ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 01, 2014

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

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

For August 1, 2014

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X Form 40-F ___

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

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-________

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

Condensed consolidated income statement
for the period ended 30 June 2014

	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
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	-	-
Adjusted EPS from continuing operations	12.1p	(0.5p)	4.3p	7.8p	(1.8p)

Notes:

(1) A reconciliation between the statutory income statement above and the non-statutory income statement on page 12 is given in Appendix 2 to this announcement.

(2) 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).

(3) 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 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £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 2014 £m	31 March 2014 £m	31 December 2013 £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 2014 %	30 June 2013 %	30 June 2014 %	31 March 2014 %
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	3.03	3.10	3.05	3.01
Cost of interest-bearing liabilities of banking business	(1.18)	(1.46)	(1.16)	(1.21)
Interest spread of banking business	1.85	1.64	1.89	1.80
Benefit from interest-free funds	0.32	0.33	0.33	0.32
Net interest margin of banking business	2.17	1.97	2.22	2.12
Average interest rates				
Base rate	0.50	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	0.53	0.51	0.53	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 £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	69,097	178	0.52	74,631	222	0.60
Loans and advances to customers	382,326	7,061	3.72	406,534	7,640	3.79
Debt securities	55,845	383	1.38	75,129	700	1.88
Interest-earning assets						
- banking business (1,2)	507,268	7,622	3.03	556,294	8,562	3.10
- trading business (3)	176,200			232,773		
Non-interest earning assets	351,329			521,217		
Total assets	1,034,797			1,310,284		
Memo: Funded assets	745,611			877,487		
Liabilities						
Deposits by banks	16,877	92	1.10	26,244	218	1.68
Customer accounts	302,157	987	0.66	338,938	1,577	0.94
Debt securities in issue	43,954	586	2.69	61,136	738	2.43
Subordinated liabilities	23,831	432	3.66	24,939	416	3.36
Internal funding of trading business	(20,254)	57	(0.57)	(18,266)	178	(1.97)
Interest-bearing liabilities						
- banking business (1,4,5)	366,565	2,154	1.18	432,991	3,127	1.46
- trading business (3)	185,308			236,675		
Non-interest-bearing liabilities						
- demand deposits	81,316			76,820		
- other liabilities	341,458			493,938		
Owners' equity (6)	60,150			69,860		
Total liabilities and owners' equity	1,034,797			1,310,284		

Notes:

(1) Interest receivable has been increased by £1 million (H1 2013 - £2 million) and interest payable has been increased by £29 million (H1 2013 - £40 million) in respect of interest on financial assets and liabilities designated as at fair value through profit or loss.

Related interest-earning assets and interest-bearing liabilities have also been adjusted.

(2) 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.

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

(4) Interest payable has been decreased by £3 million (H1 2013 - £5 million) to exclude RFS Holdings minority interest. Related interest-bearing liabilities have also been adjusted.

(5) Interest payable has been decreased by nil (H1 2013 - £31 million) in respect of non-recurring adjustments.

(6) 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 £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	66,047	89	0.54	72,181	89	0.50
Loans and advances to customers	380,772	3,544	3.73	383,898	3,517	3.72
Debt securities	55,528	189	1.37	56,165	194	1.40
Interest-earning assets						
- banking business (1,2,3)	502,347	3,822	3.05	512,244	3,800	3.01
- trading business (4)	175,066			177,347		
Non-interest earning assets	358,106			344,476		
Total assets	1,035,519			1,034,067		
Memo: funded assets	747,798			743,399		
Liabilities						
Deposits by banks	16,985	41	0.97	16,768	51	1.23
Customer accounts	298,170	472	0.63	306,189	515	0.68
Debt securities in issue	42,720	284	2.67	45,202	302	2.71
Subordinated liabilities	24,342	220	3.63	23,314	212	3.69
Internal funding of trading business	(22,224)	21	(0.38)	(18,262)	36	(0.80)
Interest-bearing liabilities						
- banking business (1,2)	359,993	1,038	1.16	373,211	1,116	1.21
- trading business (4)	184,529			186,096		

Non-interest-bearing liabilities		
- demand deposits	82,213	80,409
- other liabilities	348,434	334,403
Owners' equity (5)	60,350	59,948
Total liabilities and owners' equity	1,035,519	1,034,067

Notes:

(1) Interest receivable has been increased by nil (Q1 2014 - £1 million) and interest payable has been increased by £14 million (Q1 2014 - £15 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.

