ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 08, 2016

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

8 August 2016

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(File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.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

Interim Results 2016

Contents

The European Union Market Abuse Regulation EU 596/2014 requires RBS to disclose that this announcement contains Inside Information, as defined in that Regulation.

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’s (RBS) restructuring which includes the divestment of Williams & Glyn, litigation, government and regulatory investigations, the proposed restructuring of RBS’s CIB business, the implementation of the UK ring-fencing regime, cost-reduction targets and progress relating thereto the implementation of a major development program to update RBS’s IT infrastructure and the continuation of its balance sheet reduction programme, the impact of the UK’s referendum on its membership of the European Union and impact thereof on the Group’s markets, prospects, financial and capital position and strategy, as well as capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios and requirements liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), Pillar 2A, return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other funding plans, funding and credit risk profile; RBS’s future financial performance; the level and extent of future impairments and write-downs; including with respect to goodwill; future pension contributions and RBS’s exposure to political risks, operational risk, conduct risk and 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 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 2015 Annual Report on Form 20-F and in this report under “Risk Factors”. These include the significant risks for RBS presented by the outcomes of the 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 (including where resolved by settlement); the economic, regulatory and political uncertainty arising from the majority vote to leave in the referendum on the UK’s membership in the European Union and the revived political uncertainty regarding Scottish independence; the divestment of Williams & Glyn; RBS’s ability to successfully implement the various initiatives that are comprised in its restructuring plan, particularly the proposed restructuring of its CIB business and the balance sheet reduction programme as well as the significant restructuring required to be undertaken by RBS in order to implement the UK ring fencing regime; the significant changes, complexity and costs relating to the implementation of its restructuring, the separation and divestment of Williams & Glyn and the UK ring-fencing regime; whether RBS will emerge from its restructuring and the UK ring-fencing regime as a viable, competitive, customer focused and profitable bank; RBS's ability to achieve its capital and leverage requirements or targets which will depend on RBS's success in reducing the size of its business and future profitability; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK the impact of global economic and financial market conditions (including low or negative interest rates) as well as increasing competition. In addition, there are other risks and uncertainties. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; 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; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and systems, the risk of failing to preventing a failure of RBS's IT systems or to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; increased competitive pressures resulting from new incumbents and disruptive technologies; RBS's ability to attract and retain qualified personnel; 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; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

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

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

Introduction

Presentation of information

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

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (‘the Act’). The statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

RBS prepares its financial statements in accordance with IFRS as adopted by the European Union (EU). The EU has not adopted the complete text of IAS 39; it has relaxed some of the standard's hedging requirements. RBS has not taken advantage of this relaxation, therefore its financial statements are also prepared in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles (‘GAAP’).

The unaudited condensed consolidated income statement, condensed consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, condensed consolidated cashflow and related notes presented on pages 66 to 119 inclusive are presented on a statutory basis as described above.

Non-GAAP financial measures

The commentary on the Group’s results in this document refers to measures of financial performance principally on an ‘adjusted’ basis and which measures include adjusted income, adjusted expenditure and adjusted profit, adjusted operating profit, adjusted cost:income ratio and adjusted return on equity. Similarly, the presentation of cost savings against the 2016 target shown within the ‘Highlights’ section of this document excludes litigation and conduct costs, restructuring costs, the impairment of other intangible assets, VAT recovery and operating costs of Williams & Glyn. These are adjusted cost measures which have not been prepared in accordance with EU IFRS. Such “adjusted” measures exclude items which management believes distort period-on-period comparison including, own credit adjustments, loss on redemption of own debt, write down of goodwill, strategic disposals, restructuring costs and litigation and conduct costs. These items are excluded to illustrate the underlying performance of the business without the impact of these items. These adjusted measures, derived from the reported results are non-IFRS financial measures and are not a substitute to IFRS reported measures.

A full reconciliation of these adjusted performance measures to the IFRS measure is presented on pages 17 to 19.

