ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For August 5, 2016

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(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):_________

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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-________

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Independent review report to The Royal Bank of Scotland Group plc

Introduction

We have been engaged by The Royal Bank of Scotland Group plc (the ‘Company’ or the ‘Group’) to review the Condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2016, which comprise the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated balance sheet, the Condensed consolidated statement of changes in equity, the Condensed consolidated cash flow statement, related Notes 1 to 19, the financial information in the segment results on page 26 to 59, and the Capital and risk management disclosures set out in Appendix 1 except for those indicated as not reviewed (together ‘the Condensed consolidated financial statements’).We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed consolidated financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union. The Condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, ‘‘Interim Financial Reporting,’’ as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the Condensed consolidated financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review report to The Royal Bank of Scotland Group plc

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Statutory Auditor
London, United Kingdom
4 August 2016

Risk factors

The Group is subject to the following new risk factors:

Economic, regulatory and political uncertainty arising from the outcome of the recent referendum on the UK's membership of the European Union ("EU Referendum") could adversely impact the Group's business, results of operations, financial condition and prospects.
In a referendum held on 23 June 2016, a majority voted for the UK to leave the EU. Immediately following the EU Referendum result, the UK and global stock and foreign exchange markets commenced a period of significant volatility, in addition to which there is now prevailing uncertainty relating to the process, timing and negotiation of the UK's relationships with the EU and other multilateral organisations, as well as individual countries.

Once the exit process is triggered by the UK government, a two year period of negotiation will begin to determine the new terms of the UK's relationship with the EU, after which period its EU membership will cease. These negotiations will run in parallel to standalone bilateral negotiations with many individual countries and multilateral counterparties with which the UK currently has trading arrangements by virtue of its membership of the EU. The timing of, and process for, such negotiations and the resulting terms of the UK's future economic, trading and legal relationships are uncertain. See also "The result of the EU Referendum has revived political uncertainty regarding Scottish independence resulting in additional risks to the Group."

The longer term effects of the EU Referendum are difficult to predict but are likely to include further financial instability and slower economic growth, in the UK in particular, but also in Republic of Ireland ("ROI"), Europe and the global economy, at least in the short to medium term.

As part of its revised strategy, the Group has been refocusing its business in the UK and ROI and, accordingly is more exposed to a slow-down of the British and Irish economies. Further decreases in interest rates by the Bank of England or sustained low or negative interest rates will put further pressure on the Group's interest margins and adversely affect the Group's profitability and prospects. Furthermore, such market conditions may also result in an increase in the Group's pension deficit.

Risk factors

A challenging macroeconomic environment, reduced profitability and greater market uncertainty could negatively impact the Group's performance and potentially lead to credit ratings downgrades which could adversely impact the Group's ability and cost of funding. The Group's ability to access capital markets on acceptable terms and hence its ability to raise the amount of capital and funding required to meet its regulatory requirements and targets, including those relating to loss-absorbing instruments to be issued by the Group, could be effected. The major credit rating agencies have downgraded and changed their outlook to negative on the UK's sovereign credit rating following the results of the EU Referendum, resulting in the loss of its last remaining AAA rating.

The Group is in the process of implementing a large number of key restructuring and strategic initiatives, including the restructuring of its CIB business, the implementation of the UK ring-fencing regime, a significant cost reduction programme, and the divestment of Williams & Glyn, all of which will be carried out throughout this period of significant uncertainty which may impact the prospects for successful execution and impose additional pressure on management. In addition, the uncertainty resulting from the impact of the EU Referendum on foreign nationals' long term residency permissions in the UK may make it challenging for the Group to retain and recruit adequate staff, which may adversely impact the execution of these restructuring activities and business strategy.

The Group and its subsidiaries are subject to substantial EU-derived regulation and oversight. There is now significant uncertainty as to the respective legal and regulatory environments in which the Group and its subsidiaries will operate when the UK is no longer a member of the EU. In particular, the Group and its counterparties may no longer be able to rely on the European passporting framework for financial services and could be required to apply for authorisation in multiple EU jurisdictions, the costs, timing and viability of which is uncertain. This uncertainty and any actions taken as a result of this uncertainty, as well as new or amended rules may have a significant impact on the Group's operations, profitability and business model.

These risks and uncertainties are in addition to the pre-existing discussed in the Group's 2015 Annual Report & Accounts, also as filed on Form 20-F, which could individually or collectively have a material adverse effect on the Group's financial condition and results of operations.

The result of the EU Referendum has revived political uncertainty regarding Scottish independence resulting in additional risks to the Group.
The Royal Bank of Scotland Group plc and The Royal Bank of Scotland plc ("RBS plc"), its principal operating subsidiary, are both headquartered and incorporated in Scotland. A referendum on Scottish independence took place on 18 September 2014, the outcome of which was a vote in favour of Scotland remaining part of the UK. However, the outcome of the EU Referendum was not supported by the majority of voters in Scotland who voted in favour of remaining in the EU. This has revived the political debate on a second referendum on Scottish independence creating further uncertainty as to whether such a referendum may be held and as to how the Scottish parliamentary process may impact the negotiations relating to the UK's exit from the EU and its future economic, trading and legal relationship with the EU.

Risk factors

Although the fact of, the timing and outcome of any further referendum on Scottish independence is very uncertain, such a referendum would greatly increase the risks the Group currently faces as a result of the EU Referendum. An affirmative result would result in significant additional constitutional, political, regulatory and economic uncertainty and would likely significantly impact the Group's credit ratings and funding and other costs and the fiscal, monetary, legal and regulatory landscape in which the Group operates.

In addition to the above, set out below is a summary of certain risks which could adversely affect the Group. This summary updates, and should be read in conjunction with, the fuller description of these and other risk factors included on pages 390 to 414 of the 2015 R&A and on pages 384 to 408 of the Group's Form 20-F filed with the US Securities and Exchange Commission on 24 March 2016. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

On 28 April 2016, the Group announced that there was a significant risk that the separation and divestment of Williams & Glyn would not be achieved by 31 December 2017. The Board has determined that it would not be prudent to continue with the current plan of record for separating and divesting Williams & Glyn and is actively exploring various alternative divestment structures including asset or business sales to third parties. However, there is no certainty any will be viable and each entails significant structural, execution, regulatory and cost risks.
While RBS remains committed to meeting the deadline for achieving a divestment, there is a significant risk it will be unable to do so. Challenging market conditions, Williams & Glyn's high cost base and the complexity of the business previously known as Williams & Glyn (and attendant integration/transfer challenges for any potential counterparty), transfer costs and accounting impacts may inhibit interest in its assets or business and/or result in RBS only being able to achieve a price materially below the book value of those assets, which may result in a significant loss on any divestment transaction and have an adverse effect on the Group's capital position.
The Group is subject to a number of legal, regulatory and governmental actions and investigations. Unfavourable outcomes in such actions and investigations could have a material adverse effect on the Group's operations, operating results, reputation, financial position and future prospects. For more details on certain of the Group's ongoing legal, governmental and regulatory proceedings, see pages 95 to 105.
The Group has been, and will remain, in a period of major restructuring through to 2019, which carries significant execution and operational risks, and there can be no assurance that the final results will be successful and that the Group will be a viable, competitive, customer-focused and profitable bank.
Implementation of the ring-fencing regime in the UK which began in 2015 and must be completed before 1 January 2019 will result in material structural changes to the Group's business. These changes could have a material adverse effect on the Group.
Operational risks are inherent in the Group's businesses and these risks could increase as a result of a number of factors including, as the Group implements its strategic programme, the UK ring-fencing regime, its cost reduction programme and the divestment of Williams & Glyn.

Risk factors

The Group's businesses and performance can be negatively affected by actual or perceived global economic and financial market conditions and other global risks and the Group will be increasingly impacted by developments in the UK as its operations become increasingly concentrated in the UK.
Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices, basis, volatility and correlation risks and other market factors have significantly affected and will continue to affect the Group's business and results of operations.
The Group's business performance and financial position could be adversely affected if its capital is not managed effectively or if it is unable to meet its capital targets.
Failure by the Group to comply with regulatory capital, liquidity and leverage requirements, including as a result of, international, EU or UK changes or a requirement by the Group's regulators to increase the levels of capital the Group should hold or the manner in which it calculates its risk weighted assets and risk exposure may result in intervention by its regulators and loss of investor confidence, and may have a material adverse effect on its results of operations, financial condition and reputation and may result in distribution restrictions and adversely impact existing shareholders and other security holders.
Failure by the Group to comply with its capital requirements or to maintain sufficient distributable profits in the Royal Bank of Scotland Group plc, (RBSG) may restrict its ability to make discretionary distributions, including the payment of coupons on certain capital instruments and dividends to its ordinary shareholders. RBSG distributable profits are sensitive to the accounting impact of factors including the redemption of preference shares, restructuring costs and impairment charges and the carrying value of its investments in subsidiaries which are carried at the lower of cost and their prevailing recoverable amount. Recoverable amounts depend on discounted future cash flows which can be affected by restructurings, such as the requirement to create a ring fenced and non ring-fenced bank or banks, or unforeseen events. The RBSG distributable reserves also depend on the receipt of income from subsidiaries, principally as dividends. The ability of subsidiaries to pay dividends is subject to their performance and applicable local laws and other restrictions, including their respective regulatory requirements. Any of these factors, including restructuring costs, impairment charges and a reduction in the carrying value of RBSG subsidiaries or a shortage of dividends from them could limit the Group's ability to maintain sufficient distributable profits to be able to the pay coupons on certain capital instruments and dividends to its ordinary shareholders.
The Group is subject to stress tests mandated by its regulators in the UK and in Europe which may result in additional capital requirements or management actions which, in turn, may impact the Group's financial condition, results of operations and investor confidence or result in restrictions on distributions.
As a result of extensive reforms being implemented within the EU and the UK relating to the resolution of financial institutions, material additional requirements will arise to ensure that financial institutions maintain sufficient loss-absorbing capacity. Such changes to the funding and regulatory capital framework may require the Group to meet higher funding levels than the Group anticipated within its strategic plans and affect the Group's funding costs.
The Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings and, to a lesser extent, on the rating of the UK Government.
The Group's ability to meet its obligations including its funding commitments depends on the Group's ability to access sources of liquidity and funding.
The Group's businesses are subject to substantial regulation and oversight. Significant regulatory developments and increased scrutiny by the Group's key regulators are likely to continue to increase compliance and conduct risks and could have a material adverse effect on how the Group conducts its business and on its results of operations and financial condition.

