

# Preliminary Interim Results 2014

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### **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 2013 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.

### **Forward-looking statements**

This release contains 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995. Forward looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', "Value-at-Risk (VaR)", 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions or by the forward looking nature of discussions of strategy, plans, targets and intentions. . These statements are based on current plans, estimates 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. The forward-looking statements contained in this release 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.

## H1 2014 Preliminary interim results

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25 July 2014

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**The Royal Bank of Scotland Group plc (“RBS”) is today issuing an update in respect of its financial results for the six months ended 30 June 2014. The interim results processes are in progress and the financial results are subject to finalisation and approval by the Board. RBS will announce its 2014 Half Year Results on 1 August 2014.**

**RBS results for H1 2014 are expected to reflect better than anticipated operating performance, driven by more favourable credit conditions and good results from RBS Capital Resolution, with a consequential beneficial impact on capital ratios. Profit before tax is expected to be £2,652 million for H1 2014, up from £1,374 million in H1 2013, with operating profit<sup>(1)</sup> at £2,601 million, up from £708 million in H1 2013.**

“The results we are posting today show the steady progress we are making as we take the steps to be a much simpler, smaller and fairer bank. These results show that underneath all the noise and huge restructuring of recent years, RBS is a fundamentally stronger bank that can deliver good results for customers and shareholders.”

“There is progress on all of our key priorities - capital is stronger, costs are lower and customer activity is gradually improving - although we have only just started with our programme to make it easier for customers to do more business with us.”

“But let me sound a note of caution. We are actively managing down a slate of significant legacy issues. This includes significant conduct and litigation issues that will likely hit our profits going forward. I am pleased we have had two good quarters, but no one should get ahead of themselves here - there are bumps in the road ahead of us.”

“Today’s results are pleasing but no one at this bank is complacent about the challenges ahead.”

**Ross McEwan, Chief Executive**



### Key points

#### H1 2014 performance

- Operating performance in the first half of 2014 was good, with all customer-facing businesses reporting improved operating profits compared with H1 2013. Operating profit<sup>(1)</sup> of £2,601 million included £514 million of restructuring costs (compared with £271 million in H1 2013) and £250 million of litigation and conduct costs, with £150 million added to provisions for Payment Protection Insurance and £100 million to interest rate swap redress provisions.
- Operating profit<sup>(1)</sup>, excluding restructuring and litigation and conduct costs ('adjusted operating profit'), improved to £3,365 million, compared with £1,599 million in H1 2013.
- Total income declined 6% to £9,978 million. Growth of 3% in Personal & Business Banking (PBB) and 2% in Commercial & Private Banking (CPB) was more than offset by lower income, down 10%, in Corporate & Institutional Banking (CIB), reflecting its smaller balance sheet and reduced risk profile. Net interest margin improved to 2.17%, up 20 basis points compared with H1 2013, with continuing benefits from deposit repricing in PBB and CPB outweighing modest erosion of asset margins.
- Total expenses were 8% lower at £7,108 million, including £514 million of restructuring costs and £250 million of litigation and conduct costs. Operating expenses, excluding restructuring and litigation and conduct costs ('adjusted operating expenses'), were down 8% to £6,344 million. Overall headcount has fallen by 8,000 over the past 12 months.
- Impairment losses declined by £1,881 million to £269 million. All core businesses showed significant reductions in impairment losses as UK and Irish credit conditions continued to improve. In RBS Capital Resolution (RCR) there was a net write-back of provisions, reflecting disposals at favourable prices. At 30 June 2014, risk elements in lending represented 8.3% of gross loans to customers, compared with 9.4% at 31 December 2013.
- Profit before tax was £2,652 million compared with £1,374 million in the first half of 2013, including a gain of £191 million from the sale of the remaining interest in Direct Line Insurance Group in Q1 2014 and a write-down of goodwill of £130 million in Q2 2014. Own credit adjustment was a charge of £51 million compared with a credit of £376 million in H1 2013 which also included a gain of £191 million on redemption of own debt compared with £20 million in H1 2014.
- The tax charge was £733 million, representing 27.6% of profit before tax, and included a £76 million write-off of deferred tax assets.
- The Common Equity Tier 1 capital ratio strengthened to 10.1% from 8.6% at the end of 2013, principally driven by reductions in risk-weighted assets in CIB and RCR and the retained profit for the period. RBS remains on track to achieve its medium-term capital targets.
- After charging the initial £320 million Dividend Access Share retirement dividend, profit attributable to ordinary and B shareholders was £1,425 million. Tangible net asset value per ordinary and B share was 376p at 30 June 2014 compared with 363p at the end of 2013.

#### Q2 2014 performance

- Operating profit<sup>(1)</sup> in Q2 2014 was £1,318 million, compared with £174 million in Q2 2013 and £1,283 million in Q1 2014. Restructuring costs totalled £385 million and litigation and conduct costs £250 million. Adjusted operating profit rose to £1,953 million, compared with £893 million in Q2 2013 and £1,412 million in Q1 2014.
- Total income was 10% lower than in Q2 2013 at £4,925 million, with a 4% improvement in UK PBB more than offset by the 13% reduction in CIB, reflecting its smaller balance sheet and lower risk levels. Within CIB, Rates, Currencies and Credit income was £765 million, down 10% from Q2 2013 and 25% from Q1 2014. Citizens Financial Group benefited from a net gain of \$283 million on the sale of its Illinois branch network.

