	**3.59%**	3.62%		**3.58%**	3.61%	3.64%
Cost:income ratio	**66%**	61%		**54%**	78%	64%

	30 June	31 March			31 December	
	2015	2015			2014	
	£bn	£bn	Change		£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- personal advances	**7.2**	7.2	-		7.4	(3%)
- mortgages	**105.4**	103.6	2%		103.2	2%
- business	**13.7**	14.5	(6%)		14.3	(4%)
- cards	**4.4**	4.5	(2%)		4.9	(10%)
Total loans and advances to customers (gross)	**130.7**	129.8	1%		129.8	1%
Loan impairment provisions	**(2.1)**	(2.4)	(13%)		(2.6)	(19%)
Net loans and advances to customers	**128.6**	127.4	1%		127.2	1%
Total assets	**135.4**	134.6	1%		134.3	1%
Funded assets	**135.4**	134.6	1%		134.3	1%
Risk elements in lending	**3.2**	3.6	(11%)		3.8	(16%)
Provision coverage (2)	**66%**	67%	(100bp)		69%	(300bp)
Customer deposits						
- personal current accounts	**36.5**	36.3	1%		35.9	2%
- personal savings	**82.5**	81.1	2%		81.0	2%

- business/commercial	**32.0**	30.6	5%		31.8	1%
Total customer deposits	**151.0**	148.0	2%		148.7	2%
Assets under management (excluding deposits)	**4.6**	4.9	(6%)		4.9	(6%)
Loan:deposit ratio (excluding repos)	**85%**	86%	(100bp)		86%	(100bp)
Risk-weighted assets (3)						
- Credit risk (non-counterparty)	**32.0**	33.6	(5%)		33.4	(4%)
- Operational risk	**9.0**	9.0	-		9.4	(4%)
Total risk-weighted assets	**41.0**	42.6	(4%)		42.8	(4%)
Of which: Williams & Glyn (4)						
Total assets	**19.5**	19.6	(1%)		19.6	(1%)
Net loans and advances to customers	**19.5**	19.5	-		19.5	-
Customer deposits	**23.4**	22.1	6%		22.0	6%
Risk-weighted assets (3)	**10.3**	10.5	(2%)		10.1	2%

Notes:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).
(2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(3) RWAs on an end-point CRR basis.
(4) Williams & Glyn has not operated as a separate legal entity therefore these figures are not necessarily reflect the cost base, funding and capital profile of a stand alone bank see appendix 4.

UK Personal & Business Banking

Key points

The strategic goal of UK PBB is to become the number one personal and business bank for customer service, trust and advocacy in the UK. Throughout 2015, the business has continued to progress a number of fair banking initiatives and technology investments.

- Continued to recruit further mortgage advisers, supporting an increase in applications, up 43% on Q2 2014 to £9.4 billion and up 42% compared with the prior quarter, providing a strong pipeline for third quarter completions and subsequent balance growth.
- Successfully trialled the opening of key branches on the two May bank holidays with mortgage advisers and business managers available to meet UK PBB customers' banking needs.
- Enhancements to our current account opening process have halved the time to open an account to 30 minutes.
- The Reward current account which will provide 3% cashback on certain household bills paid by direct debit launched in July to a small number of customers with a full launch scheduled for later in the year.
- Completed our Personal savings product simplification programme which included increasing the interest rate received by 4.5 million personal customers.
- Provided more than 22,000 fixed rate business loans since launch, to a value of £1.8 billion helping customers concentrate on growing their businesses without having to worry about interest rates or hidden charges.
- In partnership with Entrepreneurial Spark, RBS opened business accelerator hubs in Birmingham, Bristol and Leeds, with plans to open further hubs in major cities across the UK in the future as the bank continues to support UK entrepreneurs and small businesses.
- Customers using the mobile application increased 12% to 3.3 million in the year to 30 June 2015, supported by developments including the launch of instant mobile application activation. Such developments have helped the NatWest mobile banking customer NPS to become joint number one in the market.
- Became the first UK-based bank to offer TouchID technology within its mobile app, allowing customers to use only their fingerprint for access, with over 1 million unique customer logins since launch.

UK Personal & Business Banking

Key points (continued)

H1 2015 compared with H1 2014

- Operating profit increased £21 million to £1,015 million for H1 2015 with a net impairment release largely offset by higher conduct costs. Operating profit excluding restructuring costs of £50 million (H1 2014 - £19 million) and litigation and conduct costs of £364 million (H1 2014 - £150 million) of £1,429 million was £266 million higher as operating expenses excluding restructuring and litigation and conduct costs decreased by 9%. Return on equity rose 1.8 percentage points to 23.6%.

- Total income decreased £41 million to £2,921 million. Net interest income increased by 1% to £2,290 million driven by improved deposit income from increased balances and stronger margins partly offset by lower asset income as a result of asset margin compression outweighing strong balance sheet growth.

- Net interest margin decreased from 3.62% to 3.59% reflecting strong new business mortgage growth at lower margin, together with an increase in the level of standard variable rate customers switching to new lower margin fixed rate products. This has been partly offset by a continued improvement in deposit margins.

- Non-interest income decreased by 8% to £631 million reflecting the impacts of changes that were introduced to support customers, in particular current account charges and investment fund charges. In addition, card interchange income fell as a result of the implementation of EU regulations on interchange rates.

- Operating expenses increased by £103 million or 6%, largely reflecting higher restructuring costs and litigation and conduct costs from increased levels of customer redress provision this was partially offset by lower staff costs supported by a headcount decrease of 4%, lower FSCS levy charges and lower complaints and compensation costs. Operating expenses excluding restructuring costs of £50 million (H1 2014 - £19 million) and litigation and conduct costs of £364 million (H1 2014 - £150 million) were £142 million or 9% lower. Indirect expenses were £45 million lower largely due to a £60 million technology write-off in the first half of 2014.

- A £17 million net impairment release compared with a net loss of £148 million, resulting from lower levels of defaults across all portfolios and increased portfolio provision releases, particularly in business banking.

- Mortgage balances increased to £105.4 billion, up £3.6 billion year-on-year, or 4% above the overall mortgage market for the same period. Gross new mortgage lending in the first half of 2015 was £9.1 billion representing a market share of approximately 9%, above our stock share of 8%. Deposit balances increased £5.0 billion driven by instant access growth in personal savings, current accounts and business.

- RWAs declined 13% to £41.0 billion primarily due to improved credit quality and lower unsecured balances.

UK Personal & Business Banking

Key points (continued)

Q2 2015 compared with Q1 2015

- Operating profit was £667 million, up £319 million or 92%. This reflected higher income, up 1% to £1,469 million and lower expenses, down 30% to £793 million. Impairments remained low at £9 million, compared to a £26 million net release in the prior quarter.

- Net interest income was broadly stable, with a small reduction in net interest margin of 3 basis points due to contraction in mortgage margins partially offset by balance growth.

- Non-interest income increased by 4% to £322 million, due to a largely seasonal increase in card transaction levels, partly offset by reduced interchange income following implementation of new EU regulations on interchange rates.

- Operating expenses decreased 30% to £793 million, largely reflecting lower restructuring, litigation and conduct costs. Operating expenses excluding restructuring costs of £20 million (Q1 2015 - £30 million) and litigation and conduct costs of £10 million (Q1 2015 - £354 million) increased by £17 million due to increased technology spend and the increase in Williams & Glyn functional staff costs as the business prepares for divestment.

- The impairment losses increased by £35 million to £9 million as provision releases in Q2 were lower than Q1. Default levels continue to be low.

- Mortgage balances increased £1.8 billion in the quarter, achieving approximately 10% of the gross new lending market share, driven by increased adviser capacity and competitive pricing.

- Business loan balances decreased £0.8 billion, largely reflecting the transfer of £0.4 billion to Commercial Banking in Q2, a decrease in Williams & Glyn (Commercial/Corporate) and asset write offs; balances were broadly stable in the quarter. Business deposit balances decreased £0.1 billion, driven by the transfer of £0.6 billion of balances to Commercial & Private Banking in Q2. Deposit balances increased 2% in the quarter.

- RWAs declined 4% to £41.0 billion with improved credit quality, lower unsecured balances and Business Banking data and model improvements.

Q2 2015 compared with Q2 2014

- Operating profit of £667 million, increased £183 million or 38%, while operating profit excluding restructuring costs of £20 million (Q2 2014 - £29 million) and litigation and conduct costs of £10 million (Q2 2014 - £150 million) totalled £697 million compared with £663 million in the second quarter of 2014.

- Net interest income is broadly stable at £1,147 million with lower asset income primarily from lower asset margins partly offset by increased deposit income.

- Non-interest income decreased by 7% to £322 million largely due to lower insurance profit share and lower cards interchange income.

- Operating expenses decreased £162 million or 17%, largely reflecting lower restructuring costs of £20 million (Q2 2014 - £29 million) and litigation and conduct costs £10 million (Q2 2014 - £150 million) supported by a 4% decrease in headcount, lower FSCS levy charges and lower complaints and compensation costs partly offset by increased investment in technology. Operating expenses excluding restructuring costs of £20 million (Q2 2014 - £29 million) and litigation and conduct costs of £10 million (Q2 2014 - £150 million) decreased by £13 million.

- Net impairment losses of £9 million were significantly lower, driven by lower defaults across all portfolios and higher levels of portfolio provision releases, particularly in business banking.

- RWAs declined 13% to £41.0 billion with improved credit quality and lower unsecured balances.

Ulster Bank

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Income statement					
Net interest income	**265**	323	**132**	133	169
Net fees and commissions	**64**	66	**31**	33	34
Other non-interest income	**39**	23	**15**	24	8
Non-interest income	**103**	89	**46**	57	42
Total income	**368**	412	**178**	190	211
Direct expenses					
- staff costs	**(120)**	(125)	**(60)**	(60)	(62)
- other costs	**(33)**	(35)	**(16)**	(17)	(18)
Indirect expenses	**(126)**	(126)	**(63)**	(63)	(63)
Restructuring costs					
- direct	**(18)**	8	**(18)**	-	8
- indirect	**-**	(22)	**(1)**	1	(20)
Litigation and conduct costs	**8**	-	**8**	-	-
Operating expenses	**(289)**	(300)	**(150)**	(139)	(155)
Profit before impairment losses	**79**	112	**28**	51	56
Impairment releases/(losses)	**52**	(57)	**52**	-	(10)
Operating profit	**131**	55	**80**	51	46
Average exchange rate	**1.365**	1.218	**1.385**	1.345	1.228

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m

Analysis of income by business					
Corporate	**95**	134	**45**	50	65
Retail	**221**	190	**112**	109	100
Other	**52**	88	**21**	31	46
Total income	**368**	412	**178**	190	211
Analysis of impairments by sector					
Mortgages	**(51)**	35	**(38)**	(13)	16
Commercial real estate					
- investment	**12**	9	**11**	1	1
- development	**18**	(6)	**18**	-	(3)
Other corporate	**(25)**	8	**(37)**	12	(9)
Other lending	**(6)**	11	**(6)**	-	5
Total impairment (releases)/losses	**(52)**	57	**(52)**	-	10
Loan impairment charge as % of gross					
customer loans and advances (excluding					
reverse repurchase agreements) by sector					
Mortgages	**(0.6%)**	0.4%	**(1.0%)**	(0.3%)	0.4%
Commercial real estate					
- investment	**3.0%**	1.8%	**5.5%**	0.4%	0.4%
- development	**12.0%**	(3.0%)	**24.0%**	-	(3.0%)
Other corporate	**(1.1%)**	0.3%	**(3.1%)**	1.0%	(0.7%)
Other lending	**(1.3%)**	2.2%	**(2.7%)**	-	2.0%
Total	**(0.5%)**	0.4%	**(0.9%)**	-	0.2%

Ulster Bank

Key metrics	Half year ended		Quarter ended		
	30 June 2015	30 June 2014	**30 June 2015**	31 March 2015	30 June 2014
Performance ratios					
Return on equity (1)	**8.0%**	2.9%	**9.9%**	6.2%	4.9%
Net interest margin	**1.94%**	2.32%	**1.93%**	1.95%	2.35%
Cost:income ratio	**79%**	73%	**84%**	73%	73%

	30 June 2015 £bn	31 March 2015 £bn	Change	31 December 2014 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
Mortgages	**15.9**	16.3	(2%)	17.5	(9%)
Commercial real estate					
- investment	**0.8**	0.9	(11%)	1.0	(20%)
- development	**0.3**	0.3	-	0.3	-
Other corporate	**4.7**	4.6	2%	4.9	(4%)
Other lending	**0.9**	0.9	-	1.0	(10%)
Total loans and advances to customers (gross)	**22.6**	23.0	(2%)	24.7	(9%)
Loan impairment provisions					
Mortgages	**(1.2)**	(1.3)	(8%)	(1.4)	(14%)
Commercial real estate					
- investment	**(0.2)**	(0.2)	-	(0.2)	-
- development	**(0.2)**	(0.1)	100%	(0.2)	-
Other corporate	**(0.7)**	(0.8)	(13%)	(0.8)	(13%)
Other lending	**(0.1)**	(0.1)	-	(0.1)	-
Total loan impairment provisions	**(2.4)**	(2.5)	(4%)	(2.7)	(11%)
	20.2	20.5	(1%)	22.0	(8%)

Net loans and advances to customers (2)						
Total assets	**26.5**	26.6	-		27.6	(4%)
Funded assets	**26.4**	26.5	-		27.5	(4%)
Risk elements in lending						
Mortgages	**2.9**	3.0	(3%)		3.4	(15%)
Commercial real estate						
- investment	**0.2**	0.2	-		0.3	(33%)
- development	**0.2**	0.2	-		0.2	-
Other corporate	**0.8**	0.9	(11%)		0.8	-
Other lending	**0.1**	0.1	-		0.1	-
Total risk elements in lending	**4.2**	4.4	(5%)		4.8	(13%)
Provision coverage (3)	**58%**	58%	-		57%	100bp
Customer deposits	**18.7**	19.2	(3%)		20.6	(9%)
Loan:deposit ratio (excluding repos)	**108%**	107%	100bp		107%	100bp
Risk-weighted assets (4,5)						
- Credit risk						
- non-counterparty	**19.6**	20.8	(6%)		22.2	(12%)
- counterparty	**0.1**	0.1	-		0.1	-
- Operational risk	**1.5**	1.5	-		1.5	-
Total risk-weighted assets	**21.2**	22.4	(5%)		23.8	(11%)
Spot exchange rate - €/£	**1.411**	1.382			1.285	

Notes:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).
(2) Includes £9.4 billion relating to tracker mortgages (31 March 2015 - £9.7 billion; 31 December 2014 - £10.5 billion).
(3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(4) RWAs on an end-point CRR basis.
(5) Includes £8.1 billion in relating to tracker mortgages (31 March 2015 - £8.5 billion; 31 December 2014 - £9.6 billion).

Ulster Bank

Ulster Bank retains a strong capital and funding position as it continues to support the economic recovery across the island of Ireland. New lending activity increased further during H1 2015 with mortgage drawdowns up 45% versus H1 2014 and £0.8 billion of new lending made available to business customers, an increase of 57% from H1 2014. Impairment releases have continued to be driven by proactive debt management and the improving economic conditions

During H1 2015 Ulster Bank continued to make it simpler and easier for customers to do business:

- The launch of the “Mortgage you can live with” campaign offers a range of new product options to both new and existing mortgage customers including a suite of fixed rate options. The bank has also introduced a dedicated team of mobile mortgage managers and returned to the mortgage broker market.
- Ulster Bank continues to support Commercial customers and launched new propositions for businesses operating in the food and drink, agriculture and international business sectors during H1 2015.
- A fully digitalised account opening option was introduced for personal customers in Northern Ireland as the digital proposition continued to be enhanced. Customers continue to move towards direct channels with over 88% of all transactional activity now outside the traditional branch.
- Significant progress has been made to improve the customer service proposition. The announcement of a new partnership with ‘An Post’ in the Republic of Ireland will provide customers with 1,140 new points of presence. The bank’s award winning customer contact centre announced 350 new jobs which will handle customer calls across a number of RBS brands.
- The launch of a set of customer commitments specifically designed to support customers in arrears on their home loan has been positively received by the market.

A significant weakening in the euro relative to sterling during H1 2015 had a material impact on Ulster Bank’s financial performance as reported and in comparison to prior periods.

H1 2015 compared with H1 2014

- Operating profit increased by £76 million to £131 million for H1 2015 with the benefit of net impairment releases. Operating profit excluding restructuring costs of £18 million (H1 2014 - £14 million) and a litigation and conduct recovery of £8 million (H1 2014 - nil) was £141 million for H1 2015, compared with a profit of £69 million for H1 2014. The reduction in profit before impairment losses to £79 million is partly attributable to a weakening of the euro, (an impact of £17 million), a decrease in income on free funds and an increase in pension servicing costs. Return on equity increased 5.1 percentage points to 8%.

- Total income decreased by £44 million primarily driven by the weakening of the euro (an impact of £33 million) and a lower return on free funds. While deposit pricing improved steadily and loan margins remained stable in a competitive market, the net interest margin of 1.94% reflected the lower return on free funds and the impact of liquidity management requirements. The offsetting income movements between the Corporate and Retail businesses primarily reflect a transfer of management responsibility for a specific business channel to align with the bank's distribution strategy.

- Operating expenses decreased by £11 million to £289 million principally from a reduction in headcount and the property footprint coupled with a benefit from the weakening of the euro (an impact of £16 million), offset partly by higher pensions charges and investment in technology and infrastructure.

- A net impairment release of £52 million for H1 2015 reflected the benefits of proactive debt management and improving macroeconomic conditions.

Ulster Bank

Key points (continued)

H1 2015 compared with H1 2014 (continued)

- The significant growth in new lending volumes has been offset by continued customer deleveraging. The loan:deposit ratio was steady over the period with the weakening euro driving reductions in the reported net loans and advances to customers and customer deposit balances. The low yielding tracker mortgage portfolio declined by a further £1.1 billion, or 10% during H1 2015 to £9.4 billion reflecting customer repayments and the weakening of the euro.

- RWAs reduced by £2.6 billion during H1 2015 to £21.2 billion reflecting an improvement in credit metrics and the impact of exchange rate movements, contributing to the improvement in return on equity. £1.5 billion of the RWA reduction related to the tracker mortgage portfolio which now totals £8.1 billion.

Q2 2015 compared with Q1 2015

- Operating profit increased by £29 million to £80 million due primarily to impairment releases, partly offset by lower income and higher restructuring costs. Operating profit excluding restructuring costs of £19 million (Q1 2015 - recovery of £1 million) and a litigation and conduct recovery of £8 million (Q1 2015 - nil) was £91 million for Q2 2015 compared with an operating profit of £50 million for Q1 2015.

- Total income decreased by £12 million to £178 million primarily driven by the weakening of the euro (an impact of £4 million) and a lower return on free funds. Operating expenses increased by £11 million with the impact of higher restructuring costs partly offset by a release of provision reflecting the outcome of reviews on Interest Rate Hedging Products.

Q2 2015 compared with Q2 2014

- Operating profit increased by £34 million to £80 million driven by impairment releases and lower expenses, partly offset by lower income. Operating profit excluding restructuring costs of £19 million (Q2 2014 - £12 million) and a litigation and conduct recovery of £8 million (Q2 2014 - nil) increased by £33 million to £91 million.

- Total income decreased by £33 million primarily driven by exchange rate movements (an impact of £17 million) and a lower return on free funds. Operating expenses decreased by £5 million reflecting the continued focus on cost management.