(2) Interest receivable has been increased by £1 million (Q1 2014 - £1 million decrease) and interest payable has been increased by £1 million (Q1 2014 - £4 million decrease) to exclude RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.

(3) 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.

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

(5) 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 2014	30 June 2013	30 June 2014	31 March 2014	30 June 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 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £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 2014 £m	30 June 2013 £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 and Accounts 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 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 12 to 131. 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 135 to 137.

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 377 to 389 of the 2013 Annual Report and Accounts 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.

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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 386 to 389 of the Group's 2013 Annual Report and Accounts.

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 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £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

Notes

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

	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
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 2014	30 June 2013	30 June 2014	31 March 2014	30 June 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.

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)
At end of period	8,041	14,405	22,446	10,358	11,395	21,753

	Quarter ended								
	30 June 2014			31 March 2014			30 June 2013		
	RBS excl. RCR	RCR	Total	RBS excl. RCR	RCR	Total	RBS excl. Non-Core	Non-Core	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of period (1)	8,516	15,719	24,235	8,716	16,500	25,216	10,266	11,228	21,494
Currency translation and other adjustments	(75)	(333)	(408)	(43)	(62)	(105)	71	75	146
Amounts written-off	(447)	(827)	(1,274)	(421)	(792)	(1,213)	(626)	(341)	(967)
Recoveries of amounts previously written-off	43	3	46	41	11	52	41	15	56
Charge to income statement - continuing operations	36	(125)	(89)	254	106	360	659	466	1,125

Unwind of discount (recognised in interest income)	(32)	(32)	(64)	(31)	(44)	(75)	(53)	(48)	(101)
At end of period	8,041	14,405	22,446	8,516	15,719	24,235	10,358	11,395	21,753

Note:

(1) As a result of the creation of RCR on 1 January 2014, £855 million of provisions were transferred from Non-Core to the original donating divisions and £16,500 million of provisions were transferred to RCR, £12,984 million from Non-Core and £3,516 million from other divisions.

Provisions at 30 June 2014 include £50 million in respect of loans and advances to banks (31 March 2014 - £62 million; 31 December 2013 - £63 million; 30 June 2013 - £83 million).

Notes

5. Loan impairment provisions and REIL (continued)

Risk elements in lending

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

REIL decreased by £5,311 million in the half year ended 30 June 2014 to £34,081 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)	15,276	24,116	39,392	19,766	21,374	41,140
Currency translation and other adjustments	(167)	(658)	(825)	458	642	1,100
Additions	2,273	1,887	4,160	4,878	1,978	6,856
Transfers (2)	(121)	52	(69)	292	(4)	288
Transfer to performing book	(111)	(74)	(185)	(55)	(25)	(80)
Repayments and disposals	(2,629)	(3,276)	(5,905)	(2,858)	(2,140)	(4,998)
Amounts written-off	(868)	(1,619)	(2,487)	(1,155)	(968)	(2,123)
At end of period	13,653	20,428	34,081	21,326	20,857	42,183

Quarter ended

	30 June 2014			31 March 2014			30 June 2013		
	RBS excl. RCR	RCR	Total	RBS excl. RCR	RCR	Total	RBS excl. Non-Core	Non-Core	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of period (1)	14,351	23,002	37,353	15,276	24,116	39,392	20,286	20,756	41,042
Currency translation and other adjustments	(102)	(560)	(662)	(65)	(98)	(163)	82	114	196
Additions	810	564	1,374	1,463	1,323	2,786	2,781	1,039	3,820
Transfers (2)	(65)	36	(29)	(56)	16	(40)	203	(35)	168
Transfer to performing book	(8)	(71)	(79)	(103)	(3)	(106)	(14)	8	(6)
Repayments and disposals	(886)	(1,716)	(2,602)	(1,743)	(1,560)	(3,303)	(1,386)	(684)	(2,070)
Amounts written-off	(447)	(827)	(1,274)	(421)	(792)	(1,213)	(626)	(341)	(967)
At end of period	13,653	20,428	34,081	14,351	23,002	37,353	21,326	20,857	42,183

Notes:
(1) As a result of the creation of RCR on 1 January 2014, £1,328 million of REIL were transferred from Non-Core to the original donating divisions and £24,116 million of REIL were transferred to RCR, £17,686 million from Non-Core and £6,430 million from other divisions.
(2) Represents transfers between REIL and potential problem loans.