## H1 2014 Preliminary interim results

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### Key points (continued)

#### Q2 2014 performance (continued)

- Adjusted operating expenses were £3,065 million, down 11% from Q2 2013 and 7% from Q1 2014.
- Impairments amounted to a net release of £93 million compared with losses of £1,117 million in Q2 2013 and £362 million in Q1 2014, benefiting from improvements in bad debt flows and latent provision releases totalling £258 million.
- Profit before tax totalled £1,010 million, after a write-down of goodwill of £130 million and a charge of £190 million for own credit. Profit attributable to ordinary and B shareholders was £230 million.

#### Balance sheet and capital

- Funded assets fell to £736 billion, down £107 billion from June 2013, principally driven by the reduction in CIB's balance sheet and the run-off of RCR and Non-Core assets.
  - In UK PBB gross new mortgage lending totalled £9.8 billion in H1 2014, a market share of 9.9%. Repayments remain high, with the low interest rate environment enabling higher levels of principal repayment.
  - In CPB Commercial Banking, loans and advances in the growable book increased to £64.9 billion, up £2 billion from the prior year, but this was offset by a £2.8 billion decline in the non-growable book, which comprises real estate finance, businesses in restructuring and excess single-name concentrations.
  - Overall SME applications were 11% higher in H1 2014 than in the prior year and gross new lending was up 31% at £5.0 billion.
- Risk-weighted assets (RWAs) fell to £392 billion at the end of June 2014, down £22 billion from the end of March 2014.
- The CET1 ratio was 10.1%<sup>(2)</sup> at the end of June 2014, up from 8.6% at the end of 2013 and 9.4% at the end of March 2014 reflecting the attributable profit for the period and lower RWAs.
- The bank's liquid asset buffer was £138 billion at the end of June 2014, up slightly from the first quarter but down from £146 billion at the end of 2013, leaving ample headroom to accommodate lending growth in H2 2014.

#### RBS Capital Resolution

- Over the course of H1 2014 RCR reduced funded assets by £8 billion, or 28%, to £21 billion. RWA equivalent<sup>(3)</sup> decreased by £21 billion, or 33%, to £44 billion.
- Operating loss in H1 2014 was £48 million, with an operating profit of £66 million recorded in the second quarter of the year, driven by net impairment releases of £128 million.
- The combined effect of the small operating loss and RWA equivalent reduction was net CET1 capital accretion of £2 billion.

#### Notes:

- (1) Operating profit before tax, own credit adjustments, gain on redemption of own debt, strategic disposals, write-down of goodwill and RFS Holdings minority interest ('operating profit'). Statutory operating profit before tax is expected to be £2,652 million for the half year ended 30 June 2014.
- (2) The CET1 ratio includes the benefit of the retained profit for the period. This is subject to approval by the Prudential Regulation Authority, which is expected to be obtained prior to the publication of the Interim Results on 1 August 2014.
- (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 of 10.

## H1 2014 Preliminary interim results

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### Performance measures<sup>(1)</sup>

	Measure	2013	H1 2014	Medium-term	Long-term
<b>Efficiency</b>	Cost:income ratio	95%	71%	~55%	~50%
	Adjusted cost:income ratio <sup>(2)</sup>	72%	64%		
<b>Returns</b>	Return on tangible equity	Negative	7%	~9-11%	~12%+
<b>Capital strength<sup>(3)</sup></b>	Common Equity Tier 1 ratio	8.6%	10.1%	≥12%	≥12%

Notes:

- (1) This table contains forecasts with significant contingencies. Please refer to 'Forward-looking statements'.
- (2) Excluding restructuring costs and litigation and conduct costs.
- (3) CRR end-point basis.

### Outlook

These results reflect increasing economic confidence and improvements in asset values seen in RBS's core UK and Irish markets. Economic growth is expected to continue, although the pace may moderate.

NIM is expected to remain close to H1 levels, with the majority of deposit re-pricing benefits having now taken place.

Income from the fixed income product suite is expected to be lower in the second half of 2014, reflecting both normal seasonal trends and the continuation of the bank's reduced balance sheet risk appetite.

RBS remains on track to deliver its target of £1 billion cost reductions in 2014. Restructuring costs are expected to be higher in the second half of 2014 as the pace of activity to reduce costs in later years picks up. A restructuring charge of around £1.5 billion is expected for 2014, with overall restructuring costs still expected to be around £5 billion over 2014 to 2017 as the change agenda across the bank from economic, legal and regulatory perspectives remains very full.

Credit impairment charges in the second half of the year are expected to remain low, subject to macro economic conditions, resulting in a full year charge of around £1 billion, although at these low levels there will be volatility from quarter to quarter.