Commercial Banking

	Half year ended		Quarter ended		
	30 June 2015	30 June 2014	**30 June 2015**	31 March 2015	30 June 2014
	£m	£m	**£m**	£m	£m
Income statement					
Net interest income	**1,108**	999	**562**	546	511
Net fees and commissions	**433**	448	**226**	207	227
Other non-interest income	**173**	121	**104**	69	60
Non-interest income	**606**	569	**330**	276	287
Total income	**1,714**	1,568	**892**	822	798
Direct expenses					
- staff costs	**(255)**	(266)	**(126)**	(129)	(133)
- other costs	**(110)**	(122)	**(56)**	(54)	(60)
Indirect expenses	**(433)**	(402)	**(208)**	(225)	(189)
Restructuring costs					
- direct	**(10)**	(40)	**(10)**	-	(40)
- indirect	**(8)**	(22)	**(7)**	(1)	(21)
Litigation and conduct costs	**(59)**	(50)	**(59)**	-	(50)
Operating expenses	**(875)**	(902)	**(466)**	(409)	(493)
Profit before impairment losses	**839**	666	**426**	413	305
Impairment (losses)/releases	**(27)**	(31)	**(26)**	(1)	9
Operating profit	**812**	635	**400**	412	314

Commercial Banking

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Analysis of income by business					
Commercial lending	**948**	894	**499**	449	448
Deposits	**240**	153	**124**	116	81
Asset and invoice finance	**358**	366	**180**	178	186
Other	**168**	155	**89**	79	83
Total income	**1,714**	1,568	**892**	822	798
Analysis of impairments by sector					
Commercial real estate	**8**	(6)	**10**	(2)	(17)
Asset and invoice finance	**3**	2	**2**	1	-
Private sector services (education, health, etc)	**3**	(10)	**-**	3	-
Banks & financial institutions	**1**	1	**1**	-	(1)
Wholesale and retail trade repairs	**-**	14	**2**	(2)	2
Hotels and restaurants	**(1)**	(1)	**2**	(3)	(4)
Manufacturing	**-**	7	**(1)**	1	4
Construction	**2**	4	**2**	-	2
Other	**11**	20	**8**	3	5
Total impairment losses/(releases)	**27**	31	**26**	1	(9)
Loan impairment charge as % of gross customer loans and advances by sector					
Commercial real estate	**0.1%**	(0.1%)	**0.2%**	-	(0.4%)
Asset and invoice finance	**-**	-	**0.1%**	-	-
Private sector services (education, health, etc)	**0.1%**	(0.3%)	**-**	0.2%	-
Banks & financial institutions	**-**	-	**0.1%**	-	(0.1%)
Wholesale and retail trade repairs	**-**	0.5%	**0.1%**	(0.1%)	0.1%

Hotels and restaurants	**(0.1%)**	(0.1%)		**0.3%**	(0.4%)	(0.5%)
Manufacturing	**-**	0.4%		**(0.1%)**	0.1%	0.4%
Construction	**0.2%**	0.4%		**0.4%**	-	0.4%
Other	**0.1%**	0.2%		**0.1%**	-	0.1%
Total	**0.1%**	0.1%		**0.1%**	-	-

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Commercial Banking

Key metrics	Half year ended			Quarter ended		
	30 June 2015	30 June 2014		**30 June 2015**	31 March 2015	30 June 2014
Performance ratios						
Return on equity (1)	**11.6%**	9.5%		**11.3%**	11.9%	9.3%
Net interest margin	**2.87%**	2.70%		**2.86%**	2.87%	2.73%
Cost:income ratio	**51%**	58%		**52%**	50%	62%

	30 June 2015	31 March 2015			31 December 2014	
	£bn	£bn		Change	£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- Commercial real estate	**17.9**	18.4		(3%)	18.3	(2%)
- Asset and invoice finance	**14.1**	13.9		1%	14.2	(1%)
- Private sector services (education, health etc)	**7.0**	7.1		(1%)	6.9	1%
- Banks & financial institutions	**7.2**	7.0		3%	7.0	3%
- Wholesale and retail trade repairs	**6.6**	6.3		5%	6.0	10%
- Hotels and restaurants	**3.2**	3.4		(6%)	3.4	(6%)
- Manufacturing	**4.6**	3.9		18%	3.7	24%
- Construction	**1.8**	1.7		6%	1.9	(5%)
- Other	**28.6**	28.0		2%	24.7	16%
Total loans and advances to customers (gross)	**91.0**	89.7		1%	86.1	6%
Loan impairment provisions	**(0.9)**	(0.9)		-	(1.0)	(10%)
Net loans and advances to customers (2)	**90.1**	88.8		1%	85.1	6%
Total assets	**94.5**	93.3		1%	89.4	6%

Funded assets	**94.5**	93.3		1%	89.4	6%
Risk elements in lending	**2.3**	2.4		(4%)	2.5	(8%)
Provision coverage (3)	**39%**	38%		100bp	38%	100bp
Customer deposits	**97.0**	99.0		(2%)	86.8	12%
Loan:deposit ratio (excluding repos)	**93%**	90%		300bp	98%	(500bp)
Risk-weighted assets (2,4)						
- Credit risk (non-counterparty)	**60.7**	59.4		2%	57.6	5%
- Operational risk	**6.2**	6.1		2%	6.4	(3%)
Total risk-weighted assets	**66.9**	65.5		2%	64.0	5%

Notes:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).

(2) 30 June 2015 includes £13.3 billion third party assets and £10.2 billion risk-weighted asset equivalents relating to the run-down legacy book.

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

(4) RWAs on an end-point CRR basis.

Commercial Banking

Key points

Commercial Banking made a strong start to the year with the business continuing to make a significant contribution to overall bank profitability, whilst focussing on customer service, trust and advocacy. Continued simplification of processes, as well as investment in technology and relationship managers has contributed to organic H1 2015 net lending growth of £0.5 billion.

- As the business continues to focus on supporting the UK economy, special emphasis is being placed on supporting businesses with a turnover of between £10 million and £50 million or borrowing in excess of £1 million.
- Commercial Banking continued to simplify its customer proposition; improvements in account opening have delivered a 75% reduction in customer paperwork and a 25% reduction in the time to open an account.
- Further investment in relationship managers included the introduction of a new Customer Relationship Management tool for 3,000 staff, enabling a more coherent view of all customer needs. In addition, 2,800 staff registered for a bespoke lending skills training programme.
- During H1 complaints reduced by 21%, highlighting the success of the franchise's focus on customer service, delivered through empowering staff, enhancing capability and process simplification.

On 1 January 2015, the Private Banking RBSI business was transferred to Commercial Banking, accounting for £31 million of operating profit in the half year, followed on 1 May 2015 by the Corporate & Institutional Banking UK coverage business, accounting for £13 million of operating profit from the date of transfer. On 1 August 2014, Commercial Cards for UK Personal & Business Banking related customers, with revenue of £22 million, was transferred to UK Personal & Business Banking. The transferred businesses affect comparisons with prior periods. (1)

H1 2015 compared with H1 2014

- Commercial Banking recorded an operating profit of £812 million compared with £635 million in the comparative period. Operating profit excluding restructuring costs of £18 million (H1 2014 - £62 million) and litigation and conduct costs of £59 million (H1 2014 - £50 million) was £889 million, compared with £747 million in H1 2014, with income up 9%. Return on equity improved 2.1 percentage points to 11.6%.
- Total income was £1,714 million, compared with £1,568 million in the prior year. Net interest income increased by £109 million to £1,108 million, driven by increased deposits and asset volumes and higher deposit margins, partially offset by lower asset margins. Non-interest income increased £37 million to £606 million mostly reflecting higher gains on equity disposals.
- Operating expenses decreased £27 million to £875 million, principally from lower restructuring costs, and lower headcount. This was partially offset by higher litigation and conduct costs of £59 million,

up £9 million, primarily a top-up for interest rate hedging product provisions.

- Net impairment losses decreased £4 million to £27 million driven by reduced individual and collective charges, down £51 million, offsetting lower net latent releases.
- Net loans and advances to customers increased by £5.0 billion from December 2014 to £90.1 billion, including £4.5 billion from the transferred businesses. Gross lending compared with H1 2014 was up £1.4 billion.
- Deposits were £97.0 billion at 30 June 2015, including £6.4 billion from the transferred businesses, with organic deposit growth of £3.8 billion from 31 December 2014.
- RWAs increased by £3.9 billion year-on-year to £66.9 billion, including £3.8 billion from the transferred businesses.

Note:

(1) The business transfer included: total income of £108 million (H1 2014 - £78 million; Q2 2015 - £56 million; Q1 2015 - £53 million; Q2 2014 - £42 million); operating expenses of £46 million (H1 2014 - £57 million; Q2 2015 - £24 million; Q1 2015 - £21 million; Q2 2014 - £30 million); net loans and advances to customers of £4.5 billion (31 March 2015 - £4.4 billion; 31 December 2014 - £4.4 billion); customer deposits of £6.4 billion (31 March 2015 - £6.2 billion; 31 December 2014 - £6.5 billion); and RWAs of £3.8 billion (31 March 2015 - £3.6 billion; 31 December 2014 - £3.5 billion). Comparatives have not been restated.

Commercial Banking

Key points (continued)

Q2 2015 compared with Q1 2015

- Operating profit was £400 million compared with £412 million in the previous quarter. Operating profit excluding restructuring costs of £17 million (Q1 2015 - £1 million) and litigation and conduct costs of £59 million (Q1 2015 - nil) was £476 million, compared with £413 million.
- Total income increased £70 million in the quarter to £892 million. Net interest income increased 3% to £562 million reflecting an increase in asset and deposit volumes and higher deposit margins, which more than offset lower asset margins. Non-interest income increased by £54 million or 20%, reflecting higher gains on equity disposals in the quarter.
- Operating expenses increased £57 million to £466 million driven by a £59 million provision for litigation and conduct costs and increased restructuring costs.
- Impairment losses increased to £26 million, reflecting increased individual charges and the non-repeat of a net latent release of £13 million in Q1 2015.
- Net loans and advances to customers increased £1.3 billion, reflecting £2.1 billion from the transferred business offset by seasonal reductions and a high level of contractual maturities in June. Lower deposits, down £2.0 billion, reflected the outflow of short term funds placed by customers at the end of Q1 2015.
- RWAs increased £1.4 billion to £66.9 billion, including £2.1 billion from the transferred businesses.

Q2 2015 compared with Q2 2014

- Operating profit improved £86 million to £400 million. Operating profit excluding restructuring costs of £17 million (Q2 2014 - £61 million) and litigation and conduct costs of £59 million (Q2 2014 - £50 million) rose by £51 million with increased income and cost management initiatives partially offset by increased impairment losses.
- Total income rose to £892 million, up from £798 million in Q2 2014. Net interest income increased by £51 million or 10%, reflecting increased asset and deposit volumes and higher deposit margins, which more than offset reduced asset margins. Non-interest income increased by £43 million or 15%, reflecting higher gains on equity disposals.
- Operating expenses were £27 million lower reflecting reduced restructuring costs, discretionary cost initiatives and lower headcount.

- Net impairment losses increased by £35 million reflecting the non-repeat of a Q2 2014 latent provision release of £59 million, partially offset by lower individual and collective charges.

Private Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**254**	344		**126**	128	174
Net fees and commissions	**145**	172		**70**	75	84
Other non-interest income	**22**	29		**11**	11	14
Non-interest income	**167**	201		**81**	86	98
Total income	**421**	545		**207**	214	272
Direct expenses						
- staff costs	**(143)**	(151)		**(67)**	(76)	(75)
- other costs	**(26)**	(29)		**(14)**	(12)	(14)
Indirect expenses	**(194)**	(217)		**(96)**	(98)	(109)
Restructuring costs						
- direct	**(3)**	(2)		**(3)**	-	(2)
- indirect	**(80)**	(1)		**(81)**	1	(1)
Litigation and conduct costs	**(28)**	-		**(26)**	(2)	-
Operating expenses	**(474)**	(400)		**(287)**	(187)	(201)
(Loss)/profit before impairment losses	**(53)**	145		**(80)**	27	71
Impairment releases/(losses)	**3**	-		**2**	1	(1)
Operating (loss)/profit	**(50)**	145		**(78)**	28	70
Of which: international private banking activities (1)						
Total income	**100**	115		**48**	52	57
Operating expenses	**(113)**	(87)		**(68)**	(45)	(42)
Operating (loss)/profit	**(13)**	28		**(20)**	7	15

Note:

(1) International private banking business reclassified to disposal groups.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Analysis of income by business						
Investments	**74**	90		**35**	39	45
Banking	**347**	455		**172**	175	227
Total income	**421**	545		**207**	214	272

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Private Banking					
Key metrics					
	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
Performance ratios					
Return on equity (1)	**(7.5%)**	12.9%	**(20.1%)**	4.4%	12.3%
Net interest margin	**3.23%**	3.72%	**3.21%**	3.25%	3.73%
Cost:income ratio	**113%**	73%	**139%**	87%	74%
	30 June	31 March		31 December	
	2015	2015		2014	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- Personal	**4.8**	5.3	(9%)	5.4	(11%)
- Mortgages	**6.6**	6.6	-	8.9	(26%)
- Other	**2.1**	2.2	(5%)	2.3	(9%)
Total loans and advances to customers (gross)	**13.5**	14.1	(4%)	16.6	(19%)
Loan impairment provisions	**-**	(0.1)	(100%)	(0.1)	(100%)
Net loans and advances to customers	**13.5**	14.0	(4%)	16.5	(18%)
Total assets	**17.0**	17.9	(5%)	20.5	(17%)
Funded assets	**16.9**	17.8	(5%)	20.4	(17%)
Assets under management	**27.1**	29.2	(7%)	28.3	(4%)
Risk elements in lending	**0.2**	0.1	100%	0.2	-
Provision coverage (2)	**31%**	34%	(300bp)	34%	(300bp)
Customer deposits	**29.8**	29.6	1%	36.1	(17%)
Loan:deposit ratio (excluding repos)	**45%**	47%	(200bp)	46%	(100bp)

Risk-weighted assets (3)						
- Credit risk						
- non-counterparty	**8.2**	8.6		(5%)	9.5	(14%)
- counterparty	**0.1**	0.1		-	0.1	-
- Operational risk	**1.5**	1.5		-	1.9	(21%)
Total risk-weighted assets	**9.8**	10.2		(4%)	11.5	(15%)
Of which: international private banking activities (4)						
Total assets	**5.3**	6.2		(15%)	5.6	(5%)
Net loans and advances to customers	**2.7**	3.1		(13%)	3.1	(13%)
Assets under management	**13.6**	15.0		(9%)	14.6	(7%)
Customer deposits (excluding repos)	**6.7**	7.7		(13%)	7.5	(11%)
Risk-weighted assets (3)	**1.7**	2.0		(15%)	1.8	(6%)

Notes:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).
(2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(3) RWAs on an end-point CRR basis.
(4) International private banking business reclassified to disposal groups.

Private Banking

Key points

Private Banking continued to focus on its UK strengths as the business is repositioned to enable sustainable returns over the long run, and to meet its ambition to be the leading UK-based private bank and wealth manager for wealthy individuals. A new Executive Committee was created with end-to-end accountabilities around banking, credit and investments, to ensure the business delivers solutions to clients in a responsive, rapid and efficient manner.

- Growth initiatives included working more closely with colleagues in RBS and NatWest, resulting in hundreds of referrals of individuals potentially suitable for a private banking relationship with Coutts & Co or Adam & Company.

- A series of client campaigns are underway to ensure client needs are proactively addressed which have resulted in over a thousand clients starting to use online banking and the refinancing of over £1 billion of expiring credit facilities.

- The sale of most of the International Private Banking business to Union Bancaire Privée remains on track for Q4 2015.

On 1 January 2015, the Private Banking RBSI business, accounting for £31 million of operating profit in the half year was transferred to Commercial Banking. This transfer affects comparisons with prior periods(1).

H1 2015 compared with H1 2014

- Operating loss was £50 million compared with a profit of £145 million a year prior. Results were affected by the transfer of the RBSI business, lower income, higher restructuring costs and increased litigation and conduct costs. Private Banking Go-forward business reported an operating loss of £37 million, including £82 million write-down of an intangible asset, compared with a £117 million profit for H1 2014.

- Total income was £421 million, down from £545 million in H1 2014 with net interest income decreasing 26%. Performance was adversely affected by lower income from hedging activities and reduced investment and transactional income.

- Operating expenses increased £74 million to £474 million, reflecting an £80 million increase in restructuring costs, arising from the write-down of an intangible asset of £82 million and litigation and conduct costs of £28 million, principally incurred in Q2 2015, offsetting a reduction in direct and indirect costs.

- Assets under management were £27.1 billion, down £1.6 billion year-on-year and £1.2 billion from 31 December 2014, with the Greek financial crisis adversely impacting European stock market indices and reducing portfolio values. Private Banking Go-forward business assets under management were £13.5 billion, down £0.3 billion year-on-year and down £0.2 billion from 31 December 2014.

Note:

(1) The business transfer included: total income of £76 million (H1 2014 - £69 million; Q2 2015 - £37 million; Q1 2015 - £38 million; Q2 2014 - £37 million); operating expenses of £44 million (H1 2014 - £53 million; Q2 2015 - £23 million; Q1 2015 - £20 million; Q2 2014 - £28 million); net loans and advances to customers of £2.4 billion (31 March 2015 - £2.4 billion; 31 December 2014 - £2.6 billion); customer deposits of £6.4 billion (31 March 2015 - £6.2 billion; 31 December 2014 - £6.5 billion); and RWAs of £1.5 billion (31 March 2015 - £1.5 billion; 31 December 2014 - £1.4 billion). Comparatives have not been restated.

Private Banking

Key points (continued)

Q2 2015 compared with Q1 2015

- Operating loss was £78 million compared with a profit of £28 million in Q1, with higher restructuring and litigation and conduct costs.
- Total income decreased by 3% to £207 million, with net interest income flat and lower non-interest income reflecting lower investment and transactional income.
- Operating expenses increased by 53%, driven by higher restructuring costs as a result of an £82 million write-down of an intangible asset together with higher litigation and conduct costs by £24 million.
- Assets under management reduced to £27.1 billion from £29.2 billion in the previous quarter with the Greek financial crisis adversely impacting European stock market indices reducing portfolio values.

Q2 2015 compared with Q2 2014

- Operating loss was £78 million compared with a £70 million profit in Q2 2014, partly due to the transfer of Private Banking RBSI business to Commercial Banking on 1 January 2015; performance was also impacted by higher restructuring costs, increased litigation and conduct costs and lower income.
- Total income decreased 24%, partly due to the transfer of RBSI business; the performance adversely impacted by lower income from hedging activities and reduced investment and transactional income.
- Operating expenses increased £86 million, or 43%, with the performance impacted by higher restructuring costs, as a result of the write-down of an intangible asset of £82 million, increased litigation and conduct costs of £26 million, offset in part by a fall in direct and indirect costs.

Corporate & Institutional Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income from banking activities	**376**	365		**174**	202	186
Net fees and commissions	**395**	490		**160**	235	247
Income from trading activities	**559**	1,482		**250**	309	597
Other operating income	**(6)**	90		**(64)**	58	46
Non-interest income	**948**	2,062		**346**	602	890
Total income	**1,324**	2,427		**520**	804	1,076
Direct expenses						
- staff costs	**(322)**	(487)		**(142)**	(180)	(217)
- other costs	**(149)**	(250)		**(71)**	(78)	(140)
Indirect expenses	**(1,061)**	(1,180)		**(521)**	(540)	(587)
Restructuring costs						
- direct	**(211)**	(22)		**(195)**	(16)	(9)
- indirect	**(814)**	(169)		**(539)**	(275)	(143)
Litigation and conduct costs	**(873)**	(50)		**(373)**	(500)	(50)
Operating expenses	**(3,430)**	(2,158)		**(1,841)**	(1,589)	(1,146)
(Loss)/profit before impairment losses	**(2,106)**	269		**(1,321)**	(785)	(70)
Impairment releases/(losses)	**31**	39		**(13)**	44	45
Operating (loss)/profit	**(2,075)**	308		**(1,334)**	(741)	(25)

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Analysis of income by product						

Rates	**372**	523		**164**	208	221
Currencies	**195**	247		**107**	88	111
Credit	**242**	384		**86**	156	170
Banking/Other	**(69)**	(73)		**(47)**	(22)	(46)
Portfolio (1)	**223**	269		**102**	121	136
Total CIB (Go-forward)	**963**	1,350		**412**	551	592
CIB Capital Resolution excluding disposal losses	**502**	1,077		**221**	281	484
Disposal losses	**(141)**	-		**(113)**	(28)	-
CIB Capital Resolution (2)	**361**	1,077		**108**	253	484
Total income	**1,324**	2,427		**520**	804	1,076

Notes:

(1) Comprises the UK Portfolio which was transferred to Commercial Banking on 1 May 2015, the Western European Portfolio and UK Transaction services.