Provision coverage of REIL was 66% at 30 June 2014 (31 March 2014 - 65%; 31 December 2013 - 64%; 30 June 2013 - 52%).

Refer to Appendix 1 for analyses of loan impairments and REIL by segment, sector and geographical region.

Notes

6. Tax

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 21.5% (2013 - 23.25%).

	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 before tax	2,652	1,374	1,010	1,642	548
Expected tax charge	(570)	(319)	(217)	(353)	(127)

Losses in year where no deferred tax asset recognised	(22)	(116)	(9)	(13)	(44)
Foreign profits taxed at other rates	(87)	(120)	(30)	(57)	(32)
Unrecognised timing differences	13	(12)	9	4	(15)
Non-deductible goodwill impairment	(28)	-	(28)	-	-
Items not allowed for tax					
- losses on disposals and write-downs	(5)	-	(5)	-	-
- UK bank levy	(30)	(29)	(11)	(19)	(9)
- regulatory and legal actions	-	(90)	-	-	(90)
- employee share schemes	(5)	(14)	(2)	(3)	(7)
- other disallowable items	(64)	(82)	(39)	(25)	(45)
Non-taxable items					
- gain on sale of Direct Line Insurance Group	41	-	-	41	-
- other non-taxable items	13	86	(1)	14	31
Taxable foreign exchange movements	4	(2)	3	1	(4)
Losses brought forward and utilised	45	27	9	36	22
Reduction in carrying value of deferred tax asset in respect of losses in US	(76)	-	(76)	-	-
Adjustments in respect of prior periods	38	(7)	26	12	(8)
Actual tax charge	(733)	(678)	(371)	(362)	(328)

At 30 June 2014, the Group has recognised a deferred tax asset of £3,107 million (31 March 2014 - £3,289 million; 31 December 2013 - £3,478 million) and a deferred tax liability of £605 million (31 March 2014 - £583 million; 31 December 2013 - £507 million). These include amounts recognised in respect of UK trading losses of £2,135 million (31 March 2014 - £2,240 million; 31 December 2013 - £2,411 million). Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 30 June 2014 and concluded that it is recoverable based on future profit projections.

Notes

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

	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
RBS Sempra Commodities JV	-	(2)	-	-	-
RFS Holdings BV Consortium Members	38	113	21	17	-
Direct Line Group	-	19	-	-	-
Other	4	(13)	2	2	(14)
Profit/(loss) attributable to non-controlling interests	42	117	23	19	(14)

8. Dividends

Dividends paid to preference shareholders and paid-in equity holders, and the dividend on the Dividend Access Share are as follows:

	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
Preference shareholders					
Non-cumulative preference shares of US$0.01	105	116	40	65	45
Non-cumulative preference shares of €0.01	34	35	34	-	35
Non-cumulative preference shares of £1	1	1	1	-	1
Paid-in equity holders					
Interest on securities classified as equity, net of tax	27	30	17	10	20
Dividend Access Share dividend	320	-	320	-	-
	487	182	412	75	101

The Group has resumed payments on all discretionary non-equity capital instruments following the end of the European Commission ban in 2012 for RBS and 2013 for RBS N.V. Future coupons and dividends on hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

The Board has decided to continue partially neutralising the Common Equity Tier 1 impact of Group hybrid capital instruments. It is expected that £300 million of new equity will be issued during the course of 2014 to achieve this aim, of which £100 million was issued in May 2014 and a further £51 million in July 2014.

Following approval of the DAS Retirement Agreement by independent shareholders at a General Meeting in June 2014, provision has been made for the DAS retirement initial dividend of £320 million.

Notes

9. Earnings per ordinary and equivalent B share

At a General Meeting on 25 June 2014, the Company’s independent shareholders approved an agreement between RBS and Her Majesty's Treasury for the retirement of the Dividend Access Share (the DAS retirement agreement).