Key Operating Indicators

This document also includes a number of operational metrics which management believes may be helpful to investors in understanding the Group’s business and performance, including certain liquidity and lending measures. These measures are used internally by management to measure performance. However, these are being presented on a voluntary basis as they are not required to be disclosed by governmental, regulatory or self-regulatory organisation requirements. As a result, the basis of calculation of these measures may not be the same as that used by the Group’s peers.

Introduction

Capital, Liquidity and credit measures

Certain liquidity, capital and credit measures and ratios are presented in this document as management believes they are helpful for investors' understanding of the liquidity and credit profile of the business and the Group's capital position against its own targets and applicable regulatory requirements. Some of these measures are used by management for risk management purposes and may not yet required to be disclosed by a government, governmental authority or self-regulatory organisation. As a result, the basis of calculation of these measures may not be the same as that used by the Group's peers. These capital, liquidity and credit measures and ratios include: the liquidity coverage ratio, stressed outflow coverage and net stable funding ratio.

Franchise results

The Group's reportable segments are organised by franchise. The presentation of Personal & Business Banking (PBB) combines the reportable segments of UK Personal & Business Banking and Ulster Bank RoI. The presentation of Commercial and Private Banking (CPB) combines the reportable segments of Commercial Banking, Private Banking and RBS International (RBSI). The combined presentation of the Group's reportable segments provides investors with a summary of the Group's business performance and is prepared on a non-IFRS basis. Segment results prepared on a statutory basis are included on pages 17 to 19.

Consolidated income statement for the period ended 30 June 2016 (unaudited)

	Half year ended	
	30 June	30 June
	2016	2015*
	£m	£m
Interest receivable	**5,656**	6,107
Interest payable	**(1,323)**	(1,689)
Net interest income	**4,333**	4,418
Fees and commissions receivable	**1,676**	1,958
Fees and commissions payable	**(392)**	(363)
Income from trading activities	**(17)**	875
Loss on redemption of own debt	**(130)**	-
Other operating income	**594**	368
Non-interest income	**1,731**	2,838
Total income	**6,064**	7,256
Staff costs	**(2,695)**	(2,887)
Premises and equipment	**(652)**	(745)
Other administrative expenses	**(2,139)**	(2,366)
Depreciation and amortisation	**(354)**	(712)
Write down of other intangible assets	**(89)**	(606)
Operating expenses	**(5,929)**	(7,316)
Profit/(loss) before impairment (losses)/releases	**135**	(60)
Impairment (losses)/releases	**(409)**	321
Operating (loss)/profit before tax	**(274)**	261
Tax charge	**(340)**	(287)
Loss from continuing operations	**(614)**	(26)
Profit from discontinued operations, net of tax	**-**	358
(Loss)/profit for the period	**(614)**	332

Attributable to:		
Non-controlling interests	**30**	344
Preference share and other dividends	**208**	167
Dividend access share	**1,193**	-
Ordinary shareholders	**(2,045)**	(179)
	(614)	332
Loss per ordinary share (EPS)		
Basic loss per ordinary share from continuing and		
discontinued operations	**(17.6p)**	(1.6p)
Basic loss per ordinary share from continuing operations	**(17.6p)**	(2.2p)

Statutory results for further information see pages 66 to 119.

* restated refer to page 72 for further details.

Note:

(1) Diluted loss per ordinary share was 0.1p lower than basic. There was no dilutive impact in the prior period.