RCR funded assets are expected to be down from £29 billion at its inception to around £15 to £18 billion at the end of 2014. The overall cost (comprising impairments, disposal losses and running expenses) for RCR to achieve its goals was originally expected to be around £4.0 to £4.5 billion between 2014 and 2016. In light of the strong performance in the first half and the more favourable economic environment, these costs are now expected to total around £2.5 to £3.0 billion, of which c.£0.8 billion in 2014, although outcomes are subject to significant potential volatility.

The bank is making good progress towards achieving its target CET1 ratio of 11% by the end of 2015 and at least 12% by the end of 2016. However, ongoing conduct and regulatory investigations and litigation continue to present challenges and uncertainties and are expected to be a drag on capital generation over the coming quarters. The timing and amounts of any further settlements or redress remain uncertain and could be significant.





## Preliminary summary consolidated income statement

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 (1) £m	30 June 2014 £m	31 March 2014 (1) £m
Net interest income	5,496	5,442	2,798	2,698
Non-interest income	4,482	5,166	2,127	2,355
<b>Total income</b>	<b>9,978</b>	10,608	<b>4,925</b>	5,053
Staff and non-staff expenses	(6,344)	(6,859)	(3,065)	(3,279)
Restructuring costs	(514)	(271)	(385)	(129)
Litigation and conduct costs	(250)	(620)	(250)	-
<b>Operating expenses</b>	<b>(7,108)</b>	(7,750)	<b>(3,700)</b>	(3,408)
<b>Operating profit before impairment losses</b>	<b>2,870</b>	2,858	<b>1,225</b>	1,645
Impairment (losses)/recoveries	(269)	(2,150)	93	(362)
<b>Operating profit</b>	<b>2,601</b>	708	<b>1,318</b>	1,283
Own credit adjustments	(51)	376	(190)	139
Gain on redemption of own debt	20	191	-	20
Strategic disposals (2)	191	-	-	191
Write down of goodwill	(130)	-	(130)	-
RFS Holdings minority interest	21	99	12	9
<b>Profit before tax</b>	<b>2,652</b>	1,374	<b>1,010</b>	1,642
Tax charge (3)	(733)	(678)	(371)	(362)
<b>Profit from continuing operations</b>	<b>1,919</b>	696	<b>639</b>	1,280
Profit from discontinued operations, net of tax	35	138	26	9
<b>Profit for the period</b>	<b>1,954</b>	834	<b>665</b>	1,289
Non-controlling interests	(42)	(117)	(23)	(19)
Other owners' dividends	(167)	(182)	(92)	(75)
Dividend access share dividend	(320)	-	(320)	-
<b>Profit attributable to ordinary and B shareholders</b>	<b>1,425</b>	535	<b>230</b>	1,195

### Notes:

- (1) As set out in the Q2 Restatement Document dated 21 July 2014, comparative financial information has been restated to reflect: the changes to the RBS structure announced in February 2014, the allocation to reporting segments of a number of one-off and other items previously reported below the operating profit line; and revisions to the allocation of Central and Treasury costs to reflect the centralisation of services and functions and its internal reorganisation. These restatements do not affect statutory income statement, balance sheet, other primary statements or regulatory capital measures.
- (2) The gain of £191 million resulted from the sale of the bank's remaining stake in Direct Line Insurance Group in Q1 2014.
- (3) The tax charge reflects profits in high tax jurisdictions including the US and includes a £76 million write-off of deferred tax assets in Q2 2014.

## Preliminary summary consolidated balance sheet

	<b>30 June 2014 £bn</b>	31 March 2014 £bn	31 December 2013 £bn
Cash and balances at central banks	69	70	83
Reverse repurchase agreements and stock borrowing	82	78	76
Loans and advances (net)	414	419	418
Debt securities and equity shares	121	130	122
Other assets (1)	50	49	41
<b>Funded assets</b>	<b>736</b>	746	740
Derivatives	275	278	288
<b>Total assets</b>	<b>1,011</b>	1,024	1,028
Repurchase agreements and stock lending	83	89	85
Deposits	440	437	450
Debt securities in issue	59	62	68
Short positions	39	38	28
Subordinated liabilities	25	24	24
Other liabilities (1)	34	38	28
<b>Liabilities excluding derivatives</b>	<b>680</b>	688	683
Derivatives	270	275	286
<b>Total liabilities</b>	<b>950</b>	963	969
Equity	61	61	59
<b>Total liabilities and equity</b>	<b>1,011</b>	1,024	1,028
<b>Memo items</b>			
Tangible equity (2)	43	43	41
Tangible net asset value per ordinary and B share (3,4)	<b>376p</b>	376p	363p

### Notes:

- (1) Includes disposal groups.
- (2) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.
- (3) Tangible net asset value (TNAV) per ordinary and B share represents total tangible equity divided by the number of ordinary shares in issue and effect of convertible B shares.
- (4) Retained earnings and positive movements in available-for-sale financial assets were largely offset by currency translation losses, due to the strengthening of sterling, leaving TNAV flat compared with 31 March 2014.