Prior to the DAS retirement agreement, the DAS was entitled to a dividend amounting to the greater of 7% of the aggregate issue price of B shares and 250% of the ordinary dividend rate multiplied by the number of B shares issued, less any dividends paid on the B shares and on ordinary shares issued on their conversion. When calculating earnings per share, IFRS requires profit or loss to be allocated to participating equity instruments as if all of the profit or loss for the period had been distributed. Consequently, earnings for all periods presented ending on or before 31 March 2014 are allocated solely to the dividend access share and earnings per ordinary and equivalent B share are nil for all periods. Adjusted earnings per ordinary and equivalent B share excludes the rights of the dividend access share for periods prior to 25 June 2014 and has been calculated on the basis tabulated on the following page.

After the DAS retirement agreement came into effect, once RBS has paid dividends on the DAS totalling £1.5 billion (subject to increases after 1 January 2016), the DAS will lose its preferential dividend rights and will become a single

B share. The dividends are payable at the discretion of the directors. The first DAS dividend of £320 million payable within 45 business days of approval of the agreement, has been recognised as a liability at 30 June 2014. Unpaid DAS dividends will be subject to an increase of 5% per annum from 1 January 2016 and an increase of 10% per annum from 1 January 2021.

These changes to the DAS agreement have re-characterised the DAS such that it is no longer a participating share; it is only entitled to total dividends of £1.5 billion, subject to increases after 1 January 2016. Consequently earnings per share for periods ended after 25 June 2014 only reflect DAS dividends recognised before the end of a reporting period; this amounted to £320 million in respect of the half year and quarter ended 30 June 2014. Dividends can be paid on ordinary and B shares only once the total remaining amount of retirement dividend of £1,180 million, subject to increases as above, has been paid.

9. Earnings per ordinary and equivalent B share (continued)

	Half year ended		Quarter ended		
	30 June 2014	30 June 2013*	30 June 2014	31 March 2014	30 June 2013*
Earnings					
Profit from continuing operations attributable to ordinary and B shareholders (£m)	1,408	425	215	1,193	140
Profit from discontinued operations attributable to ordinary and B shareholders (£m)	17	110	15	2	2
Profit attributable to ordinary and B shareholders (£m)	1,425	535	230	1,195	142
Ordinary shares outstanding during the period (millions)	6,208	6,052	6,235	6,181	6,073
Equivalent B shares in issue during the period (millions)	5,100	5,100	5,100	5,100	5,100
Weighted average number of ordinary shares and equivalent B shares outstanding during the period (millions)	11,308	11,152	11,335	11,281	11,173
Effect of dilutive share options and convertible securities (millions)	97	114	89	110	114
Diluted weighted average number of ordinary shares and equivalent B shares outstanding during the period (millions)	11,405	11,266	11,424	11,391	11,287
Basic and diluted earnings/(loss) per ordinary and equivalent B share (EPS)					
Basic EPS from continuing operations	12.5p	-	1.9p	-	-
Earnings allocated to DAS	-	3.8p	-	10.6p	1.2p
Own credit adjustments	0.4p	(2.6p)	1.3p	(0.9p)	(0.8p)
Gain on redemption of own debt	(0.2p)	(1.7p)	-	(0.2p)	(2.1p)
Write-down of goodwill	1.1p	-	1.1p	-	-
Strategic disposals	(1.7p)	-	-	(1.7p)	(0.1p)

Adjusted EPS from continuing operations	12.1p	(0.5p)	4.3p	7.8p	(1.8p)
Basic EPS from discontinued operations	0.2p	-	0.1p	-	-
Earnings allocated to DAS	-	1.0p	-	-	-
Adjusted EPS from discontinued operations	0.2p	1.0p	0.1p	-	-

* Basic EPS for the half year and quarter ended 30 June 2013 have been restated to reflect the terms of the DAS.

Notes:
(1) Diluted EPS from continuing operations in the half year ended 30 June 2014 and the quarter ended 30 June 2014 were 0.1p lower than basic EPS.
(2) Adjusted EPS has been restated to reflect the change in presentation of one-off and other items set out on page 10.

Notes

10. Segmental analysis
On 27 February 2014, RBS announced the reorganisation of the previously reported operating divisions into three franchises:

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

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

Corporate & Institutional Banking (CIB); a single reportable segment.

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. Non-Core was dissolved on 31 December 2013. No business lines moved to RCR and so comparative data has not been restated.

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.

As part of its internal reorganisation, RBS has also 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.

In addition, 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.

Refer to ‘Presentation of information’ on pages 9 and 10 for further details. Comparatives have been restated accordingly.