Risk factors

The Group is currently implementing a number of significant investment and rationalisation initiatives as part of the Group's IT investment programme. Should such investment and rationalisation initiatives fail to achieve the expected results, it could have a material adverse impact on the Group's operations and its ability to retain or grow its customer business and could require the Group to recognise impairment charges.
The Group's operations are highly dependent on its IT systems. A failure of the Group's IT systems could adversely affect its operations and investor and customer confidence and expose the Group to regulatory sanctions.
The Group is exposed to cyber attacks and a failure to prevent or defend against such attacks could have a material adverse effect on the Group's operations, results of operations or reputation.
The Group's operations entail inherent reputational risk.
The Group is exposed to conduct risk which may adversely impact the Group or its employees and may result in conduct having a detrimental impact on the Group's customers or counterparties.
The Group may be adversely impacted if its risk management is not effective and there may be significant challenges in maintaining the effectiveness of the Group's risk management framework as a result of the number of strategic and restructuring initiatives being carried out by the Group simultaneously.
The Group is currently in the process of implementing a strong risk culture across the organisation and a failure by the Group to do so could adversely affect the Group's ability to achieve its strategic objectives.
The Group is subject to pension risks and may be required to make additional contributions to cover pension funding deficits. In addition, it may be required to restructure its pension schemes as a result of the implementation of the UK ring-fencing which may result in additional or increased cash contributions.
Pension risk and changes to the Group's funding of its pension schemes may have a significant impact on the Group's capital position.
The impact of the Group's pension obligations on its results and operations are also dependent on the regulatory environment in which it operates.
The Group's business and results of operations may be adversely affected by increasing competitive pressures and technology disruption in the markets in which it operates.
The Group operates in markets that are subject to intense scrutiny by the competition authorities and its business and results of operations could be materially affected by competition rulings and other government measures.
As a result of the commercial and regulatory environment in which it operates, the Group may be unable to attract or retain senior management (including members of the board) and other skilled personnel of the appropriate qualification and competence. The Group may also suffer if it does not maintain good employee relations.
HM Treasury (or UKFI on its behalf) may be able to exercise a significant degree of influence over the Group and any further offer or sale of its interests may affect the price of securities issued by the Group.
The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by depressed asset valuations resulting from poor market conditions.
The financial performance of the Group has been, and may continue to be, materially affected by customer and counterparty credit quality and deterioration in credit quality could arise due to prevailing economic and market conditions and legal and regulatory developments.

Risk factors

The Group is committed to executing the run-down and sale of certain businesses, portfolios and assets forming part of the businesses and activities being exited by the Group. Failure by the Group to do so on commercially favourable terms could have a material adverse effect on the Group's operations, operating results, financial position and reputation.
The value or effectiveness of any credit protection that the Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.
The Group relies on valuation, capital and stress test models to conduct its business, assess its risk exposure and anticipate capital and funding requirements. Failure of these models to provide accurate results or accurately reflect changes in the micro- and macroeconomic environment in which the Group operates could have a material adverse effect on the Group's business, capital and results. If found deficient by the Group's regulators, the Group may be required to make changes to such models or may be precluded from using such models, which could result in the Group maintaining additional capital.
The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Its results in future periods may be affected by changes to applicable accounting rules and standards.
The Group and its subsidiaries are subject to a new and evolving framework on recovery and resolution, the impact of which remains uncertain, and which may result in additional compliance challenges and costs.
The Group may become subject to the application of stabilisation or resolution powers in certain significant stress situations, which may result in various actions being taken in relation to the Group and any securities of the Group, including the write-off, write-down or conversion of the Group's securities.
In the UK and in other jurisdictions, the Group is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.
The Group's results could be adversely affected in the event of goodwill impairment.
Recent and anticipated changes in the tax legislation in the UK are likely to result in increased tax payments by the Group and may impact the recoverability of certain deferred tax assets recognised by the Group (including the timing for the recoverability of such deferred tax assets).

Statement of directors' responsibilities

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

the condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting';

the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

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

4 August 2016

Board of directors

Chairman	Executive directors	Non-executive directors
Howard Davies	Ross McEwan Ewen Stevenson	Sandy Crombie Frank Dangeard Alison Davis Morten Friis Robert Gillespie Penny Hughes Brendan Nelson Baroness Noakes Mike Rodgers

Additional information

Share information

	30 June 2016	31 March 2016	31 December 2015
Ordinary share price	171.60p	222.70p	302.00p
Number of ordinary shares in issue	11,755m	11,661m	11,625m

Financial calendar

2016 third quarter interim management statement	28 October 2016

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 ‘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 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, the implementation of a major development program to update RBS’s IT infrastructure and the continuation of its balance sheet reduction programme, 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 the Annual Report and Accounts 2015. 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.

Appendix 1

Capital and risk management

RBS – Interim Results 2016

Appendix 1 Capital and risk management

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Appendix 1 Capital and risk management

Presentation of information
Except as otherwise indicated by an asterisk (*), information in the Capital and risk management appendix is within the scope of the Independent review report by Ernst & Young LLP. Unless otherwise indicated, disclosures in this section include disposal groups in the relevant exposures.

General overview*
RBS's main risks are described in Capital and risk management - Risk coverage in the 2015 Annual Report and Accounts. The table below is an overview of these risks, including any developments during H1 2016.

Risk type	Overview
Capital and leverage	The CET1 ratio decreased by 100 basis points in H1 2016 to 14.5% primarily reflecting management actions to normalise the ownership structure and improve the long-term resilience of RBS. These included the final DAS payment of £1.2 billion and the accelerated payment of £4.2 billion relating to the outstanding deficit on the pension Main Scheme. Additional litigation and conduct charges contributed to a £2.0 billion reduction in CET1 capital. RWAs increased by £2.6 billion to £245.2 billion during H1 2016 reflecting lending growth in UK PBB and Commercial Banking and the adverse impact of exchange rate movements being partially offset by Capital Resolution disposals and run-off. There was a 10 basis points decrease in the CET1 ratio in Q2 2016 driven by a £0.7 billion decrease in CET 1 capital in Q2 2016, offset by £4.3 billion reduction in RWAs. The reduction in RWAs related to disposals and run-off in Capital Resolution, and removal of that element of operational risk RWAs relating to Citizens, following regulatory approval (£3.9 billion); these were partly off-set by the weakening of sterling mainly due to the EU Referendum (£4.4 billion). Leverage ratio reduced by 40 basis points in H1 2016 to 5.2%, reflecting lower CET1 capital and loan growth. Under current total loss absorbing capital (TLAC) guidance, RBS will be required to hold a minimum loss absorbing capital of 16% of RWAs by the beginning of 2019 and 18% by the beginning of 2022. This estimate is subject to final guidance from the Bank of England's proposed approach to MREL. Estimated loss absorbing capital at 30 June 2016 was £59.9 billion (31 December 2015 - £60.3 billion) which was 24.4% of RWAs and 8.3% of leverage exposure. The current estimated headroom to fully phased MDA trigger in 2019 is 2.2%. This is based on our target CET1 ratio of 13% versus 10.8% MDA requirement, which remains subject to change, comprising: 4.5% Pillar 1 minimum, the capital conservation buffer of 2.5%, 2.8% of Pillar 2A ratio and 1.0% GSIB buffer. RBS continued to strengthen its balance sheet and RBSG plc issued €1.5 billion 7 year 2.5% senior notes and $1.5 billion 10 year 4.8% senior notes in Q1 2016; both of which are expected to be MREL-eligible, subject to regulatory finalisation. There has been significant volatility in the capital markets during the year, most notably in the AT1 market. We continue to target up to £2 billion of AT1 issuance in 2016, subject to market conditions. The EBA announced the results of its 2016 EU-wide stress test in July 2016, RBS's CET1 ratio was 8.1% and leverage ratio was 3.6%. There was no pass / fail threshold for this test. We remain actively engaged with regulators in the UK and beyond on upcoming regulatory developments, including those relating to Basel Committee proposals on RWAs and the Bank of England's proposed approach to MREL for UK banks; our capital plans will evolve accordingly.

*Not within the scope of Ernst & Young LLP's review report.

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Appendix 1 Capital and risk management

General overview* (continued)

Risk type	Overview
Liquidity and funding	RBS has not experienced any significant impact to its liquidity position as a result of the EU Referendum. All key liquidity risk metrics met minimum requirements at 30 June 2016. The liquidity position remains strong with the liquidity portfolio of £153 billion covering total wholesale funding, including derivative collateral, by 1.9 times. The liquidity portfolio decreased by £2.9 billion in H1 2016, and by £3.7 billion in Q2, with payments totalling £5.4 billion in March 2016 relating to the pension fund and the final DAS dividend. The second quarter decrease comprised a £7 billion reduction in cash at central banks being partially offset by an increase in loans (secondary liquidity) in the central Treasury portfolio as well as lower liquidity requirements in RBS N.V. as rundown of the balance sheet continued. Liquidity coverage ratio (LCR) reduced from 136% at the year end to 121% at the end of the first quarter and 116% at 30 June 2016. The trend reflected the pension fund and DAS dividend payments and lending growth in UK PBB and Commercial Banking. These factors reduced RBS's excess liquidity. Net stable funding ratio (NSFR) was 119%, comfortably above the minimum target of 100%, reflecting RBS's funding strategy of relying on stable customer deposits. The loan:deposit ratio was 92%, up from 90% at Q1 and 89% at the year end. Mortgage growth in UK PBB and higher corporate lending in Commercial Banking outweighed deposit increases. Deposit growth in UK PBB, Private Banking and RBSI was partially offset by Capital Resolution exits and run-off. RBS has continued to manage down its overall wholesale funding, which has reduced from £83.5 billion at 31 December 2014 to £55.1 billion at 30 June 2016. The primary drivers have been calls and buybacks (£12.0 billion) and maturities (£19.3 billion), partially offset by new issuances (£2.9 billion). The H1 2016 reduction of £3.6 billion from £58.7 billion at December 2015 is largely due to calls and buybacks (£5.3 billion) and maturities (£6.1 billion), offset by new issuances (£2.3 billion) and the effect of changes in market values (£5.4 billion).