Consolidated balance sheet as at 30 June 2016 (unaudited)

	30 June 2016	31 December 2015
	£m	£m
Assets		
Cash and balances at central banks	**65,307**	79,404
Net loans and advances to banks	**21,763**	18,361
Reverse repurchase agreements and stock borrowing	**14,458**	12,285
Loans and advances to banks	**36,221**	30,646
Net loans and advances to customers	**326,503**	306,334
Reverse repurchase agreements and stock borrowing	**31,320**	27,558
Loans and advances to customers	**357,823**	333,892
Debt securities	**84,058**	82,097
Equity shares	**749**	1,361
Settlement balances	**13,405**	4,116
Derivatives	**326,023**	262,514
Intangible assets	**6,525**	6,537
Property, plant and equipment	**4,589**	4,482
Deferred tax	**2,217**	2,631
Prepayments, accrued income and other assets	**4,311**	4,242
Assets of disposal groups	**396**	3,486
Total assets	**901,624**	815,408
Liabilities		
Bank deposits	**31,377**	28,030
Repurchase agreements and stock lending	**11,611**	10,266
Deposits by banks	**42,988**	38,296
Customer deposits	**355,719**	343,186
Repurchase agreements and stock lending	**29,270**	27,112
Customer accounts	**384,989**	370,298
Debt securities in issue	**27,148**	31,150
Settlement balances	**11,262**	3,390
Short positions	**21,793**	20,809
Derivatives	**322,390**	254,705
Provisions, accruals and other liabilities	**15,627**	15,115

Retirement benefit liabilities	**511**	3,789
Deferred tax	**824**	882
Subordinated liabilities	**20,113**	19,847
Liabilities of disposal groups	**252**	2,980
Total liabilities	**847,897**	761,261
Equity		
Non-controlling interests	**820**	716
Owners' equity*		
Called up share capital	**11,756**	11,625
Reserves	**41,151**	41,806
Total equity	**53,727**	54,147
Total liabilities and equity	**901,624**	815,408
* Owners' equity attributable to:		
Ordinary shareholders	**47,066**	47,480
Other equity owners	**5,841**	5,951
	52,907	53,431

Statutory results for further information see pages 66 to 119.

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Highlights

RBS reported an operating loss before tax of £274 million in H1 2016 and a loss attributable to ordinary shareholders of £2,045 million.

Across our Personal & Business Banking (PBB), Commercial & Private Banking (CPB) and Corporate & Institutional Banking (CIB) franchises, RBS reported an operating profit of £1,396 million in H1 2016 and £383 million in Q2 2016 and an adjusted operating profit[(3)] of £2,070 million in H1 2016 and £1,047 million in Q2 2016.

Return on equity was (10.3%) in H1 2016 and (11%) for Q2 2016. Adjusted return on equity[(3)] across PBB, CPB and CIB was 11% for both H1 2016 and Q2 2016. Across RBS, net lending grew by 13% in H1 2016 on an annualised basis. Across PBB and CPB, net lending grew by 15% on an annualised basis in H1 2016. Common Equity Tier 1 ratio of 14.5% remains ahead of our 13.0% target. Leverage ratio was 5.2%.

H1 2016 Highlights

RBS reported a loss attributable to ordinary shareholders of £2,045 million for H1 2016, which included the final Dividend Access Share (DAS) dividend of £1,193 million in Q1 2016 and £1,315 million of litigation and conduct costs. These included provisions in respect of PPI, following the publication of the FCA Consultation Paper on 2 August 2016, the UK 2008 rights issue shareholder litigation, an industry-wide examination of tracker mortgages in Ulster Bank RoI and other matters in Q2 2016.

H1 2016 operating loss was £274 million compared with an operating profit of £261 million in H1 2015, principally due to increased litigation and conduct charges and increased IFRS volatility losses[(1)].

Adjusted operating profit [(3)] of £1,156 million was £1,737 million lower than H1 2015, principally due to increased losses in Capital Resolution, £1,087 million, and increased IFRS volatility losses[(1)], £668 million compared with a gain of £80 million in H1 2015. Across our PBB, CPB and CIB franchises, operating profit of £1,396 million was £110 million, or 9%, higher than H1 2015, whilst adjusted operating profit [(3)] of £2,070 million was £369 million, or 15% lower.