Analysis of operating profit
The following tables provide a segmental analysis of operating profit/(loss) by main income statement captions. The segmental income statements on pages 24 to 68 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit.

Notes

10. Segmental analysis (continued)

Analysis of operating profit (continued)

Half year ended 30 June 2014	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
UK Personal & Business Banking	2,276	686	2,962	(1,820)	(148)	994
Ulster Bank	323	89	412	(300)	(57)	55
Personal & Business Banking	2,599	775	3,374	(2,120)	(205)	1,049
Commercial Banking	999	569	1,568	(902)	(31)	635
Private Banking	344	201	545	(400)	-	145
Commercial & Private Banking	1,343	770	2,113	(1,302)	(31)	780
Corporate & Institutional Banking	365	2,062	2,427	(2,158)	39	308
Central items	203	146	349	(270)	12	91
Citizens Financial Group	987	620	1,607	(1,082)	(104)	421
RCR (1)	(1)	109	108	(176)	20	(48)
Non-statutory basis	5,496	4,482	9,978	(7,108)	(269)	2,601
Reconciling items:						
Own credit adjustments (2)	-	(51)	(51)	-	-	(51)
Gain on redemption of own debt	-	20	20	-	-	20
Write down of goodwill	-	-	-	(130)	-	(130)
Strategic disposals	-	191	191	-	-	191
RFS Holdings minority interest	(3)	25	22	(1)	-	21
Statutory basis	5,493	4,667	10,160	(7,239)	(269)	2,652

Notes:
(1) Reallocation of £12 million between net interest income and non-interest income in respect of funding costs of rental assets.
(2) Comprises £11 million gain included in 'Income from trading activities' and £62 million loss included in 'Other operating income' on a statutory basis.

10. Segmental analysis (continued)

Analysis of operating profit (continued)

Half year ended 30 June 2013*	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
UK Personal & Business Banking	2,200	629	2,829	(1,885)	(256)	688
Ulster Bank	302	142	444	(322)	(503)	(381)
Personal & Business Banking	2,502	771	3,273	(2,207)	(759)	307
Commercial Banking	936	613	1,549	(854)	(282)	413
Private Banking	317	214	531	(436)	(7)	88
Commercial & Private Banking	1,253	827	2,080	(1,290)	(289)	501
Corporate & Institutional Banking (1)	313	2,395	2,708	(2,682)	(223)	(197)
Central items	453	219	672	(122)	3	553
Citizens Financial Group	939	570	1,509	(1,105)	(51)	353
Non-Core (2)	(18)	384	366	(344)	(831)	(809)
Non-statutory basis	5,442	5,166	10,608	(7,750)	(2,150)	708
Reconciling items:						
Own credit adjustments (3)	-	376	376	-	-	376
Gain on redemption of own debt	-	191	191	-	-	191
RFS Holdings minority interest	(5)	102	97	2	-	99
Statutory basis	5,437	5,835	11,272	(7,748)	(2,150)	1,374

*Restated

Notes:
(1) Reallocation of £1 million between net interest income and non-interest income to record interest on financial assets and liabilities designated as at fair value through profit or loss.
(2) Reallocation of £20 million between net interest income and non-interest income in respect of funding costs of rental assets, £19 million, and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.
(3) Comprises £175 million gain included in 'Income from trading activities' and £201 million gain included in 'Other operating income' on a statutory basis.

10. Segmental analysis (continued)

Analysis of operating profit (continued)

Quarter ended 30 June 2014	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
UK Personal & Business Banking	1,152	347	1,499	(955)	(60)	484
Ulster Bank	169	42	211	(155)	(10)	46
Personal & Business Banking	1,321	389	1,710	(1,110)	(70)	530
Commercial Banking	511	287	798	(493)	9	314
Private Banking	174	98	272	(201)	(1)	70
Commercial & Private Banking	685	385	1,070	(694)	8	384
Corporate & Institutional Banking	186	890	1,076	(1,146)	45	(25)
Central items	100	44	144	(71)	13	86
Citizens Financial Group	499	391	890	(582)	(31)	277
RCR (1)	7	28	35	(97)	128	66
Non-statutory basis	2,798	2,127	4,925	(3,700)	93	1,318
Reconciling items:						
Own credit adjustments (2)	-	(190)	(190)	-	-	(190)
Write down of goodwill	-	-	-	(130)	-	(130)
RFS Holdings minority interest	-	12	12	-	-	12
Statutory basis	2,798	1,949	4,747	(3,830)	93	1,010

Notes:
(1) Reallocation of £9 million between net interest income and non-interest income in respect of funding costs of rental assets.
(2) Comprises £84 million loss included in 'Income from trading activities' and £106 million loss included in 'Other operating income' on a statutory basis.

