ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
September 30, 2014

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

30 September 2014

The Royal Bank of Scotland Group plc

Gogarburn

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Scotland

United Kingdom

(Address of principal executive offices)

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

Form 20-F X   Form 40-F __

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

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

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

Yes __   No X

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

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

The Royal Bank of Scotland Group plc

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘will’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group’s restructuring and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; and the Group’s exposure to political risks, including the referendum on Scottish independence, 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 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 about 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 cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global and UK economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the simplification of the Group’s structure, rationalisation of and investment in its IT systems, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the UK Financial Services (Banking Reform Act) 2013 and the EU Recovery and Resolution Directive; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the reliability and resilience of its IT system, the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Presentation of information

Non-GAAP financial information

The directors manage RBS's performance by class of business, before certain reconciling items, as is presented in the segmental analysis in note 10 (the "non-statutory basis"). Discussion of RBS's performance focuses on the non-statutory basis as RBS believes that such measures allow a more meaningful analysis of RBS's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis in note 10. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "RBS excluding RBS Capital Resolution (RCR)" for all periods in 2014 and for prior periods "RBS excluding Non-Core". Certain measures disclosed in this document for RBS excluding RCR/Non-Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of RCR/Non-Core. In addition the presentation of Personal & Business Banking ("PBB"), which includes the reportable segments of UK Personal & Business Banking and Ulster Bank, and the presentation of Commercial and Private Banking, which includes the reportable segments of Commercial Banking and Private Banking, are non GAAP financial measures. Furthermore, RBS has presented certain measures "excluding RBS Capital resolution (RCR)" which are deemed non-GAAP measures. Lastly, the liquidity coverage ratio, stressed outflow coverage, net stable funding ratio and stressed coverage ratio represent non-GAAP financial measures given they are metrics that are not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Divisional Reorganisation

Organisational change

On 27 February 2014, RBS announced a refreshed strategic direction with the ambition of building a bank which earns its customers' trust by serving them better than any other bank.

Business structure

RBS is now structured to deliver this ambition by organising itself around the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services.

The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. The previously reported operating divisions are now realigned into three franchises:

Personal & Business Banking (PBB) serves individual and mass affluent customers together with small businesses (generally up to £2 million turnover), with more business bankers moving back into branches. PBB comprises two reportable segments, UK Personal & Business Banking, including Williams & Glyn, (UK PBB) and Ulster Bank.

Commercial & Private Banking (CPB) serves commercial and mid-corporate customers and high net worth individuals, deepening relationships with commercial clients, operating overseas through its market-leading trade and foreign exchange services, while connecting our private banking brands more effectively to successful business owners and entrepreneurs. CPB comprises two reportable segments, Commercial Banking and Private Banking.

Corporate & Institutional Banking (CIB) serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients. CIB is a single reportable segment.

Presentation of information

Divisional Reorganisation (continued)

In addition to the segments noted above, RBS will continue to manage and report Citizens Financial Group (CFG) and RBS Capital Resolution (RCR) separately until disposal or wind-down. Residual unallocated costs will continue to be reported within Central items.

In the new reporting structure, US Retail & Commercial (US R&C) is now referred to as CFG and Wealth is now referred to as Private Banking.

Comparatives have been restated accordingly.

Reporting changes

In order to present a more complete picture of funding, operational and business costs of the franchises and operating segments, the following reporting changes have been implemented:

To improve the transparency of the operating performance of the reportable segments, a number of previously reported reconciling items (Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, restructuring costs, amortisation of purchased intangible assets and bank levy) have now been allocated to the reportable segments. Only the following will now be reported as reconciling items:

- Own credit adjustments
- Gain on redemption of own debt
- Write-down of goodwill
- Asset Protection Scheme
- Strategic disposals

Bonus tax

RFS Holdings minority interest

Revised allocation of costs

As part of its internal reorganisation, RBS has centralised all services and functions. The costs relating to Services and Functions previously reported as direct expenses in the divisions are now reallocated to businesses using appropriate drivers and reported as indirect expenses in the segmental income statements.

Treasury allocations

The basis of allocation of Treasury costs has been amended to align the recovery of funding and hedging costs across RBS and for the transfer of certain assets and their associated costs out of Treasury.

Revised segmental return on equity

For the purposes of computing segmental return on equity, notional equity is calculated as a percentage of the monthly average of segmental RWAs. Previously, notional equity was allocated at 10% of RWAs after capital deductions (RWAe). This has been revised to 12% of RWAs across all businesses.

Comparatives have been restated accordingly.

For further details refer to appendix 1.

Presentation of information

Non-Core

Non-Core was dissolved with effect from 31 December 2013.

RBS Capital Resolution

RBS Capital Resolution (RCR) was established with effect from 1 January 2014 by the transfer of capital intensive and higher risk assets from existing divisions. No business lines moved to RCR and prior period segmental reporting has not been restated. The results of RCR were reported separately for the first time in Q1 2014.

Recent developments

Citizens Financial Group

On 8 September 2014, RBS announced the launch of the Initial Public Offering of Citizens Financial Group (‘CFG’) and on 24 September 2014, RBS announced the final pricing of the IPO. The offer, including the exercise of the over-allotment option, comprises 161,000,000, or 28.75%, of CFG’s common stock at a price per share of $21.50. Gross proceeds realised by RBS at settlement on 29 September 2014 were $3,461.5 million.

Following the Offer, RBS will continue to hold 71.25% of CFG's shares of common stock, which are subject to a 180-day lock-up. During this period the lock-up agreement is subject to modification, waiver or cancellation.

Scottish Independence Referendum

On 19 September 2014, the Scottish government announced a majority vote against the separation of Scotland from the United Kingdom in the referendum on Scottish independence. In response to this outcome, RBS has stated that it would not be proceeding with its contingency plan to re-domicile The Royal Bank of Scotland Group plc and The Royal Bank of Scotland Plc to England.

Director

On the 25 September 2014 RBS announced that its Chairman Sir Philip Hampton will leave the company during 2015 after a suitable successor has been appointed.

Trading Update

On the 30 September 2014 RBS issued a brief trading update regarding its anticipated third quarter performance.

Condensed consolidated income statement

for the period ended 30 June 2014

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Interest receivable	**7,621**	8,560		**3,821**	3,800	4,281
Interest payable	**(2,128)**	(3,123)		**(1,023)**	(1,105)	(1,514)
Net interest income	**5,493**	5,437		**2,798**	2,695	2,767
Fees and commissions receivable	**2,605**	2,708		**1,314**	1,291	1,392
Fees and commissions payable	**(487)**	(460)		**(251)**	(236)	(250)
Income from trading activities	**1,493**	2,064		**541**	952	949
Gain on redemption of own debt	**20**	191		**-**	20	242
Other operating income	**1,036**	1,332		**345**	691	720
Non-interest income	**4,667**	5,835		**1,949**	2,718	3,053
Total income	**10,160**	11,272		**4,747**	5,413	5,820
Staff costs	**(3,536)**	(3,727)		**(1,845)**	(1,691)	(1,840)
Premises and equipment	**(1,275)**	(1,104)		**(622)**	(653)	(548)
Other administrative expenses	**(1,662)**	(2,181)		**(951)**	(711)	(1,418)
Depreciation and amortisation	**(554)**	(736)		**(282)**	(272)	(349)
Write-down of goodwill and other intangible assets	**(212)**	-		**(130)**	(82)	-
Operating expenses	**(7,239)**	(7,748)		**(3,830)**	(3,409)	(4,155)
Profit before impairment losses	**2,921**	3,524		**917**	2,004	1,665
Impairment (losses)/recoveries	**(269)**	(2,150)		**93**	(362)	(1,117)
Operating profit before tax	**2,652**	1,374		**1,010**	1,642	548
Tax charge	**(733)**	(678)		**(371)**	(362)	(328)
Profit from continuing operations	**1,919**	696		**639**	1,280	220
Profit from discontinued operations, net of tax	**35**	138		**26**	9	9

Profit for the period	**1,954**	834		**665**	1,289	229
Non-controlling interests	**(42)**	(117)		**(23)**	(19)	14
Preference share and other dividends	**(487)**	(182)		**(412)**	(75)	(101)
Profit attributable to ordinary and						
B shareholders	**1,425**	535		**230**	1,195	142
Earnings/(loss) per ordinary and equivalent						
B share (EPS)						
Basic EPS from continuing and discontinued operations	**12.7p**	-		**2.0p**	-	-
Basic EPS from continuing operations	**12.5p**	-		**1.9p**	-	-

Notes:

(1) Basic EPS for the half year and quarter ended 30 June 2013 have been restated to reflect the terms of the dividend access share (see Note 9 on page 88).

(2) Diluted EPS in the half year ended 30 June 2014 and the quarter ended 30 June 2014 were 0.1p lower than basic EPS.

Analysis of results is set out on pages 13 to 23.

Highlights

The Royal Bank of Scotland Group (“RBS”) reports an operating profit before tax of £2,652 million for H1 2014, up from £1,374 million in H1 2013, driven by more favourable credit conditions and good results from RBS Capital Resolution, with a consequential beneficial impact on capital ratios.

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

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

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

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

Ross McEwan, Chief Executive

Highlights

Key points

H1 2014 performance

Operating profit before tax was £2,652 million compared with £1,374 million in the first half of 2013, including a gain of £191 million from the sale of the remaining interest in Direct Line Insurance Group in Q1 2014 and a write-down of goodwill of £130 million in Q2 2014. Own credit adjustment was a charge of £51 million compared with a credit of £376 million in H1 2013 which also included a gain of £191 million on redemption of own debt compared with £20 million in H1 2014.

On a non-statutory basis operating performance in the first half of 2014 was good, with all customer-facing businesses reporting improved operating profits compared with H1 2013. Non-statutory operating profit of £2,601 million included £514 million of restructuring costs (H1 2013 - £271 million) and £250 million of litigation and conduct costs (H1 2013 - £620 million), with £150 million added to provisions for Payment Protection Insurance (H1 2013 - £160 million) and £100 million to interest rate swap redress provisions.

Total income declined 10% to £10,160 million. On a non-statutory basis total income declined 6% to £9,978 million. Growth of 3% in Personal & Business Banking (PBB) and 2% in Commercial & Private Banking (CPB) was more than offset by lower income, down 10%, in Corporate & Institutional Banking (CIB), reflecting its smaller balance sheet and reduced risk profile. Net interest margin improved to 2.18%, up 21 basis points compared with H1 2013, with continuing benefits from deposit repricing in PBB and CPB outweighing modest erosion of asset margins.

Operating expenses were 7% lower at £7,239 million. On a non-statutory basis operating expenses were 8% lower at £7,108 million, including £514 million of restructuring costs and £250 million of litigation and conduct costs. Non-statutory operating expenses, excluding restructuring and litigation and conduct costs, were down 8% to £6,344 million. Overall headcount has fallen by 8,000 over the past 12 months.

Impairment losses declined by £1,881 million to £269 million. All core businesses showed significant reductions in impairment losses as UK and Irish credit conditions continued to improve. In RBS Capital Resolution (RCR) there was a net write-back of provisions, reflecting disposals at favourable prices. At 30 June 2014, risk elements in lending (REIL) represented 8.3% of gross loans to customers, compared with 9.4% at 31 December 2013.

The tax charge was £733 million, representing 27.6% of operating profit before tax, and included a £76 million write-off of deferred tax assets.

The Common Equity Tier 1 (CET1) capital ratio strengthened to 10.1%(1) from 8.6% at the end of 2013, principally driven by reductions in risk-weighted assets in CIB and RCR and the retained profit for the period. RBS remains on track to achieve its medium-term capital targets.

After charging the initial £320 million Dividend Access Share retirement dividend, profit attributable to ordinary and B shareholders was £1,425 million.

Highlights

Key points (continued)

Q2 2014 performance

Operating profit before tax totalled £1,010 million, after a write-down of goodwill of £130 million and a charge of £190 million for own credit. Profit attributable to ordinary and B shareholders was £230 million, after charging the initial £320 million Dividend Access Share retirement dividend.

On a non-statutory basis operating profit in Q2 2014 was £1,318 million, compared with £174 million in Q2 2013 and £1,283 million in Q1 2014. Restructuring costs totalled £385 million and litigation and conduct costs £250 million.

Total income was 18% lower than in Q2 2013 at £4,747 which included a charge on own credit of £190 million compared with a gain of £139 million on Q1 2014 and a gain of £191 million on the disposal of RBS's remaining interest in Direct Line Insurance Group in Q1 2014. On a non-statutory basis total income was 10% lower than in Q2 2013 at £4,925 million, with a 4% improvement in UK PBB more than offset by the 13% reduction in CIB, reflecting its smaller balance sheet and lower risk levels. Within CIB, Rates, Currencies and Credit income was £765 million, down 10% from Q2 2013 and 25% from Q1 2014. Citizens Financial Group benefited from a net gain of $283 million on the sale of its Illinois branch network.

Operating expenses were £3,830 million, down 8% from Q2 2013 and 12% from Q1 2014.

Impairments amounted to a net release of £93 million compared with losses of £1,117 million in Q2 2013 and £362 million in Q1 2014, benefiting from improvements in bad debt flows and latent provision releases totalling £258 million, primarily reflecting improving credit conditions.

Balance sheet

Total assets fell to £1,011 billion, down from 1,216 billion from June 2013. Funded assets, which exclude derivatives of £275 billion (30 June 2013 - £374 billion), fell to £736 billion, down £107 billion from June 2013, principally driven by the reduction in CIB's balance sheet and the run-off of RCR and Non-Core assets.

In UK PBB, gross new mortgage lending totalled £9.8 billion in H1 2014, a market share of 9.9%. Repayments remain high, with the low interest rate environment enabling higher levels of principal repayment.

In CPB, Commercial Banking, loans and advances in the growable book increased to £64.9 billion, up £2 billion from the prior year, but this was offset by a £2.8 billion planned decline in the non-growable book, which comprises real estate finance, businesses in restructuring and excess single-name concentrations.

Overall SME applications were 11% higher in H1 2014 than in the prior year and gross new lending was up 31% at £5.0 billion, with run-off remaining at a similar level to previous years.

Total net lending flows reported within the scope of the Funding for Lending Scheme were minus £1.5 billion in Q2 2014 with the majority of the decline in large corporates.

Risk-weighted assets (RWAs) fell to £392 billion at the end of June 2014, down £22 billion from the end of March 2014.

The CET1 ratio was 10.1%(1) at the end of June 2014, up from 8.6% at the end of 2013 and 9.4% at the end of March 2014 reflecting the attributable profit for the period and lower RWAs.

The bank's liquid asset buffer was £138 billion at the end of June 2014, up slightly from the first quarter but down from £146 billion at the end of 2013, leaving ample headroom to accommodate lending growth in H2 2014.

Highlights

Key points (continued)

Franchise performance

Personal & Business Banking

Operating profit increased to £1,049 million from £307 million in the first half of 2013. Operating profit excluding restructuring costs and litigation and conduct costs of £183 million (H1 2013 - £315 million) was £1,232 million in H1 2014, up from £622 million in H1 2013. The increase in operating profit was principally driven by a decline in impairment losses, predominantly in Ulster Bank. In addition, income grew by 5% in UK PBB with higher personal mortgage and deposit balances and stronger deposit margins.

Within PBB, UK Personal & Business Banking (UK PBB) operating profit increased to £994 million from £688 million in the first half of 2013. Operating profit excluding restructuring, litigation and conduct costs of £169 million (H1 2013 - £269 million) rose 22% to £1,163 million, driven by strong income growth (up 5% compared with H1 2013) and a 42% decline in impairment losses.

Ulster Bank operating profit increased to £55 million from a loss of £381 million in the first half of 2013. Operating profit excluding restructuring, litigation and conduct of £14 million (H1 2013 - £46 million) was £69 million compared with a loss of £335 million in H1 2013, principally as a result of the marked improvement in impairment losses.

Commercial & Private Banking

Operating profit increased to £780 million from £501 million in the first half of 2013. Operating profit excluding restructuring costs and litigation and conduct costs of £115 million (H1 2013 - £59 million) was £895 million was 60% higher than in H1 2013, with net interest income benefiting from improving deposit margins and impairment losses substantially reduced.

Commercial Banking operating profit increased to £635 million from £413 million in the first half of 2013. Operating profit excluding restructuring costs and litigation and conduct costs of £112 million (H1 2013 - £54 million) rose by 60% to £747 million, with the effect of repricing activity offsetting the impact of a decline in CIB (Markets) revenue share income. Lower impairments reflected fewer significant individual cases together with £60 million of latent provision releases. Private Banking operating profit was £145 million compared with £88 million in the first half of 2013. Operating profit excluding restructuring costs of £3 million (H1 2013 - £5 million) was 59% higher at £148 million, with net interest income benefiting from improved deposit margins and with cost saving initiatives contributing to an 8% reduction in operating expenses.

Corporate & Institutional Banking

Operating profit was £308 million, compared with a loss of £197 million in H1 2013. Operating profit excluding restructuring costs and litigation and conduct costs of £241 million (H1 2013 - £493 million) was £549 million, up 85% from H1 2013. The improvement primarily reflected lower impairments (a net recovery of £39 million compared with losses of £223 million in the prior year).

While Rates income improved from a weak H1 2013 (up 40%), Currencies declined by 27% and Credit by 22%, reflecting lower market volatility and the reduction in CIB's RWA deployment.

RWAs fell from £147 billion to £128 billion driven by deleveraging, mitigation and risk-reduction.

Highlights

Key points (continued)

Segmental performance (continued)

Citizens Financial Group

Operating profit increased by £68 million ($158 million), or 19%, to £421 million ($704 million), reflecting the sale of the Illinois retail branches and small business and select middle market relationships in the Illinois market. Excluding the impact of the sale, £170 million ($283 million) net gain, and restructuring costs of £69 million ($115 million) (H1 2013 – £3 million ($5 million)), operating profit was down 3% driven by lower non-interest income and higher impairment losses partially offset by higher net interest income.
The Illinois branch transaction, completed on 20 June 2014, resulted in a net gain of £170 million ($283 million) and restructuring costs of £10 million ($17 million).
Net interest income rose 14%, reflecting an expanded investment securities portfolio and 8% growth in average loans and advances, driven by the transfer of a £2,2 billion ($3.6 billion) portfolio from Non-Core.

RBS Capital Resolution

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

Building the number one bank for trust and service in the UK

RBS is making steady progress towards building a simpler, smaller and fairer bank, and remains focused on delivering the commitments for personal and business customers it announced on 27 February 2014.

RBS now offers its best rates to existing credit card and home insurance customers, adding to earlier progress on savings, mortgages, loans and current accounts. There is now no deal across the entire Personal Banking product set that is not available to existing customers.

Customer letters and emails have been simplified, and simplification of the product set has continued, with the number of products on offer to Personal Banking customers reduced by 29% since 2012; this will reach over 50% by end 2014.

The branch refurbishment programme has continued with a further roll-out of WiFi.

RBS has reduced the time taken to open an account from five days to one for most personal customers.

By the end of the year, 84% of business banking frontline staff will be based in or above a branch. So that more time can be spent with customers, a further 40 experienced relationship managers have been allocated to serve commercial customers, with a central focus on lending.

Lending procedures are being improved. Lending decisions for commercial customers will by the end of the year be made within five days for all but the most complex applications.

Highlights

Outlook

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

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

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

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

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

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

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

Analysis of results

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2014	2013	**2014**	2014	2013
Net interest income	**£m**	£m	**£m**	£m	£m
Net interest income (1)	**5,493**	5,437	**2,798**	2,695	2,767
Average interest-earning assets (1)	**507,088**	555,709	**502,155**	512,079	551,375
Net interest margin					
- RBS	**2.18%**	1.97%	**2.23%**	2.13%	2.01%
- Personal & Business Banking	**3.39%**	3.15%	**3.40%**	3.37%	3.20%
- Commercial & Private Banking	**2.90%**	2.69%	**2.91%**	2.89%	2.77%
- Citizens Financial Group	**2.94%**	2.90%	**2.93%**	2.94%	2.89%

Note:

(1) For further analysis and details refer to pages 72 to 74.