H1 2016 total income of £6,064 million was £1,192 million or 16% lower than in H1 2015. H1 2016 income across PBB and CPB was broadly stable compared with H1 2015. CIB total income of £818 million was £117 million or 13%, lower than H1 2015 including the impact of transfers out of £78 million. CIB adjusted [(3)] income of £681 million was £146 million, or 18%, lower than H1 2015..

Operating expenses decreased by £1,387 million compared with H1 2015 principally due to lower restructuring costs and included a £227 million VAT recovery following agreement with HMRC on recovery rates in previous years. Adjusted[(3)] operating expenses reduced by £547 million compared with H1 2015.

Cost: income ratio was 98% compared with 101% in H1 2015. Adjusted cost:income ratio[(3)] was 72% compared with 64% in H1 2015 as the reduction in adjusted operating expenses[(3)] has been more than offset by lower adjusted income[(3)], principally relating to Capital Resolution and IFRS volatility losses.

Risk elements in lending (REIL) as a percentage of gross customer loans was 3.5%, 130 basis points lower than 30 June 2015 and 10 basis points lower than 31 March 2016.

Across RBS, net lending grew by 13% in H1 2016 on an annualised basis. PBB and CPB net loans and advances grew by 15% on an annualised basis with strong growth across both residential mortgage and commercial lending.

Highlights

Q2 2016 Highlights

Q2 2016 operating loss of £695 million compared with an operating profit of £421 million in Q1 2016 and £224 million in Q2 2015. Operating expenses increased by £1,089 million to £3,509 compared to Q1 2016 principally due to increased litigation and conduct costs despite the benefit of a £227 million VAT recovery, and a £37 million reduction in impairments. An adjusted operating profit (3) of £716 million was £276 million, or 63%, higher than Q1 2016. A £318 million reduction in adjusted operating expenses(3), has been partially offset by a £79 million, or 3%, fall in adjusted income(3). Across PBB, CPB and CIB income increased by £177 million, or 6%, to £3,059 million, adjusted income (3) increased by £171 million, or 6%, to £2,986 million compared with Q1 2016.

Across our PBB, CPB and CIB franchises an operating profit of £383 million, was £903 million lower than Q2 2015 and £630 million lower than Q1 2016. Adjusted operating profit (3) of £1,047 million in Q2 2016 was £24 million, or 2%, higher than Q1 2016. RBS return on equity was (11%). Across our PBB, CPB and CIB franchise adjusted return on equity(3) was 11%, in line with Q1 2016.

RBS has made progress on customer Net Promoter Score (NPS) with improvements across NatWest Personal, Royal Bank Business and Commercial customers in the last year.

H1 2016 Performance Summary

RBS Performance

RBS reported a loss attributable to ordinary shareholders of £2,045 million, compared with a loss of £179 million in H1 2015, which included the final DAS dividend of £1,193 million in Q1 2016 and £1,315 million of litigation and conduct costs. These included provisions in respect of PPI, the UK 2008 rights issue shareholder litigation, an industry-wide examination of tracker mortgages in Ulster Bank RoI and other matters in Q2 2016.

Operating loss was £274 million in H1 2016 compared with an operating profit of £261 million in H1 2015. Adjusted operating profit (3) of £1,156 million was £1,737 million, or 60%, lower than H1 2015.

Net interest margin (NIM) of 2.18% for H1 2016 was 4 basis points higher than H1 2015 as the benefit associated with a reduction in low yielding assets more than offset modest asset margin pressure and mix impacts across PBB and CPB.

PBB, CPB and CIB Performance

Across our PBB, CPB and CIB franchises, operating profit of £1,396 million was £110 million or 9% higher, than H1 2015. An adjusted operating (3) profit of £2,070 million, was £369 million, or 15%, lower than H1 2015.