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

General overview* (continued)

Risk type	Overview
Conduct and regulatory	Conduct and litigation costs were £1.3 billion in both H1 2016 and in H1 2015. H1 2016 included provisions in respect of the UK 2008 rights issue shareholder litigation and additional charge for PPI. RBS continued to remediate historical conduct issues and to work on a number of regulatory change programmes. The UK's Senior Managers and Certification regime was successfully implemented, and work continues on the UK's ring-fencing requirements.
Credit risk	The growth in UK mortgage lending continued in line with UK PBB strategy. Risk appetite limits for sector, product and asset class frameworks were reduced to take account of the revised risk appetite associated with restructured CIB. Impairment provisions were £6.5 billion and covered REIL by 55% compared with £7.1 billion and 59% at 31 December 2015. REIL of £11.8 billion were 3.5% of customer loans and advances, down from 3.6% at Q1 2016 and 4.8% a year ago. Challenging market conditions have persisted in the Shipping sector, resulting in customers being subject to heightened credit monitoring. Impairment provisions were £445 million on REIL of £1,023 million at 30 June 2016 (31 March 2016 - £374 million on £827 million; 31 December 2015 - £181 million on £434 million). Forbearance has also increased. Q2 2016 also saw impairment charges in the Oil & Gas and Metals & Mining sectors of £97 million and £29 million respectively. Impairment provisions relating to the Property sector reduced from £2.3 billion to £1.5 billion, driven predominantly by the reduction in CRE exposures managed by Capital Resolution. The run-down in lower quality assets in Capital Resolution has improved the overall credit quality.
Market risk	Traded VaR continued to decline despite the increased volatility and reduced liquidity resulting from macroeconomic and political factors including the economic slowdown in China, the reduction in US quantitative easing, the low interest rate environment in Europe and the EU Referendum. Average internal traded VaR was £15.4 million (FY 2015 - £18.9 million). The EU Referendum had no significant impact on traded VaR during H1 2016. Non-traded credit spread VaR was £57.7 million at 30 June 2016 (31 December 2015 - £30.6 million). The rise largely reflected an increase in longer-dated bonds within Treasury's liquidity portfolio and greater credit spread volatility, primarily affecting US dollar bond swap spreads with tenors of over ten years. Non-traded interest rate VaR, capturing the risk arising from earnings from retail and commercial banking activities, was £21 million and was broadly stable during the period, with fluctuations well within risk appetite. The sensitivity of net interest income to an immediate upward 25 basis point shift in interest rates from the base-case forecast was broadly unchanged at £68 million, but the impact of a downward shift increased from £96 million to £140 million. The equity structural hedge fell to £35 billion from £42 billion, primarily reflecting the £4.2 billion pension fund payment and the £1.2 billion final DAS dividend payment.

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

General overview* (continued)

Risk type	Overview
Operational	Development of the operational risk framework continued, including: (i) the cascade of RBS-wide risk appetite statements for the most material risks; and (ii) the embedding of the enhanced Risk & Control Assessment approach developed in 2015. The effects on the bank's risk profile of the wide-ranging change portfolio, especially the divestment of Williams & Glyn, continued to be closely monitored.
Reputational	The importance of managing reputational risk is reinforced through an overarching risk appetite statement. This addresses the internal risk of RBS making decisions without taking reputational risk into account. The most material threats to RBS's reputation continued to originate from conduct issues, both historical and more recent.
Pension	RBS made a £4.2 billion payment to the RBS Group Pension Fund in March 2016. This removed an element of pension risk. RBS and the Trustee also agreed that the next valuation of the RBS Group Pension Fund will take place as at 31 December 2018, providing greater certainty to pension funding commitments until at least 2019, an important period running up to the implementation of UK ring-fencing legislation.
Business	RBS continued to reduce its business risk profile by implementing its strategic plan to shift the business mix towards the UK and retail and commercial banking segments, with higher risk activities in CIB and Capital Resolution curtailed through disposals and run-downs. RBS also continued with its simplification and cost reduction programmes. Market conditions have become more volatile following the EU Referendum result, and RBS continues closely to monitor and assess the operating environment and its impact on business risk.

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

Capital management*
RBS aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements, and operates within an agreed risk appetite. The appropriate level of capital is determined based on the aims of: (i) meeting minimum regulatory capital requirements; and (ii) ensuring RBS maintains sufficient capital to uphold customer, investor and rating agency confidence in the organisation, thereby supporting its business franchises and funding capacity. For a description of the capital management framework, governance and basis of preparation refer to Capital management in the 2015 Annual Report and Accounts.

Pillar 2A and MDA
RBS's current total Pillar 2A requirement is 5.0% of RWAs (31 December 2015 - 5.0%). From 1 January 2015, 56% of the total Pillar 2A or 2.8% of RWAs is required to be met from CET1 capital. Pillar 2A is a point in time regulatory assessment of the amount of capital required to meet the overall financial adequacy rules. This PRA assessment may change over time, including as a result of an at least annual assessment and supervisory review of RBS's Internal Capital Adequacy Assessment Process (ICAAP); the latest ICAAP based on the end of 2015 data was submitted to the PRA for supervisory review in May 2016.

RBS's capital risk appetite framework, which informs its capital targets, includes consideration of the maximum distributable amount (MDA) requirements. These requirements are expected to be phased in from 2016, with full implementation by 2019.

Based on current capital requirements, on the illustrative assumption that current estimates of Pillar 2A remain constant, RBS estimates that its 'fully phased' CET1 MDA requirement would be 10.8% in 2019, assuming RBS's current risk profile is unchanged. It should be noted that this estimate does not reflect the anticipated impact of RBS's planned restructuring, changes in the regulatory framework or other factors that could impact target CET 1 ratio. The estimated 2019 MDA requirement comprises:

4.5% Pillar 1 minimum CET1 ratio;
2.5% Capital conservation buffer;
2.8% Pillar 2A CET1 ratio; and
1.0% Global Systemically Important Institution buffer.

Based on the assumptions above, assuming a 13% steady state CET1 capital ratio is achieved, RBS currently estimates that it would have headroom of 2.2% to fully phased MDA trigger in 2019. This headroom will be subject to ongoing review to reflect our risk appetite and accommodate regulatory and other changes.

Developments in prudential regulation
Following the EU Referendum, a period of uncertainty is expected regarding the regulatory landscape that will apply at the point in time that the UK leaves the EU. EU regulation will continue to apply during the intervening period, expected to be two years or longer, whilst the UK remains a member of the EU. RBS remains actively engaged and continues to monitor developments with the regulatory bodies in the UK and beyond regarding the scope of regulation that may apply to RBS in the future. In its July 2016 Financial Stability Report, the FPC reduced the countercyclical buffer rate to UK bank's exposures from 0.5% to 0%.

*Not within the scope of Ernst & Young LLP's review report.

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Appendix 1 Capital and risk management

Pillar 2A and MDA* (continued)

In the first half of 2016 the Basel Committee of Banking Supervision (BCBS) framework has continued to evolve, additionally there have been revisions to Capital Requirements Regulations (CRR) and additional local rules for UK banks from the PRA. The BCBS developments were:

Credit risk: the proposals on Standardised and Internal Ratings Based approaches to calculating credit risk (including counterparty) restrict both portfolios where internal models are permitted to be used, and modelling approaches where modelling persists. Whist the final requirements are not expected until end 2016, capital requirements are expected to increase.

Market risk:

The Interest Rate Risk in the Banking Book (IRRBB) standard issued in April 2016 maintains the Pillar 2 approach with enhanced market disclosure (Pillar 3), allowing local supervisors to take account of individual circumstances when setting capital requirements.

The Fundamental Review of the Trading Book final standard was issued in January 2016. The major changes include: revisions to the approach for banking book/trading book boundary, the replacement of VaR with an expected shortfall model and new, more risk sensitive standardised methodologies which will need to be calculated for the entire book, regardless of whether a firm has permission to use a modelled approach. Capital requirements are expected to increase.

Operational risk: The consultation published in March 2016 addresses perceived weakness in the current framework by revising the calculation methodology to include a firm’s past operational losses, including conduct and litigation; capital requirements are expected to increase under these proposals.

Pillar 3 disclosures: The ‘Phase 2’ proposal was issued in March 2016 and focused on the consolidation of separate disclosure requirements and initiatives currently in development. A number of initiatives are subject to substantial debate or industry interpretation.

Leverage: The comprehensive review is likely to result in changes of approach for leverage exposure, including but not limited to: settlement balances, derivative exposures and off-balance sheet items.

MREL: The EBA launched a consultation in July 2016 on the implementation and design of MREL, the EU equivalent of TLAC, but the scope is not limited to G-SIBs. The requirement will be set on a case- by-case basis by the resolution authorities. We currently anticipate initial guidance from the Bank of England on its proposed approach to MREL in the second half of 2016.

*Not within the scope of Ernst & Young LLP’s review report.

Appendix 1 Capital and risk management

Capital management disclosures

Refer to Analysis of results - Capital and leverage for information on Capital, RWAs and leverage and the Pillar 3 supplement for capital and leverage relating to significant subsidiaries and also CRR templates.