Key points

H1 2014 compared with H1 2013

Net interest income improved by 1% to £5,493 million. The increase was consistent across all businesses, with notable improvements in PBB (£97 million, 4%) and CPB (£90 million, 7%).

Net interest margin (NIM) increased by 21 basis points to 2.18%, driven by deposit repricing initiatives across a number of businesses. The benefit of reduced funding costs outweighed lower yields on assets.

Q2 2014 compared with Q1 2014

Net interest income improved by 4% to £2,798 million principally driven by improved margins and an additional day in the quarter.

NIM increased by 10 basis points to 2.23%, driven by lower funding costs, reflecting repricing initiatives across a number of businesses, RCR run-off and a small number of one-off recoveries.

Q2 2014 compared with Q2 2013

Net interest income improved by 1% to £2,798 million reflected by improved margins.

NIM increased by 22 basis points to 2.23% benefiting from repricing initiatives across a number of businesses.

Analysis of results

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

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Non-interest income	**£m**	£m		**£m**	£m	£m
Fees and commissions receivable	**2,605**	2,708		**1,314**	1,291	1,392
Fees and commissions payable	**(487)**	(460)		**(251)**	(236)	(250)
Net fees and commissions	**2,118**	2,248		**1,063**	1,055	1,142
Income from trading activities						
- non-statutory basis	**1,482**	1,890		**626**	856	874
- own credit adjustments*	**11**	175		**(84)**	95	76
- RFS Holdings minority interest	**-**	(1)		**(1)**	1	(1)
Statutory basis	**1,493**	2,064		**541**	952	949
Gain on redemption of own debt	**20**	191		**-**	20	242
Other operating income						
- non-statutory basis	**882**	1,028		**438**	444	661
- own credit adjustments*	**(62)**	201		**(106)**	44	51
- strategic disposals	**191**	-		**-**	191	6
- RFS Holdings minority interest	**25**	103		**13**	12	2
Statutory basis	**1,036**	1,332		**345**	691	720
Total non-interest income - non-statutory basis	**4,482**	5,166		**2,127**	2,355	2,677
Total non-interest income -statutory basis	**4,667**	5,835		**1,949**	2,718	3,053
*Own credit adjustments impact:						
Income from trading activities	**11**	175		**(84)**	95	76
Other operating income	**(62)**	201		**(106)**	44	51
Own credit adjustments	**(51)**	376		**(190)**	139	127

Key points

H1 2014 compared with H1 2013

Non-interest declined by £1,168 million or 20% which included a charge on own credit of £62 million compared with a gain of £201 million in H1 2013, partially offset by a gain of £191 million on the disposal of RBS's remaining interest in Direct Line Insurance Group in 2014. On a non-statutory basis non-interest income declined by £684 million or 13%, principally reflecting a 22% reduction in income from trading activities, in line with CIB's smaller balance sheet and reduced risk profile.

A net gain of £170 million ($283 million) was recorded on CFG'ssale of its Illinois branch network.

Gains on the disposal of available-for-sale securities in Treasury were down £245 million to £215 million for H1 2014 (Q2 2014 - £15 million; Q1 2014 - £200 million).

Gain on redemption of own debt was £20 million compared with £191 million in H1 2013.

Q2 2014 compared with Q1 2014

Non-interest declined by £769 million or 28%, which included a charge of own credit of £190 million compared with a gain of £139 million in Q1 2014 and a gain of £191 million on the disposal of RBS's remaining interest in Direct Line Insurance Group in Q1 2014. On a non-statutory basis non-interest income declined by £228 million or 10%, principally reflecting the seasonality of CIB income and lower disposal income in RCR. This was partly offset by the net gain on sale from CFG's branch sale.

Analysis of results

Key points (continued)

Q2 2014 compared with Q2 2013

Non-interest income declined by £1,104 million which included a charge on own credit of £190 million compared with a gain of £127 million in Q2 2013. On a non-statutory basis non-interest income declined by £550 million or 21%, which included the weaker performance of Currencies within CIB. This was largely in line with overall market trends and reflected weak client demand and low volatility.

The movements discussed above were partly offset by the stronger performance of Rates in CIB and the net gain on sale of the Illinois retail branches, coupled with higher current account-related fee income.

Analysis of results

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

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Operating expenses	**£m**	£m		**£m**	£m	£m
Staff costs						
- non-statutory basis	**3,340**	3,585		**1,693**	1,647	1,764
- restructuring costs	**196**	142		**153**	43	76
- RFS Holdings minority interest	**-**	-		**(1)**	1	-
Statutory basis	**3,536**	3,727		**1,845**	1,691	1,840
Premises and equipment						
- non-statutory basis	**1,079**	1,079		**485**	594	526
- restructuring costs	**196**	25		**137**	59	22
Statutory basis	**1,275**	1,104		**622**	653	548
Other administrative expenses						
- non-statutory basis	**1,292**	1,479		**605**	687	801
- restructuring costs	**119**	84		**94**	25	48
- litigation and conduct costs	**250**	620		**250**	-	570
- RFS Holdings minority interest	**1**	(2)		**2**	(1)	(1)
Statutory basis	**1,662**	2,181		**951**	711	1,418
Restructuring costs						
- non-statutory basis	**514**	271		**385**	129	149
- staff expenses	**(196)**	(142)		**(153)**	(43)	(76)
- premises and equipment	**(196)**	(25)		**(137)**	(59)	(22)
- other	**(119)**	(84)		**(94)**	(25)	(48)
- Depreciation and amortisation	**(3)**	(20)		**(1)**	(2)	(3)
Statutory basis	**-**	-		**-**	-	-
Litigation and conduct costs						
- non-statutory basis	**250**	620		**250**	-	570
- other administrative expenses	**(250)**	(620)		**(250)**	-	(570)

Statutory basis	**-**	-		**-**	-	-
Depreciation and amortisation						
- non-statutory basis	**551**	716		**282**	269	346
- integration and restructuring	**3**	20		**1**	2	3
- RFS Holdings minority interest	**-**	-		**(1)**	1	-
Statutory basis	**554**	736		**282**	272	349
Write-down of goodwill and other intangible assets						
- non-statutory basis	**82**	-		**-**	82	-
- write-down of goodwill	**130**	-		**130**	-	-
Statutory basis	**212**	-		**130**	82	-
Operating expenses - non-statutory basis	**7,108**	7,750		**3,700**	3,408	4,156
Operating expenses - statutory basis	**7,239**	7,748		**3,830**	3,409	4,155

Analysis of results

Key points

H1 2014 compared with H1 2013

Operating expenses were £509 million which included the write-down of goodwill of £130 million in H1 2014. On a non-statutory basis operating expenses were £642 million, 8%, lower. Non-statutory operating expenses excluding restructuring costs of £514 million (H1 2013 - £271 million) and litigation and conduct costs of £250 million (H1 2013 - £620 million) decreased by £515 million or 8% to £6,344 million. Much of the decrease was achieved in CIB through headcount reductions and tight control of discretionary expenditure. Overall operating expense trends are starting to show the benefits of the reshaping of the bank's cost base.

Litigation and conducts costs totalled £250 million compared with £620 million in H1 2013, with an additional provision of £150 million (H1 2013 - £160 million) for Payment Protection Insurance redress recorded in UK PBB and a further £100 million (H1 2013 - £150 million) relating to interest rate hedging product redress booked within Commercial Banking and CIB. H1 2013 included provisions for other regulatory and legal actions of £385 million in CIB.

Restructuring costs increased by £243 million to £514 million, including significant charges in relation to Williams & Glyn and to the restructuring of the property portfolio.

Q2 2014 compared with Q1 2014

Operating expenses were up £421 million which included the write-down of goodwill of £130 million in Q2 2014. On a non-statutory basis operating expenses were up £292 million, 9% reflecting higher restructuring and litigation and conduct costs. Non-statutory operating expenses excluding restructuring costs of £385 million (Q1 2014 - £129 million) and litigation and conduct costs of £250 million decreased by £214 million or 7%. This was principally driven by lower staff costs in CIB, operational cost saving initiatives in CPB and lower costs in PBB. This was only partly offset by higher staff costs in RCR.

Q2 2014 compared with Q2 2013

Operating expenses were down £325 million, 8% reflecting lower litigation and conduct costs. On a non-statutory basis operating expenses were down £456 million, 11%, reflecting lower litigation and conduct costs. Non-statutory operating expenses excluding restructuring costs of £385 million (Q2 2013 - £149 million) and litigation and conduct costs of £250 million (Q2 2013 - £570 million) decreased by £372 million or 11%. The fall was consistent across all businesses, with notable declines in CIB (£114 million, 11%), CPB (£46 million, 7%). The decrease was helped by favourable foreign exchange movements.

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Analysis of results

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Impairment losses/(recoveries)	**£m**	£m		**£m**	£m	£m
Loans	**271**	2,161		**(89)**	360	1,125
Securities	**(2)**	(11)		**(4)**	2	(8)
Total impairment losses/(recoveries)	**269**	2,150		**(93)**	362	1,117
Loan impairment losses/(recoveries)						
- individually assessed	**113**	1,472		**(42)**	155	826
- collectively assessed	**348**	734		**221**	127	293
- latent	**(180)**	(36)		**(258)**	78	15
Customer loans	**281**	2,170		**(79)**	360	1,134
Bank loans	**(10)**	(9)		**(10)**	-	(9)
Loan impairment losses/(recoveries)	**271**	2,161		**(89)**	360	1,125
RBS excluding RCR/Non-Core	**290**	1,258		**36**	254	659
RCR	**(19)**	n/a		**(125)**	106	n/a
Non-Core	**n/a**	903		**n/a**	n/a	466
RBS	**271**	2,161		**(89)**	360	1,125
Customer loan impairment charge as a % of						
gross loans and advances (1)						
RBS excluding RCR/Non-Core	**0.2%**	0.6%		**-**	0.3%	0.7%
RCR	**(0.1%)**	n/a		**(1.7%)**	1.2%	n/a
Non-Core	**n/a**	3.9%		**n/a**	n/a	4.0%
				30 June	31 March	31 December
				2014	2014	2013
Loan impairment provisions				**£22.4bn**	£24.2bn	£25.2bn

Risk elements in lending				**£34.1bn**	£37.4bn	£39.4bn
Provision coverage (2)				**66%**	65%	64%

Notes:

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

Key points

H1 2014 compared with H1 2013

Loan impairment losses declined sharply by £1,890 million or 87%, including £180 million of releases of latent provisions (H1 2013 - £36 million). Asset quality continued to improve in the UK and Ireland.

Loan impairments in RCR amounted to a net recovery of £19 million.

Provision coverage strengthened to 66% compared with 64% at the end of 2013. REIL were £5.3 billion lower and represented 8.3% of gross customer loans, compared with 9.4% at the end of 2013.

Q2 2014 compared with Q1 2014

A net recovery of £89 million was recorded in Q2 2014, compared with losses of £360 million in Q1 2014.

The improvement in loan impairment losses was driven by the release of latent provisions in CPB and CIB and by a strong credit performance in RCR (a net recovery of £125 million compared with losses of £106 million in Q1 2014).

REIL fell by £3.3 billion. As a percentage of gross loans to customers, REIL declined to 8.3% from 9.0% at 31 March 2014.

Analysis of results

Key points (continued)

Q2 2014 compared with Q2 2013

Loan impairment recoveries totalled £89 million compared with losses of £1,125 million in Q2 2013 which included £466 million in respect of Non-Core.

The improvement in impairments reflected significantly lower losses in Ulster Bank reflecting stronger credit metrics and the benefits of the investment in programmes to support customers in financial difficulty, and continued strong recoveries across UK PBB and release of latent provisions and non-repeat of significant individual cases in CPB.

In Q2 2014 loan impairment recoveries in RCR were £125 million.

Analysis of results

Capital and leverage ratios			
	CRR end-point basis (1)		
	30 June	31 March	31 December
	2014	2014	2013 (2)
Capital	**£bn**	£bn	£bn
CET1	**39.7**	39.1	36.8
Tier 1	**39.7**	39.1	36.8
Total	**48.7**	47.3	45.5
RWAs by risk			
Credit risk			
- non-counterparty	**283.3**	295.2	317.9
- counterparty	**38.6**	41.3	39.1
Market risk	**33.4**	41.0	30.3
Operational risk	**36.8**	36.8	41.8
	392.1	414.3	429.1
Risk asset ratios	**%**	%	%
CET1	**10.1**	9.4	8.6
Tier 1	**10.1**	9.4	8.6
Total	**12.4**	11.4	10.6

	30 June	31 March	31 December
Leverage ratio (3)	**2014**	2014	2013
Tier 1 capital - £bn	**39.7**	39.1	36.8
Exposure - £bn	**1,070.2**	1,083.4	1,082.0
Leverage ratio - % (3)	**3.7**	3.6	3.4

Notes:

(1) Capital Requirements Regulation (CRR) as implemented by the Prudential Resolution Authority in the UK, with effect from 1 January 2014.
(2) Estimated.
(3) Leverage ratio is calculated using:

- CRR end-point Tier 1 capital; and
- Exposure measure based on guidance in the BCBS 270 proposal issued in January 2014, supplemented by the instructions in the March 2014 Basel III Quantitative Impact Study and the related FAQs.

See Appendix 1 for further details on capital and leverage.

Key points

30 June 2014 compared with 31 March 2014

The CRR end-point CET 1 ratio improved to 10.1% from 9.4%, principally driven by retained earnings after charging the initial DAS dividend of £320 million, and continuing reduction in RWAs and expected loss.

RWAs decreased by £22 billion principally reflecting the £12 billion fall in CIB driven by risk reductions and mitigation costs and £5 billion of run-off and disposals in RCR.

Analysis of results

Key points (continued)

Capital and leverage ratios (continued)

30 June 2014 compared with 31 December 2013

The CRR end-point CET 1 ratio improved to 10.1% from 8.6%, principally driven by retained earnings, continuing reduction in RWAs and regulatory capital deductions relating to deferred tax assets and expected loss.

RWAs decreased by £37 billion principally attributable to the risk reductions and mitigation actions in CIB, and run-off and disposals in RCR.

Leverage ratio improved by 30 basis points reflecting attributable profit, lower regulatory deductions as well as lower leverage exposure, particularly relating to derivatives in CIB.

For further details of RBS's capital and leverage ratios refer to Appendix 1.

Analysis of results

Balance sheet	**30 June 2014**	31 March 2014	31 December 2013
Total assets	**£1,011bn**	£1,024bn	£1,028bn
Derivatives	**£275bn**	£278bn	£288bn
Funded balance sheet (1)	**£736bn**	£746bn	£740bn
Net loans and advances to customers (2)	**£387bn**	£392bn	£393bn
Customer deposits (3)	**£401bn**	£404bn	£418bn
Loan:deposit ratio - RBS (4)	**96%**	97%	94%

Notes:

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

Key points

30 June 2014 compared with 31 March 2014

Funded assets decreased by £10 billion to £736 billion principally attributable to lower debt securities in CIB coupled with RCR run-off.

Net loans and advances to customers decreased by £5 billion to £387 billion principally driven by RCR run-off and disposals, the impact of stronger sterling on US dollar denominated loans, partly offset by good mortgage balance growth in UK PBB.

Customer deposits decreased by £3 billion driven by lower balances in CFG adversely impacted by foreign exchange movements, deposit repricing in Private Banking and lower balances in CIB. This was partly offset by increased deposit balances in UK PBB.

30 June 2014 compared with 31 December 2013

Funded assets decreased by £4 billion to £736 billion principally driven by RCR run-off.

Net loans and advances to customers decreased by £6 billion reflecting RCR run-off and the impact of currency movements.

Customer deposits fell by £17 billion reflecting a managed run-down of surplus liquidity. The customer funding surplus decreased to £14 billion, while the loan:deposit ratio increased by 2 percentage points to 96%.

Analysis of results

Funding and liquidity metrics	30 June 2014	31 March 2014	31 December 2013
Deposits (1)	**£440bn**	£440bn	£453bn
Deposits as a percentage of funded balance sheet	**60%**	59%	61%
Short-term wholesale funding (2)	**£34bn**	£31bn	£32bn
Wholesale funding (2)	**£102bn**	£102bn	£108bn
Wholesale funding as a percentage of funded balance sheet	**14%**	14%	15%
Short-term wholesale funding as a percentage of funded balance sheet	**5%**	4%	4%
Short-term wholesale funding as a percentage of total wholesale funding	**33%**	30%	30%
Liquidity portfolio	**£138bn**	£131bn	£146bn
Liquidity portfolio as a percentage of funded balance sheet	**19%**	18%	20%
Liquidity portfolio as a percentage of short-term wholesale funding	**406%**	423%	456%

Notes:

(1) Customer and bank deposits excluding repurchase agreements and stock lending and includes disposal groups.
(2) Excludes derivative collateral.

Key points

30 June 2014 compared with 31 March 2014

The bank remains highly liquid with short-term wholesale funding covered 4 times by its liquidity portfolio as at 30 June 2014 (4.2 times as at 31 March 2014).

The liquidity portfolio increased by £7 billion to £138 billion, mainly driven by decreases in customer loan balances and higher Discount Window Facility assets.

30 June 2014 compared with 31 December 2013

The liquidity portfolio decreased by £8 billion to £138 billion, mainly driven by a targeted reduction in volatile financial institution deposits in the first quarter of 2014, partly offset by decreases in customer loan balances and higher Discount Window Facility assets in the second quarter.

Targeted reductions in long-term wholesale funding and customer deposits contributed to a 700 basis point decrease in the net stable funding ratio to 111%.