UK Personal & Business Banking (UK PBB) operating profit of £553 million decreased from £771 million in H1 2015 largely due to a significant increase in litigation and conduct costs in H1 2016. Adjusted operating profit(3) of £1,065 million was £123 million, or 10%, lower than H1 2015 principally driven by an £83 million, or 6%, increase in adjusted operating(3) expenses reflecting a higher FSCS levy and increased technology investment. Net loans and advances grew by £13.1 billion, or 12%, principally driven by continued strong mortgage growth and we continue to see positive momentum across business and personal unsecured lending.

Ulster Bank RoI operating profit decreased by £132 million to £8 million compared with H1 2015 primarily due to an increase in litigation and conduct costs and a reduced level of impairment releases. Adjusted operating profit (3) of £122 million was £25 million, or 17%, lower than H1 2015 principally reflecting a reduced level of impairment releases.

Highlights

H1 2016 Performance Summary

Commercial Banking reported an operating profit of £612 million in H1 2016, £136 million, or 18%, lower than H1 2015. Adjusted operating profit(3) of £663 million was £160 million, or 19%, lower than H1 2015. Operating expenses increased by £101 million or 11% to £984 million and included transfers of £50 million(4), a £25 million intangible asset write-down and increased investment spend. Adjusted operating expenses(3) increased by £125 million, or 15%, to £933 million. A single name charge in respect of the Oil & Gas portfolio drove a £77 million increase in impairments. Commercial Banking net loans and advances increased by £10.8 billion, or 12%,to £99.2 billion including movements of £3.4 billion relating to business transfers (4).
Private Banking operating profit increased £43 million to £51 million compared with H1 2015 largely due to an £82 million intangible asset write down relating to restructuring costs recorded in H1 2015. Adjusted operating profit (3) of £73 million was £16 million, or 18%, lower as the business continues to invest in its infrastructure, whilst RBS International (RBSI) operating profit was stable at £106 million.
CIB income decreased by £117 million to £818 million in H1 2016. This included business transfers of £78 million(2) Adjusted income(3) of £681 million was £146 million, or 18%, lower than H1 2015, with operating profit of £89 million, £572 million higher than H1 2015 and adjusted operating profit(3) of £41 million, £46 million lower than H1 2015. Operating expenses including transfers of £23 million to Commercial Banking decreased from £1,423 million to £729 million in H1 2016 due to a lower level of litigation and conduct costs. Adjusted operating expenses(3) including transfers reduced by 14%, as CIB moves towards a lower cost base.

Capital Resolution & Central items

Capital Resolution reported an operating loss of £913 million in H1 2016, compared with a loss of £987 million in H1 2015, due to lower restructuring costs and lower litigation and conducts costs, partially offset by lower income and net impairment charge. Adjusted operating loss(3) was £983 million, compared with an adjusted operating profit(3) of £104 million in H1 2015; H1 2016 included a net impairment charge of £263 million, primarily related to the Shipping portfolio, compared with a release of £319 million in H1 2015. An additional £220 million valuation reserve was recorded in Q2 2016 following the EU Referendum. RWAs reduced by £26.3 billion from H1 2015 to £42.3 billion.

Central items not allocated represented a charge of £909 million in H1 2016, compared with a £301 million charge in H1 2015, and included increased litigation and conduct costs, a £668 million charge in respect of IFRS volatility (H1 2015 - £80 million gain), a £227 million VAT recovery and an FX gain of £253 million principally reflecting the significant weakening of sterling against the US dollar following the EU Referendum. Adjusted operating loss(3) of £128 million compared with a profit of £87 million in H1 2015.

Highlights

Q2 2016 Performance Summary

RBS Performance

A loss attributable to ordinary shareholders of £1,077 million was reported in Q2 2016 compared with a profit attributable to ordinary shareholders of £280 million in Q2 2015 and a loss attributable to ordinary shareholders of £968 million in Q1 2016, which included the final DAS dividend payment of £1,193 million.

An operating loss of £695 million in Q2 2016 compared with an operating profit of £224 million in Q2 2015 and £421 million in Q1 2016. Adjusted operating profit(3) of £716 million was £822 million lower than Q2 2015 but was £276 million higher than Q1 2016.