## Analysis of results

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Net interest income</b>				
Net interest income (1)	5,468	5,435	2,784	2,684
Average interest-earning assets (1)	507,268	556,294	502,347	512,244
Net interest margin				
- RBS	2.17%	1.97%	2.22%	2.12%
- Personal & Business Banking	3.39%	3.15%	3.40%	3.37%
- Commercial & Private Banking	2.90%	2.69%	2.91%	2.89%
- Citizens Financial Group	2.94%	2.90%	2.93%	2.94%

Note:

(1) Net interest income for the half year ended 30 June 2014 was decreased by £28 million (H1 2013 - £38 million; Q2 2014 - £14 million; Q1 2014 - £14 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss and increased by nil (H1 2013 - £31 million, Q2 2014 - nil; Q1 2014 - nil) in respect of non-recurring adjustments. Average interest-earning assets have also been adjusted.

### Key points

#### H1 2014 compared with H1 2013

- Net interest income improved by 1% to £5,468 million. The increase was consistent across all businesses, with notable improvements in PBB (£97 million, 4%) and CPB (£90 million, 7%).
- Net interest margin (NIM) increased by 20 basis points to 2.17%, driven by deposit repricing initiatives across a number of businesses. The benefit of reduced funding costs outweighed lower yields on assets.

#### Q2 2014 compared with Q1 2014

- Net interest income improved by 4% to £2,784 million principally driven by improved margins and an additional day in the quarter.
- NIM increased by 10 basis points to 2.22%, driven by lower funding costs, reflecting repricing initiatives across a number of businesses, RCR run-down and a small number of one-off recoveries.

## Analysis of results

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	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Non-interest income</b>				
Net fees and commissions	2,118	2,248	1,063	1,055
Income from trading activities	1,482	1,890	626	856
Other operating income	882	1,028	438	444
<b>Total non-interest income</b>	<b>4,482</b>	5,166	<b>2,127</b>	2,355

### Key points

#### H1 2014 compared with H1 2013

- Non-interest income declined by £684 million or 13%, principally reflecting a 22% reduction in income from trading activities, in line with CIB's smaller balance sheet and reduced risk profile.
- A net gain of £170 million (\$283 million) was recorded on Citizens' sale of its Illinois branch network.
- Gains on the disposal of available-for-sale securities in Treasury were down £245 million to £215 million for H1 2014 (Q2 2014 - £15 million; Q1 2014 - £200 million).

#### Q2 2014 compared with Q1 2014

- Non-interest income declined by £228 million or 10%, principally reflecting the seasonality of CIB income and lower disposal income in RCR. This was partly offset by the net gain on sale from Citizens' branch sale.

## Analysis of results

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Operating expenses</b>				
Staff expenses	3,340	3,585	1,693	1,647
Premises and equipment	1,079	1,079	485	594
Other	1,292	1,479	605	687
Restructuring costs	514	271	385	129
Litigation and conduct costs	250	620	250	-
<b>Administrative expenses</b>	6,475	7,034	3,418	3,057
Depreciation and amortisation	551	716	282	269
Write-down of other intangible assets	82	-	-	82
<b>Operating expenses</b>	<b>7,108</b>	<b>7,750</b>	<b>3,700</b>	<b>3,408</b>
<b>Memo item</b>				
Adjusted operating expenses (1)	6,344	6,859	3,065	3,279
<b>Performance ratios</b>				
Staff costs as a % of total income	33%	34%	34%	33%
Cost:income ratio	71%	73%	75%	67%
Cost:income ratio - adjusted (1)	64%	65%	62%	65%

Note:

(1) Excluding restructuring costs and litigation and conduct costs.

## Key points

### H1 2014 compared with H1 2013

- Operating expenses were £642 million, 8%, lower. Adjusted operating expenses decreased by £515 million or 8% to £6,344 million. Much of the decrease was achieved in CIB through headcount reductions and tight control of discretionary expenditure. Overall operating expense trends are starting to show the benefits of the reshaping of the bank's cost base.
- Litigation and conducts costs totalled £250 million, with an additional provision of £150 million for Payment Protection Insurance redress recorded in UK PBB and a further £100 million relating to interest rate hedging product redress booked within Commercial Banking and CIB.
- Restructuring costs increased by £243 million to £514 million, including significant charges in relation to Williams & Glyn and to the restructuring of the property portfolio.

### Q2 2014 compared with Q1 2014

- Operating expenses were up £292 million, 9% reflecting higher restructuring and litigation and conduct costs. Adjusted operating expenses decreased by £214 million or 7%. This was principally driven by lower staff costs in CIB, operational cost saving initiatives in CPB and lower costs in PBB. This was only partly offset by higher staff costs in RCR.