Capital resources

	End-point CRR basis (1)			PRA transitional basis (1)		
	30 June	31 March	31 December	30 June	31 March	31 December
	2016	2016	2015	2016	2016	2015
	£m	£m	£m	£m	£m	£m
Shareholders' equity (excluding non-controlling interests)						
Shareholders' equity	52,907	53,377	53,431	52,907	53,377	53,431
Preference shares - equity	(3,305)	(3,305)	(3,305)	(3,305)	(3,305)	(3,305)
Other equity instruments	(2,536)	(2,646)	(2,646)	(2,536)	(2,646)	(2,646)
	47,066	47,426	47,480	47,066	47,426	47,480
Regulatory adjustments and deductions						
Own credit	(587)	(371)	(104)	(587)	(371)	(104)
Defined benefit pension fund adjustment	(209)	(458)	(161)	(209)	(458)	(161)
Cash flow hedging reserve	(1,603)	(1,141)	(458)	(1,603)	(1,141)	(458)
Deferred tax assets	(1,040)	(1,075)	(1,110)	(1,040)	(1,075)	(1,110)
Prudential valuation adjustments	(603)	(408)	(381)	(603)	(408)	(381)
Goodwill and other intangible assets	(6,525)	(6,534)	(6,537)	(6,525)	(6,534)	(6,537)
Expected losses less impairments	(831)	(936)	(1,035)	(831)	(936)	(1,035)
Other regulatory adjustments	(14)	(73)	(86)	(14)	(73)	(64)
	(11,412)	(10,996)	(9,872)	(11,412)	(10,996)	(9,850)
CET1 capital	35,654	36,430	37,608	35,654	36,430	37,630
Additional Tier 1 (AT1) capital						
Eligible AT1	1,997	1,997	1,997	1,997	1,997	1,997
Qualifying instruments and related share premium subject to phase out	-	-	-	4,365	4,365	5,092
Qualifying instruments issued by subsidiaries and held by third parties	-	-	-	1,394	1,394	1,627
AT1 capital	1,997	1,997	1,997	7,756	7,756	8,716
Tier 1 capital	37,651	38,427	39,605	43,410	44,186	46,346
Qualifying Tier 2 capital						
Qualifying instruments and related share premium	6,443	5,960	5,745	7,188	6,406	6,265
Qualifying instruments issued by						

subsidiaries and held by third parties	2,585	2,462	2,257	5,855	6,622	7,354
Tier 2 capital	9,028	8,422	8,002	13,043	13,028	13,619
Total regulatory capital	46,679	46,849	47,607	56,453	57,214	59,965

Note:

(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 available-for-sale (AFS) securities which has been included from 2015 for the PRA transitional basis.

Appendix 1 Capital and risk management

Capital flow statement*

The table below analyses the movement in end-point CRR CET1, AT1 and Tier 2 capital during the half year ended 30 June 2016.

	CET1 £m	AT1 £m	Tier 2 £m	Total £m
At 1 January 2016	37,608	1,997	8,002	47,607
Loss for the period	(2,045)	-	-	(2,045)
Own credit	(483)	-	-	(483)
Share capital and reserve movements in respect of employee share schemes	187	-	-	187
Ordinary shares issued	85	-	-	85
Foreign exchange reserve	1,032	-	-	1,032
AFS reserves	(75)	-	-	(75)
Goodwill and intangibles deduction	12	-	-	12
Deferred tax assets	70	-	-	70
Prudential valuation adjustments	(222)	-	-	(222)
Expected loss over impairment provisions	204	-	-	204
Net dated subordinated debt/grandfathered instruments	-	-	(364)	(364)
Foreign exchange movements	-	-	1,390	1,390
Other movements	(719)	-	-	(719)
At 30 June 2016	35,654	1,997	9,028	46,679

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

Loss absorbing capital*

The following table illustrates the components of estimated loss absorbing capital (LAC) in RBSG plc and operating subsidiaries.

	At 30 June 2016				31 December 2015			
	Par value (1)	Balance sheet value	Regulatory value (2)	LAC value (3)	Par value (1)	Balance sheet value	Regulatory value (2)	LAC value (3)
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
CET1 capital (4)	35.7	35.7	35.7	35.7	37.6	37.6	37.6	37.6
Tier 1 capital: end point CRR compliant AT1								
of which: RBSG plc (holdco)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
of which: RBSG operating subsidiaries (opcos)	-	-	-	-	-	-	-	-
	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Tier 1 capital: non-end point CRR compliant								
of which: holdco	6.1	6.4	6.0	4.7	6.0	6.0	5.9	4.6
of which: opcos	0.3	0.3	0.3	0.3	2.5	2.5	2.5	0.3
	6.4	6.7	6.3	5.0	8.5	8.5	8.4	4.9
Tier 2 capital: end point CRR compliant								
of which: holdco	6.5	7.0	6.4	5.2	5.8	5.9	5.7	4.4
of which: opcos	5.8	6.0	4.0	5.4	5.1	5.5	3.8	5.5
	12.3	13.0	10.4	10.6	10.9	11.4	9.5	9.9
Tier 2 capital: non-end point CRR compliant								
of which: holdco	0.3	0.3	0.2	0.1	0.3	0.3	0.2	0.1
of which: opcos	3.6	3.9	2.7	3.2	3.3	3.6	3.0	2.9
	3.9	4.2	2.9	3.3	3.6	3.9	3.2	3.0
Senior unsecured debt securities issued by:								
RBSG holdco	5.9	6.0	-	3.3	4.9	5.0	-	2.9
RBSG opcos	13.7	14.3	-	-	17.7	18.1	-	-
	19.6	20.3	-	3.3	22.6	23.1	-	2.9
Total	79.9	81.9	57.3	59.9	85.2	86.5	60.7	60.3
RWAs				245.2				242.6
Leverage exposure				720.7				702.5
LAC as a ratio of RWAs				24.4%				24.9%
LAC as a ratio of leverage exposure				8.3%				8.6%

Notes:

(1) Par value reflects the nominal value of securities issued.

(2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the TLAC/MREL criteria.

(3) LAC value reflects RBS's interpretation of the 9 November 2015 FSB Term Sheet on TLAC and the Bank of England's consultation on their approach to setting MREL, published on 11 December 2015. MREL policy and requirements remain subject to further consultation, as such RBS estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the TLAC/MREL criteria.

(4) Corresponding shareholders' equity was £52.9 billion (31 December 2015 - £53.4 billion).

(5) Regulatory amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

Risk-weighted assets*

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

	Credit risk RWAs		
	Non-counterparty	Counterparty	Total
	£bn	£bn	£bn
At 1 January 2016	166.4	23.4	189.8
Foreign exchange movement	7.5	-	7.5
Business movements	(3.5)	3.1	(0.4)
Risk parameter changes	2.3	(1.2)	1.1
Methodology changes	(0.2)	-	(0.2)
Model updates	0.7	1.1	1.8
Other changes	(0.7)	(0.3)	(1.0)
At 30 June 2016	172.5	26.1	198.6
Modelled (1)	135.3	23.0	158.3
Non-modelled	37.2	3.1	40.3
	172.5	26.1	198.6

	Market risk RWAs			Operational	
	CIB	Other	Total	risk RWAs	Total
	£bn	£bn	£bn	£bn	£bn
At 1 January 2016	13.8	7.4	21.2	31.6	52.8
Business and market movements	(0.4)	0.1	(0.3)	(5.9)	(6.2)
At 30 June 2016	13.4	7.5	20.9	25.7	46.6
Modelled (1)	11.5	5.0	16.5	-	16.5
Non-modelled	1.9	2.5	4.4	25.7	30.1
	13.4	7.5	20.9	25.7	46.6

Note:

(1) Modelled refers to advanced internal ratings (AIRB) basis for non-counterparty credit risk, internal model method (IMM) for counterparty credit risk, and value-at-risk and related models for market risk. These principally relate to Commercial Banking (£62.5 billion).

*Not within the scope of Ernst & Young LLP’s review report.

Appendix 1 Capital and risk management

Risk-weighted assets* (continued)
The table below analyses the movement in end-point CRR RWAs by segment during the half year.

Total RWAs	UK PBB £bn	Ulster Bank RoI £bn	Commercial Banking £bn	Private Banking £bn	RBSI £bn	CIB £bn	Capital Resolution £bn	W&G £bn	Central items & other £bn	Total £bn
At 1 January 2016	33.3	19.4	72.3	8.7	8.3	33.1	49.0	9.9	8.6	242.6
Foreign exchange movement	-	2.3	1.5	-	0.5	0.3	2.5	-	0.4	7.5
Business movements	0.5	(0.2)	2.7	0.2	0.8	2.6	(6.4)	(0.2)	(6.6)	(6.6)
Risk parameter changes (1)	3.9	(0.8)	(0.1)	-	-	0.1	(2.1)	0.2	(0.1)	1.1
Methodology changes	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.2)
Model updates (2)	0.1	-	0.2	-	-	0.6	0.5	-	0.4	1.8
Other changes	(0.8)	0.2	0.9	(0.7)	-	-	(1.1)	-	0.5	(1.0)
At 30 June 2016	37.0	20.9	77.5	8.1	9.6	36.7	42.3	9.9	3.2	245.2
Credit risk										
- non-counterparty	29.1	19.7	71.0	7.0	8.9	4.6	22.7	8.5	1.0	172.5
- counterparty	-	0.1	-	-	-	14.7	11.2	-	0.1	26.1
Market risk	-	-	-	-	-	13.4	5.6	-	1.9	20.9
Operational risk	7.9	1.1	6.5	1.1	0.7	4.0	2.8	1.4	0.2	25.7
Total RWAs	37.0	20.9	77.5	8.1	9.6	36.7	42.3	9.9	3.2	245.2

Notes:
(1) Risk parameter changes relate to changes in credit quality metrics of customers and counterparties such as probability of default (PD) and loss given default (LGD).
(2) Credit risk models were updated during the year including:
- UK PBB: non standard LGD model for mortgages and business banking EAD model.
- CIB: large corporate PD model.

Key points
The CET1 ratio of 14.5% decreased by 100 basis points which reflected a decrease in CET1 capital (£2.0 billion) and higher RWAs (£2.6 billion).
RWAs increased by £2.6 billion to £245.2 billion in H1 2016, primarily as a result of adverse exchange rate movements (£7.5 billion) and risk parameter recalibrations (£1.1 billion) negating the improvements in operational risk RWAs (£5.9 billion).
The foreign exchange movement occurred primarily in Capital Resolution (£2.5 billion), Ulster Bank RoI (£2.3 billion) and Commercial Banking (£1.5 billion) as sterling weakened against major currencies following the EU Referendum.
The annual operational risk recalculation resulted in a decrease of £2.0 billion and a further £3.9 billion reduction relating to the removal of the element relating to Citizens, following PRA approval.
UK PBB RWAs increased by £3.7 billion following ongoing UK mortgage PD calibration and loan growth. This was partially offset by the transfer of Northern Ireland loans to Commercial Banking.
Growth in both new and existing lending and the transfer of Northern Ireland loans from UK PBB were the key contributors to the £5.2 billion increase in Commercial Banking.