(2) The CIB segment is planning to restructure into Go-forward and CIB Capital Resolution elements. The split is subject to further refinement.

Corporate & Institutional Banking

Key metrics	Half year ended			Quarter ended		
	30 June 2015	30 June 2014		**30 June 2015**	31 March 2015	30 June 2014
Performance ratios						
Return on equity (1)	**(24.6%)**	1.6%		**(33.0%)**	(17.1%)	(1.5%)
Net interest margin	**1.06%**	0.88%		**1.00%**	1.12%	0.90%
Cost:income ratio	**259%**	89%		**354%**	198%	107%

	30 June 2015	31 March 2015			31 December 2014	
	£bn	£bn		Change	£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross, excluding reverse repos)	**57.9**	76.8		(25%)	73.0	(21%)
Loan impairment provisions	**(0.1)**	(0.1)		-	(0.2)	(50%)
Total loans and advances to customers (excluding reverse repos)	**57.8**	76.7		(25%)	72.8	(21%)
Loans and advances to banks (excluding reverse repos) (2)	**13.6**	18.5		(26%)	16.9	(20%)
Reverse repos	**63.0**	68.4		(8%)	61.6	2%
Securities	**40.8**	48.2		(15%)	57.0	(28%)
Cash and eligible bills	**22.4**	20.8		8%	23.2	(3%)
Other	**13.5**	15.8		(15%)	9.6	41%
Total assets	**482.4**	623.8		(23%)	577.2	(16%)
Funded assets	**211.1**	248.4		(15%)	241.1	(12%)
Provision coverage (3)	**65%**	82%		(1,700bp)	105%	(4,000bp)
Customer deposits (excluding repos)	**49.2**	58.4		(16%)	59.4	(17%)
Bank deposits (excluding repos)	**28.7**	34.7		(17%)	33.3	(14%)
Repos	**61.0**	68.3		(11%)	61.1	-

Debt securities in issue	**10.5**	12.4		(15%)	14.1	(26%)
Loan:deposit ratio (excluding repos)	**117%**	131%		(1,400bp)	122%	(500bp)
Risk-weighted assets (4)						
- Credit risk						
- non-counterparty	**38.6**	49.8		(22%)	51.3	(25%)
- counterparty	**22.9**	26.1		(12%)	25.1	(9%)
- Market risk	**18.1**	18.4		(2%)	18.9	(4%)
- Operational risk	**8.4**	8.5		(1%)	11.8	(29%)
Total risk-weighted assets	**88.0**	102.8		(14%)	107.1	(18%)
Of which: CIB Capital Resolution (5)						
Funded assets	**62.3**	85.8		(27%)	95.0	(34%)
Risk-weighted assets	**45.2**	57.8		(22%)	63.8	(29%)

Notes:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).
(2) Excludes disposal groups.
(3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(4) RWAs on an end-point CRR basis. £88 billion includes £9 billion of RWAs related to businesses that will transfer out of CIB, comprising the Western European Large Corporate portfolio (expected to move to Commercial Banking in H2 2015) and UK Transaction Services (to Commercial Banking in 2016).
(5) The CIB segment is planning to restructure into Go-forward and CIB Capital Resolution elements. The split is subject to further refinement.

Corporate & Institutional Banking

Key points

Corporate & Institutional Banking (CIB) announced its new business strategy in February 2015 and plans to restructure into CIB Go-forward and CIB Capital Resolution are well advanced. Reviews of the business are complete and the new management teams are in place, however, the business continues to be managed as a single reportable segment.

The CIB Go-forward business is currently undergoing a multi-year transformation, implementing a simpler operating model to support two main lines of business: debt financing and risk management. The business has completed its client communication programme outlining a commitment to maintaining strong market positions in the UK and Western Europe. Assuming normal seasonal trends, we expect the CIB Go-forward business will generate full year income in the region of £1.3 billion excluding revenues of approximately £400 million relating to the UK and European large corporate business which have been or will be transferred during the second half of 2015 to Commercial Banking, and the UK GTS business which will transfer in 2016. We now expect the steady state RWAs of the CIB Go-forward business to be around £30 billion(1).

Following February's announcement, CIB Capital Resolution will run down certain parts of the CIB business, removing risk from the balance sheet. CIB Capital Resolution is currently ahead of both its cost reduction and RWA rundown targets. The first half of the year saw substantial progress in the sale of corporate loan portfolios including a substantial proportion of the North American portfolio to Mizuho Bank and the majority of the Australian and United Arab Emirates portfolios. A partnership with BNP Paribas was also announced to offer existing international customers an alternative Global Transaction Services (GTS) provider as the business is refocused.

As part of the restructuring, effective from 1 May 2015, the UK Corporate loan portfolio transferred to Commercial Banking(2) accounting for £2 billion of funded assets and £2.1 billion of RWAs at the date of transfer. Work is also underway to transfer the Go-forward Western European loan portfolio to Commercial Banking, accounting for £4 billion of assets and £5 billion of RWAs at 30 June 2015. The UK GTS will transfer to Commercial Banking in 2016.

H1 2015 compared with H1 2014

An operating loss of £2,075 million was reported in H1 2015, compared with an operating profit of £308 million in H1 2014, impacted by litigation and conducts costs of £873 million and a heightened level of restructuring costs totalling £1,025 million following the strategic announcement in February.

Operating loss excluding restructuring costs of £1,025 million (H1 2014 - £191 million) and litigation and conduct costs of £873 million (H1 2014 - £50 million) was £177 million, a fall from a profit of £549 million in H1 2014. This reflected lower income partly offset by higher restructuring costs and litigation and conduct costs of £1,898 (H1 2014 - £241 million).

Total income decreased by £1,103 million to £1,324 million compared with H1 2014. This is broadly in line with expectations given CIB's reduction in scale and scope. The bulk of the income reduction was in CIB Capital Resolution where: Markets income fell from £683 million in H1 2014 to £116 million in H1 2015 (primarily due to the wind down of US asset-backed products); Portfolio income fell from £184 million in H1 2014 to £165 million in H1 2015; Transaction Services income fell from £292 million in H1 2014 to £230 million in H1 2015; disposal losses of £141 million were incurred in H1 2015 (nil in H1 2014). Within the Go-forward business Rates and Credit were impacted by uncertainty in the Eurozone while Currencies incurred a loss when the Swiss central bank removed unexpectedly the Swiss Franc's peg to the Euro.

Notes:

(1) Refer to forward-looking statements on page 3.

(2) The business transfer from CIB to Commercial Banking was effective from 1 May 2015. Comparatives were not restated and for the whole period the financials of the UK large corporate business were: total income of £32 million in H1 2015 (H1 2014 - £31 million; Q2 2015 - £19 million; Q1 2015 - £15 million; Q2 2014 - £16 million); operating expenses of £2 million in H1 2015 (H1 2014 - £4 million; Q2 2015 - £1 million; Q1 2015 - £1 million; Q2 2014 - £2 million); net loans and advances to customers of £2.1 billion (31 March 2015 - £2.0 billion; 31 December 2014 - £1.8 billion); and RWAs of £2.3 billion (31 March 2015 - £2.1 billion; 31 December 2014 - £2.1 billion).

Corporate & Institutional Banking

Key points (continued)

H1 2015 compared with H1 2014

Operating expenses increased from £2,158 million to £3,430 million in H1 2015 due to a higher level of litigation and conduct costs and restructuring costs The increased restructuring costs of £1,025 million reflect February's strategic announcement and were driven by the write-down of intangible assets totalling £521 million and provision for staff redundancies, as the business strives to become a smaller, simpler bank. Operating expenses excluding restructuring costs of £1,025 million (H1 2014 - £191 million) and litigation and conduct costs of £873 million (H1 2014 - £50 million) fell by 20% to £1,532 million as headcount continued to be reduced and discretionary expenditure tightly controlled.

RWAs fell substantially, from £128 billion at 30 June 2014 to £88 billion at 30 June 2015 reflecting the ongoing drive to reduce both the scale and risk of the business. This was reinforced by the creation of CIB Capital Resolution where an acceleration of disposals means RWAs have fallen by £19 billion since 31 December 2014 and are ahead of plan. CIB is on track to deliver the previously announced target of a £25 billion reduction in 2015.

Q2 2015 compared with Q1 2015

Operating loss increased by £593 million to £1,334 million, reflecting lower income and higher restructuring costs, partially offset by lower litigation and conduct costs. Operating loss excluding restructuring costs of £734 million (Q1 2015 - £291 million) and litigation and conduct costs of £373 million (Q1 2015 - £500 million) was £227 million compared with a profit of £50 million in Q1 2015 as the reduction in a operating expenses excluding restructuring costs of £734 million (Q1 2015 - £291 million) and litigation and conduct costs of £373 million (Q1 2015 - £500 million) was more than offset by lower income.

Total income fell by £284 million to £520 million. This was driven by the wind down of CIB Capital Resolution where: Markets income fell from £94 million in Q1 2015 to £21 million in Q2 2015; Portfolio income increased from £80 million in Q1 2015 to £85 million in Q2 2015; Transaction Services income fell from £126 million in Q1 2015 to £104 million in Q2 2015; disposal losses increased from £28 million in Q1 2015 to £113 million in Q2 2015. CIB Go-forward income declined by 25% from £551 million to £412 million, driven by uncertainty in European markets, impacting both rates trading and debt capital market issuance.

Operating expenses increased by £252 million to £1,841 million as a lower level of litigation and conduct expenses was more than offset by higher restructuring costs. Operating expenses excluding restructuring costs of £734 million (Q1 2015 - £291 million) and litigation and conduct costs of £373 million (Q1 2015 - £500 million) fell by £64 million to £734 million due to ongoing reductions in both headcount and discretionary expenditure.

RWAs fell by £15 billion to £88 billion, £13 billion of which was in CIB Capital Resolution driven by reductions in both the loan portfolio and the trading book.

Note:

(1) The business transfer from CIB to Commercial Banking was effective from 1 May 2015. Comparatives were not restated and for the whole period the financials of the UK large corporate business were: total income of £32 million in H1 2015 (H1 2014 - £31 million; Q2 2015 - £19 million; Q1 2015 - £15 million; Q2 2014 - £16 million); operating expenses of £2 million in H1 2015 (H1 2014 - £4 million; Q2 2015 - £1 million; Q1 2015 - £1 million; Q2 2014 - £2 million); net loans and advances to customers of £2.1 billion (31 March 2015 - £2.0 billion; 31 December 2014 - £1.8 billion); and RWAs of £2.3 billion (31 March 2015 - £2.1 billion; 31 December 2014 - £2.1 billion).

Corporate & Institutional Banking

Key points (continued)

Q2 2015 compared with Q2 2014

Operating loss totalled £1,334 million, compared with £25 million in Q2 2014. This reflected lower income, an increase in restructuring costs to £734 million following the recent strategic announcement and higher litigation and conduct costs of £373 million. Operating loss excluding restructuring costs and litigation and conduct costs of £1,107 million (Q2 2014 - £202 million) was £227 million, compared with an operating profit of £177 million in Q2 2014.

The reduction in total income of £556 million was driven by CIB capital resolution, where: Markets income fell from £282 million in Q2 2014 to £21 million in Q2 2015 (primarily due to the wind down of US asset-backed products); Portfolio income was at £85 million in both periods; Transaction Services income fell from £145 million in Q2 2014 to £104 million in Q2 2015; disposal losses of £113 million were incurred in Q2 2015 (nil in Q2 2014). In CIB Go-forward lower Credit income was driven by the market-wide reduction in EMEA debt capital market issuance compared to the same period last year.

Operating expenses increased by £695 million to £1,841 million and included a £582 million increase in restructuring costs and a £323 million increase in litigation and conduct costs. Operating expenses excluding restructuring costs of £734 million (Q2 2014 - £152 million) and litigation and conduct costs of £373 million (Q2 2014 - £50 million) fell by 22% reflecting the ongoing drive to reduce costs and simplify the business.

Note:

(1) The business transfer from CIB to Commercial Banking was effective from 1 May 2015. Comparatives were not restated and for the whole period the financials of the UK large corporate business were: total income of £32 million in H1 2015 (H1 2014 - £31 million; Q2 2015 - £19 million; Q1 2015 - £15 million; Q2 2014 - £16 million); operating expenses of £2 million in H1 2015 (H1 2014 - £4 million; Q2 2015 - £1 million; Q1 2015 - £1 million; Q2 2014 - £2 million); net loans and advances to customers of £2.1 billion (31 March 2015 - £2.0 billion; 31 December 2014 - £1.8 billion); and RWAs of £2.3 billion (31 March 2015 - £2.1 billion; 31 December 2014 - £2.1 billion).

Central items

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Central items not allocated	**(47)**	91		**164**	(211)	86

Funding and operating costs have been allocated to operating segments based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one segment.

Residual unallocated items relate to volatile corporate items that do not naturally reside within a segment.

Key points

H1 2015 compared with H1 2014

- Central items not allocated represented a charge of £47 million compared with a credit of £91 million in H1 2014. This includes a loss of £69 million on the disposal of available-for-sale securities in Treasury, compared with a gain of £215 million in the first half of 2014. Partially offsetting this, Treasury funding costs, including volatile items under IFRS, were a gain of £93 million in H1 2015 compared with a charge of £4 million in H1 2014.

Q2 2015 compared with Q1 2015

- Central items not allocated represented a credit of £164 million compared with a charge of £211 million in Q1 2015. This was principally driven by Treasury funding costs, including volatile items under IFRS, resulting in a £201 million gain against a £108 million charge in Q1 2015.

Q2 2015 compared with Q2 2014

- Central items not allocated represented a credit of £164 million compared with a credit of £86 million in Q2 2014. Treasury funding costs, including volatile items under IFRS, resulted in a gain of £201 million compared with £46 million in Q2 2014. Partially offsetting this, restructuring charges relating to Williams & Glyn were £126 million in the quarter, £67 million higher than Q2 2014. In addition, losses on the disposal of available-for-sale securities in Treasury were £42 million compared to a gain of £13 million in Q2 2014.

Citizens Financial Group (£ Sterling)

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Income statement					
Net interest income	**1,104**	987	**551**	553	499
Net fees and commissions	**371**	350	**191**	180	181
Other non-interest income	**119**	270	**55**	64	210
Non-interest income	**490**	620	**246**	244	391
Total income	**1,594**	1,607	**797**	797	890
Direct expenses					
- staff costs	**(564)**	(512)	**(275)**	(289)	(261)
- other costs	**(422)**	(501)	**(215)**	(207)	(252)
Restructuring costs	**(33)**	(69)	**(27)**	(6)	(69)
Operating expenses	**(1,019)**	(1,082)	**(517)**	(502)	(582)
Profit before impairment losses	**575**	525	**280**	295	308
Impairment losses	**(89)**	(104)	**(51)**	(38)	(31)
Operating profit	**486**	421	**229**	257	277
Average exchange rate - US$/£	**1.524**	1.669	**1.532**	1.514	1.683

Key metrics	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
Performance ratios					
Return on equity (1)	**6.8%**	6.9%	**6.5%**	7.2%	9.0%
Net interest margin	**2.80%**	2.94%	**2.78%**	2.83%	2.93%
Cost:income ratio	**64%**	67%	**65%**	63%	65%

Note:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).

Citizens Financial Group (£ Sterling)

	30 June 2015 £bn	31 March 2015 £bn	Change		31 December 2014 £bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)	**61.9**	64.0	(3%)		60.1	3%
Loan impairment provisions	**(0.5)**	(0.6)	(17%)		(0.5)	-
Net loans and advances to customers	**61.4**	63.4	(3%)		59.6	3%
Total assets	**87.2**	91.8	(5%)		84.9	3%
Funded assets	**86.8**	91.3	(5%)		84.5	3%
Investment securities	**16.0**	16.9	(5%)		15.8	1%
Risk elements in lending	**1.2**	1.4	(14%)		1.3	(8%)
Provision coverage (1)	**43%**	41%	200bp		40%	300bp
Customer deposits (excluding repos)	**63.8**	65.8	(3%)		60.6	5%
Bank deposits (excluding repos)	**4.5**	5.1	(12%)		5.1	(12%)
Loan:deposit ratio (excluding repos)	**96%**	96%	-		98%	(200bp)
Risk-weighted assets (2)						
- Credit risk						
- non-counterparty	**64.0**	66.1	(3%)		62.4	3%
- counterparty	**0.9**	1.0	(10%)		0.9	-
- Operational risk	**4.9**	4.9	-		5.1	(4%)
Total risk-weighted assets	**69.8**	72.0	(3%)		68.4	2%
Spot exchange rate - US$/£	**1.572**	1.485			1.562	

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) RWAs on an end-point CRR basis.

Key points

Sterling strengthened against the US Dollar during the first half of 2015, with the spot exchange rate at the 30 June 2015 increasing 1% compared with 31 December 2014.
Performance is described in full in the US Dollar based financial statements set out on pages 58 to 61.

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Citizens Financial Group (US dollar)

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	$m	$m	**$m**	$m	$m
Income statement					
Net interest income	**1,682**	1,647	**845**	837	838
Net fees and commissions	**565**	584	**293**	272	305
Other non-interest income	**181**	452	**84**	97	353
Non-interest income	**746**	1,036	**377**	369	658
Total income	**2,428**	2,683	**1,222**	1,206	1,496
Direct expenses					
- staff costs	**(859)**	(855)	**(423)**	(436)	(439)
- other costs	**(643)**	(835)	**(330)**	(313)	(423)
Restructuring costs	**(50)**	(115)	**(40)**	(10)	(115)
Operating expenses	**(1,552)**	(1,805)	**(793)**	(759)	(977)
Profit before impairment losses	**876**	878	**429**	447	519
Impairment losses	**(135)**	(174)	**(77)**	(58)	(53)
Operating profit	**741**	704	**352**	389	466

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
Performance ratios					
Return on equity (1)	**6.8%**	6.9%	**6.5%**	7.2%	9.0%
Net interest margin	**2.80%**	2.94%	**2.78%**	2.83%	2.93%
Cost:income ratio	**64%**	67%	**65%**	63%	65%

Note:

(1) Return on equity is based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAe).

Citizens Financial Group (US dollar)

	30 June 2015	31 March 2015			31 December 2014	
	$bn	$bn	Change		$bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)	**97.3**	94.9	3%		93.9	4%
Loan impairment provisions	**(0.8)**	(0.8)	-		(0.8)	-
Net loans and advances to customers	**96.5**	94.1	3%		93.1	4%
Total assets	**137.0**	136.3	1%		132.6	3%
Funded assets	**136.4**	135.6	1%		132.0	3%
Investment securities	**25.1**	25.1	-		24.7	2%
Risk elements in lending	**1.9**	2.0	(5%)		2.1	(10%)
Provision coverage (1)	**43%**	41%	200bp		40%	300bp
Customer deposits (excluding repos)	**100.3**	97.7	3%		94.6	6%
Bank deposits (excluding repos)	**7.0**	7.6	(8%)		8.0	(13%)
Loan:deposit ratio (excluding repos)	**96%**	96%	-		98%	(200bp)
Risk-weighted assets (2)						
- Credit risk						
- non-counterparty	**100.5**	98.1	2%		97.4	3%
- counterparty	**1.5**	1.5	-		1.4	7%
- Operational risk	**7.7**	7.3	5%		8.0	(4%)
Total risk-weighted assets	**109.7**	106.9	3%		106.8	3%

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) RWAs on an end-point CRR basis.