## Analysis of results

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Impairment losses/(recoveries)</b>				
Loans	271	2,161	(89)	360
Securities	(2)	(11)	(4)	2
<b>Total impairment losses</b>	<b>269</b>	<b>2,150</b>	<b>(93)</b>	<b>362</b>
<b>Loan impairment losses</b>				
- individually assessed	113	1,472	(42)	155
- collectively assessed	348	734	221	127
- latent	(180)	(36)	(258)	78
Customer loans	281	2,170	(79)	360
Bank loans	(10)	(9)	(10)	-
<b>Loan impairment losses/(recoveries)</b>	<b>271</b>	<b>2,161</b>	<b>(89)</b>	<b>360</b>
RBS excluding RCR/Non-Core	290	1,258	36	254
RCR	(19)	n/a	(125)	106
Non-Core	n/a	903	n/a	n/a
RBS	271	2,161	(89)	360
<b>Customer loan impairment charge as a % of gross loans and advances (1)</b>				
RBS excluding RCR/Non-Core	0.2%	0.6%	-	0.3%
RCR	(0.1%)	n/a	(1.7%)	1.2%
Non-Core	n/a	3.9%	n/a	n/a

	30 June 2014	31 March 2014	31 December 2013
Loan impairment provisions	£22.4bn	£24.2bn	£25.2bn
Risk elements in lending (REIL)	£34.1bn	£37.4bn	£39.4bn
Provision coverage (2)	66%	65%	64%

Notes:

- (1) Excludes reverse repurchase agreements and includes disposals groups.
- (2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

## Key points

### H1 2014 compared with H1 2013

- Loan impairment losses declined sharply by £1,890 million or 87%, including £180 million of releases of latent provisions (H1 2013 - £36 million). Asset quality continued to improve in the UK and Ireland.
- Loan impairments in RCR amounted to a net recovery of £19 million.
- Provision coverage strengthened to 66% compared with 64% at the end of 2013. REIL were £5.3 billion lower and represented 8.3% of gross customer loans, compared with 9.4% at the end of 2013.

### Q2 2014 compared with Q1 2014

- A net recovery of £89 million was recorded in Q2 2014, compared with losses of £360 million in Q1 2014.
- Improvement in loan impairment losses was driven by the release of latent provisions in CPB and CIB and by a strong credit performance in RCR (a net recovery of £125 million compared with losses of £106 million in Q1 2014).
- REIL fell by £3.3 billion. As a percentage of gross loans to customers, REIL declined to 8.3% from 9.0% at 31 March 2014.

## Analysis of results

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<b>Balance sheet</b>	<b>30 June 2014</b>	31 March 2014	31 December 2013
Funded balance sheet (1)	<b>£736bn</b>	£746bn	£740bn
Total assets	<b>£1,011bn</b>	£1,024bn	£1,028bn
Net loans and advances to customers (2)	<b>£387bn</b>	£392bn	£393bn
Customer deposits (3)	<b>£401bn</b>	£404bn	£418bn
Loan:deposit ratio - RBS excluding RCR/Non-Core (4)	<b>93%</b>	93%	89%
Loan:deposit ratio - RBS (4)	<b>96%</b>	97%	94%

### Notes:

- (1) Funded balance sheet represents total assets less derivatives.
- (2) Excludes reverse repurchase agreements and stock borrowing, and includes disposal groups.
- (3) Excludes repurchase agreements and stock lending, and includes disposal groups.
- (4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratio for the Bank at 30 June 2014 was 96% (31 March 2014 - 97%; 31 December 2013 - 94%).

## Key points

### 30 June 2014 compared with 31 March 2014

- Funded assets decreased by £10 billion to £736 billion principally attributable to lower debt securities in CIB coupled with RCR run-down.
- Net loans and advances to customers decreased by £5 billion to £387 billion principally driven by RCR run-down and disposals, the impact of stronger sterling on dollar denominated loans, partly offset by good mortgage balance growth in UK PBB.
- Customer deposits decreased by £3 billion driven by lower balances in Citizens adversely impacted by foreign exchange movements, deposit repricing in Private Banking and lower balances in CIB. This was partly offset by increased deposit balances in UK PBB.

### 30 June 2014 compared with 31 December 2013

- Funded assets decreased by £4 billion to £736 billion principally driven by RCR run-down.
- Net loans and advances to customers decreased by £6 billion principally driven by RCR run-down and the impact of currency movements.
- Customer deposits fell by £17 billion reflecting a managed run down of surplus liquidity. The customer funding surplus decreased to £14 billion, while the loan:deposit ratio increased by 2 percentage points to 96%.

## Analysis of results

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### Capital ratios

	End-point CRR basis (1)		
	30 June 2014	31 March 2014	31 December 2013 (2)
Risk asset ratios	%	%	%
CET1 (3)	10.1	9.4	8.6
Tier 1	10.1	9.4	8.6
Total	12.4	11.4	10.6
Total RWAs	£392bn	£414bn	£429bn

#### Notes:

- (1) Capital Requirements Regulation (CRR), as implemented by the Prudential Regulation Authority in the UK, with effect from 1 January 2014.
- (2) Estimated end-point CRR basis.
- (3) Common Equity Tier 1.