RWAs in CIB increased by £3.6 billion reflecting market volatility, foreign exchange movements alongside implementation of new risk metric models.
Private Banking RWAs decreased by £0.6 billion primarily due to mortgage calibration improvements relating to buy-to-let mortgages.
Capital Resolution RWAs continued to decrease in line with risk reduction strategy with RWAs falling by £6.7 billion. Reductions were across portfolios, the largest in Markets (£3.1 billion) relating to derivative restructuring, Global Transaction Services exits and run-off (£1.4 billion) and some of the Shipping portfolio being impaired following difficult market conditions and a fall in vessel values (£1 billion).
The Central items decrease of £5.4 billion is significantly driven by the operational risk reduction relating to Citizens.

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

Liquidity and funding risk

Liquidity and funding risk is the risk that RBS is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due. The risk arises through the maturity transformation role that banks perform. It is dependent on RBS specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity portfolio as well as broader market factors, such as wholesale market conditions alongside depositor and investor behaviour. For a description of the liquidity and funding risk framework, governance and basis of preparation refer to Capital and risk management - Liquidity and funding risk in the 2015 Annual Report and Accounts.

Regulatory developments

The UK liquidity regime follows the EU CRD IV framework which is expected to remain in force within the UK legal framework for the foreseeable future. RBS will continue to monitor the regulatory landscape with respect to liquidity as it evolves following the result of the EU Referendum.

Liquidity risk

Key metrics*

The table below sets out the key liquidity and related metrics monitored by RBS.

	30 June 2016	31 March 2016	31 December 2015
Liquidity portfolio	£153bn	£157bn	£156bn
Stressed outflow coverage (SCR) (1)	213%	218%	227%
LCR (2)	116%	121%	136%
NSFR (3)	119%	119%	121%
Loan:deposit ratio	92%	90%	89%

Notes:

(1) RBS's liquidity risk appetite is measured by reference to the liquidity portfolio as a percentage of stressed contractual and behavioural outflows under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both in RBS' ILAA. This assessment is performed in accordance with PRA guidance.

(2) On 1 October 2015 the LCR became the PRA's primary regulatory liquidity standard. It is a Pillar 1 metric to which the PRA apply Pillar 2 add-ons. UK banks are required to meet a minimum standard of 80% initially rising to 100% by 1 January 2018. The published LCR excludes Pillar 2 add-ons. RBS calculates the LCR using its own interpretations of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other financial institutions.

(3) BCBS issued its final recommendations for the implementation of the net stable funding ratio in October 2014, proposing an implementation date of 1 January 2018. Pending further guidelines from the EU and the PRA, RBS uses the definitions and proposals from the BCBS paper and internal interpretations, to calculate the NSFR. Consequently RBS's ratio may change over time and may not be comparable with those of other financial institutions.

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Appendix 1 Capital and risk management

Liquidity portfolio

The table below shows the liquidity portfolio by product, liquidity value and by carrying value. Liquidity value is lower than carrying value as it is stated after discounts applied by the Bank of England and other central banks to instruments, within the secondary liquidity portfolio, eligible for discounting.

	Liquidity value				
	Period end			Average	
	UK DoLSub (1)	Other	Total	Quarter	H1 2016
30 June 2016	£m	£m	£m	£m	£m
Cash and balances at central banks	52,758	2,873	55,631	57,380	61,037
Central and local government bonds					
AAA rated governments	4,712	644	5,356	4,362	4,144
AA- to AA+ rated governments and US agencies	19,781	1,293	21,074	22,059	23,172
	24,493	1,937	26,430	26,421	27,316
Primary liquidity	77,251	4,810	82,061	83,801	88,353
Secondary liquidity (2)	69,456	1,261	70,717	66,083	65,642
Total liquidity value	146,707	6,071	152,778	149,884	153,995
Total carrying value	173,235	6,274	179,509		
31 December 2015					FY 2015
Cash and balances at central banks	67,790	1,611	69,401	70,978	69,736
Central and local government bonds					
AAA rated governments	3,201	1,098	4,299	4,254	5,263
AA- to AA+ rated governments and US agencies	18,238	3,216	21,454	23,597	22,546
Below AA rated governments	-	-	-	-	46
Local government	-	-	-	-	12
	21,439	4,314	25,753	27,851	27,867
Primary liquidity	89,229	5,925	95,154	98,829	97,603
Secondary liquidity (2)	59,201	1,369	60,570	57,841	57,654
Total liquidity value	148,430	7,294	155,724	156,670	155,257
Total carrying value	181,240	7,494	188,734		

Notes:

(1) The PRA regulated UK Domestic Liquidity Subgroup (UK DoLSub) comprising RBS's five licensed deposit-taking UK banks: The Royal Bank of Scotland plc, National Westminster Bank Plc, Ulster Bank Limited, Coutts & Co

and Adam & Company plc. In addition, certain of RBS's significant operating subsidiaries - RBS N.V. and Ulster Bank Ireland DAC - hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) Comprises assets eligible for discounting at the Bank of England and other central banks.
(3) FY 2015 average includes Citizens up to the date of deconsolidation; excluding Citizens: £143,945 million.

Appendix 1 Capital and risk management

Funding risk

The composition of RBS's balance sheet is a function of the broad array of product offerings and diverse markets served by its core businesses. The structural composition of the balance sheet is augmented as needed through active management of both asset and liability portfolios. The objective of these activities is to optimise the liquidity profile, while ensuring adequate coverage of all cash requirements under extreme stress conditions.

The table below summarises the key funding metrics.

	Short-term wholesale funding (1)		Total wholesale funding		Net inter-bank funding (2)		
	Excluding derivative collateral	Including derivative collateral	Excluding derivative collateral	Including derivative collateral	Deposits	Loans (3)	Net inter-bank funding
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
30 June 2016	14.7	38.3	55.1	78.6	7.8	(8.3)	(0.5)
31 March 2016	16.6	39.9	58.9	82.3	8.4	(8.9)	(0.5)
31 December 2015	17.2	37.6	58.7	79.1	7.7	(7.3)	0.4
30 September 2015	16.8	39.0	65.9	88.1	8.4	(10.2)	(1.8)
30 June 2015 (4)	25.0	47.0	76.4	98.4	13.5	(12.3)	1.2

Notes:

(1) Short-term wholesale funding is funding with a residual maturity of less than one year.

(2) Excludes derivative cash collateral.

(3) Principally short-term balances.

(4) Incorporating Citizens short-term and total wholesale funding including and excluding derivative collateral of £4.5 billion and £5.9 billion respectively.

The table below shows the carrying values of the principal funding sources.

	30 June 2016			31 December 2015		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Deposits by banks						
derivative cash collateral	23,576	-	23,576	20,367	-	20,367
other deposits (1)	7,576	236	7,812	7,336	359	7,695
	31,152	236	31,388	27,703	359	28,062
Debt securities in issue						
certificates of deposit	271	58	329	742	202	944
medium-term notes	5,042	14,994	20,036	6,639	15,540	22,179
covered bonds	737	3,840	4,577	2,171	3,414	5,585
securitisations	3	2,203	2,206	4	2,438	2,442

	6,053	21,095	27,148	9,556	21,594	31,150
Subordinated liabilities	1,066	19,047	20,113	323	19,524	19,847
Notes issued	7,119	40,142	47,261	9,879	41,118	50,997
Wholesale funding	38,271	40,378	78,649	37,582	41,477	79,059
Customer deposits						
derivative cash collateral (2)	13,005	-	13,005	10,373	-	10,373
financial institution deposits	50,479	984	51,463	45,134	1,226	46,360
personal deposits	158,239	2,449	160,688	154,066	3,212	157,278
corporate deposits	129,511	1,182	130,693	130,514	1,466	131,980
Total customer deposits	351,234	4,615	355,849	340,087	5,904	345,991
Total funding excluding repos	389,505	44,993	434,498	377,669	47,381	425,050
Total repos			40,881			37,378
Total funding including repos			475,379			462,428

Notes:

(1) Includes £0.8 billion relating to RBS's participation in central bank financing operations under the European Central Bank's Targeted Long Term Refinancing Operations.

(2) Cash collateral includes £10,948 million (31 December 2015 - £9,504 million) from financial institutions.

Appendix 1 Capital and risk management

Credit risk
Credit risk is the risk of financial loss due to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts. For a description of RBS's credit risk framework, governance, policies and methodologies refer to Capital and risk management - Credit risk in the 2015 Annual Report and Accounts.

Key developments: Exposure measure
RBS has changed its measure of credit risk exposure from Credit Risk Assets (CRA) to current exposure and potential exposure. The table below summarises the differences between these measures.

	CRA	Current exposure	Potential exposure
Lending exposure Comprises cash balances at central banks as well as loans and advances to banks and customers.	Drawn balances (gross of impairment provisions).	Drawn balances.	Legally committed limits. (1)
		Measured net of individual, collective and latent provisions unless otherwise stated.	
Counterparty exposure	Measured using the mark-to-market value of derivatives after the effect of enforceable netting agreements and regulator-approved models but before the effect of collateral. Calculations are gross of credit value adjustments.	Measured using the mark-to-market value of derivatives after the effect of enforceable netting agreements and net of legally enforceable financial collateral. (2)	Measured using scaled credit limit utilisation, which takes into account mark-to-market movements, any collateral held and expected market movements over a specified horizon. (1,2)
		Current and potential exposure are measured net of credit valuation adjustments (CVA) unless otherwise stated.	
Contingent obligations Primarily letters of credit and guarantees.	Drawn balance	Drawn balance.	Legally-committed amount. (1)

Exclusions	Trading book bonds	Trading book bonds.
	Equity securities	Equity securities.
	Settlement risk	Settlement risk.
	Intra-group credit exposures	Suretyships.
	Securities financing transactions (repos)	Intra-group credit exposures.
	Banking book debt securities	
Other		Net of cash and gold collateral.