Restructuring costs were £392 million in the quarter, an increase of £154 million compared with Q1 2016, and included £187 million in respect of Williams & Glyn.

Litigation and conduct costs of £1,284 million in Q2 2016 compared with £31 million in Q1 2016, and included an additional PPI provision, a provision in respect of the UK 2008 rights issue shareholder litigation, a provision in Ulster Bank RoI principally in respect of an industry-wide examination of tracker mortgages and various other matters.

The Q2 2016 results included a net strategic disposal gain of £201 million comprising: a £246 million gain on disposal of RBS's stake in Visa Europe and a £45 million loss associated with the sale of our Russian subsidiary.

A loss of £67 million was recognised in Q2 2016 in respect of a cash tender of certain US dollar, sterling and euro senior debt securities. The tender offers were part of the on-going transition to a holding company capital and term funding model in line with regulatory requirements and included securities that RBS considers non-compliant for 'Minimum Requirement for Own Funds and Eligible Liabilities' (MREL) purposes. In addition, RBS recognised a loss of £63 million as a result of the redemption of three RBS NV trust preferred securities as part of simplification of the RBS NV balance sheet and management of our legacy capital securities.

Q2 2016 NIM of 2.21% was 6 basis points higher than Q1 2016. NIM across our PBB and CPB franchises was 2.37% for Q2 2016 compared with 2.38% in Q1 2016.

PBB, CPB and CIB Performance

Across our PBB, CPB and CIB franchise an operating profit of £383 million, was £447 million lower than Q2 2015 and £630 million lower than Q1 2016. Adjusted operating profit (3) of £1,047 million, was £174 million lower than Q2 2015 but was £24 million higher than Q1 2016.

UK PBB operating profit decreased by £546 million to £24 million reflecting an increase in litigation and conduct charges, a £42 million FSCS levy charge, an intangible asset write-down and increased technology investment. Adjusted operating profit (3) of £534 million was £69 million lower than Q2 2015, as a higher FSCS levy charge and increased technology investment drove a £64 million increase in adjusted operating expenses (3), and was broadly in line with Q1 2016.

Ulster Bank RoI operating loss was £53 million principally reflecting higher litigation and conduct costs. Adjusted operating profit (3) reduced by £27 million, compared with Q2 2015, to £58 million, principally reflecting reduced impairment releases, and was £6 million lower than Q1 2016.

Commercial Banking operating profit of £211 million compared with £401 million in Q1 2016. Adjusted operating profit (3) of £260 million was £188 million lower than Q2 2015 and £143 million lower than Q1 2016. Operating expenses increased by £108 million to £546 million compared with Q1 2016 reflecting a write-down of intangible assets and increased investment spend. A single name charge in the Oil & Gas portfolio drove a £75 million increase in impairments. Adjusted operating expenses(3) increased by £61 million to £497 million.

Private Banking operating profit increased by £31 million to £41 million. Adjusted operating profit(3) of £47 million was in line with Q2 2015 but was £21 million higher than Q1 2016. RBSI operating profit of £51 million compared with £52 million in the prior quarter.

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Highlights

CIB made an operating profit of £109 million, compared with an operating loss of £20 million in Q1 2016, reflecting higher income. An adjusted operating profit [3] of £95 million in Q2 2016 compared with losses of £13 million in Q2 2015 and £54 million in Q1 2016. Total income increased by £136 million to £477 million and included transfers[2] of £36 million. CIB adjusted income [3] of £404 million was £61 million higher than Q2 2015, and was £127 million higher than Q1 2016.

Capital Resolution & Central items

Capital Resolution operating losses increased by £311 million to £612 million, principally reflecting an additional £220 million valuation reserve following the EU Referendum, and higher level of losses as disposal activity increased in Q2 2016. Adjusted operating loss[3] of £606 million was £567 million higher than Q2 2015 and was £229 million up on Q1 2016, principally reflecting an additional £220 million valuation reserve following the EU Referendum. RWAs reduced by £5.3 billion in the quarter to £42.3 billion.