### Key points

#### 30 June 2014 compared with 31 March 2014

- The CRR end-point CET 1 ratio improved to 10.1%<sup>(1)</sup> from 9.4%, principally driven by retained earnings and continuing reduction in RWAs and expected loss, after charging the initial DAS dividend of £320 million.
- RWAs decreased by £22 billion principally reflecting the £12 billion fall in CIB driven by risk reductions and £5 billion of run-off and disposals in RCR.

#### 30 June 2014 compared with 31 December 2013

- The CRR end-point CET 1 ratio improved to 10.1%<sup>(1)</sup> from 8.6%, principally driven by retained earnings and continuing reduction in RWAs and expected loss.
- RWAs decreased by £37 billion principally attributable to the risk reductions in CIB and run-off and disposals in RCR.

#### Note:

- (1) The CET1 ratio includes the benefit of the retained profit for the period. This is subject to approval by the PRA, which is expected to be obtained prior to the publication of the Interim Results on 1 August 2014.

## Segment performance

RBS has changed its reporting segments as set out in the Restatement Document released on 21 July 2014. Key measures for each segment are shown in the tables below, with comparatives restated accordingly.

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Operating profit/(loss)<sup>(1)</sup> before impairment losses by segment</b>				
UK Personal & Business Banking	1,142	944	544	598
Ulster Bank	112	122	56	56
Personal & Business Banking	1,254	1,066	600	654
Commercial Banking	666	695	305	361
Private Banking	145	95	71	74
Commercial & Private Banking	811	790	376	435
Corporate & Institutional Banking	269	26	(70)	339
Central items	79	550	73	6
	2,413	2,432	979	1,434
Citizens Financial Group	525	404	308	217
RCR	(68)	n/a	(62)	(6)
Non-Core	n/a	22	n/a	n/a
<b>RBS operating profit<sup>(1)</sup> before impairment losses</b>	<b>2,870</b>	<b>2,858</b>	<b>1,225</b>	<b>1,645</b>
<b>Impairment losses/(recoveries) by segment</b>				
UK Personal & Business Banking	148	256	60	88
Ulster Bank	57	503	10	47
Personal & Business Banking	205	759	70	135
Commercial Banking	31	282	(9)	40
Private Banking	-	7	1	(1)
Commercial & Private Banking	31	289	(8)	39
Corporate & Institutional Banking	(39)	223	(45)	6
Central items	(12)	(3)	(13)	1
	185	1,268	4	181
Citizens Financial Group	104	51	31	73
RCR	(20)	n/a	(128)	108
Non-Core	n/a	831	n/a	n/a
<b>RBS impairment losses</b>	<b>269</b>	<b>2,150</b>	<b>(93)</b>	<b>362</b>
<b>Operating profit/(loss)<sup>(1)</sup> by segment</b>				
UK Personal & Business Banking	994	688	484	510
Ulster Bank	55	(381)	46	9
Personal & Business Banking	1,049	307	530	519
Commercial Banking	635	413	314	321
Private Banking	145	88	70	75
Commercial & Private Banking	780	501	384	396
Corporate & Institutional Banking	308	(197)	(25)	333
Central items	91	553	86	5
	2,228	1,164	975	1,253
Citizens Financial Group	421	353	277	144
RCR	(48)	n/a	66	(114)
Non-Core	n/a	(809)	n/a	n/a
<b>RBS operating profit<sup>(1)</sup></b>	<b>2,601</b>	<b>708</b>	<b>1,318</b>	<b>1,283</b>

Note:

- (1) Operating profit before own credit adjustments, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest.

## Personal & Business Banking

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	2,599	2,502	1,321	1,278
Net fees and commissions	703	693	338	365
Other non-interest income	72	78	51	21
Non-interest income	775	771	389	386
Total income	3,374	3,273	1,710	1,664
Direct expenses	(836)	(820)	(401)	(435)
Indirect expenses	(1,101)	(1,072)	(518)	(583)
Restructuring costs	(33)	(130)	(41)	8
Litigation and conduct costs	(150)	(185)	(150)	-
	(2,120)	(2,207)	(1,110)	(1,010)
Profit before impairment losses	1,254	1,066	600	654
Impairment losses	(205)	(759)	(70)	(135)
Operating profit	1,049	307	530	519
<b>Memo items</b>				
Total expenses - adjusted (1)	(1,937)	(1,892)	(919)	(1,018)
Operating profit - adjusted (1)	1,232	622	721	511
<b>Performance ratios</b>				
Cost:income ratio	63%	67%	65%	61%
Cost:income - adjusted (1)	57%	58%	54%	61%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	160.2	158.8	160.2
Net loans and advances to customers	148.8	148.7	150.8
Customer deposits	166.7	165.7	166.6
Risk-weighted assets (2)	74.7	77.2	81.9

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.