Key points

Sterling and US dollar period on period movements are not necessarily directly comparable due to the impact of exchange rate movements.

H1 2015 compared with H1 2014

- Operating profit increased £65 million ($37 million), or 15% (5%), to £486 million ($741 million) and was impacted by the weakening of sterling against the US dollar. The movement reflects the impact of the Illinois sale which was a net gain in Q2 2014 of £170 million ($283 million), offset by lower restructuring costs of £33 million ($50 million) (HY 2014 - £69 million ($115 million), the depreciation and amortisation change[1] and higher income and lower expenses and impairments which contributed a gain of £102 million ($107 million), or 32% (20%).

- Total income was down £13 million ($255 million), or 1%, (10%), to £1,594 million ($2,428 million), reflecting the gain on the sale of the Illinois franchise in Q2 2014 (£170 million ($283 million)) offset by increased income of £157 million ($28 million), or 11% (1%), despite an estimated £30 million ($50 million) reduction related to the Illinois franchise sale. Net interest income improvement was driven by the benefit of earning asset growth and a reduction in pay-fixed swap costs partially offset by continued pressure from the relatively persistent low rate environment on loan yields and mix, the impact of the Illinois franchise sale and higher borrowing costs related to the issuance of subordinated debt and senior notes. Non-interest income decline is driven by the impact from the Illinois franchise sale and lower leasing income partially offset by strength in mortgage banking fees.

Note:

(1) Starting Q1 2015, as it is a disposal group, CFG will no longer charge depreciation and amortisation. of H1 - £97 million ($148 million); Q2 2015 - £46 million ($71 million); Q1 2015 - £51 million ($77 million)

Citizens Financial Group (US dollar)

Key points (continued)

H1 2015 compared with H1 2014 (continued)

- Operating expenses decreased £63 million ($253 million), or 6% (14%), to £1,019 million ($1,552 million) due to lower regulatory costs and the impact of the Illinois franchise sale. Operating expenses, excluding restructuring costs of £33 million (HY 2014 - £69 million) decreased by £27 million, or 3% to £986 million reflecting the depreciation and amortisation change[1] offset by the weakening of sterling against the US dollar. In a US dollar terms operating expenses excluding restructuring costs of $50 million (HY 2014 - $115 million) were down $188 million, or 11%, to $1,502 million reflecting the depreciation and amortization change[1], lower regulatory costs and the impact of the Illinois franchise sale.

- Impairment losses decreased £15 million ($39 million), or 14% (22%), to £89 million ($135 million) reflecting continued improvement in asset quality, and a reduction in net charge-offs somewhat offset by loan growth.

- Average loans and advances were up 18% (8% in US dollar terms) due to commercial loan growth and retail loan growth driven by auto, residential mortgage and student loans partially offset by home equity run-off.

- Average customer deposits were up 16% (6% in US dollar terms), driven by growth in money market, term deposits and checking accounts with interest.

Q2 2015 compared with Q1 2015

- Operating profit decreased by £28 million ($37 million), or 11% (10%), to £229 million ($352 million) reflecting, in a US dollar terms, higher expenses and impairments partially offset by higher income. Operating profit excluding restructuring costs of £27 million ($40 million) (Q1 2015 - £6 million ($10 million)) was down £7 million ($7 million), or 3% (2%), to £256 million ($392 million) with an increase in impairment losses largely offset by revenue growth and expense discipline.

- Total income remained stable at £797 million reflecting the strengthening of sterling against the US dollar. In a US dollar terms total income increased by $16 million, or 1%, to $1,222 million. Net interest income was down £2 million to £551 million reflecting the strengthening of Sterling against the US dollar and the continued downward impact of the rate environment on earning asset yields, which offset the benefit of loan growth and an additional day in the quarter. In US dollar terms net interest income was up $8 million to $845 million, reflecting the benefit of loan growth and an additional day in the quarter, muted by the continued downward impact of the rate environment on earning asset yields. Non-interest income remained stable at £246 million. In a US dollar terms non-interest income increase of $8 million was driven by improvement across most categories partially offset by a gain on sale of mortgage loans in Q1 2015 of $10 million.

- Operating expenses increased by £15 million ($34 million), or 3% (4%) to £517 million ($793 million) as the benefit of seasonally lower salary and benefits expense was offset by an increase in restructuring costs of £21 million ($30 million) and the effect of more normalised outside services costs. Operating expenses, excluding restructuring costs of £27 million ($40 million) (Q1 2015 - £6 million ($10 million)), remained stable at £536 million ($822 million)., remained stable as the benefit of seasonally lower salary and benefits expense was offset by the effect of more normalised outside services costs.

- Impairment losses increased £13 million ($19 million), or 34% (33%), to £51 million ($77 million) reflecting a return to more normalised net charge-off levels from the prior quarter, which benefited from a large commercial real estate loan recovery.

Note:

(1) Starting Q1 2015, as it is a disposal group, CFG will no longer charge depreciation and amortisation. of H1 - £97 million ($148 million); Q2 2015 - £46 million ($71 million); Q1 2015 - £51 million ($77 million)

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Citizens Financial Group (US dollar)

Key points (continued)

Q2 2015 compared with Q2 2014

- Operating profit decreased by £48 million ($114 million), or 17% (24%), to £229 million ($352 million), excluding the impact of restructuring costs of £27 million ($40 million) (Q2 2014 - £69 million ($115 million)), operating profit was up £34 million ($23 million), or 19% (8%), to £210 million ($321 million) reflecting the depreciation and amortisation change(1) offset by the impact of the Illinois franchise sale (£170 million ($283 million)) net gain in Q2 2014.

- Total income was down £93 million ($274 million), or 10% (18%), to £797 million ($1,222 million). Drivers are consistent with H1 2015 compared with H1 2014. The impact of the Q2 2014 gain on the sale of the Illinois franchise, £170 million ($283 million) was partially offset by a £77 million ($9 million), or 11% (1%) increase in income to £797 million ($1,222 million) despite an estimated £15 million ($25 million) reduction related to the Illinois franchise sale.

- Operating expenses were down £65 million ($184 million), or 11% (19%), to £517 million ($793 million) reflecting lower restructuring and regulatory costs. Operating expenses, excluding restructuring costs of £27 million ($40 million) (Q2 2014 - £69 million ($115 million)), were up £23 million, or 4%, to £536 million, reflecting the depreciation and amortisation change(1) offset by the weakening of sterling against the US dollar with the average exchange rate decreasing 9%. In a US dollar terms operating expenses were down $38 million, or 4%, to $824 million reflecting the decrease related to the impact of the Illinois franchise sale and lower regulatory costs.

- Impairment losses increased £20 million ($24 million), or 65% (45%), to £51 million ($77 million) as the benefit of underlying improvement in credit quality was more than offset by increases related to overall loan growth.

Note:

(1) Starting Q1 2015, as it is a disposal group, CFG will no longer charge depreciation and amortisation. of H1 - £97 million ($148 million); Q2 2015 - £46 million ($71 million); Q1 2015 - £51 million ($77 million)

RBS Capital Resolution

RCR is managed and analysed in four asset management groups - Ulster Bank (RCR Ireland), Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**(20)**	11		**(12)**	(8)	16
Funding costs of rental assets	**(5)**	(12)		**(2)**	(3)	(9)
Net interest income	**(25)**	(1)		**(14)**	(11)	7
Net fees and commissions	**8**	31		**6**	2	17
Income from trading activities (1)	**48**	(53)		**40**	8	(69)
Other operating income (1)	**134**	131		**13**	121	80
Non-interest income	**190**	109		**59**	131	28
Total income	**165**	108		**45**	120	35
Direct expenses						
- staff costs	**(56)**	(89)		**(31)**	(25)	(51)
- other costs	**(13)**	(32)		**(7)**	(6)	(14)
Indirect expenses	**(32)**	(55)		**(15)**	(17)	(32)
Operating expenses	**(101)**	(176)		**(53)**	(48)	(97)
Profit/(loss) before impairment losses	**64**	(68)		**(8)**	72	(62)
Impairment releases (1)	**293**	20		**184**	109	128
Operating profit/(loss)	**357**	(48)		**176**	181	66
Total income						
Ulster Bank	**(32)**	1		**(15)**	(17)	14
Real Estate Finance	**60**	96		**35**	25	13
Corporate	**75**	(14)		**(16)**	91	(12)
Markets	**62**	25		**41**	21	20

Total income	**165**	108	**45**	120	35
	`	`	`	`	`
Impairment (releases)/losses					
Ulster Bank	**(172)**	(15)	**(33)**	(139)	(67)
Real Estate Finance	**(72)**	(34)	**(44)**	(28)	(123)
Corporate	**(107)**	39	**(117)**	10	73
Markets	**58**	(10)	**10**	48	(11)
Total impairment releases	**(293)**	(20)	**(184)**	(109)	(128)
Loan impairment charge as % of gross loans					
and advances (2)					
Ulster Bank	**(7.3%)**	(0.2%)	**(2.8%)**	(8.6%)	(1.9%)
Real Estate Finance	**(5.5%)**	(0.9%)	**(6.8%)**	(3.2%)	(6.6%)
Corporate	**(6.9%)**	1.0%	**(15.1%)**	0.9%	3.7%
Markets	**(1.3%)**	(2.0%)	**(0.7%)**	(2.0%)	(3.6%)
Total	**(6.5%)**	(0.1%)	**(7.1%)**	(4.2%)	(1.7%)

Notes:

(1) Asset disposals contributed £283 million in H1 2015 and £164 million in Q2 2015 (H1 2014 - £281 million; Q1 2015 - £119 million; Q2 2014 - £225 million) to RCR's operating profit: impairment provision releases of £231 million in H1 2015 and £167 million in Q2 2015 (H1 2014 - £321 million; Q1 2015 - £64 million; Q2 2014 - £257 million); loss in income from trading activities of £25 million in H1 2015 and £6 million in Q2 2015 (H1 2014 - £1 million gain; Q1 2015 - £19 million loss; Q2 2014 - £6 million gain) and gain in other operating income of £77 million in H1 2015 and £3 million in Q2 2015 (H1 2014 - £41 million loss; Q1 2015 - £74 million gain; Q2 2014 - £38 million loss).

(2) Includes disposal groups.

RBS Capital Resolution

	30 June 2015	31 March 2015	31 December 2014
	£bn	£bn	£bn
Capital and balance sheet			
Loans and advances to customers (gross) (1)	**11.0**	15.1	21.9
Loan impairment provisions	**(5.1)**	(7.1)	(10.9)
Net loans and advances to customers	**5.9**	8.0	11.0
Debt securities	**0.6**	0.8	1.0
Total assets	**16.5**	22.8	29.0
Funded assets	**8.4**	11.1	14.9
Risk elements in lending (1)	**7.4**	10.2	15.4
Provision coverage (2)	**69%**	70%	71%
Risk-weighted assets			
- Credit risk			
- non-counterparty	**7.8**	9.7	13.6
- counterparty	**3.0**	3.8	4.0
- Market risk	**4.0**	4.1	4.4
- Operational risk	**(0.4)**	(0.4)	-
Total risk-weighted assets	**14.4**	17.2	22.0
Total RWA equivalent (3)	**17.9**	21.7	27.3
Gross loans and advances to customers (1)			
Ulster Bank	**4.7**	6.5	11.0
Real Estate Finance	**2.6**	3.5	4.1
Corporate	**3.1**	4.5	6.2
Markets	**0.6**	0.6	0.6
	11.0	15.1	21.9
Funded assets - Ulster Bank			
Commercial real estate - investment	**0.6**	0.7	1.2
Commercial real estate - development	**0.2**	0.4	0.7

Other corporate	**0.2**	0.4	0.7
	1.0	1.5	2.6
Funded assets - Real Estate Finance (4)			
UK	**1.7**	2.3	2.5
Germany	**0.2**	0.3	0.4
Spain	**0.3**	0.5	0.5
Other	**0.3**	0.4	0.8
	2.5	3.5	4.2
Funded assets - Corporate			
Structured finance	**0.6**	0.9	1.7
Shipping	**1.1**	1.5	1.8
Other	**1.5**	1.8	2.3
	3.2	4.2	5.8
Funded assets - Markets			
Securitised products	**1.3**	1.5	1.8
Emerging markets	**0.4**	0.4	0.5
	1.7	1.9	2.3

Notes:

(1) Includes disposal groups.
(2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(3) RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in segments. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. RBS applies a CET1 ratio of 10% for RCR; this results in an end point CRR RWAe conversion multiplier of 10.
(4) Includes investment properties.

RBS Capital Resolution

Funded assets						
	Beginning					**End of**
	of period	Repayments	Disposals (1)	Impairments	Other	**period**
Half year ended 30 June 2015	£bn	£bn	£bn	£bn	£bn	**£bn**
Ulster Bank	2.6	-	(1.6)	0.2	(0.2)	**1.0**
Real Estate Finance	4.2	(0.4)	(1.2)	-	(0.1)	**2.5**
Corporate	5.8	(1.0)	(1.8)	0.1	0.1	**3.2**
Markets	2.3	(0.2)	(0.3)	-	(0.1)	**1.7**
Total	14.9	(1.6)	(4.9)	0.3	(0.3)	**8.4**
Quarter ended 30 June 2015						
Ulster Bank	1.5	-	(0.5)	0.1	(0.1)	**1.0**
Real Estate Finance	3.5	(0.3)	(0.7)	-	-	**2.5**
Corporate	4.2	(0.4)	(0.6)	0.1	(0.1)	**3.2**
Markets	1.9	(0.1)	-	-	(0.1)	**1.7**
Total	11.1	(0.8)	(1.8)	0.2	(0.3)	**8.4**
Life to date						
Ulster Bank	4.8	(0.2)	(4.4)	1.3	(0.5)	**1.0**
Real Estate Finance	9.5	(2.7)	(4.1)	0.1	(0.3)	**2.5**
Corporate	9.8	(3.3)	(3.7)	0.1	0.3	**3.2**
Markets	4.8	(1.3)	(1.8)	-	-	**1.7**
Total	28.9	(7.5)	(14.0)	1.5	(0.5)	**8.4**

Risk-weighted assets							
	Beginning			Risk			**End of**
	of period	Repayments	Disposals (1)	parameters (2)	Impairments	Other (3)	**period**
Half year ended 30 June 2015	£bn	£bn	£bn	£bn	£bn	£bn	**£bn**

Ulster Bank	1.3	-	(0.5)	(0.3)	-	-	**0.5**
Real Estate Finance	4.7	(0.5)	(0.8)	(0.8)	-	(0.2)	**2.4**
Corporate	7.2	(0.6)	(1.7)	(0.8)	-	0.1	**4.2**
Markets	8.8	(0.6)	(0.5)	(0.1)	-	(0.3)	**7.3**
Total	22.0	(1.7)	(3.5)	(2.0)	-	(0.4)	**14.4**
Quarter ended 30 June 2015							
Ulster Bank	0.7	-	(0.1)	(0.1)	-	-	**0.5**
Real Estate Finance	3.7	(0.4)	(0.3)	(0.5)	-	(0.1)	**2.4**
Corporate	4.9	(0.3)	(0.4)	0.1	-	(0.1)	**4.2**
Markets	7.9	(0.4)	(0.1)	(0.1)	-	-	**7.3**
Total	17.2	(1.1)	(0.9)	(0.6)	-	(0.2)	**14.4**
Life to date							
Ulster Bank	3.3	(0.5)	(1.0)	(1.2)	-	(0.1)	**0.5**
Real Estate Finance	13.5	(2.7)	(2.2)	(6.0)	-	(0.2)	**2.4**
Corporate	16.4	(2.8)	(4.7)	(4.9)	(0.4)	0.6	**4.2**
Markets	13.5	(3.3)	(3.2)	0.1	-	0.2	**7.3**
Total	46.7	(9.3)	(11.1)	(12.0)	(0.4)	0.5	**14.4**
For the notes to this table refer to the following page.							

RBS Capital Resolution

Capital deductions							
	Beginning of period	Repayments	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	**End of period**
Half year ended 30 June 2015	£m	£m	£m	£m	£m	£m	**£m**
Ulster Bank	258	(1)	(156)	(14)	85	(27)	**145**
Real Estate Finance	111	(27)	(86)	96	1	(24)	**71**
Corporate	112	(47)	(43)	87	(4)	(9)	**96**
Markets	53	(8)	(5)	(4)	-	(3)	**33**
Total	534	(83)	(290)	165	82	(63)	**345**
Quarter ended 30 June 2015							
Ulster Bank	236	(1)	(49)	(27)	-	(14)	**145**
Real Estate Finance	158	(7)	(87)	20	(7)	(6)	**71**
Corporate	15	9	24	46	15	(13)	**96**
Markets	37	(5)	-	1	-	-	**33**
Total	446	(4)	(112)	40	8	(33)	**345**
Life to date							
Ulster Bank	559	(31)	(382)	(130)	166	(37)	**145**
Real Estate Finance	505	(423)	(769)	717	79	(38)	**71**
Corporate	477	(239)	(156)	104	(106)	16	**96**
Markets	291	(23)	(85)	(143)	1	(8)	**33**
Total	1,832	(716)	(1,392)	548	140	(67)	**345**

RWA equivalent (4)							
	Beginning of period	Repayments	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	**End of period**

Half year ended 30 June 2015	£bn	£bn	£bn	£bn	£bn	£bn	**£bn**
Ulster Bank	3.9	-	(2.0)	(0.4)	0.8	(0.3)	**2.0**
Real Estate Finance	5.8	(0.8)	(1.6)	0.2	(0.1)	(0.4)	**3.1**
Corporate	8.3	(1.0)	(2.2)	0.1	(0.1)	0.1	**5.2**
Markets	9.3	(0.8)	(0.5)	(0.1)	-	(0.3)	**7.6**
Total	27.3	(2.6)	(6.3)	(0.2)	0.6	(0.9)	**17.9**
Quarter ended 30 June 2015							
Ulster Bank	3.1	-	(0.6)	(0.4)	-	(0.1)	**2.0**
Real Estate Finance	5.3	(0.5)	(1.2)	(0.3)	(0.1)	(0.1)	**3.1**
Corporate	5.0	(0.1)	(0.2)	0.6	0.1	(0.2)	**5.2**
Markets	8.3	(0.5)	(0.1)	(0.1)	-	-	**7.6**
Total	21.7	(1.1)	(2.1)	(0.2)	-	(0.4)	**17.9**
Life to date							
Ulster Bank	8.9	(0.8)	(4.7)	(2.5)	1.5	(0.4)	**2.0**
Real Estate Finance	18.6	(7.0)	(9.8)	1.1	0.6	(0.4)	**3.1**
Corporate	21.1	(5.0)	(6.2)	(3.9)	(1.5)	0.7	**5.2**
Markets	16.4	(3.6)	(4.0)	(1.2)	-	-	**7.6**
Total	65.0	(16.4)	(24.7)	(6.5)	0.6	(0.1)	**17.9**

Notes:

(1) Includes all effects relating to disposals, including associated removal of deductions from regulatory capital.
(2) Principally reflects credit migration and other technical adjustments.
(3) Includes fair value adjustments and foreign exchange movements.
(4) RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in segments. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. RBS applies a CET1 ratio of 10% for RCR; this results in an end point CRR RWAe conversion multiplier of 10.