Current exposure and potential exposure are reported against the guarantor of a transaction to reflect the transfer of risk.

Notes:
(1) Cannot be less than current exposure.
(2) Current exposure and potential exposure for exchange-traded derivatives are defined as Exposure At Default (EAD).

Appendix 1 Capital and risk management

Key developments: Exposure measure (continued)
The disclosures that follow use the current exposure or potential exposure measure as indicated. Comparatives have been restated.

Comparing the current exposure measure to the previous CRA measure, the following changes are noted:
Exposures to the Sovereign sector are higher. This is primarily due to the inclusion of government bond exposure held in the banking book and managed in Treasury and Capital Resolution. The increased current exposure value, compared to CRA, is also a result of risk transfer related to guarantees (pledged by sovereign customers) for obligors active in other sectors.
In the Banks & Other Financial Institutions sector, the netting of financial collateral reduced the current exposure value compared to CRA. Risk transfer also reduced current exposure compared to CRA.
Outside these sectors, the impact of risk transfer is less material. However, the impact of netting impairment provisions means that for most other wholesale sectors current exposure is less than CRA.

Appendix 1 Capital and risk management

Credit risk: Management basis
Key loan portfolios*
The table below summarises current exposure, net of provisions and after risk transfer, by sector and geographic region(1).

30 June 2016	Personal	Wholesale Banks & Other FIs	Sovereign(6)	Property	Natural Resources	Retail & Leisure	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
UK	142,737	21,531	49,970	38,928	8,136	15,694	39,309	316,305
RoI (2)	15,064	582	2,339	987	511	1,008	2,243	22,734
Other Western Europe	519	9,510	34,218	2,512	2,580	1,254	5,189	55,782
US	307	9,067	19,973	536	809	633	2,676	34,001
RoW (3)	1,434	6,863	5,429	833	799	330	6,435	22,123
Total	160,061	47,553	111,929	43,796	12,835	18,919	55,852	450,945
Flow into forbearance (4)	829	4	-	621	472	307	876	3,109
Provisions	2,637	69	1	1,541	269	618	1,321	6,456
- Individual & Collective	2,191	61	-	1,501	260	567	1,244	5,824
- Latent	446	8	1	40	9	51	77	632
AQ10 (5)	4,277	628	-	1,916	370	144	1,235	8,570

31 December 2015**								
UK	136,024	21,187	60,068	37,328	7,386	14,857	37,929	314,779
RoI (2)	13,440	433	1,624	692	436	1,125	1,635	19,385
Other Western Europe	548	9,481	33,942	2,408	2,144	899	6,002	55,424
US	301	8,121	21,819	622	864	767	2,530	35,024
RoW (3)	2,806	7,050	6,141	808	952	469	7,974	26,200
Total	153,119	46,272	123,594	41,858	11,782	18,117	56,070	450,812
Flow into forbearance (4)	1,829	85	-	1,035	643	368	1,044	5,004
Provisions	3,003	73	1	2,282	133	661	987	7,140
- Individual & Collective	2,613	60	-	2,232	124	601	924	6,554
- Latent	390	13	1	50	9	60	63	586
AQ10 (5)	3,765	769	1	2,284	149	223	1,062	8,253

Notes:
(1) Within the Credit Risk key loan portfolios section, unless otherwise stated, geographic region is based on country of operation.
(2) RoI: Republic of Ireland
(3) Rest of World comprises Asia Pacific, Central and Eastern Europe, the Middle East, Central Asia and Africa, and supranationals such as the World Bank.

(4) Completed during the period.
(5) Net of provisions.
(6) Includes exposures to central governments, central banks and sub-sovereigns such as local authorities.

*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
A breakdown of asset quality (AQ) on a current exposure basis, net of provisions and after risk transfer, is set out below.**

http://www.rns-pdf.londonstockexchange.com/rns/3368G_1-2016-8-5.pdf

Note:
(1) AQ10 represents exposure with a 100% probability of default. For further information regarding AQ band classifications refer to the Capital and risk management section on page 188 of the 2015 Annual Report and Accounts.

*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
Key points
The following commentary refers to current exposure, net of provisions and after risk transfer. In this section, the following key portfolios are discussed in more detail:
- Commercial Real Estate (CRE) (in Property);
- Oil & Gas (in Natural Resources);
- Shipping (in Other); and
- Mortgages (in Personal).

The increase in the overall portfolio reflected the significant appreciation of both the euro and US dollar against sterling, primarily following the EU Referendum.

Excluding the impact of foreign exchange movements overall current exposure decreased by 3%. This was driven by a risk reduction and disposal strategy, particularly outside the UK and Western Europe. Current exposure to UK customers and counterparties represents 70% of the total, an increase from 68% at 31 December 2015 on a constant currency basis.

Portfolio asset quality has slightly weakened due to challenging market conditions in the Oil & Gas, Mining & Metals and Shipping sectors. Asset quality was also affected by recalibrations in the PD models for Banks, Local Authorities, Property, Housing Associations, Housebuilders and Mortgages.

The decrease in exposure to Sovereigns reflected liquidity management activities.

In the Property portfolio, 35% of exposure is not related to CRE. This comprises exposure of £9.3 billion (31 December 2015 - £8.9 billion) to Housing Associations, £4.5 billion to Construction (31 December 2015 - £4.7 billion) and £1.8 billion to the Building Materials sub-sector (31 December 2015 - £1.6 billion).

In Other, exposure to the Automotive sector decreased from £5.5 billion to £5.0 billion. AQ10 exposure net of provisions totalled £30 million (31 December 2015 - £39 million). Total provisions excluding latent provisions were £52 million (31 December 2015 - £32 million).

The composition of the Retail & Leisure portfolio remained broadly unchanged from 31 December 2015. Forbearance increased during the period driven by a number of individually material cases, while the volume of customers

receiving forbearance decreased. Total provisions excluding latent provisions were £561 million (31 December 2015 - £601 million). Credit quality improved with AQ10 exposure, net of provisions, totalling £150 million (31 December 2015 - £223 million).

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
Commercial Real Estate (CRE)
The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding, housing associations, construction and building materials). For more information, refer to the CRE section on page 195 of the 2015 Annual Report and Accounts.

A dedicated CRE portfolio controls team is responsible for portfolio strategy, credit risk appetite and policies, as well as oversight of valuations and environmental frameworks. The sector is reviewed regularly at senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks.

The table below provides a breakdown of the lending exposure within the CRE portfolio on a current exposure basis, net of provisions and after risk transfer.

	Investment			Development			
	Commercial	Residential	Total	Commercial	Residential	Total	Total
By geography (1)	£m	£m	£m	£m	£m	£m	£m
30 June 2016							
UK	16,768	4,011	20,779	484	3,350	3,834	24,613
RoI	446	203	649	28	89	117	766
Other Western Europe	685	25	710	-	34	34	744
US	182	1	183	-	-	-	183
Rest of World	58	9	67	2	56	58	125
	18,139	4,249	22,388	514	3,529	4,043	26,431
Of which: Capital Resolution	1,099	45	1,144	1	95	96	1,240
Williams & Glyn	2,047	608	2,655	106	563	669	3,324
31 December 2015**							
UK	15,825	4,173	19,998	613	3,251	3,864	23,862
RoI	342	95	437	24	80	104	541
Other Western Europe	597	8	605	15	1	16	621
US	241	1	242	-	-	-	242
Rest of World	211	12	223	5	13	18	241
	17,216	4,289	21,505	657	3,345	4,002	25,507
Of which: Capital Resolution	1,318	47	1,365	50	104	154	1,519
Williams & Glyn	2,080	644	2,724	82	483	565	3,289

Note:
(1) Geography splits are based on country of collateral risk.

*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)

By sub-sector	UK £m	ROI £m	Other Western Europe £m	US £m	RoW £m	Total £m
30 June 2016						
Residential	7,361	292	59	1	65	7,778
Office	3,213	131	500	53	13	3,910
Retail	4,658	101	47	-	5	4,811
Industrial	2,898	38	-	-	-	2,936
Mixed/other	6,483	204	138	129	42	6,996
	24,613	766	744	183	125	26,431
31 December 2015**						
Residential	7,424	175	9	1	25	7,634
Office	2,938	76	398	85	62	3,559
Retail	4,497	93	85	19	22	4,716
Industrial	2,600	36	39	-	7	2,682
Mixed/other	6,403	161	90	137	125	6,916
	23,862	541	621	242	241	25,507

A breakdown of the Commercial Banking UK investment portfolio by UK region at 30 June 2016 is set out below.

UK Region (1)	Proportion
Greater London	25%
Portfolio (2)	25%
Midlands	12%
South East	12%
North	11%
Scotland	8%
Rest of UK	7%

Notes:
(1) Based on management estimates using the postcode of the security. Percentages are based on current exposure gross of provisions.
(2) Portfolio includes lending secured against property portfolios comprising numerous properties across multiple UK locations.

Key points
The following commentary refers to current exposure, net of provisions and after risk transfer.
Lending to the CRE sector in the UK increased to £24.6 billion at 30 June 2016 compared to £23.9 billion at 31 December 2015. However, the growth slowed significantly in the second quarter of 2016. CPB and PBB businesses

have appetite to support activity in the sector. Credit underwriting standards have been tightened and appetite for certain sub-sectors moderated. There were no single-name concentration breaches.
New business is monitored and controlled against agreed underwriting standards. Agreed bank-wide and business franchise portfolio sector limits are in place, with Sub-sector and asset class limits being used to restrict exposure to emerging risks when appropriate. This activity is reviewed and monitored on a regular basis. In addition, market indices are monitored and risk appetite is adjusted if considered appropriate.
The majority of non-legacy CRE exposure is within Commercial Banking (£18.5 billion, 31 December 2015 - £17.9 billion). Lending applications are reviewed by specialist CRE transactional credit teams, including a dedicated development team. Lending guidelines and policy are informed by lessons learned from the 2008 financial crisis.
In the commercial investment sub-sector, new business activity in H1 2016 (including refinancings and increases) in Commercial Banking had a weighted average LTV of 46%.
The increase in exposure in RoI and Western Europe was primarily due to foreign exchange movements.
*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
CRE exposure by LTV band
The table below provides a breakdown of the CRE investment portfolio by LTV band on a current exposure basis, net of provisions and after risk transfer.