Segment performance

Key measures for each segment are shown in the tables below:

	Half year ended			Quarter ended	
	30 June	30 June	**30 June**	31 March	30 June
	2014	2013	**2014**	2014	2013
	£m	£m	**£m**	£m	£m
Operating profit/(loss) by segment					
UK Personal & Business Banking	**994**	688	**484**	510	268
Ulster Bank	**55**	(381)	**46**	9	(210)
Personal & Business Banking	**1,049**	307	**530**	519	58
Commercial Banking	**635**	413	**314**	321	229
Private Banking	**145**	88	**70**	75	47
Commercial & Private Banking	**780**	501	**384**	396	276
Corporate & Institutional Banking	**308**	(197)	**(25)**	333	(395)
Central items	**91**	553	**86**	5	352
Citizens Financial Group	**421**	353	**277**	144	167
RCR	**(48)**	n/a	**66**	(114)	n/a
Non-Core	**n/a**	(809)	**n/a**	n/a	(284)
Non statutory basis	**2,601**	708	**1,318**	1,283	174
Reconciling items					
Own credit adjustments	**(51)**	376	**(190)**	139	127
Gain on redemption of own debt	**20**	191	**-**	20	242
Write-down of goodwill	**(130)**	-	**(130)**	-	-
Strategic disposals	**191**	-	**-**	191	6
RFS Holdings minority interest	**21**	99	**12**	9	(1)
Statutory basis	**2,652**	1,374	**1,010**	1,642	548

Impairment losses/(recoveries) by segment						
UK Personal & Business Banking	**148**	256		**60**	88	126
Ulster Bank	**57**	503		**10**	47	263
Personal & Business Banking	**205**	759		**70**	135	389
Commercial Banking	**31**	282		**(9)**	40	155
Private Banking	**-**	7		**1**	(1)	2
Commercial & Private Banking	**31**	289		**(8)**	39	157
Corporate & Institutional Banking	**(39)**	223		**(45)**	6	144
Central items	**(12)**	(3)		**(13)**	1	(3)
Citizens Financial Group	**104**	51		**31**	73	32
RCR	**(20)**	n/a		**(128)**	108	n/a
Non-Core	**n/a**	831		**n/a**	n/a	398
Statutory and non-statutory basis	**269**	2,150		**(93)**	362	1,117

Segment performance

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	%	%		**%**	%	%
Net interest margin by segment						
UK Personal & Business Banking	**3.62**	3.50		**3.64**	3.61	3.56
Ulster Bank	**2.32**	1.82		**2.35**	2.29	1.84
Personal & Business Banking	**3.39**	3.15		**3.40**	3.37	3.20
Commercial Banking	**2.70**	2.53		**2.73**	2.68	2.63
Private Banking	**3.72**	3.33		**3.73**	3.70	3.34
Commercial & Private Banking	**2.90**	2.69		**2.91**	2.89	2.77
	.					
Corporate & Institutional Banking	**0.88**	0.72		**0.90**	0.85	0.67
Citizens Financial Group	**2.94**	2.90		**2.93**	2.94	2.89
RCR	**(0.01)**	n/a		**0.08**	(0.08)	n/a
Non-Core	**n/a**	(0.06)		**n/a**	n/a	0.15
RBS net interest margin	**2.18**	1.97		**2.23**	2.13	2.01

	30 June	31 March	31 December
	2014	2014	2013
	£bn	£bn	£bn
Funded assets by segment			
UK Personal & Business Banking	**133.6**	132.8	132.2
Ulster Bank	**26.6**	26.0	28.0
Personal & Business Banking	**160.2**	158.8	160.2
Commercial Banking	**88.6**	89.6	87.9

Private Banking	**20.8**	21.1	21.0
Commercial & Private Banking	**109.4**	110.7	108.9
Corporate & Institutional Banking	**278.7**	286.6	268.6
Central items	**90.3**	89.5	101.9
Citizens Financial Group	**75.7**	75.7	71.3
RCR	**20.9**	24.3	n/a
Non-Core	**n/a**	n/a	28.0
	735.2	745.6	738.9
RFS Holdings minority interest	**1.0**	0.9	0.9
RBS funded assets	**736.2**	746.5	739.8

Segment performance

	FLB3			Basel 2.5
	30 June	31 March	1 January	31 December
	2014	2014	2014	2013
	£bn	£bn	£bn	£bn
Risk-weighted assets by segment				
UK Personal & Business Banking	**47.0**	48.5	49.7	51.2
Ulster Bank	**27.7**	28.7	28.2	30.7
Personal & Business Banking	**74.7**	77.2	77.9	81.9
Commercial Banking	**63.0**	63.5	61.5	65.8
Private Banking	**11.8**	12.0	12.0	12.0
Commercial & Private Banking	**74.8**	75.5	73.5	77.8
Corporate & Institutional Banking	**127.8**	140.2	147.1	120.4
Other	**14.8**	15.5	19.4	16.2
Citizens Financial Group	**60.7**	61.3	60.6	56.1
RCR	**35.1**	40.5	46.7	n/a
Non-Core	**n/a**	n/a	n/a	29.2
RBS before RFS Holdings minority interest	**387.9**	410.2	425.2	381.6
RFS Holdings minority interest	**4.2**	4.1	3.9	3.9
RBS risk-weighted assets	**392.1**	414.3	429.1	385.5

Employee numbers by segment	**30 June**	31 March	31 December
(full time equivalents rounded to the nearest hundred)	**2014**	2014	2013
UK Personal & Business Banking	**25,700**	26,300	26,700
Ulster Bank	**4,500**	4,600	4,700

Personal & Business Banking	**30,200**	30,900	31,400
Commercial Banking	**7,100**	7,300	7,300
Private Banking	**3,500**	3,500	3,500
Commercial & Private Banking	**10,600**	10,800	10,800
Corporate & Institutional Banking	**4,500**	4,400	4,700
Centre	**12,800**	13,100	12,800
Citizens Financial Group	**17,700**	18,500	18,800
RCR	**800**	1,100	n/a
Non-Core	**n/a**	n/a	1,300
	76,600	78,800	79,800
Services	**36,900**	37,800	38,600
Integration and restructuring	**100**	100	200
RBS employee numbers	**113,600**	116,700	118,600

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Personal & Business Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**2,599**	2,502		**1,321**	1,278	1,270
Net fees and commissions	**703**	693		**338**	365	351
Other non-interest income	**72**	78		**51**	21	57
Non-interest income	**775**	771		**389**	386	408
Total income	**3,374**	3,273		**1,710**	1,664	1,678
Direct expenses						
- staff costs	**(576)**	(593)		**(288)**	(288)	(302)
- other costs	**(260)**	(227)		**(113)**	(147)	(108)
Indirect expenses	**(1,101)**	(1,072)		**(518)**	(583)	(549)
Restructuring costs						
- direct	**2**	(85)		**2**	-	(61)
- indirect	**(35)**	(45)		**(43)**	8	(26)
Litigation and conduct costs	**(150)**	(185)		**(150)**	-	(185)
Operating expenses	**(2,120)**	(2,207)		**(1,110)**	(1,010)	(1,231)
Profit before impairment losses	**1,254**	1,066		**600**	654	447
Impairment losses	**(205)**	(759)		**(70)**	(135)	(389)
Operating profit	**1,049**	307		**530**	519	58

Key metrics						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013

Performance ratios						
Return on equity (1)	**17.0%**	4.3%		**17.4%**	16.7%	1.7%
Net interest margin	**3.39%**	3.15%		**3.40%**	3.37%	3.20%
Cost:income ratio	**63%**	67%		**65%**	61%	73%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

Personal & Business Banking

	30 June 2014 £bn	31 March 2014 £bn	Change		31 December 2013 £bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)	**154.9**	155.0	-		159.2	(3%)
Loan impairment provisions	**(6.1)**	(6.3)	(3%)		(8.4)	(27%)
Net loans and advances to customers	**148.8**	148.7	-		150.8	(1%)
Funded assets	**160.2**	158.8	1%		160.2	-
Risk elements in lending	**9.1**	9.2	(1%)		13.2	(31%)
Provision coverage (1)	**67%**	68%	(100bp)		63%	400bp
Customer deposits	**166.7**	165.7	1%		166.6	-
Assets under management (excluding deposits)	**5.3**	5.5	(4%)		5.8	(9%)
Loan:deposit ratio (excluding repos)	**89%**	90%	(100bp)		91%	(200bp)
Total risk-weighted assets	**74.7**	77.2	(3%)		81.9	(9%)

Note:

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

Key points

Personal & Business Banking (PBB) comprises the former UK Retail and business banking elements of former UK Corporate (UK Personal & Business Banking - UK PBB) and Ulster Bank reportable segments. PBB supports individuals in managing their personal and business banking, with a full range of financial services and advice. Through the RBS, NatWest, and Ulster Bank brands, PBB serves over 18 million personal and business customers in the UK and Ireland. Customers can choose how they manage their finances through access to our branches, online banking, fixed and mobile technology and one of the largest ATM networks in the UK and Ireland.

UK Personal & Business Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**2,276**	2,200		**1,152**	1,124	1,118
Net fees and commissions	**637**	624		**304**	333	316
Other non-interest income	**49**	5		**43**	6	4
Non-interest income	**686**	629		**347**	339	320
Total income	**2,962**	2,829		**1,499**	1,463	1,438
Direct expenses						
- staff costs	**(451)**	(469)		**(226)**	(225)	(235)
- other costs	**(225)**	(200)		**(95)**	(130)	(96)
Indirect expenses	**(975)**	(947)		**(455)**	(520)	(484)
Restructuring costs						
- direct	**(6)**	(70)		**(6)**	-	(47)
- indirect	**(13)**	(39)		**(23)**	10	(22)
Litigation and conduct costs	**(150)**	(160)		**(150)**	-	(160)
Operating expenses	**(1,820)**	(1,885)		**(955)**	(865)	(1,044)
Profit before impairment losses	**1,142**	944		**544**	598	394
Impairment losses	**(148)**	(256)		**(60)**	(88)	(126)
Operating profit	**994**	688		**484**	510	268

UK Personal & Business Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Analysis of income by product						
Personal advances	**467**	443		**232**	235	220
Personal deposits	**302**	227		**160**	142	124
Mortgages	**1,287**	1,277		**649**	638	649
Cards	**374**	419		**176**	198	210
Business banking	**490**	481		**245**	245	247
Other	**42**	(18)		**37**	5	(12)
Total income	**2,962**	2,829		**1,499**	1,463	1,438
Analysis of impairments by sector						
Personal advances	**79**	84		**40**	39	49
Mortgages	**5**	26		**4**	1	16
Business banking	**30**	87		**1**	29	37
Cards	**34**	59		**15**	19	24
Total impairment losses	**148**	256		**60**	88	126
Loan impairment charge as % of gross						
customer loans and advances (excluding						
reverse repurchase agreements) by sector						
Personal advances	**2.1%**	2.0%		**2.1%**	2.0%	2.4%
Mortgages	**-**	0.1%		**-**	-	0.1%
Business banking	**0.4%**	1.1%		**-**	0.8%	1.0%
Cards	**1.3%**	2.1%		**1.1%**	1.4%	1.7%
Total	**0.2%**	0.4%		**0.2%**	0.3%	0.4%

Key metrics						

	Half year ended			Quarter ended		
	30 June 2014	30 June 2013		**30 June 2014**	31 March 2014	30 June 2013
Performance ratios						
Return on equity (1)	**25.7%**	16.4%		**25.3%**	26.0%	12.8%
Net interest margin	**3.62%**	3.50%		**3.64%**	3.61%	3.56%
Cost:income ratio	**61%**	67%		**64%**	59%	73%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

UK Personal & Business Banking

	30 June 2014	31 March 2014			31 December 2013	
	£bn	£bn	Change		£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- personal advances	**7.5**	7.9	(5%)		8.1	(7%)
- mortgages	**101.8**	100.4	1%		99.3	3%
- business	**14.6**	14.6	-		14.6	-
- cards	**5.3**	5.5	(4%)		5.8	(9%)
	129.2	128.4	1%		127.8	1%
Loan impairment provisions	**(2.8)**	(2.9)	(3%)		(3.0)	(7%)
Net loans and advances to customers	**126.4**	125.5	1%		124.8	1%
Funded assets	**133.6**	132.8	1%		132.2	1%
Risk elements in lending	**4.2**	4.5	(7%)		4.7	(11%)
Provision coverage (1)	**66%**	65%	100bp		63%	300bp
Customer deposits						
- personal current accounts	**34.2**	33.8	1%		32.5	5%
- personal savings	**80.9**	81.1	-		82.3	(2%)
- business/commercial	**30.9**	29.7	4%		30.1	3%
Total customer deposits	**146.0**	144.6	1%		144.9	1%
Assets under management (excluding deposits)	**5.3**	5.5	(4%)		5.8	(9%)
Loan:deposit ratio (excluding repos)	**87%**	87%	-		86%	100bp
Risk-weighted assets (2)						
- Credit risk (non-counterparty)	**37.5**	39.0	(4%)		41.4	(9%)
- Operational risk	**9.5**	9.5	-		9.8	(3%)

Total risk-weighted assets	**47.0**	48.5	(3%)		51.2	(8%)

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

UK Personal & Business Banking

Key points

The strategic goal of UK PBB is to become the number one personal and business bank for customer trust and advocacy in the UK. To support this, investment of over £1 billion is planned between 2014 and 2017. Through to the end of June 2014 these initiatives included:

Further enhancements to the customer experience were introduced to UK PBB’s mobile and digital services. The business currently has more than 5.5 million online users, and 2.8 million customers now using its mobile application, transacting more than £10 billion in digital payments on an annual basis.

UK PBB continued its branch refurbishment programme and completed the roll-out of WiFi across the branch network and expanded its ATM network to include increased presence at shopping centres and train stations across the UK.

UK PBB continued to focus on streamlining processes offering pre-approved loans through online banking and allowing mortgage customers to service their accounts online. We are moving further towards our goal of responding intelligently to each individual customer via their channel of choice.

In line with UK PBB’s goal of responsible lending, we introduced the new Clear Rate Credit card in March 2014 ending zero percent balance transfer deals that then revert to higher rates when the deal expires. This product is designed specifically for those customers that want to control and reduce their debt over time without the need to move their balance from card to card or remember when their introductory offer comes to an end.

The CashBack Plus scheme, which rewards personal debit card users through selected retailers, was launched in August 2013 and continued to expand, with more than 1.2 million customers now registered. In February 2014, CashBack Plus won ‘Best Card Benefits Programme’ at the annual Cards and Payments awards.

Business Banking is the number one business banking franchise in the UK, with a 23% current account market share. The bank’s share of business start-ups increased by 2 percentage points to 24% in the 6 months to June with strong gross new lending over the same period. Net promoter scores improved in the relationship-managed space and UK PBB believes that bringing together Personal and Business banking will enable it to more ably satisfy customer needs.

H1 2014 compared with H1 2013

Operating profit increased by 44% to £994 million, with restructuring costs down £90 million to £19 million. Operating profit, excluding restructuring, litigation and conduct costs of £169 million (H1 2013 - £269 million) increased by 22% to £1,163 million, driven by income growth of 5% and a 42% decline in impairment losses.

Net interest income increased by 3% to £2,276 million, driven by strong deposit growth of 4%, improved margins, and increased personal mortgage balances, up 4%, partly offset by lower income from unsecured lending.

Non-interest income increased by 9%, to £686 million, primarily driven by higher current account-related fee income and higher insurance profit share. Debit card transactional spend increased by 8%, supported by the CashBack Plus programme.

UK Personal & Business Banking

Key points (continued)

H1 2014 compared with H1 2013 (continued)

Direct costs were up 1% at £676 million, with higher customer compensation and marketing costs only partly offset by a decrease in staff costs driven by lower headcount. Indirect costs were 3% higher at £975 million, reflecting a technology write-off in Q1 2014 of £60 million.

Impairments were £108 million lower due to improved asset quality and lower default volumes.

Risk-weighted assets decreased by 10%, reflecting improvements in the quality of the book and business model enhancements, partly offset by mortgage balance growth.

Q2 2014 compared with Q1 2014

Operating profit decreased by 5% to £484 million, reflecting additional conduct costs of £150 million for Payment Protection Insurance redress. Operating profit, excluding restructuring, litigation and conduct costs of £179 million (Q1 2014 – (£10) million) increased by 33% to £663 million, driven by income growth of 2% and lower costs (down 11%). Impairments also continued to improve.

Net interest income increased by 2% to £1,152 million, primarily due to improved deposit income from increased balances and margins. Strong mortgage balance growth of £1.4 billion (gross new business lending market share was 10%) was offset by modest pressure on mortgage margins.

Non-interest income increased by 2% to £347 million, largely due to higher insurance profit share. Card transaction-related fee income improved with transaction levels up 6%.

Direct costs decreased by 10% to £321 million driven by a remediation provision of £15 million in Q1 2014. Indirect costs declined by 13% to £455 million.

Impairments were £28 million lower due to lower customer defaults across all products, reflecting continued improvement in asset quality. Recoveries across personal and business banking continued to improve.

Risk-weighted assets decreased by 3%, reflecting personal unsecured balance reductions partly offset by mortgage balance growth.

Q2 2014 compared with Q2 2013

Operating profit increased by 81% to £484 million, with restructuring, litigation and conduct costs down £50 million to £179 million. Operating profit, excluding restructuring, litigation and conduct costs of £179 million (Q2 2013 - £229 million) increased by 33% to £663 million, with income up 4% and operating expenses, excluding restructuring and litigation and conduct costs, down 5%. Impairments also improved, halving to £60 million.

Net interest income increased by 3% to £1,152 million, driven by strong deposit income with balance growth of 4% and improved margins.

Non-interest income increased by 8% to £347 million, benefiting from higher current account-related fee income and higher insurance profit share.

Direct costs of £321 million were 3% lower, with staff cost benefits from lower headcount. Indirect costs were down 6%.

Impairments decreased by 52%, to £60 million, reflecting improvements in the quality of the book and continued strong recoveries across UK PBB.

Ulster Bank

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2014	2013	**2014**	2014	2013
	£m	£m	**£m**	£m	£m
Income statement					
Net interest income	**323**	302	**169**	154	152
Net fees and commissions	**66**	69	**34**	32	35
Other non-interest income	**23**	73	**8**	15	53
Non-interest income	**89**	142	**42**	47	88
Total income	**412**	444	**211**	201	240
Direct expenses					
- staff costs	**(125)**	(124)	**(62)**	(63)	(67)
- other costs	**(35)**	(27)	**(18)**	(17)	(12)
Indirect expenses	**(126)**	(125)	**(63)**	(63)	(65)
Restructuring costs					
- direct	**8**	(15)	**8**	-	(14)
- indirect	**(22)**	(6)	**(20)**	(2)	(4)
Litigation and conduct costs	**-**	(25)	**-**	-	(25)
Operating expenses	**(300)**	(322)	**(155)**	(145)	(187)
Profit before impairment losses	**112**	122	**56**	56	53
Impairment losses	**(57)**	(503)	**(10)**	(47)	(263)
Operating profit/(loss)	**55**	(381)	**46**	9	(210)

Ulster Bank

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2014	2013	**2014**	2014	2013
	£m	£m	**£m**	£m	£m
Analysis of income by business					
Corporate	**134**	170	**65**	69	88
Retail	**190**	209	**100**	90	120
Other	**88**	65	**46**	42	32
Total income	**412**	444	**211**	201	240
Analysis of impairments by sector					
Mortgages	**35**	181	**16**	19	91
Commercial real estate					
- investment	**9**	97	**1**	8	51
- development	**(6)**	26	**(3)**	(3)	12
Other corporate	**8**	186	**(9)**	17	111
Other lending	**11**	13	**5**	6	(2)
Total impairment losses	**57**	503	**10**	47	263
Loan impairment charge as % of gross					
customer loans and advances (excluding					
reverse repurchase agreements) by sector					
Mortgages	**0.4%**	1.8%	**0.4%**	0.4%	1.8%
Commercial real estate					
- investment	**1.8%**	5.4%	**0.4%**	3.2%	5.7%
- development	**(3.0%)**	7.4%	**(3.0%)**	(3.0%)	6.9%
Other corporate	**0.3%**	5.0%	**(0.7%)**	1.3%	5.9%
Other lending	**2.2%**	2.0%	**2.0%**	2.4%	(0.6%)
Total	**0.4%**	3.1%	**0.2%**	0.7%	3.2%

Key metrics	Half year ended			Quarter ended		
	30 June 2014	30 June 2013		**30 June 2014**	31 March 2014	30 June 2013
Performance ratios						
Return on equity (1)	**2.7%**	(14.9%)		**4.6%**	0.9%	(16.8%)
Net interest margin	**2.32%**	1.82%		**2.35%**	2.29%	1.84%
Cost:income ratio	**73%**	73%		**73%**	72%	78%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

Ulster Bank

	30 June 2014 £bn	31 March 2014 £bn	Change		31 December 2013 £bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
Mortgages	**18.1**	18.8	(4%)		19.0	(5%)
Commercial real estate						
- investment	**1.0**	1.0	-		3.4	(71%)
- development	**0.4**	0.4	-		0.7	(43%)
Other corporate	**5.2**	5.4	(4%)		7.1	(27%)
Other lending	**1.0**	1.0	-		1.2	(17%)
	25.7	26.6	(3%)		31.4	(18%)
Loan impairment provisions	**(3.3)**	(3.4)	(3%)		(5.4)	(39%)
Net loans and advances to customers	**22.4**	23.2	(3%)		26.0	(14%)
Funded assets	**26.6**	26.0	2%		28.0	(5%)
Risk elements in lending						
- Mortgages	**3.3**	3.1	6%		3.2	3%
- Commercial real estate						
- investment	**0.3**	0.3	-		2.3	(87%)
- development	**0.2**	0.2	-		0.5	(60%)
- Other corporate	**0.9**	0.9	-		2.3	(61%)
- Other lending	**0.2**	0.2	-		0.2	-
Total risk elements in lending	**4.9**	4.7	4%		8.5	(42%)
Provision coverage (1)	**68%**	72%	(400bp)		64%	400bp
Customer deposits	**20.7**	21.1	(2%)		21.7	(5%)
Loan:deposit ratio (excluding repos)	**108%**	110%	(200bp)		120%	(1,200bp)
Risk-weighted assets (2)						
- Credit risk						

- non-counterparty	**26.0**	26.7	(3%)		28.2	(8%)
- counterparty	**0.1**	0.3	(67%)		0.3	(67%)
- Market risk	**0.1**	0.2	(50%)		0.5	(80%)
- Operational risk	**1.5**	1.5	-		1.7	(12%)
Risk-weighted assets	**27.7**	28.7	(3%)		30.7	(10%)
Spot exchange rate - €/£	**1.25**	1.21			1.20	

Notes:

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

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

Ulster Bank

Key points

Ulster Bank returned to profitability in H1 2014, the first half-yearly profit recorded since 2008. The macroeconomic environment across the island of Ireland has stabilised considerably but trading conditions continue to be volatile and the regulatory environment remains challenging.