RBS Capital Resolution

Gross loans and advances, REIL and impairments								
				Credit metrics			**Year-to-date**	
				REIL as a	**Provisions**	**Provisions**	**Impairment**	
	Gross			**% of gross**	**as a %**	**as a % of**	**(releases)/**	**Amounts**
	loans	**REIL**	**Provisions**	**loans**	**of REIL**	**gross loans**	**losses (2)**	**written-off**
30 June 2015 (1)	**£bn**	**£bn**	**£bn**	**%**	**%**	**%**	**£m**	**£m**
By sector:								
Commercial real estate								
- investment	**3.4**	**2.7**	**1.4**	**79**	**52**	**41**	**(114)**	**1,302**
- development	**2.7**	**2.6**	**2.3**	**96**	**88**	**85**	**(25)**	**2,573**
Asset finance	**1.2**	**0.4**	**0.2**	**33**	**50**	**17**	**7**	**226**
Other corporate	**3.7**	**1.7**	**1.2**	**46**	**71**	**32**	**(161)**	**871**
Total	**11.0**	**7.4**	**5.1**	**67**	**69**	**46**	**(293)**	**4,972**
By donating segment								
and sector								
Ulster Bank								
Commercial real estate								
- investment	**1.3**	**1.3**	**0.9**	**100**	**69**	**69**	**1**	**990**
- development	**2.4**	**2.4**	**2.2**	**100**	**92**	**92**	**(79)**	**2,511**
Other corporate	**1.0**	**0.9**	**0.8**	**90**	**89**	**80**	**(94)**	**605**
Total Ulster Bank	**4.7**	**4.6**	**3.9**	**98**	**85**	**83**	**(172)**	**4,106**
Commercial Banking								
Commercial real estate								
- investment	**0.9**	**0.5**	**0.1**	**56**	**20**	**11**	**(20)**	**118**
- development	**0.2**	**0.1**	**0.1**	**50**	**100**	**50**	**(8)**	**52**

Other corporate	0.5	0.3	0.1	60	33	20		(44)	118
Total Commercial Banking	1.6	0.9	0.3	56	33	19		(72)	288
CIB									
Commercial real estate									
- investment	1.2	0.9	0.4	75	44	33		(95)	194
- development	0.1	0.1	-	100	-	-		62	10
Asset finance	1.2	0.4	0.2	33	50	17		7	226
Other corporate	2.2	0.5	0.3	23	60	14		(23)	148
Total CIB	4.7	1.9	0.9	40	47	19		(49)	578
Total	11.0	7.4	5.1	67	69	46		(293)	4,972
Of which:									
UK	5.6	3.2	1.7	57	53	30		(57)	2,326
Europe	5.1	4.1	3.3	80	80	65		(270)	2,622
US	0.2	-	-	-	-	-		44	1
RoW	0.1	0.1	0.1	100	100	100		(10)	23
Customers	11.0	7.4	5.1	67	69	46		(293)	4,972
Banks	0.6	-	-	-	-	-		-	9
Total	11.6	7.4	5.1	64	69	44		(293)	4,981

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

RBS Capital Resolution

				Credit metrics			Year-to-date	
				REIL as a	Provisions	Provisions	Impairment	
	Gross			% of gross	as a %	as a % of	(releases)/	Amounts
	loans	REIL	Provisions	loans	of REIL	gross loans	losses (2)	written-off
31 December 2014 (1)	£bn	£bn	£bn	%	%	%	£m	£m
By sector:								
Commercial real estate								
- investment	6.2	4.9	2.8	79	57	45	(553)	1,911
- development	6.4	6.2	5.3	97	85	83	(611)	560
Asset finance	2.3	0.9	0.4	39	44	17	37	80
Other corporate	7.0	3.4	2.4	49	71	34	(169)	1,032
	21.9	15.4	10.9	70	71	50	(1,296)	3,583
By donating segment								
and sector								
Ulster Bank								
Commercial real estate								
- investment	3.0	2.9	2.0	97	69	67	(450)	445
- development	5.8	5.8	5.1	100	88	88	(608)	425
Other corporate	2.2	2.0	1.5	91	75	68	(48)	256
Total Ulster Bank	11.0	10.7	8.6	97	80	78	(1,106)	1,126
Commercial Banking								
Commercial real estate								
- investment	1.2	0.7	0.2	58	29	17	(5)	228
- development	0.4	0.3	0.1	75	33	25	(11)	104
Other corporate	1.0	0.5	0.3	50	60	30	-	192
Total Commercial Banking	2.6	1.5	0.6	58	40	23	(16)	524

CIB									
Commercial real estate									
- investment	2.0	1.3	0.6	65	46	30		(98)	1,238
- development	0.2	0.1	0.1	50	100	50		8	31
Asset finance	2.3	0.9	0.4	39	44	17		37	80
Other corporate	3.8	0.9	0.6	24	67	16		(121)	584
Total CIB	8.3	3.2	1.7	39	53	20		(174)	1,933
Total	21.9	15.4	10.9	70	71	50		(1,296)	3,583
Of which:									
UK	10.0	6.2	4.1	62	66	41		(402)	2,266
Europe	10.9	8.9	6.6	82	74	61		(875)	1,267
US	0.3	0.1	-	33	-	-		(19)	26
RoW	0.7	0.2	0.2	29	100	29		-	24
Customers	21.9	15.4	10.9	70	71	50		(1,296)	3,583
Banks	0.5	-	-	-	-	-		(10)	8
Total	22.4	15.4	10.9	69	71	49		(1,306)	3,591

Notes:

(1) Includes disposal groups.

(2) Impairment (releases)/losses include those relating to AFS securities; sector analyses above include allocation of latent impairment charges.

RBS Capital Resolution

Key points

RCR total assets excluding derivatives have fallen by 78% since the initial pool of assets was identified. The commitment is to reduce funded assets by 85% by the end of 2015, a year earlier than planned.

RCR total assets fell to £17 billion, a reduction of £13 billion, or 43%, since the start of the year. RCR total assets excluding derivatives of £8 billion fell to £8 billion, a reduction of £7 billion, or 44%, since the beginning of the year. The reduction was mainly achieved through disposals and repayments. Disposal activity continues across the portfolio, with 342 deals completed during H1 2015 at an average price of 106% of book value.

Since the start of the year RWA equivalent has fallen by £9 billion to £18 billion reflecting the combination of disposals and repayments offset by the impact of further impairment releases and write-offs.

Operating profit for H1 2015 was £357 million, driven by impairment releases of £293 million reflective of an improvement in underlying collateral values, proactive debt management and favourable economic conditions.

The net effect of the operating profit of £357 million and RWA equivalent reduction of £9 billion (1) was CET1 accretion of £1.3 billion.

Q2 2015 compared with Q1 2015

- RCR total assets have been reduced by £6 billion, or 28%, since Q1 2015. RCR total assets excluding derivatives of £8 billion have been reduced by £3 billion, or 24% to £8 billion from Q1 2015, driven by disposals and repayments.

- RWA equivalent decreased by £4 billion, or 18%, since Q1 2015.

Q2 2015 compared with Q2 2014

- RCR total assets have been reduced by £18 billion, or 52%, since Q2 2014. RCR total assets excluding derivatives of £8 billion have been reduced by £13 billion, or 60%, from Q2 2014.

- RWA equivalent decreased by £26 billion, or 59%, from Q2 2014. This primarily reflects our active disposal and repayment programme.

Note:

(1) Capital equivalent: £0.9 billion at an internal CET1 ratio of 10%.

Condensed consolidated income statement for the period ended 30 June 2015

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Interest receivable	**6,107**	6,544		**3,031**	3,076	3,279
Interest payable	**(1,689)**	(2,038)		**(816)**	(873)	(980)
Net interest income	**4,418**	4,506		**2,215**	2,203	2,299
Fees and commissions receivable	**1,958**	2,243		**969**	989	1,126
Fees and commissions payable	**(363)**	(475)		**(186)**	(177)	(244)
Income from trading activities	**875**	1,450		**545**	330	528
Gain on redemption of own debt	**-**	20		**-**	-	-
Other operating income	**368**	805		**194**	174	154
Non-interest income	**2,838**	4,043		**1,522**	1,316	1,564
Total income	**7,256**	8,549		**3,737**	3,519	3,863
Staff costs	**(2,855)**	(2,997)		**(1,530)**	(1,325)	(1,558)
Premises and equipment	**(745)**	(1,126)		**(326)**	(419)	(546)
Other administrative expenses	**(2,366)**	(1,357)		**(1,027)**	(1,339)	(780)
Depreciation and amortisation	**(712)**	(466)		**(200)**	(512)	(237)
Write down of goodwill and other intangible assets	**(606)**	(212)		**(606)**	-	(130)
Operating expenses	**(7,284)**	(6,158)		**(3,689)**	(3,595)	(3,251)
(Loss)/profit before impairment losses	**(28)**	2,391		**48**	(76)	612
Impairment releases/(losses)	**321**	(165)		**192**	129	124
Operating profit before tax	**293**	2,226		**240**	53	736
Tax charge	**(293)**	(592)		**(100)**	(193)	(278)
Profit/(loss) from continuing operations	**-**	1,634		**140**	(140)	458

Profit/(loss) from discontinued operations, net of tax						
- Citizens	**354**	285		**674**	(320)	181
- Other	**4**	35		**-**	4	26
Profit/(loss) from discontinued operations,						
net of tax	**358**	320		**674**	(316)	207
Profit/(loss) for the period	**358**	1,954		**814**	(456)	665
Non-controlling interests	**(344)**	(42)		**(428)**	84	(23)
Preference shares	**(143)**	(140)		**(73)**	(70)	(75)
Other dividends	**(24)**	(27)		**(20)**	(4)	(17)
Dividend access share	**-**	(320)		**-**	-	(320)
(Loss)/profit attributable to ordinary and						
B shareholders	**(153)**	1,425		**293**	(446)	230
(Loss)/earnings per ordinary and equivalent						
B share (EPS) (1)						
Basic EPS from continuing and discontinued operations	**(1.3p)**	12.6p		**2.5p**	(3.9p)	2.0p
Basic EPS from continuing operations	**(1.9p)**	9.9p		**0.2p**	(2.1p)	0.3p

Note:

(1) Diluted EPS for continuing and discontinued operations for the half year ended 30 June 2014 was 0.1p lower than basic EPS. There was no dilutive impact in any other period.

Condensed consolidated statement of comprehensive income for the period ended 30 June 2015

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Profit/(loss) for the period	**358**	1,954		**814**	(456)	665
Items that do qualify for reclassification						
Available-for-sale financial assets	**(45)**	529		**(247)**	202	265
Cash flow hedges	**(710)**	248		**(834)**	124	(47)
Currency translation	**(573)**	(733)		**(584)**	11	(598)
Tax	**144**	(160)		**246**	(102)	(72)
Other comprehensive (loss)/income after tax	**(1,184)**	(116)		**(1,419)**	235	(452)
Total comprehensive (loss)/income for the period	**(826)**	1,838		**(605)**	(221)	213
Total comprehensive (loss)/income is						
attributable to:						
Non-controlling interests	**299**	30		**252**	47	6
Preference shareholders	**143**	140		**73**	70	75
Paid-in equity holders	**24**	27		**20**	4	17
Dividend access share	**-**	320		**-**	-	320
Ordinary and B shareholders	**(1,292)**	1,321		**(950)**	(342)	(205)
	(826)	1,838		**(605)**	(221)	213

Key points

The movement in available-for-sale financial assets during the quarter reflects unrealised losses on available-for-sale euro and US dollar securities, partially offset by realised gains on available-for-sale equity shares. During the half year, these unrealised losses are largely offset by realised losses on available-for-sale bonds.

Cash flow hedging losses for both the quarter and half year predominantly result from increases in the sterling swap rate across the maturity profile of the portfolio.

Currency translation losses for the quarter are due to the strengthening of sterling against both the euro and the US dollar. Losses for the half year are predominantly due to the strengthening of sterling against the euro.

Condensed consolidated balance sheet at 30 June 2015

	30 June 2015	31 March 2015	31 December 2014
	£m	£m	£m
Assets			
Cash and balances at central banks	**81,900**	75,521	74,872
Net loans and advances to banks	**20,714**	25,002	23,027
Reverse repurchase agreements and stock borrowing	**20,807**	16,071	20,708
Loans and advances to banks	**41,521**	41,073	43,735
Net loans and advances to customers	**314,993**	333,173	334,251
Reverse repurchase agreements and stock borrowing	**46,799**	53,329	43,987
Loans and advances to customers	**361,792**	386,502	378,238
Debt securities	**77,187**	79,232	86,649
Equity shares	**3,363**	6,325	5,635
Settlement balances	**9,630**	11,341	4,667
Derivatives	**281,857**	390,565	353,590
Intangible assets	**7,198**	7,619	7,781
Property, plant and equipment	**4,874**	5,336	6,167
Deferred tax	**1,479**	1,430	1,540
Prepayments, accrued income and other assets	**4,829**	5,995	5,878
Assets of disposal groups	**89,071**	93,673	82,011
Total assets	**964,701**	1,104,612	1,050,763
Liabilities			
Bank deposits	**30,978**	37,235	35,806
Repurchase agreements and stock lending	**21,612**	27,997	24,859
Deposits by banks	**52,590**	65,232	60,665
Customer deposits	**342,023**	349,289	354,288
Repurchase agreements and stock lending	**44,750**	41,386	37,351
Customer accounts	**386,773**	390,675	391,639
Debt securities in issue	**41,819**	45,855	50,280
Settlement balances	**7,335**	11,083	4,503
Short positions	**24,561**	19,716	23,029
Derivatives	**273,589**	386,056	349,805
Accruals, deferred income and other liabilities	**13,962**	14,242	13,346
Retirement benefit liabilities	**1,869**	1,843	2,579
Deferred tax	**363**	381	500

Subordinated liabilities	**19,683**	22,004	22,905
Liabilities of disposal groups	**80,388**	85,244	71,320
Total liabilities	**902,932**	1,042,331	990,571
Equity			
Non-controlling interests	**5,705**	5,473	2,946
Owners' equity*			
Called up share capital	**6,981**	6,925	6,877
Reserves	**49,083**	49,883	50,369
Total equity	**61,769**	62,281	60,192
Total liabilities and equity	**964,701**	1,104,612	1,050,763
* Owners' equity attributable to:			
Ordinary and B shareholders	**51,117**	51,861	52,149
Other equity owners	**4,947**	4,947	5,097
	56,064	56,808	57,246

Average balance sheet

	Half year ended			Quarter ended	
	30 June	30 June		**30 June**	31 March
	2015	2014		**2015**	2015
	%	%		**%**	%
Average yields, spreads and margins of the					
banking business					
Gross yield on interest-earning assets of banking business	**2.96**	3.00		**2.91**	3.00
Cost of interest-bearing liabilities of banking business	**(1.21)**	(1.32)		**(1.17)**	(1.25)
Interest spread of banking business	**1.75**	1.68		**1.74**	1.75
Benefit from interest-free funds	**0.39**	0.39		**0.39**	0.40
Net interest margin of banking business	**2.14**	2.07		**2.13**	2.15
Average interest rates					
Base rate	**0.50**	0.50		**0.50**	0.50
London inter-bank three month offered rates					
- Sterling	**0.57**	0.53		**0.57**	0.56
- Eurodollar	**0.27**	0.23		**0.28**	0.26
- Euro	**0.02**	0.30		**(0.01)**	0.05

	Half year ended				Half year ended		
	30 June 2015				30 June 2014		
	Average				Average		
	balance	**Interest**	**Rate**		balance	Interest	Rate
	£m	**£m**	**%**		£m	£m	%
Assets							
Loans and advances to banks	**75,199**	**197**	**0.53**		67,677	192	0.57
Loans and advances to customers	**304,857**	**5,771**	**3.82**		329,933	6,144	3.76
Debt securities	**36,151**	**139**	**0.78**		41,640	208	1.01
Interest-earning assets							
- banking business (1)	**416,207**	**6,107**	**2.96**		439,250	6,544	3.00
- trading business (2)	**151,588**				176,200		

Non-interest earning assets	**492,918**			419,347		
Total assets	**1,060,713**			1,034,797		
Liabilities						
Deposits by banks	**6,806**	**25**	**0.74**	10,233	55	1.08
Customer accounts	**239,640**	**758**	**0.64**	261,472	939	0.72
Debt securities in issue	**30,294**	**412**	**2.74**	38,107	556	2.94
Subordinated liabilities	**20,023**	**442**	**4.45**	22,696	431	3.83
Internal funding of trading business	**(15,505)**	**52**	**(0.68)**	(20,254)	57	(0.57)
Interest-bearing liabilities						
- banking business	**281,258**	**1,689**	**1.21**	312,254	2,038	1.32
- trading business (2)	**159,632**			185,308		
Non-interest-bearing liabilities						
- demand deposits	**80,207**			65,830		
- other liabilities	**478,044**			411,255		
Owners' equity (3)	**61,572**			60,150		
Total liabilities and owners' equity	**1,060,713**			1,034,797		

Notes:

(1) Interest receivable includes amounts (unwind of discount) recognised on impaired loans and receivables. Such loans are included in average loans and advances to banks and average loans and advances to customers.

(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

(3) Including equity attributable to ordinary and B shareholders of £51,174 million (H1 2014 - £53,931 million).

Average balance sheet

	Quarter ended 30 June 2015				Quarter ended 31 March 2015		
	Average balance	**Interest**	**Rate**		Average balance	Interest	Rate
	£m	**£m**	**%**		£m	£m	%
Assets							
Loans and advances to banks	**81,256**	**92**	**0.45**		69,106	105	0.62
Loans and advances to customers	**299,173**	**2,869**	**3.85**		310,527	2,902	3.79
Debt securities	**36,706**	**70**	**0.76**		35,946	69	0.78
Interest-earning assets							
- banking business (1)	**417,135**	**3,031**	**2.91**		415,579	3,076	3.00
- trading business (2)	**149,008**				154,196		
Non-interest earning assets	**446,869**				539,169		
Total assets	**1,013,012**				1,108,944		
Liabilities							
Deposits by banks	**6,442**	**12**	**0.75**		7,337	13	0.72
Customer accounts	**240,321**	**368**	**0.61**		239,980	390	0.66
Debt securities in issue	**29,591**	**201**	**2.72**		31,041	211	2.76
Subordinated liabilities	**19,191**	**216**	**4.51**		20,752	226	4.42
Internal funding of trading business	**(14,836)**	**19**	**(0.51)**		(16,182)	33	(0.83)
Interest-bearing liabilities							
- banking business	**280,709**	**816**	**1.17**		282,928	873	1.25
- trading business (2)	**157,425**				161,864		
Non-interest-bearing liabilities							
- demand deposits	**81,057**				79,728		
- other liabilities	**431,953**				523,152		
Owners' equity (3)	**61,868**				61,272		
Total liabilities and owners' equity	**1,013,012**				1,108,944		

Notes:

(1) Interest receivable includes amounts (unwind of discount) recognised on impaired loans and receivables. Such loans are included in average loans and advances to banks and average loans and advances to customers.
(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
(3) Including equity attributable to ordinary and B shareholders of £50,567 million (Q1 2015 - £51,675 million).

Condensed consolidated statement of changes in equity for the period ended 30 June 2015

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Called-up share capital					
At beginning of period	**6,877**	6,714	**6,925**	6,877	6,752
Ordinary shares issued	**104**	97	**56**	48	59
At end of period	**6,981**	6,811	**6,981**	6,925	6,811
Paid-in equity					
At beginning of period	**784**	979	**634**	784	979
Reclassification (1)	**(150)**	-	**-**	(150)	-
At end of period	**634**	979	**634**	634	979
Share premium account					
At beginning of period	**25,052**	24,667	**25,164**	25,052	24,760
Ordinary shares issued	**254**	218	**142**	112	125
At end of period	**25,306**	24,885	**25,306**	25,164	24,885
Merger reserve					
At beginning and end of period	**13,222**	13,222	**13,222**	13,222	13,222
Available-for-sale reserve					
At beginning of period	**299**	(308)	**371**	299	(62)
Unrealised (losses)/gains	**(114)**	844	**(153)**	39	411
Realised losses/(gains)	**63**	(366)	**(43)**	106	(148)
Tax	**39**	(68)	**65**	(26)	(63)
Recycled to profit or loss on disposal of businesses (2)	**-**	36	**-**	-	-
Transfer to retained earnings	**(43)**	-	**4**	(47)	-
At end of period	**244**	138	**244**	371	138
Cash flow hedging reserve					
At beginning of period	**1,029**	(84)	**1,109**	1,029	141

Amount recognised in equity	**(26)**	968	**(524)**	498	315
Amount transferred from equity to earnings	**(705)**	(720)	**(319)**	(386)	(362)
Tax	**128**	(70)	**169**	(41)	-
Transfer to retained earnings	**9**	-	**-**	9	-
At end of period	**435**	94	**435**	1,109	94
Foreign exchange reserve					
At beginning of period	**3,483**	3,691	**2,779**	3,483	3,551
Retranslation of net assets	**(548)**	(872)	**(1,042)**	494	(702)
Foreign currency gains/(losses) on hedges of net assets	**38**	155	**604**	(566)	123
Tax	**(14)**	(11)	**-**	(14)	(9)
Transfer to retained earnings	**(642)**	-	**(24)**	(618)	-
At end of period	**2,317**	2,963	**2,317**	2,779	2,963
Capital redemption reserve					
At beginning and end of period	**9,131**	9,131	**9,131**	9,131	9,131

Notes:

(1) Paid-in equity reclassified to liabilities as a result of the call of RBS Capital Trust IV in January 2015.
(2) Net of tax of £11 million in H1 2014.
(3) Relating to the secondary offering of Citizens Financial Group in March 2015.