10. Segmental analysis (continued)

Analysis of operating profit (continued)

Quarter ended 31 March 2014*	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
UK Personal & Business Banking	1,124	339	1,463	(865)	(88)	510
Ulster Bank	154	47	201	(145)	(47)	9
Personal & Business Banking	1,278	386	1,664	(1,010)	(135)	519
Commercial Banking	488	282	770	(409)	(40)	321
Private Banking	170	103	273	(199)	1	75
Commercial & Private Banking	658	385	1,043	(608)	(39)	396
Corporate & Institutional Banking	179	1,172	1,351	(1,012)	(6)	333
Central items	103	102	205	(199)	(1)	5
Citizens Financial Group	488	229	717	(500)	(73)	144
RCR (1)	(8)	81	73	(79)	(108)	(114)
Non-statutory basis	2,698	2,355	5,053	(3,408)	(362)	1,283
Reconciling items:						
Own credit adjustments (2)	-	139	139	-	-	139
Gain on redemption of own debt	-	20	20	-	-	20
Strategic disposals	-	191	191	-	-	191
RFS Holdings minority interest	(3)	13	10	(1)	-	9
Statutory basis	2,695	2,718	5,413	(3,409)	(362)	1,642

*Restated

Notes:
(1) Reallocation of £3 million between net interest income and non-interest income in respect of funding costs of rental assets.
(2) Comprises £95 million gain included in Income from trading activities and £44 million gain included in Other operating income on a statutory basis.

Notes

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10. Segmental analysis (continued)

Analysis of operating profit (continued)

Net Non- Impairment

Quarter ended 30 June 2013*	interest income £m	interest income £m	Total income £m	Operating expenses £m	(losses)/ recoveries £m	Operating profit/(loss) £m
UK Personal & Business Banking	1,118	320	1,438	(1,044)	(126)	268
Ulster Bank	152	88	240	(187)	(263)	(210)
Personal & Business Banking	1,270	408	1,678	(1,231)	(389)	58
Commercial Banking	484	325	809	(425)	(155)	229
Private Banking	159	110	269	(220)	(2)	47
Commercial & Private Banking	643	435	1,078	(645)	(157)	276
Corporate & Institutional Banking (1)	141	1,095	1,236	(1,487)	(144)	(395)
Central items	228	207	435	(86)	3	352
Citizens Financial Group	469	278	747	(548)	(32)	167
Non-Core (2)	19	254	273	(159)	(398)	(284)
Non-statutory basis	2,770	2,677	5,447	(4,156)	(1,117)	174
Reconciling items:						
Own credit adjustments (3)	-	127	127	-	-	127
Gain on redemption of own debt	-	242	242	-	-	242
Strategic disposals	-	6	6	-	-	6
RFS Holdings minority interest	(3)	1	(2)	1	-	(1)
Statutory basis	2,767	3,053	5,820	(4,155)	(1,117)	548

*Restated

Notes:
(1) Reallocation of £1 million between net interest income and non-interest income to record interest on financial assets and liabilities designated as at fair value through profit or loss.
(2) Reallocation of £11 million between net interest income and non-interest income in respect of funding costs of rental assets, £10 million, and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.
(3) Comprises £76 million gain included in 'Income from trading activities' and £51 million gain included in 'Other operating income' on a statutory basis.