## UK Personal & Business Banking

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	2,276	2,200	1,152	1,124
Net fees and commissions	637	624	304	333
Other non-interest income	49	5	43	6
Non-interest income	686	629	347	339
Total income	2,962	2,829	1,499	1,463
Direct expenses	(676)	(669)	(321)	(355)
Indirect expenses	(975)	(947)	(455)	(520)
Restructuring costs	(19)	(109)	(29)	10
Litigation and conduct costs	(150)	(160)	(150)	-
	(1,820)	(1,885)	(955)	(865)
Profit before impairment losses	1,142	944	544	598
Impairment losses	(148)	(256)	(60)	(88)
Operating profit	994	688	484	510
<b>Memo items</b>				
Total expenses - adjusted (1)	(1,651)	(1,616)	(776)	(875)
Operating profit - adjusted (1)	1,163	957	663	500
<b>Performance ratios</b>				
Cost:income ratio	61%	67%	64%	59%
Cost:income ratio - adjusted (1)	56%	57%	52%	60%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	133.6	132.8	132.2
Net loans and advances to customers	126.4	125.5	124.8
Customer deposits	146.0	144.6	144.9
Risk-weighted assets (2)	47.0	48.5	51.2

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

## Ulster Bank

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	323	302	169	154
Net fees and commissions	66	69	34	32
Other non-interest income	23	73	8	15
Non-interest income	89	142	42	47
Total income	412	444	211	201
Direct expenses	(160)	(151)	(80)	(80)
Indirect expenses	(126)	(125)	(63)	(63)
Restructuring costs	(14)	(21)	(12)	(2)
Litigation and conduct costs	-	(25)	-	-
	(300)	(322)	(155)	(145)
Profit before impairment losses	112	122	56	56
Impairment losses	(57)	(503)	(10)	(47)
Operating profit	55	(381)	46	9
<b>Memo items</b>				
Total expenses - adjusted (1)	(286)	(276)	(143)	(143)
Operating profit - adjusted (1)	69	(335)	58	11
<b>Performance ratios</b>				
Cost:income ratio	73%	73%	73%	72%
Cost:income ratio - adjusted (1)	69%	62%	68%	71%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	26.6	26.0	28.0
Net loans and advances to customers	22.4	23.2	26.0
Customer deposits	20.7	21.1	21.7
Risk-weighted assets (2)	27.7	28.7	30.7

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

## Commercial & Private Banking

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	1,343	1,253	685	658
Net fees and commissions	620	657	311	309
Other non-interest income	150	170	74	76
Non-interest income	770	827	385	385
Total income	2,113	2,080	1,070	1,043
Direct expenses	(581)	(602)	(287)	(294)
Indirect expenses	(606)	(629)	(293)	(313)
Restructuring costs	(65)	(34)	(64)	(1)
Litigation and conduct costs	(50)	(25)	(50)	-
	(1,302)	(1,290)	(694)	(608)
Profit before impairment losses	811	790	376	435
Impairment (losses)/recoveries	(31)	(289)	8	(39)
Operating profit	780	501	384	396
<b>Memo items</b>				
Total expenses - adjusted (1)	(1,187)	(1,231)	(580)	(607)
Operating profit - adjusted (1)	895	560	498	397
<b>Performance ratios</b>				
Cost:income ratio	62%	62%	65%	58%
Cost:income ratio - adjusted (1)	56%	59%	54%	58%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	109.4	110.7	108.9
Net loans and advances to customers	100.4	101.6	100.2
Customer deposits (excluding repos)	123.9	124.2	127.9
Risk-weighted assets (2)	74.8	75.5	77.8

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.  
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

## Commercial Banking

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	999	936	511	488
Net fees and commissions	448	477	227	221
Other non-interest income	121	136	60	61
Non-interest income	569	613	287	282
Total income	1,568	1,549	798	770
Direct expenses	(389)	(399)	(193)	(196)
Indirect expenses	(401)	(401)	(189)	(212)
Restructuring costs	(62)	(29)	(61)	(1)
Litigation and conduct costs	(50)	(25)	(50)	-
	(902)	(854)	(493)	(409)
Profit before impairment losses	666	695	305	361
Impairment (losses)/recoveries	(31)	(282)	9	(40)
Operating profit	635	413	314	321
<b>Memo items</b>				
Total expenses- adjusted (1)	(790)	(800)	(382)	(408)
Operating profit - adjusted (1)	747	467	425	322
<b>Performance ratios</b>				
Cost:income ratio	58%	55%	62%	53%
Cost:income ratio - adjusted (1)	50%	52%	48%	53%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	88.6	89.6	87.9
Net loans and advances to customers	83.9	84.9	83.5
Customer deposits (excluding repos)	88.0	87.6	90.7
Risk-weighted assets (2)	63.0	63.5	65.8

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

## Private Banking

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	344	317	174	170
Net fees and commissions	172	180	84	88
Other non-interest income	29	34	14	15
Non-interest income	201	214	98	103
Total income	545	531	272	273
Direct expenses	(192)	(203)	(94)	(98)
Indirect expenses	(205)	(228)	(104)	(101)
Restructuring costs	(3)	(5)	(3)	-
	(400)	(436)	(201)	(199)
Profit before impairment losses	145	95	71	74
Impairment (losses)/recoveries	-	(7)	(1)	1
Operating profit	145	88	70	75
<b>Memo items</b>				
Total expenses - adjusted (1)	(397)	(431)	(198)	(199)
Operating profit - adjusted (1)	148	93	73	75
<b>Performance ratios</b>				
Cost:income ratio	73%	82%	74%	73%
Cost:income ratio - adjusted (1)	73%	81%	73%	73%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	20.8	21.1	21.0
Net loans and advances to customers	16.5	16.7	16.7
Customer deposits (excluding repos)	35.9	36.6	37.2
Risk-weighted assets (2)	11.8	12.0	12.0

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.