Condensed consolidated statement of changes in equity for the period ended 30 June 2015

	Half year ended		Quarter ended		
	30 June 2015	30 June 2014	**30 June 2015**	31 March 2015	30 June 2014
	£m	£m	**£m**	£m	£m
Retained earnings					
At beginning of period	**(2,518)**	867	**(2,416)**	(2,518)	1,986
(Loss)/profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	**(50)**	1,610	**111**	(161)	446
- discontinued operations	**64**	302	**275**	(211)	196
Equity preference dividends paid	**(143)**	(140)	**(73)**	(70)	(75)
Paid-in equity dividends paid, net of tax	**(24)**	(27)	**(20)**	(4)	(17)
Dividend access share dividend	**-**	(320)	**-**	-	(320)
Transfer from available-for-sale reserve	**43**	-	**(4)**	47	-
Transfer from cash flow hedging reserve	**(9)**	-	**-**	(9)	-
Transfer from foreign exchange reserve	**642**	-	**24**	618	-
Costs of placing Citizens Financial Group equity	**(29)**	-	**-**	(29)	-
Shares issued under employee share schemes	**(57)**	(41)	**(1)**	(56)	(5)
Share-based payments					
- gross	**10**	8	**6**	4	47
- tax	**-**	(1)	**-**	-	-
Reclassification of paid-in equity	**(27)**	-	**-**	(27)	-
At end of period	**(2,098)**	2,258	**(2,098)**	(2,416)	2,258
Own shares held					
At beginning of period	**(113)**	(137)	**(111)**	(113)	(136)
Disposal of own shares	**5**	1	**3**	2	-
At end of period	**(108)**	(136)	**(108)**	(111)	(136)
Owners' equity at end of period	**56,064**	60,345	**56,064**	56,808	60,345
Non-controlling interests					
At beginning of period	**2,946**	473	**5,473**	2,946	612
Currency translation adjustments and other movements	**(63)**	(16)	**(146)**	83	(19)

Profit/(loss) attributable to non-controlling interests						
- continuing operations	**50**	24		**29**	21	12
- discontinued operations	**294**	18		**399**	(105)	11
Dividends paid	**(31)**	-		**(20)**	(11)	-
Movements in available-for-sale securities						
- unrealised gains/(losses)	**12**	(2)		**(45)**	57	(1)
- realised (gains)/losses	**(6)**	6		**(6)**	-	3
- tax	**(5)**	-		**16**	(21)	-
Movements in cash flow hedging reserve						
- amount recognised in equity	**21**	-		**9**	12	-
- tax	**(4)**	-		**(4)**	-	-
Equity raised (3)	**2,491**	115		**-**	2,491	-
At end of period	**5,705**	618		**5,705**	5,473	618
Total equity at end of period	**61,769**	60,963		**61,769**	62,281	60,963
Total equity is attributable to:						
Non-controlling interests	**5,705**	618		**5,705**	5,473	618
Preference shareholders	**4,313**	4,313		**4,313**	4,313	4,313
Paid-in equity holders	**634**	979		**634**	634	979
Ordinary and B shareholders	**51,117**	55,053		**51,117**	51,861	55,053
	61,769	60,963		**61,769**	62,281	60,963

For the notes to this table refer to page 74.

Condensed consolidated cash flow statement for the period ended 30 June 2015

	Half year ended	
	30 June	30 June
	2015	2014
	£m	£m
Operating activities		
Operating profit before tax on continuing operations	**293**	2,226
Operating profit before tax on discontinued operations	**542**	466
Adjustments for non-cash items	**(3,690)**	(897)
Net cash (outflow)/inflow from trading activities	**(2,855)**	1,795
Changes in operating assets and liabilities	**12,312**	(7,634)
Net cash flows from operating activities before tax	**9,457**	(5,839)
Income taxes (paid)/received	**(201)**	41
Net cash flows from operating activities	**9,256**	(5,798)
Net cash flows from investing activities	**(1,461)**	(641)
Net cash flows from financing activities	**(426)**	921
Effects of exchange rate changes on cash and cash equivalents	**(1,885)**	(2,391)
Net increase/(decrease) in cash and cash equivalents	**5,484**	(7,909)
Cash and cash equivalents at beginning of period	**107,904**	121,177
Cash and cash equivalents at end of period	**113,388**	113,268

Notes

1. Basis of preparation

The Group's 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 the Group's 2014 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).

The condensed consolidated financial statements have been prepared in compliance with the British Bankers' Association Code for Financial Reporting Disclosure published in September 2010.

Going concern

RBS's business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 5 to 125. Its objectives and policies in managing the financial risks to which it is exposed and its regulatory capital resources, liquidity and funding management are discussed in the Capital and risk management appendix. A summary of the risk factors which could materially affect RBS's future results are described on pages 126 to129.

Having reviewed RBS's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that RBS will continue in operational existence for the foreseeable future. Accordingly, the results for the half year ended 30 June 2015 have been prepared on a going concern basis.

Restatements

Citizens was classified as a disposal group on 31 December 2014 and its assets and liabilities from that date have been aggregated and presented as separate lines in accordance with IFRS 5. Citizens was also reclassified as a discontinued operation; comparatives for the periods ended 30 June 2014 have been re-presented.

2. Citizens Financial Group

In March 2015, RBS sold 155.25 million shares in CFG (28.4% of CFG's common stock) for proceeds of £2.5 billion. Transaction costs of £29 million were taken to owners' equity. In April 2015, CFG purchased 10.5 million of its shares from RBS; RBS's shareholding at 30 June 2015 was 40.8%.

As required by IFRS 10 'Consolidated Financial Statements', RBS consolidates CFG despite holding a minority of voting rights. Given the significance of its voting interest and the dispersion of other shareholdings, RBS is deemed under IFRS 10 to have 'de facto' control.

CFG is classified as a disposal group and measured at the lower of carrying value and fair value less costs to sell. At 30 June 2015, the carrying value of CFG was £8.4 billion.

Notes

3. Accounting policies

There have been no significant changes to the Group's principal accounting policies as set out on pages 349 to 357 of the 2014 Annual Report on Form 20-F. Amendments to IFRSs effective for 2015 have not had a material effect on the results for the half year ended 30 June 2015.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. 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 pensions; goodwill; provisions for liabilities; deferred tax; loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgments are described on pages 357 to 359 of the Group's 2014 Annual Report on Form 20-F.

Notes

4. Analysis of income, expenses and impairment losses					
	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Loans and advances to customers	**5,771**	6,144	**2,869**	2,902	3,081
Loans and advances to banks	**197**	192	**92**	105	97
Debt securities	**139**	208	**70**	69	101
Interest receivable	**6,107**	6,544	**3,031**	3,076	3,279
Customer accounts	**758**	939	**368**	390	449
Deposits by banks	**25**	58	**12**	13	23
Debt securities in issue	**412**	556	**201**	211	269
Subordinated liabilities	**442**	428	**216**	226	218
Internal funding of trading businesses	**52**	57	**19**	33	21
Interest payable	**1,689**	2,038	**816**	873	980
Net interest income	**4,418**	4,506	**2,215**	2,203	2,299
Fees and commissions receivable					
- payment services	**469**	504	**238**	231	254
- credit and debit card fees	**355**	414	**174**	181	201
- lending (credit facilities)	**559**	650	**290**	269	339
- brokerage	**161**	166	**71**	90	81
- investment management	**162**	198	**80**	82	96
- trade finance	**126**	125	**62**	64	65
- other	**126**	186	**54**	72	90
Fees and commissions receivable	**1,958**	2,243	**969**	989	1,126
Fees and commissions payable	**(363)**	(475)	**(186)**	(177)	(244)
Net fees and commissions	**1,595**	1,768	**783**	812	882

Foreign exchange	**378**	810	**163**	215	347
Interest rate	**81**	435	**23**	58	284
Credit	**220**	76	**200**	20	(71)
Own credit adjustments	**210**	11	**115**	95	(84)
Other	**(14)**	118	**44**	(58)	52
Income from trading activities (1)	**875**	1,450	**545**	330	528
Gain on redemption of own debt	**-**	20	**-**	-	-
Operating lease and other rental income	**143**	178	**71**	72	87
Own credit adjustments	**78**	(62)	**53**	25	(106)
Changes in the fair value of FVTPL financial assets					
and liabilities and related derivatives (2)	**215**	29	**135**	80	9
Changes in fair value of investment properties	**(30)**	(43)	**(26)**	(4)	(31)
Profit on sale of:					
- securities	**(11)**	328	**18**	(29)	132
- property, plant and equipment	**47**	40	**34**	13	16
- subsidiaries, networks and associates	**(48)**	193	**14**	(62)	1
Dividend income	**50**	19	**8**	42	11
Share of profits less losses of associated undertakings	**73**	55	**39**	34	28
Other income	**(149)**	68	**(152)**	3	7
Other operating income	**368**	805	**194**	174	154
Total non-interest income	**2,838**	4,043	**1,522**	1,316	1,564
Total income	**7,256**	8,549	**3,737**	3,519	3,863

Notes:

(1) The analysis of income from trading activities is based on how the business is organised and the underlying risks managed. Income from trading activities comprises gains and losses on financial instruments held for trading, both realised and unrealised, interest income, dividends and the related hedging and funding costs in the trading book. Other includes equities & commodities. Comparative figures have been restated.

(2) Fair value through profit and loss.

Notes

4. Analysis of income, expenses and impairment losses (continued)

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Staff costs	**(2,855)**	(2,997)	**(1,530)**	(1,325)	(1,558)
Premises and equipment	**(745)**	(1,126)	**(326)**	(419)	(546)
Other (1)	**(2,366)**	(1,357)	**(1,027)**	(1,339)	(780)
Administrative expenses	**(5,966)**	(5,480)	**(2,883)**	(3,083)	(2,884)
Depreciation and amortisation	**(712)**	(466)	**(200)**	(512)	(237)
Write down of goodwill	**-**	(130)	**-**	-	(130)
Write down of other intangible assets	**(606)**	(82)	**(606)**	-	-
Operating expenses	**(7,284)**	(6,158)	**(3,689)**	(3,595)	(3,251)
Loan impairment releases/(losses)	**431**	(169)	**203**	228	113
Securities	**(110)**	4	**(11)**	(99)	11
Impairment releases/(losses)	**321**	(165)	**192**	129	124

Note:

(1) Includes PPI costs, Interest Rate Hedging Products redress and related costs and litigation and conduct costs - see Note 5 for further details.

5. Provisions for liabilities and charges

			Regulatory and legal actions					
			Other	**FX**	**Other**			
			customer	**investigations/**	**regulatory**		**Property**	
	PPI	**IRHP**	**redress**	**litigation**	**provisions**	**Litigation**	**and other**	**Total**

	£m	£m	£m (1)	£m	£m	£m	£m	£m
At 1 January 2015	799	424	580	320	183	1,805	663	4,774
Transfer	-	-	-	50	(50)	-	-	-
Currency translation and other								
movements	-	-	2	-	3	86	7	98
Charge to income statement (2)	100	-	257	334	-	176	76	943
Releases to income statement (2)	-	-	-	-	-	(4)	(56)	(60)
Provisions utilised	(110)	(103)	(50)	-	-	(11)	(87)	(361)
At 31 March 2015	789	321	789	704	136	2,052	603	5,394
Currency translation and other								
movements	-	-	(2)	(12)	(2)	(120)	87	(49)
Charge to income statement (2)	-	81	22	-	27	341	314	785
Releases to income statement (2)	-	(12)	(14)	-	-	(2)	(82)	(110)
Provisions utilised	(92)	(107)	(96)	(178)	(1)	(30)	(94)	(598)
At 30 June 2015	697	283	699	514	160	2,241	828	5,422

Notes:

(1) Closing provision primarily relates to investment advice and packaged accounts.
(2) Relates to continuing operations.

Notes

5. Provisions for liabilities and charges (continued)

Payment Protection Insurance (PPI)

No additional charge for PPI has been recognised in Q2 2015. A charge of £100 million was recognised in Q1 2015 as a result of a revision to expected customer complaint volumes. The cumulative charge in respect of PPI is £3.8 billion, of which £3.1 billion (82%) in redress and expenses had been utilised by 30 June 2015. Of the £3.8 billion cumulative charge, £3.5 billion relates to redress and £0.3 billion to administrative expenses.

The table below shows the sensitivity of the provision to changes in the principal assumptions (all other assumptions remaining the same).

			Sensitivity	
Assumption	**Actual to date**	**Current assumption**	**Change in assumption %**	**Consequential change in provision £m**
Single premium book past business review take-up rate	**53%**	**55%**	**+/-5**	**+/-55**
Uphold rate (1)	**91%**	**90%**	**+/-5**	**+/-15**
Average redress	**£1,689**	**£1,659**	**+/-5**	**+/-15**

Note:

(1) Uphold rate excludes claims where no PPI policy was held.

Interest payable on successful complaints has been included in the provision as has the estimated cost of administration. RBS expects the majority of the cash outflows associated with the remaining provision to have occurred by Q2 2016. 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 relating 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.

Interest Rate Hedging Products (IRHP) redress and related costs

Following an industry-wide review conducted in conjunction with the Financial Services Authority (now being dealt with by the Financial Conduct Authority (FCA)), RBS agreed to provide redress to customers in relation to certain interest rate hedging products sold to small and medium-sized businesses classified as retail clients under FSA rules. An additional net charge of £69 million has been recognised in Q2 2015, principally reflecting a marginal increase in our redress experience compared to expectations and the cost of a small number of consequential loss claims over and above interest offered as part of basic redress. We have now agreed outcomes with the independent reviewer on all cases. A cumulative charge of £1.5 billion has been recognised of which £1.2 billion relates to redress and £0.3 billion relates to administrative expenses. We continue to monitor the level of provision given the remaining uncertainties over the eventual cost of redress, including the cost of consequential loss claims.

Notes

5. Provisions for liabilities and charges (continued)

Regulatory and legal actions

RBS is party to certain legal proceedings and regulatory and governmental 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. Additional charges of £1.2 billion in H1 2015 include anticipated costs following investigations into the foreign exchange market (£334 million), provisions in respect of mortgage-backed securities related litigation (£506 million), provisions relating to packaged accounts (£157 million) and other conduct provisions (£160 million).

6. Pensions

Pension costs for H1 2015 amounted to £286 million (H1 2014 - £279 million; Q2 2015 - £138 million; Q1 2015 - £148 million; Q2 2014 - £137 million). Defined benefit schemes' charges are based on the actuarially determined pension cost rates at 31 December 2014.

In May 2014, the triennial funding valuation of The Royal Bank of Scotland Group Pension Fund was agreed which showed that the value of the liabilities exceeded the value of assets by £5.6 billion at 31 March 2013, a ratio of 82%. To eliminate this deficit, RBS will pay annual contributions of £650 million from 2014 to 2016 and £450 million (indexed in line with inflation) from 2017 to 2023. These contributions are in addition to regular annual contributions of approximately £270 million in respect of the ongoing accrual of benefits as well as contributions to meet the expenses of running the scheme.

Full details of RBS's pension arrangements are set out in Note 4 on pages 358 to 363 of the 2014 Annual Report on Form 20-F.

Notes

7. Loan impairment provisions and risk elements in lending

Operating profit is stated after net loan impairment releases from continuing operations of £431 million for the half year ended 30 June 2015 (H1 2014 - £169 million losses). The balance sheet loan impairment provisions decreased in the half year ended 30 June 2015 from £17,500 million to £10,751 million and the movements thereon were:

	Half year ended						
	30 June 2015				30 June 2014		
	RBS excl. RCR	**RCR**	**Total**		RBS excl. RCR	RCR	Total
	£m	**£m**	**£m**		£m	£m	£m
At beginning of period	**6,554**	**10,946**	**17,500**		8,716	16,500	25,216
Transfers to disposal groups	**(20)**	**-**	**(20)**				
Currency translation and other adjustments	**(212)**	**(466)**	**(678)**		(118)	(395)	(513)
Amounts written-off	**(634)**	**(4,981)**	**(5,615)**		(868)	(1,619)	(2,487)
Recoveries of amounts previously written-off	**57**	**22**	**79**		84	14	98
(Releases)/charges to income statement							
- continuing operations	**(76)**	**(355)**	**(431)**		188	(19)	169
- discontinued operations	**-**	**-**	**-**		102	-	102
Unwind of discount (recognised in interest income)	**(59)**	**(25)**	**(84)**		(63)	(76)	(139)
At end of period	**5,610**	**5,141**	**10,751**		8,041	14,405	22,446

	Quarter ended										
	30 June 2015				31 March 2015				30 June 2014		
	RBS excl. RCR	**RCR**	**Total**		RBS excl. RCR	RCR	Total		RBS excl. RCR	RCR	Total
	£m	**£m**	**£m**		£m	£m	£m		£m	£m	£m
At beginning of period	**6,031**	**7,170**	**13,201**		6,554	10,946	17,500		8,516	15,719	24,235
Transfers to disposal groups	**-**	**-**	**-**		(20)	-	(20)		-	-	-

Currency translation and other											
adjustments	**(49)**	**(59)**	**(108)**		(163)	(407)	(570)		(75)	(333)	(408)
Amounts written-off	**(353)**	**(1,776)**	**(2,129)**		(281)	(3,205)	(3,486)		(447)	(827)	(1,274)
Recoveries of amounts previously											
written-off	**18**	**11**	**29**		39	11	50		43	3	46
(Releases)/charges to income statement											
- continuing operations	**(8)**	**(195)**	**(203)**		(68)	(160)	(228)		7	(125)	(118)
- discontinued operations	**-**	**-**	**-**		-	-	-		29	-	29
Unwind of discount											
(recognised in interest income)	**(29)**	**(10)**	**(39)**		(30)	(15)	(45)		(32)	(32)	(64)
At end of period	**5,610**	**5,141**	**10,751**		6,031	7,170	13,201		8,041	14,405	22,446

Provisions at 30 June 2015 include £26 million in respect of loans and advances to banks (31 March 2015 - £38 million; 31 December 2014 - £40 million; 30 June 2014 - £50 million).

Notes

7. Loan impairment provisions and risk elements in lending (continued)

Risk elements in lending (REIL) comprise impaired loans and accruing loans past due 90 days or more as to principal or interest. Impaired loans are all loans (including loans subject to forbearance) for which an impairment provision has been established; for collectively assessed loans, impairment loss provisions are not allocated to individual loans and the entire portfolio is included in impaired loans. Accruing loans past due 90 days or more comprise loans past due 90 days where no impairment loss is expected.