Notes

10. Segmental analysis (continued)

Total revenue

Half year ended

	30 June 2014			30 June 2013*		
		Inter			Inter	
	External	segment	Total	External	segment	Total
Total revenue	£m	£m	£m	£m	£m	£m
UK Personal & Business Banking	3,583	7	3,590	3,620	7	3,627
Ulster Bank	408	40	448	549	36	585
Personal & Business Banking	3,991	47	4,038	4,169	43	4,212
Commercial Banking	1,729	13	1,742	1,778	16	1,794
Private Banking	470	258	728	503	340	843
Commercial & Private Banking	2,199	271	2,470	2,281	356	2,637
Corporate & Institutional Banking	3,033	2,028	5,061	3,461	2,691	6,152
Central items	1,200	2,051	3,251	1,550	4,665	6,215
Citizens Financial Group	1,724	5	1,729	1,644	50	1,694
RCR	443	254	697	n/a	n/a	n/a
Non-Core	n/a	n/a	n/a	1,081	223	1,304
Non-statutory basis	12,590	4,656	17,246	14,186	8,028	22,214
Reconciling items:						
Own credit adjustments	(51)	-	(51)	376	-	376
Gain on redemption of own debt	20	-	20	191	-	191
Strategic disposals	191	-	191	-	-	-
RFS Holdings minority interest	25	-	25	102	-	102
Elimination of intra-group transactions	-	(4,656)	(4,656)	-	(8,028)	(8,028)
Statutory basis	12,775	-	12,775	14,855	-	14,855

*Restated

Notes

10. Segmental analysis (continued)

Total revenue (continued)

	Quarter ended								
	30 June 2014			31 March 2014*			30 June 2013*		
		Inter			Inter			Inter	
	External	segment	Total	External	segment	Total	External	segment	Total
Total revenue	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Personal & Business Banking	1,806	3	1,809	1,777	4	1,781	1,821	(7)	1,814
Ulster Bank	210	20	230	198	20	218	289	27	316

Personal & Business Banking	2,016	23	2,039	1,975	24	1,999	2,110	20	2,130
Commercial Banking	875	(18)	857	854	31	885	909	8	917
Private Banking	234	127	361	236	131	367	255	162	417
Commercial & Private Banking	1,109	109	1,218	1,090	162	1,252	1,164	170	1,334
Corporate & Institutional Banking	1,383	1,128	2,511	1,650	900	2,550	1,628	1,470	3,098
Central items	552	1,019	1,571	648	1,032	1,680	873	2,319	3,192
Citizens Financial Group	947	2	949	777	3	780	813	25	838
RCR	193	97	290	250	157	407	n/a	n/a	n/a
Non-Core	n/a	n/a	n/a	n/a	n/a	n/a	620	144	764
Non-statutory basis	6,200	2,378	8,578	6,390	2,278	8,668	7,208	4,148	11,356
Reconciling items:									
Own credit adjustments	(190)	-	(190)	139	-	139	127	-	127
Gain on redemption of own debt	-	-	-	20	-	20	242	-	242
Strategic disposals	-	-	-	191	-	191	6	-	6
RFS Holdings minority interest	11	-	11	14	-	14	1	-	1
Elimination of intra-group transactions	-	(2,378)	(2,378)	-	(2,278)	(2,278)	-	(4,148)	(4,148)
Statutory basis	6,021	-	6,021	6,754	-	6,754	7,584	-	7,584

Total assets and liabilities

	30 June 2014		31 March 2014*		31 December 2013*	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Total assets	£m	£m	£m	£m	£m	£m
UK Personal & Business Banking	133,559	147,650	132,802	146,264	132,153	146,255
Ulster Bank	26,734	24,718	26,160	26,055	28,183	27,047
Personal & Business Banking	160,293	172,368	158,962	172,319	160,336	173,302
Commercial Banking	88,573	90,272	89,608	90,158	87,900	93,201
Private Banking	20,794	36,379	21,227	37,173	21,168	37,564
Commercial & Private Banking	109,367	126,651	110,835	127,331	109,068	130,765
Corporate & Institutional Banking	537,563	493,282	546,968	503,189	551,200	512,691
Central items	92,392	81,308	91,219	82,839	103,450	84,279
Citizens Financial Group	76,090	63,661	76,063	63,547	71,738	61,289
RCR	34,449	12,731	38,793	13,475	n/a	n/a
Non-Core	n/a	n/a	n/a	n/a	31,177	6,100

Non-statutory basis	1,010,154	950,001	1,022,840	962,700	1,026,969	968,426
Reconciling item:						
RFS Holdings minority interest	954	144	930	134	909	237
Statutory basis	1,011,108	950,145	1,023,770	962,834	1,027,878	968,663