## Corporate & Institutional Banking

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income from banking activities	365	314	186	179
Net fees and commissions	490	556	247	243
Income from trading activities	1,482	1,753	597	885
Other operating income	90	85	46	44
Non-interest income	2,062	2,394	890	1,172
Total income	2,427	2,708	1,076	1,351
Direct expenses	(748)	(864)	(363)	(385)
Indirect expenses	(1,169)	(1,325)	(581)	(588)
Restructuring costs	(191)	(83)	(152)	(39)
Litigation and conduct costs	(50)	(410)	(50)	-
	(2,158)	(2,682)	(1,146)	(1,012)
Profit/(loss) before impairment losses	269	26	(70)	339
Impairment recoveries/(losses)	39	(223)	45	(6)
Operating profit/(loss)	308	(197)	(25)	333
<b>Memo items</b>				
Total expenses - adjusted (1)	(1,917)	(2,189)	(944)	(973)
Operating profit - adjusted (1)	549	296	177	372
<b>Performance ratios</b>				
Cost:income ratio	89%	99%	107%	75%
Cost:income ratio - adjusted (1)	79%	81%	88%	72%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	278.7	286.6	268.6
Net loans and advances to customers	69.0	70.5	68.2
Customer deposits (excluding repos)	55.5	57.1	64.8
Risk-weighted assets (2)	127.8	140.2	120.4

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis. On a fully loaded Basel 3 basis risk-weighted assets at 1 January 2014 were £147.1 billion.

## Citizens Financial Group

	Half year ended		Quarter ended	
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>				
Net interest income	987	939	499	488
Net fees and commissions	350	382	181	169
Other non-interest income	270	188	210	60
Non-interest income	620	570	391	229
Total income	1,607	1,509	890	717
Direct expenses	(1,013)	(1,054)	(513)	(500)
Indirect expenses	-	(48)	-	-
Restructuring costs	(69)	(3)	(69)	-
	(1,082)	(1,105)	(582)	(500)
Profit before impairment losses	525	404	308	217
Impairment losses	(104)	(51)	(31)	(73)
Operating profit	421	353	277	144
<b>Memo items</b>				
Total expenses - adjusted (1)	(1,013)	(1,102)	(513)	(500)
Operating profit - adjusted (1)	490	356	346	144
<b>Performance ratios</b>				
Cost:income ratio	67%	73%	65%	70%
Cost:income ratio - adjusted (1)	63%	73%	58%	70%

	30 June 2014 £bn	31 March 2014 £bn	31 December 2013 £bn
<b>Capital and balance sheet</b>			
Funded assets	75.7	75.7	71.3
Net loans and advances to customers	51.7	52.7	50.3
Customer deposits (excluding repos)	52.9	54.9	55.1
Risk-weighted assets (2)	60.7	61.3	56.1

Notes:

- (1) Excluding restructuring costs.
- (2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

## RBS Capital Resolution

	Half year ended	Quarter ended	
	30 June 2014 £m	30 June 2014 £m	31 March 2014 £m
<b>Income statement</b>			
Net interest income/(expense)	11	16	(5)
Net fees and commissions	31	17	14
Income from trading activities	(53)	(69)	16
Other operating income	119	71	48
Non-interest income	97	19	78
Total income	108	35	73
Direct expenses	(121)	(65)	(56)
Indirect expenses	(55)	(32)	(23)
	(176)	(97)	(79)
Loss before impairment losses	(68)	(62)	(6)
Impairment recoveries/(losses)	20	128	(108)
Operating (loss)/profit	(48)	66	(114)

	30 June 2014 £bn	31 March 2014 £bn
<b>Capital and balance sheet</b>		
Funded assets	20.9	24.3
Net loans and advances to customers	15.6	18.3
Risk-weighted assets (1)	35.1	40.5

Note:

(1) On a fully loaded Basel 3 basis risk-weighted assets at 1 January 2014 were £46.7 billion.

## Non-Core

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Half year  
ended  
30 June  
2013  
£m

<b>Income statement</b>	
Net interest income	2
Non-interest income	364
Total income	366
Direct expenses	(213)
Indirect expenses	(108)
Restructuring costs	(23)
	(344)
Profit before impairment losses	22
Impairment losses	(831)
Operating loss	(809)

31 December  
2013  
£bn

<b>Capital and balance sheet</b>	
Funded assets	28.0
Net loans and advances to customers	22.9
Customer deposits (excluding repos)	2.2
Risk-weighted assets (1)	29.2

Note:

(1) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.