	UK			RoI			Total (3)		
	AQ1-AQ9	AQ10	Total	AQ1-AQ9	AQ10	Total	AQ1-AQ9	AQ10	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
30 June 2016									
<= 50%	10,180	50	10,230	73	2	75	10,406	52	10,458
> 50% and <= 70%	5,962	131	6,093	100	2	102	6,096	133	6,229
> 70% and <= 80%	565	100	665	78	2	80	643	102	745
> 80% and <= 90%	248	156	404	23	-	23	275	156	431
> 90% and <= 100%	209	47	256	23	-	23	232	48	280
> 100% and <= 110%	159	61	220	12	1	13	172	65	237
> 110% and <= 130%	62	77	139	31	6	37	93	381	474
> 130% and <= 150%	57	32	89	10	8	18	67	52	119
> 150%	113	79	192	42	18	60	156	99	255
Total with LTVs	17,555	733	18,288	392	39	431	18,140	1,088	19,228
Total portfolio average LTV (1)	49%	120%	53%	95%	335%	165%	50%	143%	58%
Minimal security (2)	9	1	10	-	-	-	9	1	10
Other	2,366	115	2,481	178	40	218	2,710	440	3,150
Development (4)	3,617	217	3,834	67	50	117	3,759	284	4,043
	23,547	1,066	24,613	637	129	766	24,618	1,813	26,431
31 December 2015**									
<= 50%	9,558	70	9,628	60	2	62	9,896	72	9,968
> 50% and <= 70%	5,691	114	5,805	103	2	105	5,964	116	6,080
> 70% and <= 80%	639	124	763	35	1	36	685	125	810
> 80% and <= 90%	323	115	438	26	2	28	353	376	729
> 90% and <= 100%	134	149	283	9	1	10	143	150	293
> 100% and <= 110%	127	74	201	22	1	23	149	75	224
> 110% and <= 130%	187	108	295	34	5	39	221	122	343

> 130% and <= 150%	30	44	74	13	6	19	44	65	109
> 150%	216	173	389	37	19	56	253	199	452
Total with LTVs	16,905	971	17,876	339	39	378	17,708	1,300	19,008
Total portfolio average LTV (1)	51%	167%	60%	94%	315%	164%	52%	167%	63%
Minimal security (2)	1	3	4	-	1	1	2	4	6
Other	2,002	116	2,118	34	24	58	2,253	238	2,491
Development (4)	3,551	313	3,864	67	37	104	3,641	361	4,002
	22,459	1,403	23,862	440	101	541	23,604	1,903	25,507

Notes:

(1) Weighted average by current exposure gross of provisions.

(2) Total portfolio average LTV is quoted net of loans with minimal security given that the anticipated recovery rate is less than 10%. Provisions are marked against these loans where required to reflect the relevant asset quality and recovery profile.

(3) Total includes regions other than UK and RoI.

(4) The exposure in Development relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

Key points

The reduction in portfolio average LTV is primarily the result of reductions through repayments, asset sales and write-offs of legacy non-performing assets from Ulster Bank RoI, Commercial Banking and CIB. Remaining exposures with LTVs greater than 100% are predominantly legacy exposures originated before the 2008 financial crisis.

The exposure in Other relates predominantly to lending to large corporate entities. It is not asset-backed but lent against corporate balance sheets.

Interest payable on outstanding loans was covered 3.4x and 1.6x in Commercial Banking UK and Capital Resolution respectively (unchanged since 31 December 2015).

*Not within scope of Ernst & Young LLP's review report.

**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
A breakdown of the asset quality of the CRE portfolio is provided below, on a current exposure basis, net of provisions and after risk transfer.**

http://www.rns-pdf.londonstockexchange.com/rns/3368G_2-2016-8-5.pdf

Note:
(1) PE represents the amount by which potential exposure is larger than current exposure. The total of each column represents the total potential exposure for that AQ band

Key point
Probability of default models for the Property and Housebuilders sectors have been updated. This recalibration, rather than deterioration in underlying risk, has resulted in downward ratings migrations across asset quality bands.

A breakdown of CRE portfolio lending, gross of provision and after risk transfer, risk elements in lending (REIL) and provisions is provided below.

	Total		Commercial Banking		Capital Resolution	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
CRE loans, REIL and provisions	£m	£m	£m	£m	£m	£m
Lending (gross of provisions)	27,695	27,561	19,075	18,178	1,487	2,842
Of which REIL	2,479	3,560	1,032	1,050	756	1,951
Provisions	1,264	2,054	422	305	247	1,323
REIL as a % of gross loans to customers	9.0%	12.9%	5.4%	5.8%	50.8%	68.6%
Provisions as a % of REIL	51%	58%	41%	29%	33%	68%

Key points
While lending has increased, non-performing legacy exposure (mostly managed in Capital Resolution) continued to reduce through run-off, divestment and write-offs.
The non-performing assets in Commercial Banking are predominantly legacy deals originated before the financial crisis.

*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
Natural Resources
Exposure to the Natural Resources sector, on both a current exposure and potential exposure basis, is summarised below, net of provisions and after risk transfer.

	30 June 2016				31 December 2015**			
	CE	Of which: Capital Resolution	PE	Of which: Capital Resolution	CE	Of which: Capital Resolution	PE	Of which: Capital Resolution
	£m	£m	£m	£m	£m	£m	£m	£m
Oil & Gas	3,298	902	6,356	1,213	3,544	1,539	6,798	2,117
Mining & Metals	816	188	1,941	299	729	237	1,823	391
Electricity	3,374	1,135	8,583	1,522	2,851	1,128	7,683	1,773
Water & Waste	5,347	3,407	8,665	5,661	4,657	1,648	8,261	3,039
	12,835	5,632	25,545	8,695	11,781	4,552	24,565	7,320
Commodity Traders	564	65	1,080	71	900	444	1,320	452
Of which: Natural Resources	427	41	759	48	521	212	752	212

Oil & Gas
Exposure to the Oil & Gas sector, measured on a potential exposure basis net of provisions and after risk transfer, is summarised in the tables below.

	UK	RoI	Other Western Europe	US	RoW (1)	Total
30 June 2016	£m	£m	£m	£m	£m	£m
Producers (incl. integrated oil companies)	882	63	1,350	44	225	2,564
Oilfield service providers	746	10	675	265	82	1,778
Other wholesale and trading activities	432	90	554	52	281	1,409
Refineries	22	-	-	357	4	383
Pipelines	98	4	103	9	8	222
	2,180	167	2,682	727	600	6,356
Of which:						
National oil companies	-	-	-	-	58	58
Integrated oil companies	389	-	812	146	50	1,397
Exploration & Production	274	-	143	43	131	591
31 December 2015**						
Producers (incl. integrated oil companies)	1,177	51	1,028	275	256	2,787
Oilfield service providers	700	10	678	279	51	1,718
Other wholesale and trading activities	450	76	475	45	432	1,478
Refineries	21	2	-	327	18	368

Pipelines	98	-	310	31	8	447
	2,446	139	2,491	957	765	6,798
Of which:						
National oil companies	-	-	21	-	70	91
Integrated oil companies	654	-	868	273	10	1,805
Exploration & Production	338	-	38	130	118	624

Note:
(1) Rest of world comprises Asia Pacific, Central and Eastern Europe, the Middle East, Central Asia and Africa.

*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)

A breakdown of asset quality (AQ) for the Oil & Gas portfolio, on a current exposure and potential exposure basis, net of provisions and after risk transfer. is set out below**.

http://www.rns-pdf.londonstockexchange.com/rns/3368G_3-2016-8-5.pdf

Note:
(1) PE represents the amount by which potential exposure is larger than current exposure. The total of each column represents the total potential exposure for that AQ band.

*Not within the scope of Ernst & Young LLP's review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)

Key points

The composition of the Oil & Gas portfolio remained broadly unchanged from 31 December 2015. Exposure decreased by 6.5% due to active credit management and the continued run-off of the North American and APAC portfolios.

Credit quality for the portfolio deteriorated slightly, consistent with broader sector trends. At 30 June 2016, 69% of the exposure (31 December 2015 - 76%) was investment grade (AQ1-AQ4 or equivalent to BBB- and above). As well as exposure reduction in the AQ1-AQ4 bands during the normal course of business - and the continued run-off of the North American and APAC portfolios - the change in credit profile was the result of migration from investment grade to sub-investment grade for certain exposures.

RBS had no high-yield bond or loan underwriting positions as at 30 June 2016.

There were a number of forbearance arrangements totalling £554 million. These predominantly involved the relaxation of financial covenants to give customers more financial flexibility given the current environment. Most of the forbearance related to customers in the Exploration & Production and Oilfield Services sub-sectors where earnings have been more immediately and materially affected by the downturn in the Oil & Gas sector.

At 30 June 2016, total provisions excluding latent provisions were £153 million (31 December 2015 - £49 million). New provisions were due to the credit deterioration of a small number of material exposures, primarily in the Exploration & Production sub-sector.

AQ10 exposure net of provisions was £207 million (31 December 2015 - £47 million). In addition, exposures not transferred to AQ10 but classified as Risk of Credit Loss (1) totalled £30 million. These were managed by Restructuring.

Note:

(1) In accordance with the revised problem debt management framework, these are non-defaulted exposures that present a potential credit loss in the next 12 months, should mitigating action not be successful or not taken at all.

*Not within the scope of Ernst & Young LLP's review report.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)

Mining & Metals

A breakdown of asset quality for the Mining & Metals portfolio, on a current exposure and potential exposure basis, net of provisions and after risk transfer is set out below**.

http://www.rns-pdf.londonstockexchange.com/rns/3368G_4-2016-8-5.pdf

Note:

(1) PE represents the amount by which potential exposure is larger than current exposure. The total of each column represents the total potential exposure for that AQ band.

Key points

Overall exposure to Mining & Metals increased by £87 million to £816 million on a current exposure basis and by £118 million to £1.9 billion on a potential exposure basis. The increase mainly driven by foreign exchange movements (64% of the portfolio is denominated in US dollars). Excluding the impact of foreign exchange movements, exposure decreased by 2.5%.