Central items not allocated represented a charge of £537 million in the quarter, compared with a £372 million charge in Q1 2016, and included litigation and conduct costs of £707 million. The quarter included a £227 million VAT recovery, a £201 million FX gain as the US dollar strengthened against sterling and a £312 million charge in respect of IFRS volatility (Q2 2015 £204 million; Q1 2016 - £356 million). Adjusted operating profit [3] of £179 million compared with a profit of £242 million in Q2 2015 and a loss of £307 million in Q1 2016.

Progress on 2016 targets

Whilst RBS remains committed to achieving its priority targets for 2016, we recognise that market conditions have become more uncertain following the EU Referendum result and we have updated our guidance as follows:

Strategy goal	2016 target	H1 2016 Progress (7)
	Maintain Bank CET1 ratio of 13%	CET1 ratio of 14.5%
	£2 billion AT1 issuance	Continue to plan to issue in 2016, subject to market conditions
Strength and sustainability	Capital Resolution RWAs around £30 billion	RWAs down £6.7 billion to £42.3 billion in H1 2016. Following the EU Referendum, and the resultant significant weakening of sterling, we now anticipate that RWAs will be around £30 - £35 billion at the end of 2016
Customer experience	Narrow the gap to No.1 in NPS in every primary UK brand	Year on year Royal Bank of Scotland Business (Scotland) has narrowed the gap. NatWest Personal and RBSG Commercial

		have seen improvements in NPS
Simplifying the bank	Reduce operating expenses by £800 million	Operating expenses down £404 million(5) and we remain on track to achieve our target
Supporting growth	Net 4% growth in PBB and CPB customer loans	Net lending in PBB and CPB up 15%(6) on an annualised basis in the half year
Employee engagement	Raise employee engagement to within two points of the GFS norm	Reviewed annually during Q3

Notes:

(1) IFRS volatility arises from the changes to fair value of hedges of loans which do not qualify for hedge accounting under IFRS.
(2) CIB's results include the following financials for businesses subsequently transferred to Commercial Banking: total income of £78 million for H1 2015 (Q2 2015 - £36 million) and expenses of £23 million for H1 2015 (Q2 2015 - £11 million).
(3) For unadjusted operating profit and expenses see segment reconciliations on pages 17 to 19.
(4) The portfolio transfers included operating expenses of £50 million for H1 2016 (Q2 2016 - £26 million) and net loans and advances to customers of £4.1 billion at 30 June 2016.
(5) Operating expenses of £5,929 million for H1 2016 (H1 2015 - £7,316 million) excluding litigation and conduct costs of £1,315 million for H1 2016 (H1 2015 - £1,315 million), restructuring costs for H1 2016 £630 million (H1 2015 £1,470 million), write down of other intangible assets of £48 million for H1 2016, the operating costs of Williams & Glyn of £197 million for H1 2016 (H1 2015 - £161 million) and the VAT recovery of £227 million for H1 2016.
(6) Net lending for RBS up 13% for H1 2016. on an annualised basis
(7) Please refer to the section “Forward Looking Statements” on page 2 and “Risk Factors’ on pages 120 to 125.