REIL decreased by £9,430 million in the half year ended 30 June 2015 to £17,454 million and the movements thereon were:

	Half year ended						
	30 June 2015				30 June 2014		
	RBS excl. RCR	**RCR**	**Total**		RBS excl. RCR	RCR	Total
	£m	**£m**	**£m**		£m	£m	£m
At beginning of period	**11,484**	**15,400**	**26,884**		15,276	24,116	39,392
Transfer to disposals groups	**(22)**	**-**	**(22)**		-	-	-
Currency translation and other adjustments	**(407)**	**(784)**	**(1,191)**		(167)	(658)	(825)
Additions	**1,478**	**692**	**2,170**		2,273	1,887	4,160
Transfers (1)	**(116)**	**(5)**	**(121)**		(121)	52	(69)
Transfer to performing book	**(296)**	**(28)**	**(324)**		(111)	(74)	(185)
Repayments and disposals	**(1,429)**	**(2,898)**	**(4,327)**		(2,629)	(3,276)	(5,905)
Amounts written-off	**(634)**	**(4,981)**	**(5,615)**		(868)	(1,619)	(2,487)
At end of period	**10,058**	**7,396**	**17,454**		13,653	20,428	34,081

	Quarter ended										
	30 June 2015				31 March 2015				30 June 2014		
	RBS excl. RCR	**RCR**	**Total**		RBS excl. RCR	RCR	Total		RBS excl. RCR	RCR	Total
	£m	**£m**	**£m**		£m	£m	£m		£m	£m	£m

At beginning of period	**10,658**	**10,225**	**20,883**		11,484	15,400	26,884		14,351	23,002	37,353
Transfer to disposal groups	-	-	-		(22)	-	(22)		-	-	-
Currency translation and											
other adjustments	**(88)**	**(191)**	**(279)**		(319)	(593)	(912)		(102)	(560)	(662)
Additions	**766**	**320**	**1,086**		712	372	1,084		810	564	1,374
Transfers (1)	**(64)**	**(5)**	**(69)**		(52)	-	(52)		(65)	36	(29)
Transfer to performing book	**(152)**	**(12)**	**(164)**		(144)	(16)	(160)		(8)	(71)	(79)
Repayments and disposals	**(709)**	**(1,165)**	**(1,874)**		(720)	(1,733)	(2,453)		(886)	(1,716)	(2,602)
Amounts written-off	**(353)**	**(1,776)**	**(2,129)**		(281)	(3,205)	(3,486)		(447)	(827)	(1,274)
At end of period	**10,058**	**7,396**	**17,454**		10,658	10,225	20,883		13,653	20,428	34,081

Note:

(1) Represents transfers between REIL and potential problem loans.

Provision coverage of REIL was 62% at 30 June 2015 (31 March 2015 - 63%; 31 December 2014 - 65%; 30 June 2014 - 66%).

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Notes

8. Tax

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 20.25% (2014 - 21.5%), as analysed below.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
	£m	£m		**£m**	£m	£m
Profit before tax	**293**	2,226		**240**	53	736
Expected tax charge	**(59)**	(478)		**(48)**	(11)	(158)
Losses and temporary differences in period where no						
deferred tax asset recognised	**(369)**	(9)		**(182)**	(187)	-
Foreign profits taxed at other rates	**165**	(38)		**84**	81	(2)
Non-deductible goodwill impairment	**(25)**	(28)		**-**	(25)	(28)
Items not allowed for tax						
- losses on disposals and write-downs	**(9)**	(5)		**(2)**	(7)	(5)
- UK bank levy	**(28)**	(30)		**(14)**	(14)	(11)
- regulatory and legal actions	**(72)**	-		**(5)**	(67)	-
- other disallowable items	**(51)**	(69)		**(24)**	(27)	(41)
Non-taxable items						
- gain on sale of Direct Line Insurance Group	**-**	41		**-**	-	-
- other non-taxable items	**37**	13		**16**	21	5
Taxable foreign exchange movements	**12**	4		**7**	5	3
Losses brought forward and utilised	**57**	45		**14**	43	9
Reduction in carrying value of deferred tax asset						
in respect of US losses and temporary differences	**-**	(76)		**-**	-	(76)
Adjustments in respect of prior periods	**49**	38		**54**	(5)	26
Actual tax charge	**(293)**	(592)		**(100)**	(193)	(278)

At 30 June 2015, the Group has recognised a deferred tax asset of £1,479 million (31 March 2015 - £1,430 million; 31 December 2014 - £1,540 million) and a deferred tax liability of £363 million (31 March 2015 - £381 million; 31 December 2014 - £500 million). These include amounts recognised in respect of UK trading losses of £1,229 million (31 March 2015 - £1,170 million; 31 December 2014 - £1,257 million). Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 30 June 2015 and concluded that it is recoverable based on future profit projections (see also Recent developments on page 124).

9. Profit/(loss) attributable to non-controlling interests

	Half year ended		Quarter ended		
	30 June 2015	30 June 2014	**30 June 2015**	31 March 2015	30 June 2014
	£m	£m	**£m**	£m	£m
RFS Holdings BV Consortium Members	**53**	38	**28**	25	21
Citizens Financial Group	**290**	-	**399**	(109)	-
Other	**1**	4	**1**	-	2
Profit/(loss) attributable to non-controlling interests	**344**	42	**428**	(84)	23

10. Dividends

In the context of macro-prudential policy discussions, the Board decided to partially neutralise any impact on CET1 capital of coupon and dividend payments for 2014 and 2015. £300 million of new equity was issued during the course of 2014 and £150 million of new equity has been issued in the first half of 2015. The Board intends to issue £300 million of new equity in total during 2015 to achieve this aim.

Notes

11. Earnings per ordinary and equivalent B share

Following agreement between RBS and HM Treasury in 2014 for the retirement of the Dividend Access Share (DAS), earnings per share for periods ended after 25 June 2014 only reflect DAS dividends recognised before the end of a reporting period: £320 million was recognised in the quarter ended 30 June 2014.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2015	2014		**2015**	2015	2014
Earnings						
(Loss)/profit from continuing operations attributable						
to ordinary and B shareholders (£m)	**(217)**	1,123		**18**	(235)	34
Profit/(loss) from discontinued operations attributable to						
ordinary and B shareholders (£m)	**64**	302		**275**	(211)	196
(Loss)/profit attributable to ordinary and B						
shareholders (£m)	**(153)**	1,425		**293**	(446)	230
Ordinary shares outstanding during the period (millions)	**6,381**	6,208		**6,411**	6,351	6,235
Equivalent B shares in issue during the period (millions)	**5,100**	5,100		**5,100**	5,100	5,100
Weighted average number of ordinary						
shares and equivalent B shares outstanding						
during the period (millions)	**11,481**	11,308		**11,511**	11,451	11,335
Effect of dilutive share options and convertible						
securities (millions)	**59**	97		**48**	71	89
Diluted weighted average number of ordinary						
shares and equivalent B shares outstanding						
during the period (millions)	**11,540**	11,405		**11,559**	11,522	11,424

Basic (loss)/earnings per ordinary and equivalent B share (EPS)						
Basic EPS from continuing operations	**(1.9p)**	9.9p		**0.2p**	(2.1p)	0.3p
Basic EPS from discontinued operations	**0.6p**	2.7p		**2.3p**	(1.8p)	1.7p
Basic EPS from continuing and discontinued operations	**(1.3p)**	12.6p		**2.5p**	(3.9p)	2.0p
Basic EPS from continuing operations	**(1.9p)**	9.9p		**0.2p**	(2.1p)	0.3p
Own credit adjustments	**(2.0p)**	0.4p		**(1.1p)**	(0.8p)	1.3p
Gain on redemption of own debt	**-**	(0.2p)		**-**	-	-
Write down of goodwill	**-**	1.1p		**-**	-	1.1p
Strategic disposals	**1.2p**	(1.7p)		**-**	1.2p	-
Adjusted EPS from continuing operations	**(2.7p)**	9.5p		**(0.9p)**	(1.7p)	2.7p

Note:

(1) Diluted EPS for continuing and discontinued operations for the half year ended 30 June 2014 was 0.1p lower than basic EPS. There was no dilutive impact in any other period.

Notes

12. Segmental analysis

The business is organised into three franchises:

Personal & Business Banking (PBB), comprising two reportable segments, UK Personal & Business Banking, including Williams & Glyn, (UK PBB) and Ulster Bank.

Commercial & Private Banking (CPB), comprising two reportable segments, Commercial Banking and Private Banking.

Corporate & Institutional Banking (CIB), which is a single reportable segment.

In addition, RBS will continue to manage and report Citizens Financial Group and RBS Capital Resolution (RCR) separately until disposal or wind-down.

Analysis of operating profit

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

Half year ended 30 June 2015	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment releases (losses)/ £m	Operating profit/(loss) £m
UK Personal & Business Banking	**2,290**	**631**	**2,921**	**(1,923)**	**17**	**1,015**
Ulster Bank	**265**	**103**	**368**	**(289)**	**52**	**131**
Personal & Business Banking	**2,555**	**734**	**3,289**	**(2,212)**	**69**	**1,146**
Commercial Banking	**1,108**	**606**	**1,714**	**(875)**	**(27)**	**812**
Private Banking	**254**	**167**	**421**	**(474)**	**3**	**(50)**
Commercial & Private Banking	**1,362**	**773**	**2,135**	**(1,349)**	**(24)**	**762**
Corporate & Institutional Banking	**376**	**948**	**1,324**	**(3,430)**	**31**	**(2,075)**

Central items	**150**	**43**	**193**	**(192)**	**(48)**	**(47)**
Citizens Financial Group	**1,104**	**490**	**1,594**	**(1,019)**	**(89)**	**486**
RCR	**(25)**	**190**	**165**	**(101)**	**293**	**357**
Non-statutory basis	**5,522**	**3,178**	**8,700**	**(8,303)**	**232**	**629**
Reconciling items:						
Own credit adjustments	**-**	**288**	**288**	**-**	**-**	**288**
Strategic disposals	**-**	**(135)**	**(135)**	**-**	**-**	**(135)**
Citizens discontinued operations (1)	**(1,104)**	**(493)**	**(1,597)**	**1,019**	**89**	**(489)**
Statutory basis	**4,418**	**2,838**	**7,256**	**(7,284)**	**321**	**293**

Note:

(1) Included within Citizens discontinued operations are the results of the reportable operating segment of Citizens Financial Group (CFG) and certain CFG related activities in Central items and other items.

Notes

12. Segmental analysis (continued)

Half year ended 30 June 2014	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ releases £m	Operating profit/(loss) £m
UK Personal & Business Banking	2,276	686	2,962	(1,820)	(148)	994
Ulster Bank	323	89	412	(300)	(57)	55
Personal & Business Banking	2,599	775	3,374	(2,120)	(205)	1,049
Commercial Banking	999	569	1,568	(902)	(31)	635
Private Banking	344	201	545	(400)	-	145
Commercial & Private Banking	1,343	770	2,113	(1,302)	(31)	780
Corporate & Institutional Banking	365	2,062	2,427	(2,158)	39	308
Central items	203	146	349	(270)	12	91
Citizens Financial Group	987	620	1,607	(1,082)	(104)	421
RCR	(1)	109	108	(176)	20	(48)
Non-statutory basis	5,496	4,482	9,978	(7,108)	(269)	2,601
Reconciling items:						
Own credit adjustments	-	(51)	(51)	-	-	(51)
Gain on redemption of own debt	-	20	20	-	-	20
Write down of goodwill	-	-	-	(130)	-	(130)
Strategic disposals	-	191	191	-	-	191
Citizens discontinued operations (1)	(987)	(624)	(1,611)	1,081	104	(426)
RFS Holdings minority interest	(3)	25	22	(1)	-	21
Statutory basis	4,506	4,043	8,549	(6,158)	(165)	2,226

Note:

(1) Included within Citizens discontinued operations are the results of the reportable operating segment of Citizens Financial Group (CFG) and certain CFG related activities in Central items and other items.

Notes

12. Segmental analysis (continued)

Quarter ended 30 June 2015	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ releases £m	Operating profit/(loss) £m
UK Personal & Business Banking	1,147	322	1,469	(793)	(9)	667
Ulster Bank	132	46	178	(150)	52	80
Personal & Business Banking	1,279	368	1,647	(943)	43	747
Commercial Banking	562	330	892	(466)	(26)	400
Private Banking	126	81	207	(287)	2	(78)
Commercial & Private Banking	688	411	1,099	(753)	(24)	322
Corporate & Institutional Banking	174	346	520	(1,841)	(13)	(1,334)
Central items	88	173	261	(99)	2	164
Citizens Financial Group	551	246	797	(517)	(51)	229
RCR	(14)	59	45	(53)	184	176
Non-statutory basis	2,766	1,603	4,369	(4,206)	141	304
Reconciling items:						
Own credit adjustments	-	168	168	-	-	168
Citizens discontinued operations (1)	(551)	(249)	(800)	517	51	(232)
Statutory basis	2,215	1,522	3,737	(3,689)	192	240

Note:

(1) Included within Citizens discontinued operations are the results of the reportable operating segment of Citizens Financial Group (CFG) and certain CFG related activities in Central items and other items.

Notes

12. Segmental analysis (continued)

Quarter ended 31 March 2015	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment releases/ (losses) £m	Operating profit/(loss) £m
UK Personal & Business Banking	1,143	309	1,452	(1,130)	26	348
Ulster Bank	133	57	190	(139)	-	51
Personal & Business Banking	1,276	366	1,642	(1,269)	26	399
Commercial Banking	546	276	822	(409)	(1)	412
Private Banking	128	86	214	(187)	1	28
Commercial & Private Banking	674	362	1,036	(596)	-	440
Corporate & Institutional Banking	202	602	804	(1,589)	44	(741)
Central items	62	(130)	(68)	(93)	(50)	(211)
Citizens Financial Group	553	244	797	(502)	(38)	257
RCR	(11)	131	120	(48)	109	181
Non-statutory basis	2,756	1,575	4,331	(4,097)	91	325
Reconciling items:						
Own credit adjustments	-	120	120	-	-	120
Strategic disposals	-	(135)	(135)	-	-	(135)
Citizens discontinued operations (1)	(553)	(244)	(797)	502	38	(257)
Statutory basis	2,203	1,316	3,519	(3,595)	129	53

Note:

(1) Included within Citizens discontinued operations are the results of the reportable operating segment of Citizens Financial Group (CFG) and certain CFG related activities in Central items and other items.

Notes

12. Segmental analysis (continued)

Quarter ended 30 June 2014	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/releases £m	Operating profit/(loss) £m
UK Personal & Business Banking	1,152	347	1,499	(955)	(60)	484
Ulster Bank	169	42	211	(155)	(10)	46
Personal & Business Banking	1,321	389	1,710	(1,110)	(70)	530
Commercial Banking	511	287	798	(493)	9	314
Private Banking	174	98	272	(201)	(1)	70
Commercial & Private Banking	685	385	1,070	(694)	8	384
Corporate & Institutional Banking	186	890	1,076	(1,146)	45	(25)
Central items	100	44	144	(71)	13	86
Citizens Financial Group	499	391	890	(582)	(31)	277
RCR	7	28	35	(97)	128	66
Non-statutory basis	2,798	2,127	4,925	(3,700)	93	1,318
Reconciling items:						
Own credit adjustments	-	(190)	(190)	-	-	(190)
Write-down of goodwill	-	-	-	(130)	-	(130)
Citizens discontinued operations (1)	(499)	(385)	(884)	579	31	(274)
RFS Holdings minority interest	-	12	12	-	-	12
Statutory basis	2,299	1,564	3,863	(3,251)	124	736

Note:

(1) Included within Citizens discontinued operations are the results of the reportable operating segment of Citizens Financial Group (CFG) and certain CFG related activities in Central items and other

items.

Notes

12. Segmental analysis (continued)

Total revenue							
	Half year ended						
	30 June 2015				30 June 2014		
		Inter				Inter	
	External	**segment**	**Total**		External	segment	Total
	£m	**£m**	**£m**		£m	£m	£m
UK Personal & Business Banking	**3,483**	**2**	**3,485**		3,583	7	3,590
Ulster Bank	**388**	**31**	**419**		408	40	448
Personal & Business Banking	**3,871**	**33**	**3,904**		3,991	47	4,038
Commercial Banking	**1,782**	**102**	**1,884**		1,729	13	1,742
Private Banking	**397**	**122**	**519**		470	258	728
Commercial & Private Banking	**2,179**	**224**	**2,403**		2,199	271	2,470
Corporate & Institutional Banking	**1,715**	**1,585**	**3,300**		3,033	2,028	5,061
Central items	**1,049**	**1,665**	**2,714**		1,200	2,051	3,251
Citizens Financial Group	**1,754**	**5**	**1,759**		1,724	5	1,729
RCR	**321**	**100**	**421**		443	254	697
Non-statutory basis	**10,889**	**3,612**	**14,501**		12,590	4,656	17,246
Reconciling items:							
Own credit adjustments	**288**	**-**	**288**		(51)	-	(51)
Gain on redemption of own debt	**-**	**-**	**-**		20	-	20
Strategic disposals	**(135)**	**-**	**(135)**		191	-	191
Citizens discontinued operations	**(1,733)**	**-**	**(1,733)**		(1,713)	-	(1,713)
RFS Holdings minority interest	**-**	**-**	**-**		25	-	25
Elimination of intra-group transactions	**-**	**(3,612)**	**(3,612)**		-	(4,656)	(4,656)
Statutory basis	**9,309**	**-**	**9,309**		11,062	-	11,062

	Quarter ended		
	30 June 2015	31 March 2015	30 June 2014

	External	Inter segment	Total		External	Inter segment	Total		External	Inter segment	Total
	£m	£m	£m		£m	£m	£m		£m	£m	£m
UK Personal & Business Banking	**1,754**	**-**	**1,754**		1,729	2	1,731		1,806	3	1,809
Ulster Bank	**191**	**13**	**204**		197	18	215		210	20	230
Personal & Business Banking	**1,945**	**13**	**1,958**		1,926	20	1,946		2,016	23	2,039
Commercial Banking	**925**	**49**	**974**		857	53	910		875	(18)	857
Private Banking	**196**	**58**	**254**		201	64	265		234	127	361
Commercial & Private Banking	**1,121**	**107**	**1,228**		1,058	117	1,175		1,109	109	1,218
Corporate & Institutional Banking	**699**	**749**	**1,448**		1,016	836	1,852		1,383	1,128	2,511
Central items	**683**	**787**	**1,470**		366	878	1,244		552	1,019	1,571
Citizens Financial Group	**877**	**3**	**880**		877	2	879		947	2	949
RCR	**117**	**40**	**157**		204	60	264		193	97	290
Non-statutory basis	**5,442**	**1,699**	**7,141**		5,447	1,913	7,360		6,200	2,378	8,578
Reconciling items:											
Own credit adjustments	**168**	**-**	**168**		120	-	120		(190)	-	(190)
Strategic disposals	**-**	**-**	**-**		(135)	-	(135)		-	-	-
Citizens discontinued operations	**(870)**	**-**	**(870)**		(863)	-	(863)		(934)	-	(934)
RFS Holdings minority interest	**-**	**-**	**-**		-	-	-		11	-	11
Elimination of intra-group transactions	**-**	**(1,699)**	**(1,699)**		-	(1,913)	(1,913)		-	(2,378)	(2,378)
Statutory basis	**4,740**	**-**	**4,740**		4,569	-	4,569		5,087	-	5,087

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Notes

12. Segmental analysis (continued)

	30 June 2015			31 March 2015			31 December 2014	
	Assets	**Liabilities**		Assets	Liabilities		Assets	Liabilities
	£m	**£m**		£m	£m		£m	£m
UK Personal & Business Banking	**135,368**	**153,125**		134,630	150,406		134,257	150,481
Ulster Bank	**26,547**	**22,404**		26,641	23,044		27,596	24,657
Personal & Business Banking	**161,915**	**175,529**		161,271	173,450		161,853	175,138
Commercial Banking	**94,519**	**99,242**		93,296	101,278		89,382	88,987
Private Banking	**16,977**	**30,290**		17,873	30,161		20,480	36,793
Commercial & Private Banking	**111,496**	**129,532**		111,169	131,439		109,862	125,780
Corporate & Institutional Banking	**482,448**	**451,801**		623,771	583,766		577,230	536,243
Central items	**105,130**	**65,431**		93,803	66,381		86,947	69,394
Citizens Financial Group	**87,176**	**73,475**		91,798	77,300		84,932	71,258
RCR	**16,536**	**7,164**		22,800	9,995		29,030	12,683
RFS Holdings minority interest	**-**	**-**		-	-		909	75
Statutory basis	**964,701**	**902,932**		1,104,612	1,042,331		1,050,763	990,571

Notes

13. Discontinued operations and assets and liabilities of disposal groups

In accordance with a commitment to the European Commission to sell Citizens Financial Group, Inc. (Citizens) by 31 December 2016, RBS disposed of 29.5% of its interest in Citizens during the second half of 2014 primarily through an initial public offering in the USA and a further 28.4% in March 2015. RBS plans to cede control by the end of 2015 and therefore, in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', Citizens is presented with effect from 31 December 2014 as a discontinued operation, with comparatives re-presented, and as a disposal group.