Key financial highlights:

- The transfer of assets to RCR coupled with the benefits of the investment in programmes to support customers in financial difficulty has driven a significant reduction in impairment losses.
- Lending activity has increased in 2014, albeit repayments continue to exceed new lending.
- Net interest margin has improved reflecting a strong focus on reducing the overall cost of funding for Ulster Bank.
- Tight management of expenses remains a key priority; however the investment required to address legacy issues remains significant.
- The right-sizing of the branch network and rationalising of the property footprint is progressing.
- The number of mortgage customers more than 90 days in arrears has declined in each of the last 15 months, a trend not seen elsewhere in the market. This reflects the investment made to support customers in financial difficulty.

Further progress was made in H1 2014 to make it simple and easy for customers to do business:

- There has been a significant increase in new lending activity following the launch of the big YES mortgage campaign and 'Ahead for Business' campaign. New mortgage lending increased by 44% compared with the same period in 2013 while over £650 million of new lending has been made available to business customers.
- Customers have continued to move towards direct channels with 86% of all activity now outside the traditional branch.
- The separation of Ulster Bank batch processing from NatWest and RBS brands was successfully delivered in H1 2014. This significantly reduces the risk of disruption to customers.

The creation of RCR resulted in the net transfer of £4.4 billion of gross assets to RCR on 1 January 2014. This has had a significant impact on the comparison of 2014 financial performance with that reported in 2013.

H1 2014 compared with H1 2013

Ulster Bank posted an operating profit of £55 million for H1 2014, compared with a loss of £381 million in H1 2013, with the improvement primarily driven by a significant reduction in impairment losses across all portfolios. Operating profit, excluding restructuring, litigation and conduct costs of £14 million (H1 2013 - £46 million) was £69 million for H1 2014, compared with a loss of £335 million for H1 2013.

Net interest margin increased by 50 basis points to 2.32% primarily reflecting a significant reduction in deposit pricing coupled with the impact of the transfer of underperforming assets to RCR. Net interest income increased by £21 million with the benefit of deposit repricing partly offset by lower income on the tracker mortgage book following reductions in the European Central Bank refinancing interest rate.

Non-interest income decreased by £53 million primarily due to a favourable mark-to-market movement of £36 million on economic hedges on the mortgage portfolio in H1 2013 as well as the impact of the asset transfer to RCR.

Ulster Bank

Key points (continued)

H1 2014 compared with H1 2013 (continued)

Operating expenses decreased by £22 million reflecting lower headcount and a £32 million reduction in restructuring, litigation and conduct costs, only partly offset by the impact of a cost realignment following the creation of RCR, £22 million, and the introduction of the new bank levy in the Republic of Ireland, £8 million.

Impairment losses decreased by £446 million or 89% with reductions across all portfolios. This reflects further de-risking of the balance sheet following the transfer of underperforming assets to RCR and the benefit of the ongoing reduction in mortgage arrears.

The loan:deposit ratio of 108% improved by 12 percentage points during H1 2014, largely reflecting the impact of the transfer of loan balances to RCR.

Q2 2014 compared with Q1 2014

Operating profit increased by £37 million to £46 million driven by higher income and a further reduction in impairment losses, partly offset by higher restructuring costs. Operating profit, excluding restructuring, litigation and conduct costs of £12 million (Q1 2014 - £2 million) was up £47 million to £58 million.

Total income increased by £10 million to £211 million. Net interest income increased by £15 million, to £169 million, reflecting lower funding costs and the recognition of interest income on previously non-performing assets. Net interest margin increased by 6 basis points to 2.35%.

Operating expenses, excluding restructuring costs of £12 million, remained stable. Restructuring costs increased by £10 million as Ulster Bank continued to adjust its property footprint. The cost:income ratio, excluding restructuring, litigation and conduct costs of £12 million (Q1 2014 - £2 million) improved by 3 percentage points to 68% driven by higher income.

Impairment losses decreased by £37 million largely due to the release of a provision on a segment of the corporate portfolio. Within the mortgage portfolio, a change to the treatment of arrears capitalisations led to a 6% increase in risk elements in lending and a shift in the provisioning of these cases from latent to collective. This, coupled with improving credit metrics, contributed to a £102 million latent provision release in Q2.

Loan:deposit ratio improved from 110% to 108%.

Q2 2014 compared with Q2 2013

A significant reduction in impairment losses was the key driver of the £256 million improvement in operating profit. Operating profit, excluding restructuring, litigation and conduct costs of £12 million (Q2 2013 - £43 million) was up £225 million to £58 million.

Total income decreased by £29 million primarily due to a number of substantial one-off gains in Q2 2013 in non-interest income. Net interest income increased by £17 million to £169 million largely driven by initiatives to reduce Ulster bank's funding costs. Net interest margin increased by 51 basis points reflecting improved deposit margins coupled with the impact of the asset transfer to RCR.

Operating expenses reduced by £32 million largely due to a reduction in litigation and conduct costs. Excluding restructuring, litigation and conduct costs of £12 million (Q2 2013 - £43 million), operating expenses were flat with the benefit of lower headcount offset by the cost realignment following the creation of RCR, £11 million, and the introduction of the new bank levy in the Republic of Ireland, £4 million.

Impairment losses improved by £253 million or 96%, reflecting stronger credit metrics across all portfolios.

Commercial & Private Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**1,343**	1,253		**685**	658	643
Net fees and commissions	**620**	657		**311**	309	334
Other non-interest income	**150**	170		**74**	76	101
Non-interest income	**770**	827		**385**	385	435
Total income	**2,113**	2,080		**1,070**	1,043	1,078
Direct expenses						
- staff	**(426)**	(427)		**(213)**	(213)	(215)
- other	**(155)**	(175)		**(74)**	(81)	(94)
Indirect expenses	**(606)**	(629)		**(293)**	(313)	(317)
Restructuring costs						
- direct	**(42)**	(15)		**(42)**	-	(8)
- indirect	**(23)**	(19)		**(22)**	(1)	(11)
Litigation and conduct costs	**(50)**	(25)		**(50)**	-	-
Operating expenses	**(1,302)**	(1,290)		**(694)**	(608)	(645)
Profit before impairment losses	**811**	790		**376**	435	433
Impairment (losses)/recoveries	**(31)**	(289)		**8**	(39)	(157)
Operating profit	**780**	501		**384**	396	276

Key metrics						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Performance ratios						

Return on equity (1)	**12.9%**	7.8%		**12.8%**	13.1%	8.6%
Net interest margin	**2.90%**	2.69%		**2.91%**	2.89%	2.77%
Cost:income ratio	**62%**	62%		**65%**	58%	60%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

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Commercial & Private Banking

	30 June 2014	31 March 2014		31 December 2013	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)	**101.7**	103.0	(1%)	101.8	-
Loan impairment provisions	**(1.3)**	(1.4)	(7%)	(1.6)	(19%)
Net loans and advances to customers	**100.4**	101.6	(1%)	100.2	-
Funded assets	**109.4**	110.7	(1%)	108.9	-
Assets under management (Private Banking)	**28.7**	28.5	1%	29.7	(3%)
Risk elements in lending	**3.1**	3.7	(16%)	4.6	(33%)
Provision coverage (1)	**40%**	38%	200bp	38%	200bp
Customer deposits (excluding repos)	**123.9**	124.2	-	127.9	(3%)
Loan:deposit ratio	**81%**	82%	(100bp)	78%	300bp
Risk-weighted assets (2)					
- Credit risk					
- non-counterparty	**66.3**	67.2	(1%)	69.7	(5%)
- counterparty	**0.1**	-	-	-	-
- Market risk	**0.1**	-	-	0.1	-
- Operational risk	**8.3**	8.3	-	8.0	4%
	74.8	75.5	(1%)	77.8	(4%)

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

Key points

Commercial & Private Banking comprises parts of the former UK Corporate, Wealth and International Banking divisions. It is committed to supporting the bank's ambition to be the number one bank for customer service, trust and advocacy in its chosen markets by 2020. Commercial Banking's customers range from UK businesses with an annual turnover of £2 million up to large UK corporations, including real estate and institutional customers. Aligning the Private Banking business with Commercial Banking will enable the bank to better serve and connect those who own and run businesses.

With a set of strong brands including NatWest, Lombard, Coutts and Adam & Company, the Commercial & Private Banking business provides its customers with dedicated relationship management and access to sophisticated products and services including lending, speciality finance, transaction banking, risk management and wealth management.

During the remainder of 2014, the Private Banking and Commercial Banking teams will continue to join forces to increase business in the UK.

Commercial Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**999**	936		**511**	488	484
Net fees and commissions	**448**	477		**227**	221	243
Other non-interest income	**121**	136		**60**	61	82
Non-interest income	**569**	613		**287**	282	325
Total income	**1,568**	1,549		**798**	770	809
Direct expenses						
- staff	**(267)**	(254)		**(134)**	(133)	(127)
- other	**(122)**	(145)		**(59)**	(63)	(77)
Indirect expenses	**(401)**	(401)		**(189)**	(212)	(205)
Restructuring costs						
- direct	**(40)**	(14)		**(40)**	-	(7)
- indirect	**(22)**	(15)		**(21)**	(1)	(9)
Litigation and conduct costs	**(50)**	(25)		**(50)**	-	-
Operating expenses	**(902)**	(854)		**(493)**	(409)	(425)
Profit before impairment losses	**666**	695		**305**	361	384
Impairment (losses)/recoveries	**(31)**	(282)		**9**	(40)	(155)
Operating profit	**635**	413		**314**	321	229

Commercial Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Analysis of income by business						
Commercial lending	**894**	962		**448**	446	501
Deposits	**153**	88		**81**	72	50
Asset and invoice finance	**366**	334		**186**	180	170
Other	**155**	165		**83**	72	88
Total income	**1,568**	1,549		**798**	770	809
Analysis of impairments by sector						
Commercial real estate	**(6)**	162		**(17)**	11	100
Asset and invoice finance	**2**	6		**-**	2	5
Private sector education, health, social work,						
recreational and community services	**(10)**	63		**-**	(10)	40
Banks & financial institutions	**1**	2		**(1)**	2	-
Wholesale and retail trade repairs	**14**	3		**2**	12	(4)
Hotels and restaurants	**(1)**	19		**(4)**	3	8
Manufacturing	**7**	(4)		**4**	3	(5)
Construction	**4**	(1)		**2**	2	(4)
Other	**20**	32		**5**	15	15
	31	282		**(9)**	40	155
Loan impairment charge as % of gross						
customer loans and advances by sector						
Commercial real estate	**(0.1%)**	1.5%		**(0.4%)**	0.2%	1.8%
Asset and invoice finance	**-**	0.1%		**-**	0.1%	0.2%
Private sector education, health, social work,						
recreational and community services	**(0.3%)**	1.6%		**-**	(0.5%)	2.1%
Banks & financial institutions	**-**	0.1%		**(0.1%)**	0.1%	-

Wholesale and retail trade repairs	**0.5%**	0.1%		**0.1%**	0.8%	(0.3%)
Hotels and restaurants	**(0.1%)**	0.9%		**(0.5%)**	0.3%	0.7%
Manufacturing	**0.4%**	(0.2%)		**0.4%**	0.3%	(0.5%)
Construction	**0.4%**	(0.1%)		**0.4%**	0.4%	(0.7%)
Other	**0.2%**	0.3%		**0.1%**	0.3%	0.3%
Total	**0.1%**	0.7%		**-**	0.2%	0.7%

Key metrics						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Performance ratios						
Return on equity (1)	**12.5%**	7.6%		**12.4%**	12.6%	8.5%
Net interest margin	**2.70%**	2.53%		**2.73%**	2.68%	2.63%
Cost:income ratio	**58%**	55%		**62%**	53%	53%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

Commercial Banking

	30 June 2014	31 March 2014		31 December 2013	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- Commercial real estate	**18.8**	19.0	(1%)	20.2	(7%)
- Asset and invoice finance	**13.7**	13.6	1%	11.7	17%
- Private sector education, health, social work,					
recreational and community services	**7.2**	7.5	(4%)	7.9	(9%)
- Banks & financial institutions	**6.9**	7.3	(5%)	6.9	-
- Wholesale and retail trade repairs	**5.9**	6.0	(2%)	5.8	2%
- Hotels and restaurants	**3.3**	3.6	(8%)	3.6	(8%)
- Manufacturing	**3.9**	3.7	5%	3.7	5%
- Construction	**2.0**	2.1	(5%)	2.1	(5%)
- Other	**23.4**	23.4	-	23.1	1%
	85.1	86.2	(1%)	85.0	-
Loan impairment provisions	**(1.2)**	(1.3)	(8%)	(1.5)	(20%)
Net loans and advances to customers	**83.9**	84.9	(1%)	83.5	0%
Funded assets	**88.6**	89.6	(1%)	87.9	1%
Risk elements in lending	**2.9**	3.4	(15%)	4.3	(33%)
Provision coverage (1)	**41%**	37%	400bp	38%	300bp
Customer deposits (excluding repos)	**88.0**	87.6	-	90.7	(3%)
Loan:deposit ratio	**95%**	97%	(200bp)	92%	300bp
Risk-weighted assets (2)					
- Credit risk (non-counterparty)	**56.6**	57.1	(1%)	59.7	(5%)
- Operational risk	**6.4**	6.4	-	6.1	5%
	63.0	63.5	(1%)	65.8	(4%)

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

Key points

During the first half of 2014, the Commercial Banking business has been reshaped to meet the needs of its customers in the most efficient way. Complexity and costs are targeted to decline, with lower staff levels, predominantly in non-customer-facing departments, supported by focused investment aimed at making it easier for customers to do business:

Over 40 additional experienced relationship managers have been allocated to serve Commercial Banking customers, with a central focus on lending.

Lending procedures are changing to speed up the process and to meet the business's commitment to make all but the most complex loan decisions within five days by the end of 2014.

A new online loan application facility for smaller business customers was launched in February 2014, which will be extended to larger SMEs over the course of 2014.

Two-thirds of lending decisions are now made locally.

60% of Relationship Managers have now completed an accreditation programme.

Commercial Banking

Key points (continued)

Whilst these changes and investments are being made, Commercial Banking continued to focus on delivering for its customers:

An additional 5,000 customers have received proactive 'Statements of Appetite', bringing the total to over 17,000. Over £7 billion of new or additional funding has now been offered.

The number of complaints from SME customers fell by 7.5% compared to last year.

A positive trend in the Net Promoter Score has been achieved over the last 12 months.

For the sixth consecutive year, Lombard received the Business Moneyfacts award for 'Best Leasing & Asset Finance Provider'.

H1 2014 compared with H1 2013

Operating profit increased to £635 million delivering a return on equity of 12.5% with lower impairments and higher income more than offsetting increased charges for restructuring, litigation and conduct costs (£58 million). Excluding restructuring costs of £62 million (H1 2013 - £29 million) and conduct costs of £50 million (H1 2013 - £25 million), operating profit increased by £280 million and return on equity was 14.7%.

Net interest income increased by 7% reflecting re-pricing activity, partially offset by reduced yields on current accounts due to the continued low rate environment.

Non-interest income decreased by 7% from lower other income (£56 million), including fees and disposal gains (£27 million), a decline in CIB (Markets) revenue share income (£17 million) partially offset by lower costs arising from closing out interest rate hedging products associated with impaired loans (£30 million).

Operating expenses increased by £48 million from higher restructuring and conduct related costs (£58 million), including interest rate swap redress, up £25 million, partially offset by direct costs down £10 million as cost saving initiatives start to take effect.

Impairments were down £251 million reflecting fewer individual cases across the portfolio, primarily in mid to large corporate and latent provision releases of £58 million, as credit conditions improved in Q2 2014.

The loan:deposit ratio increased by 200 basis points to 95%, primarily a result of reduced deposits, down 3%, reflecting the rebalancing of the Bank's liquidity position.

Risk-weighted assets were £2.8 billion lower reflecting the net movement of transfers to RCR and from Non-Core, effective from 1 January 2014.

Q2 2014 compared with Q1 2014

Operating profit declined by 2% as increased income and lower impairments were more than offset by higher restructuring, litigation and conduct costs. Excluding these costs of £111 million (Q1 2014 - £1 million), operating profit increased by £103 million.

Net interest income increased by 5% from margin expansion on deposits and the benefit of an additional day in the quarter.

Non-interest income increased by 2% primarily from improved transaction services income £7 million, with stable income from asset finance, CIB revenue share and other lending fees.

Operating expenses, up 21%, were impacted by £61 million of restructuring costs in the quarter, as the business aligns itself to better support its customers, and included a £50 million charge for interest rate swap redress. Operating expenses, excluding restructuring and litigation and conduct costs of £111 million (Q1 2014 - £1 million), decreased by 6% due to operational cost saving initiatives.

Commercial Banking

Key points (continued)

Q2 2014 compared with Q1 2014 (continued)

Impairments declined by £49 million primarily from a release of latent provisions of £58 million as credit conditions improved.

The loan:deposit ratio declined by 200 basis points from a 1% decline in asset volumes, most of which was in the mid to large corporate business.

Risk-weighted assets decreased by 1% primarily due to balance sheet movements.

Q2 2014 compared with Q2 2013

Operating profit improved by £85 million, driven by lower impairments partially offset by higher restructuring, litigation and conduct charges.

Net interest income increased by 6% in line with the half year trends noted above. Improved margins from re-pricing activity offset lower yields due to the continued low interest rate environment.

Non-interest income decreased by 12% from lower CIB (Markets) revenue share and gains from equity disposals partially offset by the reduced close out charges on interest rate hedging products as noted above.

Operating expenses were up reflecting increased restructuring, litigation and conduct costs in Q2 2014, which were partially offset by lower direct and indirect costs.

Impairments decreased by £164 million reflecting fewer significant individual cases and the latent provisions release in Q2 2014.