Market conditions in the Mining & Metals sector continued to be challenging, resulting in a deterioration in credit quality. Companies in the Mining & Metals sector have reported lower revenues as a result of lower commodity prices. This has had an adverse impact on EBITDA and leverage. At 30 June 2016, 49% (31 December 2015 - 64%) of the portfolio exposure was investment grade (AQ1-AQ4 or equivalent to BBB- and above). Most of the exposure is to market leaders in the sector with globally diversified operations and revenues.

Exposures in the Mining & Metals portfolio classified as Risk of Credit Loss totalled £0.4 million.

Provisions (excluding latent provisions) increased by £13.0 million to £35.6 million (31 December 2015 - £22.6 million).

At 30 June 2016, AQ10 exposure on a potential exposure basis, net of provisions was £82.0 million (31 December 2015 - £20.8 million). The rise in AQ10 exposure and the increase in provisions mainly resulted from a single material exposure.

Appendix 1 Capital and risk management

Shipping

Exposure to the Shipping sector, on a current exposure and potential exposure basis, is summarised in the table below.

	30 June 2016				31 December 2015**			
	Current Exposure £m	Of which: Capital Resolution £m	Potential Exposure £m	Of which: Capital Resolution £m	Current Exposure £m	Of which: Capital Resolution £m	Potential Exposure £m	Of which: Capital Resolution £m
Shipping	6,765	5,945	7,246	6,049	6,776	6,162	7,301	6,309

Exposure secured by ocean-going vessels and managed by Capital Resolution is summarised in the table below on a current exposure basis.

	30 June 2016			31 December 2015**		
Vessel type	Current Exposure £m (2)	AQ10 £m (2)	Provisions (1) £m	Current Exposure £m (2)	AQ10 £m (2)	Provisions (1) £m
Container	1,291	54	21	1,164	49	10
Dry bulk	2,040	896	379	2,076	275	153
Tanker	1,290	30	-	1,306	-	-
Gas	1,075	-	-	1,160	-	-
Other	376	62	33	362	25	6
Total	6,072	1,042	433	6,068	349	169

Notes:

(1) Excluding latent provisions.

(2) To allow identification of underlying vessel types, this exposure is shown prior to the impact of the risk transfer and gross of provisions.

*Not within the scope of Ernst & Young LLP's review report.

**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
Asset quality for the Shipping sector, on a current exposure and potential exposure basis, net of provisions and after risk transfer is summarised below.**

http://www.rns-pdf.londonstockexchange.com/rns/3368G_5-2016-8-5.pdf

Note:
(1) PE represents the amount by which potential exposure is larger than current exposure. The total of each stacked column represents the total potential exposure for that AQ band.

Key points
Exposure has remained relatively stable at £6.8 billion (current exposure) and £7.3 billion (potential exposure). Excluding the impact of foreign exchange movements, exposure fell by 10%.
Most of the Shipping portfolio related to exposure secured by ocean-going vessels. This was managed in Capital Resolution. The remainder of the exposure related to the Shipbuilders and Inland Water Transport sub-sectors. Excluding the impact of foreign exchange movements exposure decreased due to scheduled loan repayments, secondary sales and prepayments.
Conditions remained depressed in the dry bulk market as a result of the continuing oversupply of available tonnage and the slowdown in Chinese commodity imports. Tanker rates fell during H1 2016 and remained profitable but asset values were affected. Employment rates for container vessels continued to deteriorate.
The LTV position across the portfolio for ocean-going vessels increased to 93% (31 December 2015 - 85%) primarily as a result of deteriorating asset values in dry bulk, which fell by up to 15% in H1 2016.
Continuing challenging market conditions led to an increase in forbearance granted. This mostly related to the relaxation of minimum security covenants due to deteriorating asset prices and totalled £220 million in H1 2016. In addition there was £191 million of forbearance in process, which has not yet reached legal completion.
At 30 June 2016, exposures classified as Risk of Credit Loss totalled £78 million. As part of standard credit stewardship, a number of customers were classified as Risk of Credit Loss in July 2016. The majority of these cases were in the dry bulk sector.
Total provisions, excluding latent provisions, increased from £169 million to £433 million during the six months to 30 June 2016. This is the result of prolonged poor market conditions, as described above.
At 30 June 2016, AQ10 exposure, net of provisions, was £579 million (31 December 2015 - £210 million).
*Not within the scope of Ernst & Young LLP’s review report.
**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
Personal portfolios
This section summarises personal portfolios by type, segment and related credit metrics, on a current exposure basis net of provisions.
Overview of personal portfolios split by product type and segment

	30 June 2016						31 December 2015**					
	UK PBB	Ulster Bank RoI	Private Banking	RBS International	W&G	Total	UK PBB	Ulster Bank RoI	Private Banking	RBS International	W&G	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Mortgages	111,248	14,376	6,865	2,599	10,716	145,804	104,599	12,713	6,552	2,525	10,430	136,819
Of which:												
Interest only variable rate	11,887	416	3,100	711	1,291	17,405	13,252	407	3,025	730	1,388	18,802
Interest only fixed rate	11,088	7	2,578	64	1,227	14,964	9,112	6	2,431	49	1,076	12,674
Mixed (capital and interest only)	5,297	78	5	27	709	6,116	5,380	76	7	29	745	6,237
Buy-to-let	15,916	2,020	622	866	1,362	20,786	14,098	1,762	476	835	1,150	18,321
Forbearance stock: arrears status	3,312	3,217	80	42	474	7,125	3,592	2,930	64	43	514	7,143
- Current	2,824	2,051	76	27	408	5,386	3,089	1,869	64	31	437	5,490
- 1-3 months in arrears	259	601	-	4	39	903	266	538	-	6	44	854
- >3 months in arrears	229	565	4	11	27	836	237	523	-	6	33	799
Provisions against forbearance population	22	609	1	1	6	639	29	585	-	1	7	622
Provisions	177	1,185	3	28	24	1,417	180	1,062	4	18	26	1,290
REIL	793	2,875	21	91	97	3,877	878	2,550	19	63	123	3,633
Other lending (1)	8,942	273	1,817	67	1,056	12,155	8,795	233	3,458	62	958	13,506
Provisions	896	52	27	1	119	1,095	1,028	48	22	1	129	1,228
REIL	943	53	50	9	125	1,180	1,028	49	53	5	140	1,275
Total lending	120,190	14,649	8,682	2,666	11,772	157,959	113,394	12,946	10,010	2,587	11,388	150,325
Mortgage LTV ratios (2)												

- Total portfolio	56%	82%	56%	56%	53%	59%	56%	83%	54%	57%	54%	59%
- New business	69%	74%	58%	67%	69%	68%	69%	77%	57%	66%	68%	68%
- Buy-to-let	56%	90%	55%	48%	56%	59%	57%	95%	58%	51%	57%	60%
- Performing	56%	77%	55%	55%	53%	58%	56%	80%	54%	57%	54%	58%
- Non-performing	61%	103%	66%	97%	57%	86%	63%	106%	92%	96%	60%	83%

Notes:

(1) Other personal lending excludes loans guaranteed by a company and commercial real estate lending to personal customers.

(2) Weighted by current exposure gross of provisions.

*Not within the scope of Ernst & Young LLP's review report.

**Restated - refer to page 17 for further details.

Appendix 1 Capital and risk management

Key loan portfolios* (continued)
Mortgage LTV distribution

		50%	70%	80%	90%	100%	110%	130%		Total with		
LTV ratio value	<=50%	<=70%	<=80%	<=90%	<=100%	<=110%	<=130%	<=150%	>150%	LTVs	Other	Total
30 June 2016	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK PBB												
AQ1-AQ9	42,346	39,526	14,569	9,397	2,689	246	174	88	23	109,058	501	109,559
AQ10	541	676	219	131	64	24	11	6	4	1,676	13	1,689
	42,887	40,202	14,788	9,528	2,753	270	185	94	27	110,734	514	111,248
of which: Buy-to-let	5,498	7,586	2,213	415	123	35	30	14	1	15,915	1	15,916
Ulster Bank RoI												
AQ1-AQ9	2,671	2,474	1,490	1,345	1,138	1,068	1,706	345	43	12,280	-	12,280
AQ10	250	282	167	184	201	202	421	267	122	2,096	-	2,096
	2,921	2,756	1,657	1,529	1,339	1,270	2,127	612	165	14,376	-	14,376
Private Banking												
AQ1-AQ9	2,381	2,947	757	167	58	30	70	48	20	6,478	267	6,745
AQ10	21	51	16	8	9	3	1	2	1	112	8	120
	2,402	2,998	773	175	67	33	71	50	21	6,590	275	6,865
RBS International												
AQ1-AQ9	1,126	798	348	213	53	6	10	-	18	2,572	-	2,572
AQ10	6	9	4	1	4	1	-	-	2	27	-	27
	1,132	807	352	214	57	7	10	-	20	2,599	-	2,599
W&G												
AQ1-AQ9	4,507	3,765	1,231	780	174	9	1	-	-	10,467	65	10,532
AQ10	74	79	18	10	2	-	-	-	-	183	1	184
	4,581	3,844	1,249	790	176	9	1	-	-	10,650	66	10,716
31 December 2015**												
UK PBB												
AQ1-AQ9	38,430	38,645	14,372	7,985	2,646	255	174	90	18	102,615	251	102,866
AQ10	483	713	250	152	77	26	12	7	3	1,723	10	1,733
	38,913	39,358	14,622	8,137	2,723	281	186	97	21	104,338	261	104,599
Of which: Buy-to-let	4,374	6,879	2,202	431	131	34	30	14	1	14,096	2	14,098
Ulster Bank RoI												
AQ1-AQ9	2,276	2,075	1,222	1,155	1,004	964	1,633	410	49	10,788	-	10,788
AQ10	226	258	153	163	179	178	385	264	119	1,925	-	1,925
	2,502	2,333	1,375	1,318	1,183	1,142	2,018	674	168	12,713	-	12,713
Private Banking												
AQ1-AQ9	2,431	2,846	707	147	30	15	1	12	20	6,209	323	6,532
AQ10	3	1	3	1	9							