Other discontinued operations represents the results of RFS Holdings attributable to the State of the Netherlands and Santander following the legal separation of ABN AMRO Bank N.V. on 1 April 2010.

(a) Profit/(loss) from discontinued operations, net of tax					
	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2015	2014	**2015**	2015	2014
	£m	£m	**£m**	£m	£m
Citizens					
Interest income	**1,222**	1,077	**612**	610	542
Interest expense	**(118)**	(90)	**(61)**	(57)	(43)
Net interest income	**1,104**	987	**551**	553	499
Other income	**527**	624	**249**	278	385
Total income	**1,631**	1,611	**800**	831	884
Operating expenses	**(1,019)**	(1,081)	**(517)**	(502)	(579)
Profit before impairment losses	**612**	530	**283**	329	305
Impairment losses	**(89)**	(104)	**(51)**	(38)	(31)
Operating profit before tax	**523**	426	**232**	291	274
Tax charge	**(179)**	(141)	**(75)**	(104)	(93)

Profit after tax	**344**	285		**157**	187	181
Reversal/(provision) for loss on disposal (1,2)	**10**	-		**517**	(507)	-
Profit/(loss) from Citizens discontinued operations,						
net of tax	**354**	285		**674**	(320)	181
Other						
Total income	**11**	12		**4**	7	6
Operating expenses	**(2)**	(1)		**(2)**	**-**	**-**
Operating profit before tax	**9**	11		**2**	7	6
Tax charge	**(5)**	(5)		**(2)**	(3)	(3)
Profit after tax	**4**	6		**-**	4	3
Businesses acquired exclusively with a view to disposal						
Profit after tax	**-**	29		**-**	-	23
Profit from other discontinued operations, net of tax	**4**	35		**-**	4	26

Notes:

(1) Gains in H1 2015 and Q2 2015 on remeasurement to fair value less costs to sell (fair value hierarchy 2: based on the quoted price of Citizens' shares) have been restricted: reversal of goodwill impairment (£368 million) have not been recognised.

(2) Of which attributable to owners equity £146 million loss (Q2 2015 - £211 million gain, Q1 2015 - £357 million loss).

Notes

13. Discontinued operations and assets and liabilities of disposal groups (continued)

(b) Assets and liabilities of disposal groups				
	30 June 2015			31 December
	Citizens	**Other**	**Total**	2014
	£m	**£m**	**£m**	£m
Assets of disposal groups				
Cash and balances at central banks	**523**	**319**	**842**	622
Loans and advances to banks	**1,438**	**1,290**	**2,728**	1,745
Loans and advances to customers	**61,428**	**3,083**	**64,511**	60,550
Debt securities and equity shares	**16,027**	**741**	**16,768**	15,865
Derivatives	**399**	**29**	**428**	402
Intangible assets	**657**	**95**	**752**	583
Settlement balances	**598**	**-**	**598**	-
Property, plant and equipment	**527**	**82**	**609**	549
Other assets	**1,774**	**61**	**1,835**	1,695
Discontinued operations and other disposal groups	**83,371**	**5,700**	**89,071**	82,011
Liabilities of disposal groups				
Deposits by banks	**6,399**	**17**	**6,416**	6,794
Customer accounts	**64,258**	**6,700**	**70,958**	61,289
Debt securities in issue	**1,178**	**-**	**1,178**	1,625
Derivatives	**163**	**28**	**191**	144
Subordinated liabilities	**226**	**-**	**226**	226
Other liabilities	**1,292**	**127**	**1,419**	1,242
Discontinued operations and other disposal groups	**73,516**	**6,872**	**80,388**	71,320

Other disposal groups at 30 June 2015 includes and the international private banking business (fair value less costs to sell reflects the agreed sale to Union Bancaire Priveé: fair value hierarchy 3) along with some remaining elements of the RBS N.V. business.

Disposal groups at 31 December 2014 includes Citizens along with some remaining elements of the RBS N.V. business.

(c) Financial instruments: Classification and valuation hierarchy

At 30 June 2015 and 31 December 2014 the fair values of disposal group financial instruments not measured at fair value aggregated at the level of balance sheet caption were not materially different from their carrying values; fair value measurements for those financial instruments of disposal groups measured at fair value were categorised as level 2.

Notes

14. Financial instruments

Classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 with assets and liabilities outside the scope of IAS 39 shown separately.

								Non	
	Financial instruments							financial	
						Amortised	Finance	assets/	
	HFT (1)	DFV (2)	AFS (3)	LAR (4)	HTM (5)	cost	leases	liabilities	Total
30 June 2015	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central banks	-	-	-	81,900	-				81,900
Loans and advances to banks									
- reverse repos	15,076	-	-	5,731	-				20,807
- other	10,149	-	-	10,565	-				20,714
Loans and advances to customers									
- reverse repos	45,767	-	-	1,032	-				46,799
- other	18,706	61	-	292,377	-		3,849		314,993
Debt securities	39,476	110	29,757	2,912	4,932				77,187
Equity shares	2,730	285	348						3,363
Settlement balances	-	-	-	9,630	-				9,630
Derivatives	281,857								281,857
Intangible assets								7,198	7,198
Property, plant and equipment								4,874	4,874
Deferred tax								1,479	1,479
Prepayments, accrued income and									
other assets	-	-	-	-	-	-	-	4,829	4,829
								89,071	89,071

Assets of disposal groups									
	413,761	**456**	**30,105**	**404,147**	**4,932**		**3,849**	**107,451**	**964,701**
Liabilities									
Deposits by banks									
- repos	**18,021**	**-**				**3,591**			**21,612**
- other	**22,262**	**-**				**8,716**			**30,978**
Customer accounts									
- repos	**42,296**	**-**				**2,454**			**44,750**
- other	**12,887**	**3,936**				**325,200**			**342,023**
Debt securities in issue	**4,272**	**7,763**				**29,784**			**41,819**
Settlement balances	**-**	**-**				**7,335**			**7,335**
Short positions	**24,561**	**-**							**24,561**
Derivatives	**273,589**								**273,589**
Accruals, deferred income and						**1,867**	**-**	**12,095**	**13,962**
other liabilities									
Retirement benefit liabilities								**1,869**	**1,869**
Deferred tax	**-**							**363**	**363**
Subordinated liabilities	**-**	**771**				**18,912**			**19,683**
Liabilities of disposal groups								**80,388**	**80,388**
	397,888	**12,470**				**397,859**		**94,715**	**902,932**
Equity									**61,769**
									964,701

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

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Notes

14. Financial instruments: Classification (continued)

	Financial instruments							Non financial assets/	
	HFT (1)	DFV (2)	AFS (3)	LAR (4)	HTM (5)	Amortised cost	Finance leases	liabilities	Total
31 December 2014	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central banks	-	-	-	74,872	-				74,872
Loans and advances to banks									
- reverse repos	18,129	-	-	2,579	-				20,708
- other	11,773	-	-	11,254	-				23,027
Loans and advances to customers									
- reverse repos	43,018	-	-	969	-				43,987
- other	23,038	61	-	307,002	-		4,150		334,251
Debt securities	49,226	117	29,673	3,096	4,537				86,649
Equity shares	4,821	301	513	-	-				5,635
Settlement balances	-	-	-	4,667	-				4,667
Derivatives	353,590								353,590
Intangible assets								7,781	7,781
Property, plant and equipment								6,167	6,167
Deferred tax								1,540	1,540
Prepayments, accrued income and									
other assets	-	-	-	-	-	-		5,878	5,878
Assets of disposal groups								82,011	82,011
	503,595	479	30,186	404,439	4,537		4,150	103,377	1,050,763
Liabilities									
Deposits by banks									
- repos	23,990	-				869			24,859

- other	26,118	-				9,688			35,806
Customer accounts									
- repos	35,985	-				1,366			37,351
- other	15,308	4,731				334,249			354,288
Debt securities in issue	6,490	10,216				33,574			50,280
Settlement balances	-	-				4,503			4,503
Short positions	23,029	-							23,029
Derivatives	349,805								349,805
Accruals, deferred income and other liabilities						1,801	-	11,545	13,346
Retirement benefit liabilities	-							2,579	2,579
Deferred tax								500	500
Subordinated liabilities	-	863				22,042			22,905
Liabilities of disposal groups								71,320	71,320
	480,725	15,810				408,092		85,944	990,571
Equity									60,192
									1,050,763

Notes:

(1) Held-for-trading.
(2) Designated as at fair value.
(3) Available-for-sale.
(4) Loans and receivables.
(5) Held-to-maturity.

Apart from the reclassification of £3.6 billion of Treasury debt securities from AFS to HTM in Q1 2014, there were no other reclassifications in either the half year ended 30 June 2015 or the year ended 31 December 2014.

Notes

14. Financial instruments (continued)

Valuation reserves

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk. The table below shows credit valuation adjustments (CVA) and other valuation reserves. CVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate the risk inherent in derivative exposures.

	30 June 2015	31 December 2014
	£m	£m
Credit valuation adjustments	998	1,414
Other valuation reserves		
- bid-offer	326	398
- funding valuation adjustment	716	718
- product and deal specific	639	657
	1,681	1,773
Valuation reserves	2,679	3,187

Own credit

The cumulative own credit adjustment (OCA) recorded on held-for-trading (HFT) and designated as at fair value through profit or loss (DFV) debt securities in issue, subordinated liabilities and derivative liabilities are set out below.

	Debt securities in issue (2)			Subordinated liabilities			
Cumulative OCA (CR)/DR (1)	HFT	DFV	Total	DFV	Total	Derivatives	Total (3)
	£m	£m	£m	£m	£m	£m	£m

30 June 2015	**(223)**	**(23)**	**(246)**	**182**	**(64)**	**57**	**(7)**
31 December 2014	(397)	(123)	(520)	221	(299)	12	(287)
30 June 2014	(395)	(87)	(482)	237	(245)	54	(191)
Carrying values of underlying liabilities	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**		
30 June 2015	**4.3**	**7.8**	**12.1**	**0.8**	**12.9**		
31 December 2014	6.5	10.4	16.9	0.9	17.8		
30 June 2014	7.3	13.0	20.3	0.8	21.1		

Notes:

(1) The OCA does not alter cash flows and is not used for performance management.
(2) Includes wholesale and retail note issuances.
(3) The reserve movement between periods will not equate to the reported profit or loss for own credit. The balance sheet reserve is stated by conversion of underlying currency balances at spot rates for each period, whereas the income statement includes intra-period foreign exchange sell-offs.

Key points

- The decrease in CVA was driven by the tightening of credit spreads in the period, as well as the balance sheet reduction in RCR. The bid-offer reserve decrease was largely related to risk reduction in CIB Rates.

- The cumulative OCA increase during H1 2015 was mainly due to the widening of spreads on RBS senior issuance, partially offset by a reduction due to the subordinate debt curve tightening. The OCA on senior issued debt OCA is determined by reference to secondary debt issuance spreads, the five year spread widened from 32 basis points at year end 2014 to 77 basis points at 30 June 2015.

Notes

14. Financial instruments (continued)

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 2014 Annual Report on Form 20-F. There have been no material changes to valuation or levelling approaches in the half year ended 30 June 2015.

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 2015	**£bn**	**£bn**	**£bn**	**£bn**		**£m**	**£m**
Assets							
Loans and advances	**-**	**89.2**	**0.6**	**89.8**		**40**	**(40)**
Debt securities	**52.0**	**15.7**	**1.6**	**69.3**		**110**	**(50)**
Equity shares	**2.5**	**0.4**	**0.5**	**3.4**		**90**	**(80)**
Derivatives	**-**	**279.6**	**2.2**	**281.8**		**200**	**(210)**
	54.5	**384.9**	**4.9**	**444.3**		**440**	**(380)**
Proportion	**12.3%**	**86.6%**	**1.1%**	**100%**			
31 December 2014							
Assets							
Loans and advances	-	95.4	0.6	96.0		30	(30)
Debt securities	55.5	22.3	1.2	79.0		50	(40)
Equity shares	4.6	0.5	0.5	5.6		90	(80)
Derivatives	-	350.7	3.0	353.7		290	(290)
	60.1	468.9	5.3	534.3		460	(440)

Proportion	11.2%	87.8%	1.0%	100%			
30 June 2015							
Liabilities							
Deposits	**-**	**99.0**	**0.4**	**99.4**		**10**	**(20)**
Debt securities in issue	**-**	**11.3**	**0.7**	**12.0**		**20**	**(30)**
Short positions	**21.3**	**3.3**	**-**	**24.6**		**-**	**-**
Derivatives	**-**	**271.6**	**2.0**	**273.6**		**190**	**(190)**
Subordinated liabilities	**-**	**0.8**	**-**	**0.8**		**-**	**-**
	21.3	**386.0**	**3.1**	**410.4**		**220**	**(240)**
Proportion	**5.2%**	**94.1%**	**0.7%**	**100%**			
31 December 2014							
Liabilities							
Deposits	-	105.9	0.2	106.1		-	(10)
Debt securities in issue	-	15.5	1.2	16.7		40	(40)
Short positions	19.9	3.1	-	23.0		-	-
Derivatives	0.1	346.5	3.2	349.8		220	(240)
Subordinated liabilities	-	0.9	-	0.9		-	-
	20.0	471.9	4.6	496.5		260	(290)
Proportion	4.1%	95.0%	0.9%	100%			

Notes

14. Financial instruments (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, including CLOs, 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 and commercial mortgage loans, certain emerging markets instruments, unlisted equity shares, certain residual interests in securitisations, CDOs, other mortgage-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 by type of contract refer to Appendix 1 - Capital and risk management - Credit risk – Derivatives.

Valuation techniques

The table below shows a breakdown of valuation techniques and the ranges for those unobservable inputs used in valuation models and techniques that have a material impact on the valuation of Level 3 financial instruments.

	Level 3 (£bn)				Range	
Financial instruments	**Assets**	**Liabilities**	**Valuation technique**	**Unobservable inputs**	**Low**	**High**
Loans and advances	0.6					
			DFC based on recoveries	Loss severity (3)	2	80%
				Recovery rates (4)	26	85%
				Credit spreads(5)	110	1115bp
Debt securities	1.6					
			Price	Price (6)	0	129%
			DCF	Yield (6)	10	30%
Equity Securities	0.5					
			Fund valuation statement	Discount factor (7)	(10)	35%
			DCF based on recoveries	Recovery rates (4)	0	30%
Derivatives						
Credit	0.3	0.4	DCF based on recoveries	Recovery rates (4)	0	100%
				Credit spreads (5)	42	1010bps
Interest and foreign exchange contracts	1.9	1.6	Option pricing model	Correlation (8)	(46)	95%
				Volatility (9)	21	111%
				Price (6)	1	100%

Notes:

(1) The table excludes unobservable inputs where the impact on valuation is less significant. Movements in the underlying input may have a favourable or unfavourable impact on the valuation depending on the particular terms of the contract and the exposure. For example, an increase in the credit spread of a bond would be favourable for the issuer and unfavourable for the note holder. Whilst RBS indicates where it considers that there are significant relationships between the inputs, these inter-relationships will be affected by macro economic factors including interest rates, foreign exchange rates or equity index levels.

(2) Level 3 structured notes issued of £0.7 billion are not included in the table above as valuation is consistent with the valuation of the embedded derivative component.

(3) Loss severity : the loss severity rate of a defaulted instrument is the present value of its lifetime losses (both interest and principal losses) as a percentage of principal balance, measured at either the origination date or the default date

(4) Recovery rate: Reflects market expectations about the return of principal for a debt instrument or other obligations after a credit event or on liquidation. Recovery rates tend to move conversely to

credit spreads.

(5) Credit spreads and discount margins: Credit spreads and margins express the return required over a benchmark rate or index to compensate for the credit risk associated with a cash instrument. A higher credit spread would indicate that the underlying instrument has more credit risk associated with it. Consequently, investors require a higher yield to compensate for the higher risk. The discount rate comprises credit spread or margin plus the benchmark rate; it is used to value future cash flows

(6) Price and yield: There may be a range of prices used to value an instrument that may be a direct comparison of one instrument or portfolio with another or, movements in a more liquid instrument may be used to indicate the movement in the value of a less liquid instrument. The comparison may also be indirect in that adjustments are made to the price to reflect differences between the pricing source and the instrument being valued, for example different maturity, credit quality, seniority or expected pay-outs. Similarly to price, an instrument's yield may be compared with other instruments' yields either directly or indirectly. Prices move inversely to yields

(7) Discount factor: as used in risk and return models which presume that the marginal investors in the company are diversified. Such is not usually the case for private equity investments. This risk is measured with a beta or betas, usually estimated by looking at past prices or returns from valuation statements.

(8) Correlation: Measures the degree by which two prices or other variables are observed to move together. If they move in the same direction there is positive correlation; if they move in opposite directions there is negative correlation. Correlations typically include relationships between: default probabilities of assets in a basket (a group of separate assets), exchange rates, interest rates and other financial variables.

(9) Volatility: A measure of the tendency of a price to change with time.

(10) RBS does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

Notes

14. Financial instruments: Movement in level 3 portfolios

	At 1 January 2015	Amount recorded in Income statement (1)	SOCI (2)	Level 3 transfers In	Out	Purchases and issuances (3)	Settlements	Sales	Foreign exchange and other	At 30 June 2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
FVTPL assets (3)	**4,673**	**(88)**	**-**	**489**	**(430)**	**296**	**(586)**	**(485)**	**(2)**	**3,867**
AFS assets	**634**	**(6)**	**(94)**	**628**	**(18)**	**3**	**(26)**	**(48)**	**(1)**	**1,072**
	5,307	**(94)**	**(94)**	**1,117**	**(448)**	**299**	**(612)**	**(533)**	**(3)**	**4,939**
Liabilities	**4,595**	**(621)**	**-**	**392**	**(637)**	**5**	**(647)**	**(4)**	**(7)**	**3,076**
Net gains/(losses)		**527**	**(94)**							

Notes:

(1) Net gains on HFT instruments of £375 million (year ended 31 December 2014 - £100 million losses) were recorded in income from trading activities in continuing operations. Net gains on other instruments of £152 million (year ended 31 December 2014 - £205 million) were recorded in other operating income and interest income as appropriate in continuing operations. There were no losses in discontinued operations.
(2) Consolidated statement of comprehensive income.
(3) Fair value through profit or loss comprises held-for-trading predominantly and designated at fair value through profit and loss.

Notes

14. Financial instruments (continued)

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 2015			31 December 2014	
	Carrying			Carrying	
	value	Fair value		value	Fair value
	£bn	£bn		£bn	£bn
Financial assets					
Loans and advances to banks	**15.0**	**15.0**		12.8	12.8
Loans and advances to customers	**297.3**	**291.5**		312.1	303.5
Debt securities	**7.8**	**7.8**		7.6	7.5
Financial liabilities					
Deposits by banks	**7.4**	**7.4**		6.4	6.4
Customer accounts	**81.5**	**81.6**		100.7	100.7
Debt securities in issue	**29.8**	**31.0**		33.6	35.0
Subordinated liabilities	**18.9**	**19.0**		22.0	22.5

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.

For the following short-term financial instruments 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. These are excluded from the table above.

15. Contingent liabilities and commitments			
	30 June	31 March	31 December
	2015	2015	