Private Banking

	Half year ended			Quarter ended		
	30 June 2014	30 June 2013		**30 June 2014**	31 March 2014	30 June 2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**344**	317		**174**	170	159
Net fees and commissions	**172**	180		**84**	88	91
Other non-interest income	**29**	34		**14**	15	19
Non-interest income	**201**	214		**98**	103	110
Total income	**545**	531		**272**	273	269
Direct expenses						
- staff	**(159)**	(173)		**(79)**	(80)	(88)
- other	**(33)**	(30)		**(15)**	(18)	(17)
Indirect expenses	**(205)**	(228)		**(104)**	(101)	(112)
Restructuring costs						
- direct	**(2)**	(1)		**(2)**	-	(1)
- indirect	**(1)**	(4)		**(1)**	-	(2)
Operating expenses	**(400)**	(436)		**(201)**	(199)	(220)
Profit before impairment losses	**145**	95		**71**	74	49
Impairment (losses)/recoveries	**-**	(7)		**(1)**	1	(2)
Operating profit	**145**	88		**70**	75	47

	Half year ended			Quarter ended		
	30 June 2014	30 June 2013		**30 June 2014**	31 March 2014	30 June 2013
	£m	£m		**£m**	£m	£m
Analysis of income by business						
Investments	**90**	97		**45**	45	49

Banking	**455**	434		**227**	228	220
Total income	**545**	531		**272**	273	269

Key metrics						
	Half year ended			Quarter ended		
	30 June 2014	30 June 2013		**30 June 2014**	31 March 2014	30 June 2013
Performance ratios						
Return on equity (1)	**15.0%**	8.9%		**14.5%**	15.3%	9.4%
Net interest margin	**3.72%**	3.33%		**3.73%**	3.70%	3.34%
Cost:income ratio	**73%**	82%		**74%**	73%	82%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

Private Banking

	30 June 2014	31 March 2014		31 December 2013	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- personal	**5.5**	5.5	-	5.5	-
- mortgages	**8.7**	8.7	-	8.7	-
- other	**2.4**	2.6	(8%)	2.6	(8%)
	16.6	16.8	(1%)	16.8	(1%)
Loan impairment provisions	**(0.1)**	(0.1)	-	(0.1)	-
Net loans and advances to customers	**16.5**	16.7	(1%)	16.7	(1%)
Funded assets	**20.8**	21.1	(1%)	21.0	(1%)
Assets under management	**28.7**	28.5	1%	29.7	(3%)
Risk elements in lending	**0.2**	0.3	(33%)	0.3	(33%)
Provision coverage (1)	**39%**	45%	(600bp)	43%	(400bp)
Customer deposits (excluding repos)	**35.9**	36.6	(2%)	37.2	(3%)
Loan:deposit ratio	**46%**	45%	100bp	45%	100bp
Risk-weighted assets (2)					
- Credit risk					
- non-counterparty	**9.7**	10.1	(4%)	10.0	(3%)
- counterparty	**0.1**	-	-	-	-
- Market risk	**0.1**	-	-	0.1	-
- Operational risk	**1.9**	1.9	-	1.9	-
	11.8	12.0	(2%)	12.0	(2%)

Notes:

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

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

Key points

The Private Banking business continues to invest in expanding its product offering in response to client demand for global, integrated solutions. Enhancements in the first half of 2014 included the introduction of an around-the-clock weekday dealing capability for foreign exchange products, serving Coutts's UK and international client-base.

We are currently reviewing our strategy, focusing on options for our non-UK related activities. The review is expected to complete later in the year.

In the UK, further refinements to Coutts's Retail Distribution Review compliant advice framework have improved efficiency, with total assets under advice now standing at £4.5 billion.

Private Banking

Key points (continued)

H1 2014 compared with H1 2013

Operating profit was £145 million for the first half of 2014, delivering a return on equity of 15.0%. Excluding restructuring costs of £3 million (H1 2013 - £5 million), operating profit increased by £55 million and the return on equity was 15.3%, driven by improved income, lower operating expenses and lower impairments.

Total income was £14 million, or 3%, higher. Net interest income increased by £27 million due to a combination of improved deposit margins following a re-pricing exercise in the UK and lower treasury charges. Non-interest income declined by £13 million reflecting the impact of adverse foreign exchange movements and lower transactional activity in the international business.

Operating expenses declined by 8% to £400 million. Operating expenses excluding restructuring, litigation and conduct costs of £3 million (H1 2013 - £5 million) were down £34 million, 8%, at £397 million reflecting savings from the streamlining of the property footprint, favourable foreign exchange movements, reduced headcount and the continued management of discretionary costs.

Impairment charges declined by £7 million as a result of fewer specific impairments.

Client assets and liabilities were 7% lower than the previous year, with the decrease in assets under management driven by low margin custody asset outflows, adverse foreign exchange movements, portfolio exits and reduced balances in the UK. Deposits were £3.0 billion lower, largely as a result of re-pricing action in the UK. Lending declined by £0.5 billion as repayments outstripped new lending in the latter part of 2013.

Q2 2014 compared with Q1 2014

Operating profit was £70 million for the quarter, £5 million lower, largely as a result of a small increase in impairments and operating expenses, with income broadly flat.

Operating expenses were up £2 million, wholly as a result of increased restructuring costs.

Client assets and liabilities were 1% lower than the prior quarter, wholly driven by a £0.7 billion reduction in deposits following the UK re-pricing exercise and outflows in the international business. Assets under management increased by £0.2 billion due to positive market movements. Lending remained broadly flat.

Q2 2014 compared with Q2 2013

Operating profit increased by £23 million benefitting from higher income, lower costs and lower impairments.

Total income was £3 million, 1%, higher. Net interest income rose by £15 million due to improved deposit margins following a re-pricing exercise in the UK and lower treasury charges. Non-interest income declined by £12 million largely as a result of adverse foreign exchange movements and lower transactional activity in the international business.

Operating expenses declined by £19 million reflecting savings from the streamlining of the property footprint, reduced headcount, beneficial foreign exchange movements and the continued tight management of discretionary costs.

Corporate & Institutional Banking

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**365**	313		**186**	179	141
Net fees and commissions	**490**	556		**247**	243	275
Income from trading activities	**1,482**	1,753		**597**	885	787
Other operating income	**90**	86		**46**	44	33
Non-interest income	**2,062**	2,395		**890**	1,172	1,095
Total income	**2,427**	2,708		**1,076**	1,351	1,236
Direct expenses						
- staff	**(488)**	(580)		**(216)**	(272)	(247)
- other	**(260)**	(284)		**(147)**	(113)	(154)
Indirect expenses	**(1,169)**	(1,325)		**(581)**	(588)	(657)
Restructuring costs						
- direct	**(28)**	(37)		**(13)**	(15)	(24)
- indirect	**(163)**	(46)		**(139)**	(24)	(20)
Litigation and conduct costs	**(50)**	(410)		**(50)**	-	(385)
Operating expenses	**(2,158)**	(2,682)		**(1,146)**	(1,012)	(1,487)
Profit/(loss) before impairment losses	**269**	26		**(70)**	339	(251)
Impairment recoveries/(losses)	**39**	(223)		**45**	(6)	(144)
Operating profit/(loss)	**308**	(197)		**(25)**	333	(395)

	Half year ended			Quarter ended		

	30 June 2014 £m	30 June 2013 £m		**30 June 2014 £m**	31 March 2014 £m	30 June 2013 £m
Analysis of income by product						
Rates	**656**	467		**297**	359	255
Currencies	**351**	479		**159**	192	282
Credit	**774**	992		**309**	465	315
Global Transaction Services	**421**	425		**214**	207	211
Portfolio	**318**	323		**156**	162	167
Total (excluding revenue share and run-off businesses)	**2,520**	2,686		**1,135**	1,385	1,230
Inter-segment revenue share	**(119)**	(141)		**(59)**	(60)	(68)
Run-off businesses	**26**	163		**-**	26	74
Total income	**2,427**	2,708		**1,076**	1,351	1,236

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Corporate & Institutional Banking

Key metrics	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Performance ratios						
Return on equity (1)	**2.7%**	(1.6%)		**(0.5%)**	5.6%	(6.8%)
Net interest margin	**0.88%**	0.72%		**0.90%**	0.85%	0.67%
Cost:income ratio	**89%**	99%		**107%**	75%	120%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs).

	30 June	31 March		31 December	
	2014	2014		2013	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)	**69.2**	70.7	(2%)	69.1	-
Loan impairment provisions	**(0.2)**	(0.2)	-	(0.9)	(78%)
Net loans and advances to customers	**69.0**	70.5	(2%)	68.2	1%
Net loans and advances to banks (1)	**19.4**	20.0	(3%)	20.5	(5%)
Reverse repos	**78.8**	78.1	1%	76.2	3%
Securities	**67.9**	75.0	(9%)	72.1	(6%)
Cash and eligible bills	**18.7**	21.0	(11%)	20.6	(9%)
Other	**24.9**	22.0	13%	11.0	126%
Funded assets	**278.7**	286.6	(3%)	268.6	4%
Provision coverage (2)	**168%**	199%	(3,100bp)	59%	10,900bp

Repos	**73.1**	77.5	(6%)	74.8	(2%)
Customer deposits (excluding repos)	**55.5**	57.1	(3%)	64.8	(14%)
Bank deposits (excluding repos)	**31.7**	29.5	7%	30.2	5%
Debt securities in issue	**17.3**	18.1	(4%)	21.5	(20%)
Risk-weighted assets (3)					
- Credit risk					
- non-counterparty	**58.4**	59.0	(1%)	61.8	(6%)
- counterparty	**28.9**	34.0	(15%)	17.5	65%
- Market risk	**28.7**	35.3	(19%)	26.4	9%
- Operational risk	**11.8**	11.9	(1%)	14.7	(20%)
	127.8	140.2	(9%)	120.4	6%

Notes:

(1) Excludes disposal groups.

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

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

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Corporate & Institutional Banking

Key points

The creation of Corporate & Institutional Banking (CIB) (which comprises the former Markets and International Banking divisions) is largely complete. The new franchise will continue to focus on the corporate and institutional client base while maintaining the same vigorous levels of cost reduction and capital management. The commitment to clients was highlighted this quarter when the business was awarded Global Finance's Best Supply Chain Finance provider in Western Europe for the seventh consecutive year and also received The Banker's Loans Deal of the Year Europe award.

The low interest rate and low volatility trading environment continues to be challenging. Investor activity remains subdued and excess client liquidity has curtailed lending. Opportunities for income generation were limited in comparison to the same period last year, when central bank intervention generated significant volatility.

H1 2014 compared with H1 2013

Operating profit increased by £505 million, reflecting lower impairments, cost reductions and lower litigation and conduct costs, partially offset by lower income as the business continued to reduce in size to focus on core activities. Restructuring costs were also higher. Operating profit excluding restructuring, litigation and conduct costs of £241 million (H1 2013 - £493 million) increased by £253 million or 85% to £549 million.

Rates income increased by £189 million, 40%, compared with a weak H1 2013. Income associated with continued deleveraging and de-risking of the business supported the result.

Currencies income was £128 million or 27% lower than in H1 2013, when the business took advantage of volatility caused by central bank intervention in the United States and Japan.

Credit income was £218 million or 22% lower in H1 2014 compared with H1 2013, which benefited from the general credit market rally. This, combined with a reduced deployment of risk-weighted assets, resulted in lower income. Within Credit income, Asset Backed Product (ABP) income was £510 million, compared with £617 million in H1 2013.

Global Transaction Services and Portfolio were both flat compared with H1 2013, reflecting the subdued levels of client activity and continued low margin market environment.

Operating expenses were down by 20%, reflecting lower litigation and conduct costs partly offset by higher restructuring costs. Operating expenses excluding restructuring, litigation and conduct costs of £241 million (H1 2013 - £493 million) fell by 12%, driven by headcount reductions and tight control of discretionary expenditure.

Impairments represented a net recovery of £39 million, compared with a loss of £223 million in H1 2013, driven by the release of latent provisions, reflecting the creation of RCR and improving credit conditions and the non-repeat of significant individual cases.

Funded assets increased compared with 31 December 2013 as activity levels picked up. Compared with 30 June 2013, however, funded assets fell significantly, down from £328 billion to £279 billion, reflecting the refocusing of the business on core activities.

Risk-weighted assets increased following the introduction of CRD IV on 1 January 2014. On a like-for-like Basel III basis, risk-weighted assets fell significantly from £172 billion at 30 June 2013, to £128 billion at 30 June 2014. This was driven by a range of mitigation and de-risking actions and the transfer of £13 billion of risk-weighted assets to RCR.

Corporate & Institutional Banking

Key points (continued)

Q2 2014 compared with Q1 2014

An operating loss of £25 million was driven by restructuring costs and litigation and conduct costs of £202 million. Excluding these items of £202 million (Q1 2014 - £39 million), operating profit was £177 million, down £195 million, reflecting lower income principally in Credit and Rates.

Client activity in Rates weakened compared with Q1 2014, and trading gains were lower. As a result, income declined by £62 million.

Currencies income, down £33 million, continued to be impacted by limited volume and volatility in a highly competitive market environment.

Credit income decreased by 34%, driven by a lower level of gains in asset backed products following more favourable market movements in Q1 2014. ABP income was £188 million compared with £322 million in Q1 2014.

Global Transaction Services and Portfolio remained stable as they continued to be impacted by the low margin environment and subdued client activity.

Operating expenses increased by 13% due to restructuring and litigation and conduct costs. Operating expenses excluding restructuring, litigation and conduct costs of £202 million (Q1 2014 - £39 million) were down 3%, driven by lower staff costs.

Funded assets remained broadly stable in a subdued market environment. The small reduction was driven by debt securities in the Rates business.

Risk-weighted assets fell by £12 billion, reflecting continued mitigation actions and reduced risk exposures.

Q2 2014 compared with Q2 2013

Rates increased by £42 million, 16%, despite a low volatility environment, benefiting from income associated with de-risking the business in contrast to Q2 2013, which was impacted by difficult trading conditions.

Currencies income was £123 million or 44% lower, reflecting the subdued market conditions, compared to greater volatility in Q2 2013 following central bank intervention in the United States and

Japan.

Income from Portfolio fell £11 million or 7%. Q2 2013 included a gain on an asset sale.

Operating expenses fell by £341 million, 23%, driven by lower litigation and conduct costs and the ongoing cost reduction programme, partially offset by a £108 million increase in restructuring costs.

Central items

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	£m	£m	**£m**	£m	£m
Central items not allocated	**91**	553	**86**	5	352

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

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

Key points

H1 2014 compared with H1 2013

Central items not allocated represented a credit of £91 million compared with a credit of £553 million in H1 2013. The change was principally driven by lower gains on the disposal of available-for-sale securities in Treasury, which were down £245 million to £215 million for H1 2014, along with a £150 million restructuring charge relating to the Williams & Glyn franchise.

Q2 2014 compared with Q1 2014

Central items not allocated represented a credit of £86 million compared with a credit of £5 million in Q1 2014. The improvement principally reflects lower restructuring costs relating to Williams & Glyn and favourable movements in respect of fair value movements on derivatives not qualifying for hedge accounting in Treasury partially offset by lower AFS gains.

Q2 2014 compared with Q2 2013

Central items not allocated represented a credit of £86 million compared with a credit of £352 million in

Q2 2013. The change was principally driven by lower gains on the disposal of available-for-sale securities in Treasury, which were down £342 million to £13 million for Q2 2014.

Citizens Financial Group (£ Sterling)

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Income statement						
Net interest income	**987**	939		**499**	488	469
Net fees and commissions	**350**	382		**181**	169	192
Other non-interest income	**270**	188		**210**	60	86
Non-interest income	**620**	570		**391**	229	278
Total income	**1,607**	1,509		**890**	717	747
Direct expenses						
- staff	**(512)**	(572)		**(261)**	(251)	(286)
- other	**(501)**	(482)		**(252)**	(249)	(233)
Indirect expenses	**-**	(48)		**-**	-	(27)
Restructuring costs	**(69)**	(3)		**(69)**	-	(2)
Operating expenses	**(1,082)**	(1,105)		**(582)**	(500)	(548)
Profit before impairment losses	**525**	404		**308**	217	199
Impairment losses	**(104)**	(51)		**(31)**	(73)	(32)
Operating profit	**421**	353		**277**	144	167
Average exchange rate - US$/£	**1.669**	1.544		**1.683**	1.655	1.536
Analysis of income by product						
Mortgages and home equity	**223**	249		**111**	112	123
Personal lending and cards	**204**	204		**106**	98	104
Retail deposits	**376**	379		**190**	186	189
Commercial lending	**333**	335		**168**	165	167
Commercial deposits	**216**	200		**109**	107	98
Other	**255**	142		**206**	49	66

Total income	**1,607**	1,509		**890**	717	747
Analysis of impairments by sector						
Residential mortgages	**1**	12		**6**	(5)	10
Home equity	**34**	37		**15**	19	18
SBO home equity	**4**	-		**(17)**	21	-
Corporate and commercial	**8**	(35)		**(1)**	9	(11)
Other consumer	**55**	37		**26**	29	15
Securities	**2**	-		**2**	-	-
Total impairment losses	**104**	51		**31**	73	32
Loan impairment charge as % of gross						
customer loans and advances (excluding						
reverse repurchase agreements) by sector						
Residential mortgages	**-**	0.4%		**0.4%**	(0.3%)	0.7%
Home equity	**0.6%**	0.5%		**0.5%**	0.6%	0.5%
SBO home equity	**0.6%**	-		**(5.6%)**	6.5%	-
Corporate and commercial	**0.1%**	(0.3%)		**-**	0.1%	(0.2%)
Other consumer	**1.2%**	0.8%		**1.2%**	1.3%	0.7%
Total	**0.4%**	0.2%		**0.2%**	0.5%	0.2%

Citizens Financial Group (£ Sterling)

Key metrics	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
Performance ratios					
Return on equity (1)	**7.5%**	6.6%	**9.8%**	5.1%	6.3%
Net interest margin	**2.94%**	2.90%	**2.93%**	2.94%	2.89%
Cost:income ratio	**67%**	73%	**65%**	70%	73%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of monthly average of segmental RWAs).

	30 June 2014	31 March 2014		31 December 2013	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	**6.4**	6.2	3%	5.8	10%
- home equity	**11.3**	12.0	(6%)	12.1	(7%)
- SBO home equity	**1.2**	1.3	(8%)	-	100%
- corporate and commercial	**24.2**	24.7	(2%)	24.1	-
- other consumer	**9.1**	9.0	1%	8.6	6%
	52.2	53.2	(2%)	50.6	3%
Loan impairment provisions	**(0.5)**	(0.5)	-	(0.3)	67%
Net loans and advances to customers	**51.7**	52.7	(2%)	50.3	3%
Funded assets	**75.7**	75.7	-	71.3	6%
Investment securities	**14.5**	14.9	(3%)	12.9	12%
Risk elements in lending					
- retail	**1.1**	1.1	-	0.9	22%

- commercial	**0.2**	0.2	-		0.1	100%
Total risk elements in lending	**1.3**	1.3	-		1.0	30%
Provision coverage (1)	**38%**	41%	(300bp)		26%	1,200bp
Customer deposits (excluding repos)	**52.9**	54.9	(4%)		55.1	(4%)
Bank deposits (excluding repos)	**4.7**	3.4	38%		2.0	135%
Loan:deposit ratio (excluding repos)	**98%**	96%	200bp		91%	700bp
Risk-weighted assets (2)						
- Credit risk						
- non-counterparty	**54.8**	55.4	(1%)		50.7	8%
- counterparty	**0.8**	0.8	-		0.5	60%
- Operational risk	**5.1**	5.1	-		4.9	4%
	60.7	61.3	(1%)		56.1	8%
Spot exchange rate - US$/£	**1.711**	1.668			1.654	

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

Key points

Sterling strengthened against the US dollar during the first half of 2014, with the spot exchange rate at 30 June 2014 increasing 3% compared with 31 December 2013.