11

Highlights

Building a stronger RBS

RBS is progressing with its plan to build a strong, simple, fair bank for customers and shareholders.
CET1 remains ahead of our 13% target at 14.5%. The 10 basis point reduction in the quarter was driven by the attributable loss partially offset by the reduction in RWAs. RWAs decreased by £4.3 billion primarily reflecting disposals and run-off in Capital Resolution and a £3.9 billion reduction associated with the removal of Citizens operational risk RWAs following regulatory approval. Partially offsetting, the weakening of sterling, principally following the EU Referendum, increased RWAs by £4.4 billion. Leverage ratio decreased by 10 basis points to 5.2%.
Risk elements in lending (REIL) of £11.8 billion were 3.5% of gross customer loans, down from 3.6% at 31 March 2016 and 4.8% at 30 June 2015.
RBS continues to reposition and strengthen its balance sheet. In H1 2016, we completed two senior debt issuances (€1.5 billion seven year 2.5% notes and $1.5 billion ten year 4.8% notes) which are eligible to meet RBS's MREL. In addition, we redeemed £2.3 billion of legacy US dollar, sterling and euro senior debt securities, including some that RBS considers non-compliant for MREL purposes.
In March 2016 RBS made a £4.2 billion payment into The Royal Bank of Scotland Group Pension Fund, being an accelerated payment of existing committed future contributions, and paid the final Dividend Access Share dividend of £1,193 million, actions that have been taken to help the long term resilience and normalise the ownership structure of the Bank.
During H1 2016 we completed the transfer of the Coutts International businesses in Asia and the Middle East to Union Bancaire Privée, the final milestone in the sale of our International Private Bank. In addition, we completed the sale of our Russian subsidiary.
We continue to work on our ring fencing plans, which were submitted to the PRA in January 2016, and target operational compliance by 1 January 2019. Legal entity restructuring, including the establishment of a Ring-Fenced Bank Holding company, will begin in H2 2016 details of which will be provided in H2. We are actively liaising with key stakeholders including the regulators and employee representatives, and will engage with the credit rating agencies.

Highlights

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

RBS continued to deliver strong support for both household and business customers. Within UK PBB, gross new mortgage lending was £14.7 billion, representing a market share of approximately 12% compared with a quarter end stock share of 8.6%. We now have 1,001 mortgage advisors supporting our customers, an increase of 15% since H1 2015. We continue to see positive momentum across business banking and personal unsecured lending. Net lending in Commercial Banking increased by £7.9 billion in H1 2016, 17% growth on an annualised basis.

The Reward account continues to show positive momentum and now has 815,000 customer accounts compared with 202,000 as at 31 December 2015.

We continue to make better use of our digital channels to make it simpler to serve our customers and for them to do business with us. NatWest customers can now apply for personal loans or credit cards via the mobile app. We now have 4.1 million active users of our personal mobile app, up 25% in the last year, with 69,000 unsecured products applied for via the mobile app in H1 2016. We became the first UK based bank to launch Android fingerprint authentication, with 37% of app logins now biometric.

RBS became the first UK Bank to be accredited by the Royal National Institute for Blind People for making the voiceover mode simpler and easier to use for our visually impaired customers. In addition, we launched a new service for British Sign Language (BSL) customers, making it possible to instantly chat with an advisor through a BSL interpreter.

RBS continues to support UK business growth through the launch of three new business accelerator hubs in H1 2016, bringing the total to nine, with a further three more opening in H2 2016. This included the opening of an Entrepreneurial Centre in our Edinburgh headquarters. In addition, NatWest launched a £1 billion lending fund to support small businesses.

RBS is one of only two banks to achieve formal recognition from the Chartered Banker Professional Standards Board for excellence in monitoring the Foundation Standard for Professional Bankers. More than 94% of the in-scope employee population achieved this standard in 2015.

Highlights

Customer

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.

The table below lists all of the businesses for which we have an NPS for 2016. Year-on-year, NatWest Personal Banking, Royal Bank of Scotland Business Banking and Commercial Banking have improved. In Scotland, we have narrowed the gap to number one in Business Banking.

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 2015	Q1 2016	Q2 2016	Year end 2016 target
Personal Banking	NatWest (England & Wales)(1)	8	13	12	15
	Royal Bank of Scotland (Scotland)(1)	-10	-6	-7	-5
	Ulster Bank (Northern Ireland)(2)	-11	-14	-16	-3
	Ulster Bank (Republic of Ireland)(2)	-14			