Citizens Financial Group (US dollar)

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	$m	$m	**$m**	$m	$m
Income statement					
Net interest income	**1,647**	1,449	**838**	809	720
Net fees and commissions	**584**	590	**305**	279	295
Other non-interest income	**452**	291	**353**	99	133
Non-interest income	**1,036**	881	**658**	378	428
Total income	**2,683**	2,330	**1,496**	1,187	1,148
Direct expenses					
- staff	**(855)**	(883)	**(439)**	(416)	(439)
- other	**(835)**	(744)	**(423)**	(412)	(359)
Indirect expenses	**-**	(74)	**-**	-	(40)
Restructuring costs	**(115)**	(5)	**(115)**	-	(3)
Operating expenses	**(1,805)**	(1,706)	**(977)**	(828)	(841)
Profit before impairment losses	**878**	624	**519**	359	307
Impairment losses	**(174)**	(78)	**(53)**	(121)	(48)
Operating profit	**704**	546	**466**	238	259
Analysis of income by product					
Mortgages and home equity	**373**	384	**188**	185	189
Personal lending and cards	**340**	314	**178**	162	159
Retail deposits	**627**	586	**319**	308	291
Commercial lending	**556**	518	**283**	273	257
Commercial deposits	**360**	309	**183**	177	151
Other	**427**	219	**345**	82	101
Total income	**2,683**	2,330	**1,496**	1,187	1,148

Analysis of impairments by sector					
Residential mortgages	**1**	19	**10**	(9)	16
Home equity	**57**	56	**25**	32	27
SBO home equity	**6**	-	**(28)**	34	-
Corporate and commercial	**13**	(53)	**(2)**	15	(17)
Other consumer	**94**	56	**45**	49	22
Securities	**3**	-	**3**	-	-
Total impairment losses	**174**	78	**53**	121	48
Loan impairment charge as % of gross					
customer loans and advances (excluding					
reverse repurchase agreements) by sector					
Residential mortgages	**-**	0.4%	**0.4%**	(0.3%)	0.7%
Home equity	**0.6%**	0.5%	**0.5%**	0.6%	0.5%
SBO home equity	**0.6%**	-	**(5.6%)**	6.5%	-
Corporate and commercial	**0.1%**	(0.3%)	**-**	0.1%	(0.2%)
Other consumer	**1.2%**	0.8%	**1.2%**	1.3%	0.7%
Total	**0.4%**	0.2%	**0.2%**	0.5%	0.2%

Citizens Financial Group (US dollar)

Key metrics						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
Performance ratios						
Return on equity (1)	**7.5%**	6.6%		**9.8%**	5.1%	6.3%
Net interest margin	**2.94%**	2.90%		**2.93%**	2.94%	2.89%
Cost:income ratio	**67%**	73%		**65%**	70%	73%

Note:

(1) Return on equity is based on segmental operating profit after tax divided by average notional equity (based on 12% of monthly average of segmental RWAs).

Citizens Financial Group (US dollar)

	30 June	31 March			31 December	
	2014	2014			2013	
	$bn	$bn	Change		$bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- residential mortgages	**10.9**	10.3	6%		9.6	14%
- home equity	**19.4**	20.0	(3%)		20.1	(3%)
- SBO home equity	**2.0**	2.1	(5%)		-	100%
- corporate and commercial	**41.4**	41.2	-		39.8	4%
- other consumer	**15.6**	15.2	3%		14.1	11%
	89.3	88.8	1%		83.6	7%
Loan impairment provisions	**(0.9)**	(0.9)	-		(0.4)	125%
Net loans and advances to customers	**88.4**	87.9	1%		83.2	6%
Funded assets	**129.5**	126.2	3%		117.9	10%
Investment securities	**24.9**	24.9	-		21.3	17%
Risk elements in lending						
- retail	**1.9**	1.9	-		1.5	27%
- commercial	**0.3**	0.3	-		0.2	50%
Total risk elements in lending	**2.2**	2.2	-		1.7	29%
Provision coverage (1)	**38%**	41%	(300bp)		26%	1,200bp
Customer deposits (excluding repos)	**90.5**	91.6	(1%)		91.1	(1%)
Bank deposits (excluding repos)	**8.0**	5.7	40%		3.3	142%
Loan:deposit ratio (excluding repos)	**98%**	96%	200bp		91%	700bp
Risk-weighted assets (2)						
- Credit risk						
- non-counterparty	**93.8**	92.4	2%		83.8	12%
- counterparty	**1.3**	1.3	-		0.8	63%
- Operational risk	**8.7**	8.5	2%		8.2	6%

	103.8	102.2	2%		92.8	12%

Notes:

(1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Risk-weighted assets at 31 December 2013 are on a Basel 2.5 basis.

Key points

H1 2014 and Q2 2014 results are not directly comparable with prior year periods; prior year results exclude Non-Core operations and include Group allocations. In the context of the planned disposal of Citizens Financial Group, central Group costs are no longer allocated to the division.

H1 2014 compared with H1 2013

Operating profit increased by £68 million ($158 million), or 19%, to £421 million ($704 million), reflecting the sale of the Illinois retail branches and small business and select middle market relationships in the Illinois market. Excluding the impact of the sale, £170 million ($283 million) net gain, and restructuring costs, £69 million ($115 million) (H1 2013 - £3 million ($5 million)), operating profit was down 4% driven by lower non-interest income and higher impairment losses partially offset by higher net interest income.

Citizens Financial Group (US dollar)

Key points (continued)

H1 2014 compared with H1 2013 (continued)

The branch sale comprised retail branches located in Illinois, including certain customer deposits of £2.8 million ($4.8 billion) and selected loans of £0.6 billion ($1.0 billion) (primarily middle market, small business, home equity and credit card balances). The transaction which completed on 20 June 2014 and resulted in a net gain of £170 million ($283 million) and restructuring costs of £10 million ($17 million).

The operating environment and market conditions remained challenging, with intense competition for loans. An extended period of low short-term rates limited net interest margin expansion and the rise in long-term rates dramatically slowed mortgage refinance volumes.

Net interest income was up £48 million ($198 million), or 5%, to £987 million ($1,647 million) driven by a larger investment portfolio, loan growth including the transfer of assets from Non-Core, the benefit of interest rate swaps and deposit pricing discipline.

Higher rates led to investment security purchases resulting in average portfolio growth of £3.0 billion ($6.3 billion) over the year.

Average loans and advances were flat. On a US dollar basis average loans and advances were up 9%, driven by the £2.1 billion ($3.6 billion) transfer of assets from Non-Core, commercial and auto loan growth, a strategic initiative to purchase residential mortgages and to hold more originations on the balance sheet. This was partially offset by home equity run-off.

Average customer deposits were down 10%, with planned run-off of high priced deposits. Consumer checking balances were down 5% and small business checking balances were down 4%, principally due to the strengthening of sterling against the US dollar. On a US dollar basis consumer and small business checking balances both grew by 3% over the year.

Excluding the gain on the sale of the Illinois branches of £170 million ($283 million), non-interest income was down £120 million ($128 million), or 21%, to £450 million ($753 million) reflecting lower securities gains of £41 million ($69 million), lower mortgage banking fees of £29 million ($49 million), as refinancing volumes have slowed, and lower deposit fees of £19 million ($31 million) due to a change in the posting order of customer transactions, partially offset by higher commercial banking fee income of £13 million ($21 million). Mortgage origination activity has slowed as market rates have risen, leading to lower applications combined with lower levels of gains on sales of mortgages.

Excluding restructuring costs of £69 million ($115 million) (H1 2013 - £3 million ($5 million)), operating expenses were down £89 million ($11 million), or 8%, to £1,013 million ($1,690 million) driven by the removal of indirect costs in 2014, incentive reversals for prior year plans and lower retirement costs partially offset by lower mortgage servicing rights impairment recapture and higher consumer regulatory compliance costs.

Restructuring costs include costs related to the sale of the Illinois branches and other initiatives intended to improve the overall effectiveness and efficiency of the franchise.

Impairment losses increased by £53 million ($96 million) to £104 million ($174 million) due to a reserve build of £9 million ($15 million) in H1 2014 compared with a reserve release of £38 million ($58 million) in H1 2013 and higher charge-offs including those related to assets transferred from Non-Core.

Citizens Financial Group (US dollar)

Key points (continued)

Q2 2014 compared with Q1 2014

Q2 2014 compared with Q1 2014 (continued)

Operating profit increased by £133 million ($228 million), or 92%, to £277 million ($466 million) largely due to the sale of the Illinois retail branches and small business and select middle market relationships. Excluding the impact of the sale, £170 million ($283 million), and restructuring costs, £69 million ($115 million), operating profit was up £32 million ($60 million), or 22%, to £176 million ($298 million) driven by lower impairment losses.

Net interest income was up £11 million ($29 million), or 4% at £499 million ($838 million) driven by a larger investment portfolio, loan growth and the impact of day count.

Average loans and advances were flat. On a US dollar basis average loans and advances were up 2%, driven by higher commercial loans, auto loan organic growth and purchases and a strategic initiative to purchase residential mortgages.

Excluding the gain on the sale of the Illinois retail branches of £170 million ($283 million) in Q2 2014, non-interest income was broadly in line with the prior quarter.

Excluding restructuring costs of £69 million ($115 million), operating expenses were up £13 million ($34 million), or 3%, at £513 million ($862 million) due to higher incentives as Q1 2014 included incentive reversals for prior year plans.

Impairment losses decreased by £42 million ($68 million) to £31 million ($53 million) for the quarter due to lower charge-offs of £11 million ($19 million) and a reserve release in Q2 2014 of £11 million ($19 million) reflecting asset quality improvements, compared to a reserve build in Q1 2014 of £21 million ($34 million).

Q2 2014 compared with Q2 2013

Excluding the impact of the Illinois retail branch sale, £170 million ($283 million net gain), and restructuring costs, £69 million ($115 million) (Q2 2013 - £2 million ($3 million)), operating profit increased by £7 million ($36 million), or 4%, driven by higher net interest income and lower operating expenses partially offset by lower non-interest income.

Income and expense drivers are consistent with H1 2014 compared with H1 2013.

Impairment losses were broadly in line with prior year despite the Non-Core transfer.

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RBS Capital Resolution

RCR is managed and analysed by four business pillars - Ulster Bank, Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

	Half year ended	Quarter ended	
	30 June	30 June	31 March
	2014	2014	2014
	£m	£m	£m
Income statement			
Net interest income/(expense)	**11**	**16**	(5)
Funding costs of rental assets	**(12)**	**(9)**	(3)
Net interest income/(expense)	**(1)**	**7**	(8)
Net fees and commissions	**31**	**17**	14
Income from trading activities (1)	**(53)**	**(69)**	16
Other operating income (1)	**131**	**80**	51
Non-interest income	**109**	**28**	81
Total income	**108**	**35**	73
Direct expenses			
- staff	**(89)**	**(51)**	(38)
- other	**(32)**	**(14)**	(18)
Indirect expenses	**(55)**	**(32)**	(23)
Operating expenses	**(176)**	**(97)**	(79)
Operating loss before impairment losses	**(68)**	**(62)**	(6)
Impairment recoveries/(losses) (1)	**20**	**128**	(108)
Operating (loss)/profit	**(48)**	**66**	(114)
Total income			

Ulster Bank	**1**	**14**	(13)
Real Estate Finance	**96**	**13**	83
Corporate	**(14)**	**(12)**	(2)
Markets	**25**	**20**	5
Total income	**108**	**35**	73
Impairment (recoveries)/losses			
Ulster Bank	**(15)**	**(67)**	52
Real Estate Finance	**(34)**	**(123)**	89
Corporate	**39**	**73**	(34)
Markets	**(10)**	**(11)**	1
Total impairment (recoveries)/losses	**(20)**	**(128)**	108
Loan impairment charge as % of gross customer loans and advances (2)			
Ulster Bank	**(0.2%)**	**(1.9%)**	1.3%
Real Estate Finance	**(0.9%)**	**(6.6%)**	4.1%
Corporate	**1.0%**	**3.7%**	(1.5%)
Markets	**(2.0%)**	**(3.6%)**	-
Total	**(0.1%)**	**(1.7%)**	1.2%

Notes:

(1) Q2 2014 results included £225 million (Q1 2014 - £56 million) of net gains from the disposal of assets, comprising £6 million gain (Q1 2014 - £5 million loss) in income from trading activities, £38 million of losses (Q1 2014 - £3 million) in other operating income and £257 million (Q1 2014 - £64 million) release of impairment provisions.

(2) Includes disposal groups.

RBS Capital Resolution

	30 June 2014 £bn	31 March 2014 £bn
Capital and balance sheet		
Loans and advances to customers (gross) (1)	**30.0**	34.0
Loan impairment provisions	**(14.4)**	(15.7)
Net loans and advances to customers	**15.6**	18.3
Debt securities	**1.9**	2.2
Total funded assets	**20.9**	24.3
Total third party assets (including derivatives)	**34.4**	38.8
Risk elements in lending	**20.4**	23.0
Provision coverage (2)	**71%**	68%
Risk-weighted assets (3)		
- Credit risk		
- non-counterparty	**22.6**	29.6
- counterparty	**8.2**	5.7
- Market risk	**4.3**	5.2
	35.1	40.5
Gross loans and advances to customers (1)		
Ulster Bank	**13.9**	15.5
Real Estate Finance	**7.4**	8.6
Corporate	**7.8**	9.1
Markets	**0.9**	0.8
	30.0	34.0
Funded assets		
Ulster Bank	**3.5**	4.4
Real Estate Finance (3)	**6.7**	7.7
Corporate	**7.4**	8.6
Markets	**3.3**	3.6

			20.9	24.3
Risk weighted assets (4)				
Ulster Bank			**2.3**	2.8
Real Estate Finance			**6.4**	11.5
Corporate			**15.1**	14.7
Markets			**11.3**	11.5
			35.1	40.5
RWA equivalent (RWAe) (5)				
Ulster Bank			**4.5**	6.7
Real Estate Finance			**10.5**	13.4
Corporate			**16.6**	17.0
Markets			**11.9**	13.8
			43.5	50.9

Notes:

(1) Includes disposal groups.
(2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
(3) Real Estate Finance funded assets comprise those in the UK (£4.4 billion), Germany (£1.0 billion), Spain (£0.5 billion) and other geographies (£0.8 billion).
(4) On a fully loaded Basel 3 basis risk-weighted assets at 1 January 2014 were £46.7 billion.
(5) RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. The Group applies a CET 1 ratio of 10%; this results in an end point CRR RWAe conversion multiplier of 10.

RBS Capital Resolution

Funded assets and RWAe															
	Non-performing (1)					Performing (1)					Total				
	Funded assets				Capital	Funded assets				Capital	Funded assets				Ca
	Gross	Net	RWAe	RWA	deducts	Gross	Net	RWAe	RWA	deducts (2)	Gross	Net	RWAe	RWA	ded
30 June 2014	**£bn**	**£bn**	**£bn**	**£bn**	**£m**	**£bn**	**£bn**	**£bn**	**£bn**	**£m**	**£bn**	**£bn**	**£bn**	**£bn**	
Ulster Bank	**13.0**	**2.6**	**4.4**	**-**	**446**	**1.1**	**0.9**	**0.1**	**2.3**	**(229)**	**14.1**	**3.5**	**4.5**	**2.3**	
Real Estate Finance	**5.0**	**2.7**	**4.1**	**0.3**	**389**	**4.1**	**4.0**	**6.4**	**6.1**	**16**	**9.1**	**6.7**	**10.5**	**6.4**	
Corporate	**2.6**	**1.2**	**1.8**	**-**	**184**	**6.3**	**6.2**	**14.8**	**15.1**	**(28)**	**8.9**	**7.4**	**16.6**	**15.1**	
Markets	**0.1**	**0.1**	**0.5**	**0.2**	**34**	**3.2**	**3.2**	**11.4**	**11.1**	**30**	**3.3**	**3.3**	**11.9**	**11.3**	
Total RCR	**20.7**	**6.6**	**10.8**	**0.5**	**1,053**	**14.7**	**14.3**	**32.7**	**34.6**	**(211)**	**35.4**	**20.9**	**43.5**	**35.1**	
31 March 2014															
Ulster Bank	14.6	3.6	6.3	0.1	622	1.1	0.8	0.4	2.7	(235)	15.7	4.4	6.7	2.8	
Real Estate Finance	5.4	2.9	2.9	0.3	260	4.9	4.8	10.5	11.2	(76)	10.3	7.7	13.4	11.5	
Corporate	2.9	1.2	2.1	0.1	209	7.5	7.4	14.9	14.6	28	10.4	8.6	17.0	14.7	
Markets	0.2	0.2	0.3	-	26	3.4	3.4	13.5	11.5	205	3.6	3.6	13.8	11.5	
Total RCR	23.1	7.9	11.6	0.5	1,117	16.9	16.4	39.3	40.0	(78)	40.0	24.3	50.9	40.5	1
1 January 2014															
	14.8	3.7	7.6	0.2	738	1.4	1.1	1.3	3.1	(179)	16.2	4.8	8.9	3.3	

Ulster Bank																	
Real Estate Finance	7.2	4.2	6.1	0.3	580		5.8	5.3	12.5	13.2	(75)		13.0	9.5	18.6	13.5	
Corporate	3.3	1.7	2.9	0.2	269		8.1	8.1	18.2	16.2	208		11.4	9.8	21.1	16.4	
Markets	0.2	0.1	0.6	-	58		4.7	4.7	15.8	13.5	233		4.9	4.8	16.4	13.5	
Total RCR	25.5	9.7	17.2	0.7	1,645		20.0	19.2	47.8	46.0	187		45.5	28.9	65.0	46.7	1

Notes:

(1) Performing assets are those with an internal asset quality band of AQ1 - 9; and non-performing assets are in AQ10 with a probability of default being 100%.

(2) The negative capital deductions are a result of the latent loss provisions held in respect of the performing portfolio.

(3) Capital deductions relating to expected loss less impairment provisions were £823 million (31 March 2014 - £960 million; 1 January 2014 - £1,774 million).

RBS Capital Resolution

Funded assets						
	1 April 2014	Net run-off	Disposals (1)	Impairments	Other	**30 June 2014**
Quarter ended 30 June 2014	£bn	£bn	£bn	£bn	£bn	**£bn**
Ulster Bank	4.4	(0.1)	(0.8)	0.1	(0.1)	**3.5**
Real Estate Finance	7.7	(0.4)	(0.6)	0.1	(0.1)	**6.7**
Corporate	8.6	(0.8)	(0.2)	(0.1)	(0.1)	**7.4**
Markets	3.6	(0.1)	(0.2)	-	-	**3.3**
Total	24.3	(1.4)	(1.8)	0.1	(0.3)	**20.9**
	1 January 2014	Net run-off	Disposals (1)	Impairments	Other	31 March 2014
Quarter ended 31 March 2014	£bn	£bn	£bn	£bn	£bn	£bn
Ulster Bank	4.8	(0.1)	(0.2)	(0.1)	-	4.4
Real Estate Finance	9.5	(1.2)	(0.5)	(0.1)	-	7.7
Corporate	9.8	(0.7)	(0.5)	-	-	8.6
Markets	4.8	(0.5)	(0.7)	-	-	3.6
Total	28.9	(2.5)	(1.9)	(0.2)	-	24.3

Risk-weighted assets							
	1 April 2014	Net run-off	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	**30 June 2014**
Quarter ended 30 June 2014	£bn	£bn	£bn	£bn	£bn	£bn	**£bn**
Ulster Bank	2.8	-	(0.1)	(0.4)	-	-	**2.3**

Real Estate Finance	11.5	(0.2)	(0.6)	(4.2)	-	(0.1)	**6.4**
Corporate	14.7	(0.6)	(0.5)	2.2	(0.4)	(0.3)	**15.1**
Markets	11.5	(1.6)	(0.7)	2.2	-	(0.1)	**11.3**
Total	40.5	(2.4)	(1.9)	(0.2)	-	(0.5)	**35.1**
	1 January 2014	Net run-off	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	31 March 2014
Quarter ended 31 March 2014	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Ulster Bank	3.3	(0.5)	-	-	-	-	2.8
Real Estate Finance	13.5	(1.6)	(0.1)	(0.3)	-	-	11.5
Corporate	16.4	(0.3)	(0.5)	(0.8)	-	(0.1)	14.7
Markets	13.5	(0.2)	(0.6)	(1.2)	-	-	11.5
Total	46.7	(2.6)	(1.2)	(2.3)	-	(0.1)	40.5

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

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RBS Capital Resolution

Capital deductions							
	1 April 2014	Net run-off	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	**30 June 2014**
Quarter ended 30 June 2014	£m	£m	£m	£m	£m	£m	**£m**
Ulster Bank	387	(26)	(103)	17	(46)	(12)	**217**
Real Estate Finance	184	(81)	(29)	242	101	(12)	**405**
Corporate	237	(23)	(62)	97	(83)	(10)	**156**
Markets	231	(9)	(79)	(79)	-	-	**64**
Total	1,039	(139)	(273)	277	(28)	(34)	**842**
	1 January 2014	Net run-off	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	31 March 2014
Quarter ended 31 March 2014	£m	£m	£m	£m	£m	£m	£m
Ulster Bank	559	(2)	(14)	(135)	(17)	(4)	387
Real Estate Finance	505	(211)	(59)	31	(78)	(4)	184
Corporate	477	(71)	17	(159)	(27)	-	237
Markets	291	-	-	(56)	-	(4)	231
Total	1,832	(284)	(56)	(319)	(122)	(12)	1,039

RWA equivalent							
	1 April 2014	Net run-off	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	**30 June 2014**
Quarter ended 30 June 2014	£bn	£bn	£bn	£bn	£bn	£bn	**£bn**

Ulster Bank	6.7	(0.3)	(1.1)	(0.2)	(0.5)	(0.1)	**4.5**
Real Estate Finance	13.4	(1.0)	(0.9)	(1.8)	1.0	(0.2)	**10.5**
Corporate	17.0	(0.8)	(1.1)	3.2	(1.2)	(0.5)	**16.6**
Markets	13.8	(1.7)	(1.5)	1.4	-	(0.1)	**11.9**
Total	50.9	(3.8)	(4.6)	2.6	(0.7)	(0.9)	**43.5**

	1 January 2014	Net run-off	Disposals (1)	Risk parameters (2)	Impairments	Other (3)	31 March 2014
Quarter ended 31 March 2014	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Ulster Bank	8.9	(0.5)	(0.1)	(1.4)	(0.2)	-	6.7
Real Estate Finance	18.6	(3.7)	(0.7)	-	(0.8)	-	13.4
Corporate	21.1	(1.0)	(0.3)	(2.4)	(0.3)	(0.1)	17.0
Markets	16.4	(0.2)	(0.6)	(1.7)	-	(0.1)	13.8
Total	65.0	(5.4)	(1.7)	(5.5)	(1.3)	(0.2)	50.9

Notes:

(1) Includes all aspects relating to disposals, including associated removal of deductions from regulatory capital.
(2) Principally reflects credit migration and other technical adjustments.
(3) Includes fair value adjustments and foreign exchange movements.

RBS Capital Resolution

Gross loans and advances, REIL and related impairments								
				Credit metrics			**YTD**	
	Gross loans (1)	**REIL**	**Provisions**	**REIL as a % of gross loans**	**Provisions as a % of REIL**	**Provisions as a % of gross loans**	**Impairment charge/ (gain) (2)**	**YTD Amounts written-off**
30 June 2014	**£bn**	**£bn**	**£bn**	**%**	**%**	**%**	**£m**	**£m**
By sector:								
Commercial real estate								
- investment	**10.7**	**8.2**	**4.4**	**77**	**54**	**41**	**(35)**	**839**
- development	**7.6**	**7.0**	**6.1**	**92**	**87**	**80**	**(65)**	**222**
Asset finance	**2.5**	**0.9**	**0.4**	**36**	**44**	**16**	**19**	**21**
Other corporate	**9.1**	**4.3**	**3.5**	**47**	**81**	**38**	**71**	**532**
Other	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
	30.0	**20.4**	**14.4**	**68**	**71**	**48**	**(10)**	**1,619**
By donating segment								
and sector								
Ulster Bank								
Commercial real estate								
- investment	**4.5**	**4.3**	**2.7**	**96**	**63**	**60**	**(42)**	**126**
- development	**6.5**	**6.4**	**5.8**	**98**	**91**	**89**	**(79)**	**192**
Other corporate	**2.9**	**2.3**	**2.1**	**79**	**91**	**72**	**106**	**157**
Total Ulster Bank	**13.9**	**13.0**	**10.6**	**94**	**82**	**76**	**(15)**	**475**
Commercial Banking								
Commercial real estate								

- investment	**2.2**	**1.3**	**0.5**	**59**	**38**	**23**	**33**	**51**
- development	**0.8**	**0.5**	**0.2**	**63**	**40**	**25**	**15**	**11**
Asset finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**
Other corporate	**1.2**	**0.6**	**0.4**	**50**	**67**	**33**	**30**	**113**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
Total Commercial Banking	**4.2**	**2.4**	**1.1**	**57**	**46**	**26**	**78**	**182**
CIB								
Commercial real estate								
- investment	**4.0**	**2.6**	**1.2**	**65**	**46**	**30**	**(26)**	**662**
- development	**0.3**	**0.1**	**0.1**	**33**	**100**	**33**	**(1)**	**19**
Asset finance	**2.5**	**0.9**	**0.4**	**36**	**44**	**16**	**19**	**18**
Other corporate	**5.0**	**1.4**	**1.0**	**28**	**71**	**20**	**(65)**	**262**
Other	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Total CIB	**11.9**	**5.0**	**2.7**	**42**	**54**	**23**	**(73)**	**962**
Total	**30.0**	**20.4**	**14.4**	**68**	**71**	**48**	**(10)**	**1,619**
Of which:								
UK	**13.9**	**8.0**	**5.0**	**58**	**63**	**36**	**(71)**	**1,057**
Europe	**15.0**	**12.0**	**9.2**	**80**	**77**	**61**	**78**	**553**
US	**0.3**	**0.1**	**-**	**33**	**-**	**-**	**(8)**	**2**
RoW	**0.8**	**0.3**	**0.2**	**38**	**67**	**25**	**(9)**	**7**
	30.0	**20.4**	**14.4**	**68**	**71**	**48**	**(10)**	**1,619**
Banks	**0.6**	**-**	**-**	**-**	**-**	**-**	**(10)**	**-**

Notes:

(1) Includes disposal groups.
(2) Impairment losses include those relating to AFS securities; sector analyses above include allocation of latent impairment charges.

RBS Capital Resolution

Gross loans and advances, REIL and related impairments (continued)

31 March 2014	Gross loans (1) £bn	Provisions £bn	Impairment charge/ (gain) (2) £m	Amounts written-off £m
By donating segment and sector				
Ulster Bank				
Commercial real estate				
- investment	5.4	3.1	47	3
- development	7.1	6.2	(29)	31
Other corporate	3.0	2.0	34	25
Total Ulster Bank	15.5	11.3	52	59
Commercial Banking				
Commercial real estate				
- investment	2.4	0.5	52	1
- development	0.7	0.3	13	1
Other corporate	1.7	0.5	16	25
Other	-	-	-	5
Total Commercial Banking	4.8	1.3	81	32
CIB				
Commercial real estate				
- investment	5.1	1.4	34	370
- development	0.3	0.1	10	3
Asset finance	2.5	0.4	8	-
Other corporate	5.6	1.2	(47)	326
Other	0.2	-	(30)	-
Total CIB	13.7	3.1	(25)	699

Total	34.0	15.7	108	790
Banks	0.7	-	-	-

Notes:

(1) Includes disposal groups.
(2) Impairment losses include those relating to AFS securities; sector analyses above include allocation of latent impairment charges.

RBS Capital Resolution

Key points

H1 2014

Funded assets have reduced by £8 billion, or 28%, to £21 billion since inception on 1 January 2014, driven by disposals and run-off.

RWA equivalent decreased by £21 billion, or 33%, to £44 billion during H1 2014. This primarily reflects disposals and run-off, supplemented by methodology changes and lower operational and market risk RWAs.

The operating loss of £48 million benefited from £281 million of disposal gains and recoveries in H1 2014 with underlying impairments of £301 million.

The net effect of the operating loss and RWA equivalent (RWAe) reduction resulted in net CET1 accretion of £2 billion.

Q2 2014 compared with Q1 2014

Capital

RWAe reduction of £7 billion, to £44 billion, reflects a combination of disposals, run-off and lower market risk RWAs.

The operating focus in the quarter was on capital intensive positions to maximise the capital accretion benefit. Reductions in these positions were achieved in a capital accretive manner and consistent with our asset management principles. Disposal activity was spread across all sectors, with the most notable reductions in the Ulster Bank and Real Estate business pillars.

Funded assets

Funded assets fell to £21 billion, a reduction of £3 billion, or 14%, during the quarter.

The reduction was achieved by a mixture of run-off and disposals, and continued to benefit from a combination of strong liquidity in the market and asset demand in specific sectors. The first major disposal in Ireland was completed in Q2 2014 which reduced funded assets by £0.5 billion.

The percentage mix of assets across each of the business pillars remained broadly stable.

Operating performance

Operating profit for the second quarter was £66 million, a £180 million improvement compared with Q1 2014 and included a £36 million latent provision release reflecting improving credit conditions. The operating performance also benefited from a number of disposal gains and recoveries with good pricing in the market and efficient execution.

The favourable market conditions were reflected in higher than anticipated sale prices for assets disposed of in the quarter, resulting in disposal gains of £225 million, primarily through the write back of impairment provisions, compared with £56 million in Q1 2014.

The net effect of the operating profit of £66 million and RWAe reduction of £7 billion[1] resulted in net CET1 accretion of £0.8 billion in the quarter.

Funding employed

RCR continues to be funded primarily by RBS Treasury and has no material third party deposits.

A run off profile of 85% over three years has been assumed for RCR's asset base with the associated funding cost being calculated from Treasury issuance maturing in line with the run down of the RCR balance sheet.

Note

(1) Capital equivalent - £0.7 billion at an internal CET1 ratio of 10%.

Condensed consolidated income statement

for the period ended 30 June 2014

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
Interest receivable	**7,621**	8,560		**3,821**	3,800	4,281
Interest payable	**(2,128)**	(3,123)		**(1,023)**	(1,105)	(1,514)
Net interest income	**5,493**	5,437		**2,798**	2,695	2,767
Fees and commissions receivable	**2,605**	2,708		**1,314**	1,291	1,392
Fees and commissions payable	**(487)**	(460)		**(251)**	(236)	(250)
Income from trading activities	**1,493**	2,064		**541**	952	949
Gain on redemption of own debt	**20**	191		**-**	20	242
Other operating income	**1,036**	1,332		**345**	691	720
Non-interest income	**4,667**	5,835		**1,949**	2,718	3,053
Total income	**10,160**	11,272		**4,747**	5,413	5,820
Staff costs	**(3,536)**	(3,727)		**(1,845)**	(1,691)	(1,840)
Premises and equipment	**(1,275)**	(1,104)		**(622)**	(653)	(548)
Other administrative expenses	**(1,662)**	(2,181)		**(951)**	(711)	(1,418)
Depreciation and amortisation	**(554)**	(736)		**(282)**	(272)	(349)
Write-down of goodwill and other intangible assets	**(212)**	-		**(130)**	(82)	-
Operating expenses	**(7,239)**	(7,748)		**(3,830)**	(3,409)	(4,155)
Profit before impairment losses	**2,921**	3,524		**917**	2,004	1,665
Impairment (losses)/recoveries	**(269)**	(2,150)		**93**	(362)	(1,117)
Operating profit before tax	**2,652**	1,374		**1,010**	1,642	548
Tax charge	**(733)**	(678)		**(371)**	(362)	(328)
Profit from continuing operations	**1,919**	696		**639**	1,280	220

Profit from discontinued operations, net of tax	**35**	138	**26**	9	9
Profit for the period	**1,954**	834	**665**	1,289	229
Non-controlling interests	**(42)**	(117)	**(23)**	(19)	14
Preference share and other dividends	**(487)**	(182)	**(412)**	(75)	(101)
Profit attributable to ordinary and					
B shareholders	**1,425**	535	**230**	1,195	142
Earnings/(loss) per ordinary and equivalent					
B share (EPS)					
Basic EPS from continuing and discontinued operations	**12.7p**	-	**2.0p**	-	-
Basic EPS from continuing operations	**12.5p**	-	**1.9p**	-	-

Notes:

(1) Basic EPS for the half year and quarter ended 30 June 2013 have been restated to reflect the terms of the dividend access share (see Note 9 on page 88).

(2) Diluted EPS in the half year ended 30 June 2014 and the quarter ended 30 June 2014 were 0.1p lower than basic EPS.

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2014

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	£m	£m	**£m**	£m	£m
Profit for the period	**1,954**	834	**665**	1,289	229
Items that qualify for reclassification					
Available-for-sale financial assets	**529**	(733)	**265**	264	(1,009)
Cash flow hedges	**248**	(1,536)	**(47)**	295	(1,502)
Currency translation	**(733)**	1,310	**(598)**	(135)	113
Tax	**(160)**	726	**(72)**	(88)	678
Other comprehensive (loss)/income after tax	**(116)**	(233)	**(452)**	336	(1,720)
Total comprehensive income/(loss) for the period	**1,838**	601	**213**	1,625	(1,491)
Total comprehensive income/(loss) is					
attributable to:					
Non-controlling interests	**30**	134	**6**	24	(15)
Preference shareholders	**140**	152	**75**	65	81
Paid-in equity holders	**27**	30	**17**	10	20
Dividend access share	**320**	-	**320**	-	-
Ordinary and B shareholders	**1,321**	285	**(205)**	1,526	(1,577)
	1,838	601	**213**	1,625	(1,491)

Key points

The movement in available-for-sale financial assets during both the half year and quarter reflects unrealised gains predominately arising on Spanish and US bonds, partially offset by realised gains on high quality UK, Dutch and German sovereign bonds.

Cash flow hedging gains in H1 largely result from decreases in Sterling, Euro and US dollar swap rates in the main durations of the underlying portfolio.

Currency translation losses during the half year and quarter are principally due to the strengthening of Sterling against the US dollar and, in the quarter, the Euro.

Condensed consolidated balance sheet

at 30 June 2014

	30 June	31 March	31 December
	2014	2014	2013
	£m	£m	£m
Assets			
Cash and balances at central banks	**68,670**	69,647	82,659
Net loans and advances to banks	**28,904**	28,302	27,555
Reverse repurchase agreements and stock borrowing	**28,163**	26,470	26,516
Loans and advances to banks	**57,067**	54,772	54,071
Net loans and advances to customers	**385,554**	390,780	390,825
Reverse repurchase agreements and stock borrowing	**53,542**	51,743	49,897
Loans and advances to customers	**439,096**	442,523	440,722
Debt securities	**112,794**	120,737	113,599
Equity shares	**7,834**	9,761	8,811
Settlement balances	**19,682**	16,900	5,591
Derivatives	**274,906**	277,294	288,039
Intangible assets	**12,173**	12,428	12,368
Property, plant and equipment	**7,115**	7,437	7,909
Deferred tax	**3,107**	3,289	3,478
Prepayments, accrued income and other assets	**7,418**	7,077	7,614
Assets of disposal groups	**1,246**	1,905	3,017
Total assets	**1,011,108**	1,023,770	1,027,878
Liabilities			
Bank deposits	**39,179**	35,371	35,329
Repurchase agreements and stock lending	**31,722**	31,691	28,650
Deposits by banks	**70,901**	67,062	63,979
Customer deposits	**401,226**	401,276	414,396
Repurchase agreements and stock lending	**51,540**	57,085	56,484
Customer accounts	**452,766**	458,361	470,880
Debt securities in issue	**59,087**	61,755	67,819
Settlement balances	**15,128**	17,175	5,313
Short positions	**39,019**	37,850	28,022
Derivatives	**270,087**	274,506	285,526
Accruals, deferred income and other liabilities	**14,876**	15,336	16,017

Retirement benefit liabilities	**2,742**	2,829	3,210
Deferred tax	**605**	583	507
Subordinated liabilities	**24,809**	24,139	24,012
Liabilities of disposal groups	**125**	3,238	3,378
Total liabilities	**950,145**	962,834	968,663
Equity			
Non-controlling interests	**618**	612	473
Owners' equity*			
Called up share capital	**6,811**	6,752	6,714
Reserves	**53,534**	53,572	52,028
Total equity	**60,963**	60,936	59,215
Total liabilities and equity	**1,011,108**	1,023,770	1,027,878
* Owners' equity attributable to:			
Ordinary and B shareholders	**55,053**	55,032	53,450
Other equity owners	**5,292**	5,292	5,292
	60,345	60,324	58,742

Average balance sheet

	Half year ended		Quarter ended	
	30 June	30 June	**30 June**	31 March
	2014	2013	**2014**	2014
	%	%	**%**	%
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	**3.03**	3.11	**3.05**	3.01
Cost of interest-bearing liabilities of banking business	**(1.20)**	(1.50)	**(1.17)**	(1.24)
Interest spread of banking business	**1.83**	1.61	**1.88**	1.77
Benefit from interest-free funds	**0.36**	0.36	**0.35**	0.36
Net interest margin of banking business	**2.18**	1.97	**2.23**	2.13
Average interest rates				
Base rate	**0.50**	0.50	**0.50**	0.50
London inter-bank three month offered rates				
- Sterling	**0.52**	0.51	**0.52**	0.52
- Eurodollar	**0.23**	0.28	**0.23**	0.23
- Euro	**0.30**	0.21	**0.30**	0.30

Average balance sheet

	Half year ended 30 June 2014				Half year ended 30 June 2013		
	Average balance	**Interest**	**Rate**		Average balance	Interest	Rate
	£m	**£m**	**%**		£m	£m	%
Assets							
Loans and advances to banks	**69,097**	**178**	**0.52**		74,631	222	0.60
Loans and advances to customers	**382,284**	**7,061**	**3.72**		406,483	7,640	3.79
Debt securities	**55,707**	**382**	**1.38**		74,595	698	1.89
Interest-earning assets							
- banking business (1)	**507,088**	**7,621**	**3.03**		555,709	8,560	3.11
- trading business (2)	**176,200**				232,773		
Non-interest earning assets	**351,509**				521,802		
Total assets	**1,034,797**				1,310,284		
Liabilities							
Deposits by banks	**16,991**	**95**	**1.13**		26,410	223	1.70
Customer accounts	**297,928**	**987**	**0.67**		332,939	1,577	0.96
Debt securities in issue	**38,728**	**557**	**2.90**		54,267	698	2.59
Subordinated liabilities	**23,016**	**432**	**3.79**		23,955	447	3.76
Internal funding of trading business	**(20,254)**	**57**	**(0.57)**		(18,266)	178	(1.97)
Interest-bearing liabilities							
- banking business	**356,409**	**2,128**	**1.20**		419,305	3,123	1.50
- trading business (2)	**185,308**				236,675		
Non-interest-bearing liabilities							
- demand deposits	**81,316**				76,820		
- other liabilities	**351,614**				507,624		
Owners' equity (3)	**60,150**				69,860		
Total liabilities and owners' equity	**1,034,797**				1,310,284		

Notes:

(1) Interest income includes amounts (unwind of discount) recognised on impaired loans and receivables. The average balances of such loans are included in average loans and advances to banks and loans and advances to customers.
(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
(3) Including equity attributable to ordinary and B shareholders of £53,931 million (H1 2013 - £63,261 million).

Average balance sheet

	Quarter ended 30 June 2014				Quarter ended 31 March 2014		
	Average balance	Interest	Rate		Average balance	Interest	Rate
	£m	£m	%		£m	£m	%
Assets							
Loans and advances to banks	**66,047**	**89**	**0.54**		72,181	89	0.50
Loans and advances to customers	**380,731**	**3,543**	**3.73**		383,857	3,518	3.72
Debt securities	**55,377**	**189**	**1.37**		56,041	193	1.40
Interest-earning assets							
- banking business (1)	**502,155**	**3,821**	**3.05**		512,079	3,800	3.01
- trading business (2)	**175,066**				177,347		
Non-interest earning assets	**358,298**				344,641		
Total assets	**1,035,519**				1,034,067		
Liabilities							
Deposits by banks	**16,983**	**41**	**0.97**		16,884	54	1.30
Customer accounts	**294,937**	**471**	**0.64**		300,953	516	0.70
Debt securities in issue	**37,690**	**270**	**2.87**		39,778	287	2.93
Subordinated liabilities	**23,536**	**220**	**3.75**		22,386	212	3.84
Internal funding of trading business	**(22,224)**	**21**	**(0.38)**		(18,262)	36	(0.80)
Interest-bearing liabilities							
- banking business	**350,922**	**1,023**	**1.17**		361,739	1,105	1.24
- trading business (2)	**184,529**				186,096		
Non-interest-bearing liabilities							
- demand deposits	**82,213**				80,409		
- other liabilities	**357,505**				345,875		
Owners' equity (3)	**60,350**				59,948		
Total liabilities and owners' equity	**1,035,519**				1,034,067		

Notes:

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

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

(3) Including equity attributable to ordinary and B shareholders of £54,425 million (Q1 2014 - £53,436 million).

Condensed consolidated statement of changes in equity

for the period ended 30 June 2014

	Half year ended		Quarter ended		
	30 June	30 June	**30 June**	31 March	30 June
	2014	2013	**2014**	2014	2013
	£m	£m	**£m**	£m	£m
Called-up share capital					
At beginning of period	**6,714**	6,582	**6,752**	6,714	6,619
Ordinary shares issued	**97**	50	**59**	38	13
At end of period	**6,811**	6,632	**6,811**	6,752	6,632
Paid-in equity					
At beginning and end of period	**979**	979	**979**	979	979
Share premium account					
At beginning of period	**24,667**	24,361	**24,760**	24,667	24,455
Ordinary shares issued	**218**	122	**125**	93	28
At end of period	**24,885**	24,483	**24,885**	24,760	24,483
Merger reserve					
At beginning and end of period	**13,222**	13,222	**13,222**	13,222	13,222
Available-for-sale reserve					
At beginning of period	**(308)**	(346)	**(62)**	(308)	(10)
Unrealised gains/(losses)	**844**	14	**411**	433	(568)
Realised gains	**(366)**	(605)	**(148)**	(218)	(441)
Tax	**(68)**	333	**(63)**	(5)	305
Recycled to profit or loss on disposal of businesses (1)	**36**	(110)	**-**	36	-
At end of period	**138**	(714)	**138**	(62)	(714)
Cash flow hedging reserve					
At beginning of period	**(84)**	1,666	**141**	(84)	1,635
Amount recognised in equity	**968**	(859)	**315**	653	(1,118)
Amount transferred from equity to earnings	**(720)**	(677)	**(362)**	(358)	(384)

Tax	**(70)**	361		**-**	(70)	358
At end of period	**94**	491		**94**	141	491
Foreign exchange reserve						
At beginning of period	**3,691**	3,908		**3,551**	3,691	5,072
Retranslation of net assets	**(872)**	1,430		**(702)**	(170)	44
Foreign currency gains on hedges of net assets	**155**	(131)		**123**	32	70
Tax	**(11)**	(3)		**(9)**	(2)	15
Recycled to profit or loss on disposal of businesses	**-**	(3)		**-**	-	-
At end of period	**2,963**	5,201		**2,963**	3,551	5,201
Capital redemption reserve						
At beginning and end of period	**9,131**	9,131		**9,131**	9,131	9,131
Contingent capital reserve						
At beginning and end of period	**-**	(1,208)		**-**	-	(1,208)

For the notes to this table refer the following page.

Condensed consolidated statement of changes in equity

for the period ended 30 June 2014

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	£m	£m	**£m**	£m	£m
Retained earnings					
At beginning of period	**867**	10,596	**1,986**	867	10,949
Profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	**1,895**	607	**627**	1,268	241
- discontinued operations	**17**	110	**15**	2	2
Equity preference dividends paid	**(140)**	(152)	**(75)**	(65)	(81)
Dividend Access Share dividend	**(320)**	-	**(320)**	-	-
Paid-in equity dividends paid, net of tax	**(27)**	(30)	**(17)**	(10)	(20)
Loss on disposal of own shares held	**-**	(18)	**-**	-	(18)
Shares released for employee benefits	**(41)**	(1)	**(5)**	(36)	(1)
Share-based payments					
- gross	**8**	(4)	**47**	(39)	33
- tax	**(1)**	(3)	**-**	(1)	-
At end of period	**2,258**	11,105	**2,258**	1,986	11,105
Own shares held					
At beginning of period	**(137)**	(213)	**(136)**	(137)	(211)
Disposal of own shares	**1**	73	**-**	1	71
Shares released for employee benefits	**-**	1	**-**	-	1
At end of period	**(136)**	(139)	**(136)**	(136)	(139)
Owners' equity at end of period	**60,345**	69,183	**60,345**	60,324	69,183
Non-controlling interests					
At beginning of period	**473**	1,770	**612**	473	532
Currency translation adjustments and other movements	**(16)**	14	**(19)**	3	(1)
Profit/(loss) attributable to non-controlling interests					
- continuing operations	**24**	89	**12**	12	(21)

- discontinued operations	**18**	28		**11**	7	7
Movements in available-for-sale securities						
- unrealised (losses)/gains	**(2)**	9		**(1)**	(1)	-
- realised losses	**6**	-		**3**	3	-
- tax	**-**	(1)		**-**	-	-
- recycled to profit or loss on disposal of discontinued						
operations (2)	**-**	(5)		**-**	-	-
Equity raised	**115**	-		**-**	115	-
Equity withdrawn and disposals	**-**	(1,429)		**-**	-	(42)
At end of period	**618**	475		**618**	612	475
Total equity at end of period	**60,963**	69,658		**60,963**	60,936	69,658

Notes:

(1) Net of tax - £11 million (Q1 2014 - £11 million; Q2 2013 - £35 million).
(2) Net of tax - £1 million in H1 2013.

For an explanation of the movements in the available-for-sale, cash flow hedging and foreign exchange reserves refer to page 70.

Condensed consolidated cash flow statement

for the period ended 30 June 2014

	Half year ended	
	30 June	30 June
	2014	2013
	£m	£m
Operating activities		
Operating profit before tax on continuing operations	**2,652**	1,374
Operating profit before tax on discontinued operations	**40**	161
Adjustments for non-cash items	**(897)**	(7,378)
Net cash inflow/(outflow) from trading activities	**1,795**	(5,843)
Changes in operating assets and liabilities	**(7,634)**	431
Net cash flows from operating activities before tax	**(5,839)**	(5,412)
Income taxes received/(paid)	**41**	(260)
Net cash flows from operating activities	**(5,798)**	(5,672)
Net cash flows from investing activities	**(641)**	12,293
Net cash flows from financing activities	**921**	(1,408)
Effects of exchange rate changes on cash and cash equivalents	**(2,391)**	4,948
Net (decrease)/increase in cash and cash equivalents	**(7,909)**	10,161
Cash and cash equivalents at beginning of period	**121,177**	132,841
Cash and cash equivalents at end of period	**113,268**	143,002

Notes

1. Basis of preparation

The Group's condensed consolidated financial statements have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting'. They should be read in conjunction with the Group's 2013 Annual Report on Form 20-F which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

From 13 March 2013, Direct Line Group (DLG) was classified as an associated undertaking and at 31 December 2013 the Group's interest in DLG was transferred to disposal groups. The Group disposed of its remaining interest in DLG in February 2014.

The consolidated financial statements comprise the condensed consolidated income statement, condensed consolidated statement of comprehensive income,condensed consolidated balance sheet, condensed consolidated statement of changed in equity, condensed consolidated cash flow statement and related explanatory notes 1 to 18 and have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The Group's 2014 condensed consolidated financial statements have been prepared in compliance with the British Bankers' Association Code for Financial Reporting Disclosure published in September 2010.

Going concern

The Group's business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 6 to 136. Its objectives and policies in managing the financial risks to which it is exposed and its regulatory capital resources, liquidity and funding management are discussed in the Capital and risk management appendix. A summary of the risk factors which could materially affect the Group's future results are described on pages 138 to 140.

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the results for the half year ended 30 June 2014 have been prepared on a going concern basis.

2. Accounting policies

There have been no significant changes to the Group's principal accounting policies as set out on pages 369 to 381 of the Group's 2013 Annual Report on Form 20-F apart from the adoption of new and revised IFRSs that are effective from 1 January 2014:

'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' adds application guidance to IAS 32 to address inconsistencies identified in the application of the standard's criteria for offsetting financial assets and financial liabilities.

'Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)' applies to investment entities; such entities should account for their subsidiaries (other than those that provide services related to the entity's investment activities) at fair value through profit or loss.

IFRIC 21 'Levies' provides guidance on accounting for levies payable to public authorities if certain conditions are met on a particular date.

IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)' aligns IAS 36's disclosure requirements about recoverable amounts with IASB's original intentions.

Notes

2. Accounting policies (continued)

IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)' provides relief from discontinuing hedge accounting on novation of a derivative designated as a hedging instrument.

The implementation of these requirements has not had a material effect on the Group's financial statements.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to pensions; goodwill; provisions for liabilities; deferred tax; loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgments are described on pages 378 to 381 of the Group's 2013 Annual Report on Form 20-F.

Recent developments in IFRS

In July 2014 the IASB published IFRS 9 'Financial Instruments'. IFRS 9 replaces the current financial instruments standard IAS 39, setting out new accounting requirements in a number of areas. First, there are revisions to the classification and measurement of financial instruments. There are new restrictions on the ability to account for financial assets at amortised cost and a prohibition on the bifurcation of embedded derivatives from financial assets. Accounting for financial liabilities is largely unchanged except for the treatment of changes in the fair value of liabilities designated as at fair value through profit or loss attributable to own credit risk; these are recognised in other comprehensive income. Secondly, there are amended requirements for hedge accounting designed to align the accounting more closely to the risk management framework and remove or simplify some of the rule-based requirements of IAS 39. The basic mechanics of hedge accounting: fair value, cash flow and net investment hedges are retained. Finally, there is a new approach to credit impairment provisions moving from IAS 39's incurred loss model to an expected loss model. An expected loss model will result in the recognition of credit impairment losses earlier than an incurred loss model. IFRS 9 is effective for periods beginning on or after 1 January 2018.

IFRS 9 makes major and fundamental changes to accounting for financial instruments. The Group is continuing its assessment of its effect on the Group's financial statements.

The IASB also published:

in January 2014 IFRS 14 'Regulatory Deferral Accounts' which permits costs that can be deferred in the presentation of regulatory accounts to be deferred also in accordance with IFRS.

in May 2014 IFRS 15 'Revenue from Contracts with Customers' effective from 1 January 2017 replacing IAS 11 'Construction Contracts', IAS 18 'Revenue' and several Interpretations. Contracts are bundled or unbundled into distinct performance obligations with revenue recognised as the obligations are met.

in May 2014 'Accounting for Acquisitions of interests in Joint Operations', an amendment to IFRS 11 'Joint Arrangements' to clarify that the donor of assets and liabilities to a joint operation should hold its continuing interest in them at the lower of cost and recoverable amount.

in May 2014 'Clarification of Acceptable Methods of Depreciation and Amortisation' amending IAS 16 'Property, Plant and Equipment and IAS 38 'Intangible Assets' to require any policy less prudent than straight line to be justified.

The Group is reviewing these requirements to determine their effect, if any, on its financial reporting.

Notes

3. Analysis of income, expenses and impairment losses

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	£m	£m	**£m**	£m	£m
Loans and advances to customers	**7,061**	7,640	**3,543**	3,518	3,809
Loans and advances to banks	**178**	222	**89**	89	114
Debt securities	**382**	698	**189**	193	358
Interest receivable	**7,621**	8,560	**3,821**	3,800	4,281
Customer accounts	**987**	1,577	**471**	516	740
Deposits by banks	**95**	223	**41**	54	107
Debt securities in issue	**557**	698	**270**	287	345
Subordinated liabilities	**432**	447	**220**	212	225
Internal funding of trading businesses	**57**	178	**21**	36	97
Interest payable	**2,128**	3,123	**1,023**	1,105	1,514
Net interest income	**5,493**	5,437	**2,798**	2,695	2,767
Fees and commissions receivable					
- payment services	**647**	688	**325**	322	355
- credit and debit card fees	**500**	529	**245**	255	275
- lending (credit facilities)	**703**	698	**371**	332	345
- brokerage	**207**	252	**102**	105	143
- investment management	**206**	210	**100**	106	97
- trade finance	**138**	153	**71**	67	75
- other	**204**	178	**100**	104	102
	2,605	2,708	**1,314**	1,291	1,392
Fees and commissions payable	**(487)**	(460)	**(251)**	(236)	(250)

Net fees and commissions	**2,118**	2,248		**1,063**	1,055	1,142
Foreign exchange	**420**	450		**202**	218	255
Interest rate	**672**	402		**424**	248	203
Credit	**397**	880		**41**	356	328
Own credit adjustments	**11**	175		**(84)**	95	76
Other	**(7)**	157		**(42)**	35	87
Income from trading activities	**1,493**	2,064		**541**	952	949
Gain on redemption of own debt	**20**	191		**-**	20	242
Operating lease and other rental income	**178**	256		**87**	91	118
Own credit adjustments	**(62)**	201		**(106)**	44	51
Other changes in the fair value of financial assets						
and liabilities designated as at fair value through						
profit or loss and related derivatives	**29**	29		**9**	20	17
Changes in fair value of investment properties	**(43)**	(16)		**(31)**	(12)	(7)
Profit on sale of:						
- securities	**343**	572		**132**	211	419
- property, plant and equipment	**40**	23		**16**	24	5
- subsidiaries, networks and associates	**363**	18		**171**	192	24
Dividend income	**30**	35		**17**	13	21
Share of results of associates	**55**	204		**28**	27	27
Other income	**103**	10		**22**	81	45
Other operating income	**1,036**	1,332		**345**	691	720

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Notes

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

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	£m	£m	**£m**	£m	£m
Total non-interest income	**4,667**	5,835	**1,949**	2,718	3,053
Total income	**10,160**	11,272	**4,747**	5,413	5,820
Staff costs	**(3,536)**	(3,727)	**(1,845)**	(1,691)	(1,840)
Premises and equipment	**(1,275)**	(1,104)	**(622)**	(653)	(548)
Other (1)	**(1,662)**	(2,181)	**(951)**	(711)	(1,418)
Administrative expenses	**(6,473)**	(7,012)	**(3,418)**	(3,055)	(3,806)
Depreciation and amortisation	**(554)**	(736)	**(282)**	(272)	(349)
Write down of goodwill	**(130)**	-	**(130)**	-	-
Write down of other intangible assets	**(82)**	-	**-**	(82)	-
Operating expenses	**(7,239)**	(7,748)	**(3,830)**	(3,409)	(4,155)
Loan impairment losses/(recoveries)	**271**	2,161	**(89)**	360	1,125
Securities	**(2)**	(11)	**(4)**	2	(8)
Impairment losses/(recoveries)	**269**	2,150	**(93)**	362	1,117

Note:

(1) Includes Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs and regulatory and legal actions costs - see below for further details.

Payment Protection Insurance (PPI)

An additional charge of £150 million has been recognised for PPI in Q2 2014 (Q1 2014 - nil; Q2 2013 - £185 million) as a result of higher customer response rates and higher average redress costs. The cumulative charge in respect of PPI is £3.2 billion, of which £2.6 billion (82%) in redress and expenses had been utilised by 30 June 2014. Of the £3.2 billion cumulative charge, £2.9 billion relates to redress and £0.3 billion to administrative expenses.

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013	**30 June 2014**	31 March 2014	30 June 2013
	£m	£m	**£m**	£m	£m
At beginning of period	**926**	895	**708**	926	705
Charge to income statement	**150**	185	**150**	-	185
Utilisations	**(490)**	(376)	**(272)**	(218)	(186)
At end of period	**586**	704	**586**	708	704

The remaining provision provides coverage for approximately seven months for redress and administrative expenses, based on the current average monthly utilisation.

Notes

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

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

			Sensitivity	
Assumption	**Actual to date**	**Current assumption**	**Change in assumption %**	**Consequential change in provision £m**
Past business review take up rate	**47%**	**52%**	**+/-5**	**+/-56**
Uphold rate (1)	**89%**	**88%**	**+/-5**	**+/-17**
Average redress	**£1,741**	**£1,722**	**+/-5**	**+/-15**

Note:

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

Interest that will be payable on successful complaints has been included in the provision as has the estimated cost to the Group of administering the redress process. The Group expects the majority of the cash outflows associated with this provision to have occurred by the end of 2014. There are uncertainties as to the eventual cost of redress which will depend on actual complaint volumes, take up and uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position closely and refresh its assumptions.

Interest Rate Hedging Products (IRHP) redress and related costs

Following an industry-wide review conducted in conjunction with the Financial Services Authority (now being dealt with by the Financial Conduct Authority (FCA)), the Group agreed to provide redress to customers in relation to certain interest rate hedging products sold to small and medium-sized businesses classified as retail clients under FSA rules. An additional charge of £100 million has been recognised in Q2 2014 (Q1 2014 and Q2 2013 - nil), principally reflecting the marginal increase in our redress experience compared to expectations. We have now agreed outcomes with the independent reviewer relating to over 95% of cases. A cumulative charge of £1.4 billion has been recognised, of which £1.1 billion relates to redress and £0.3 billion relates to administrative expenses.

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2014	2013		**2014**	2014	2013
	£m	£m		**£m**	£m	£m
At beginning of period	**1,077**	676		**878**	1,077	702
Charge to income statement	**100**	50		**100**	-	-
Utilisations	**(417)**	(56)		**(218)**	(199)	(32)
At end of period	**760**	670		**760**	878	670

Notes

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

The Group is progressing with its review of sales of IRHP and providing basic redress to all customers who are entitled to it. Customers may also be entitled to be compensated for any consequential losses they may have suffered. The Group is not able to measure reliably any liability it may have and has accordingly not made any provision. Customers will receive redress monies without having to wait for the assessment of any additional consequential loss claims which are outside the allowance for such claims included in the 8% interest on redress due.

The Group continues to monitor the level of provision given the uncertainties over the number of transactions that will qualify for redress and the nature and cost of that redress.

Regulatory and legal actions

The Group is party to certain legal proceedings and regulatory investigations and continues to co-operate with a number of regulators. All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made. No additional charge has been booked in 2014 (Q2 2013 - £385 million). A charge of £1,910 million in Q4 2013 was primarily in respect of matters related to mortgage-backed securities and securities related litigation following recent third party litigation settlements and regulatory decisions.

4. Pensions

Pension costs for the half year ended 30 June 2014 amounted to £281 million (H1 2013 - £297 million; Q2 2014 - £138 million; Q1 2014 - £143 million and Q2 2013 - £149 million). Defined benefit schemes' charges are based on the actuarially determined pension cost rates at 31 December 2013.

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

Notes

5. Loan impairment provisions and REIL

Loan impairments

Operating profit is stated after charging loan impairment losses of £271 million (H1 2013 - £2,161 million). The balance sheet loan impairment provisions decreased in the half year ended 30 June 2014 from £25,216 million to £22,446 million and the movements thereon were:

	Half year ended						
	30 June 2014				30 June 2013		
	RBS excl. RCR	**RCR**	**Total**		RBS excl. Non-Core	Non-Core	Total
	£m	**£m**	**£m**		£m	£m	£m
At beginning of period (1)	**8,716**	**16,500**	**25,216**		10,062	11,188	21,250
Currency translation and other adjustments	**(118)**	**(395)**	**(513)**		207	341	548
Amounts written-off	**(868)**	**(1,619)**	**(2,487)**		(1,155)	(968)	(2,123)
Recoveries of amounts previously written-off	**84**	**14**	**98**		90	31	121
Charge to income statement							
- continuing operations	**290**	**(19)**	**271**		1,258	903	2,161
Unwind of discount (recognised in interest income)	**(63)**	**(76)**	**(139)**		(104)	(100)	(204)