*Restated

Notes

11. Financial instruments

Classification

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

	Financial instruments								Non financial assets/ liabilities	
30 June 2014	HFT (1) £m	DFV (2) £m	HD (3) £m	AFS (4) £m	LAR (5) £m	HTM(6) £m	Amortised cost £m	Finance leases £m	£m	Total £m
Assets										
Cash and balances at central banks	-	-		-	68,670	-				68,670
Loans and advances to banks										
- reverse repos	25,139	-		-	3,024	-				28,163
- other	9,907	-		-	18,997	-				28,904
Loans and advances to customers										
- reverse repos	53,142	-		-	400	-				53,542
- other	18,171	50		-	360,790	-		6,543		385,554
Debt securities	55,893	121		48,698	3,526	4,556				112,794
Equity shares	6,444	338		1,052	-	-				7,834
Settlement balances	-	-		-	19,682	-				19,682
Derivatives	270,807		4,099							274,906
Intangible assets									12,173	12,173
Property, plant and equipment									7,115	7,115
Deferred tax									3,107	3,107
Prepayments, accrued income and other assets	-	-		-	-	-			7,418	7,418
Assets of disposal groups									1,246	1,246

	439,503	509	4,099	49,750	475,089	4,556		6,543	31,059	1,011,108
Liabilities										
Deposits by banks										
- repos	28,931	-					2,791			31,722
- other	22,168	-					17,011			39,179
Customer accounts										
- repos	46,861	-					4,679			51,540
- other	9,287	5,248					386,691			401,226
Debt securities in issue	7,339	12,967					38,781			59,087
Settlement balances	-	-					15,128			15,128
Short positions	39,019	-								39,019
Derivatives	266,544		3,543							270,087
Accruals, deferred income and other liabilities	-	-					1,744	15	13,117	14,876
Retirement benefit liabilities									2,742	2,742
Deferred tax									605	605
Subordinated liabilities	-	846					23,963			24,809
Liabilities of disposal groups									125	125
	420,149	19,061	3,543				490,788	15	16,589	950,145
Equity										60,963
										1,011,108

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

Notes

11. Financial instruments: Classification (continued)

31 December 2013	Financial instruments HFT (1) £m	DFV (2) £m	HD (3) £m	AFS (4) £m	LAR (5) £m	Amortised cost £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Assets									
Cash and balances at central banks	-	-		-	82,659				82,659
Loans and advances to banks									
- reverse repos	25,795	-		-	721				26,516
- other	9,952	-		-	17,603				27,555

Loans and advances to customers									
- reverse repos	49,897	-		-	-				49,897
- other	19,170	49		-	364,772		6,834		390,825
Debt securities	56,582	122		53,107	3,788				113,599
Equity shares	7,199	400		1,212					8,811
Settlement balances	-	-		-	5,591				5,591
Derivatives	283,508		4,531						288,039
Intangible assets								12,368	12,368
Property, plant and equipment								7,909	7,909
Deferred tax								3,478	3,478
Prepayments, accrued income and other assets	-	-		-	-			7,614	7,614
Assets of disposal groups								3,017	3,017
	452,103	571	4,531	54,319	475,134		6,834	34,386	1,027,878
Liabilities									
Deposits by banks									
- repos	23,127	-				5,523			28,650
- other	19,764	-				15,565			35,329
Customer accounts									
- repos	52,300	-				4,184			56,484
- other	10,236	5,862				398,298			414,396
Debt securities in issue	8,560	15,848				43,411			67,819
Settlement balances	-	-				5,313			5,313
Short positions	28,022	-							28,022
Derivatives	281,299		4,227						285,526
Accruals, deferred income and other liabilities	-	-				1,764	19	14,234	16,017
Retirement benefit liabilities								3,210	3,210
Deferred tax								507	507
Subordinated liabilities	-	868				23,144			24,012
Liabilities of disposal groups								3,378	3,378
	423,308	22,578	4,227			497,202	19	21,329	968,663
Equity									59,215
									1,027,878

Notes:

(1) Held-for-trading.

(2) Designated as at fair value.

(3) Hedging derivatives.

(4) Available-for-sale.

(5) Loans and receivables.

(6) Held to maturity

Apart from the reclassification of £3.6 billion of Treasury debt securities from AFS to HTM in Q1 2014, there were no other reclassifications in the first half of 2014.

11. Financial instruments (continued)

Valuation reserves

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

	30 June 2014 £m	31 December 2013 £m
Credit valuation adjustments		
- monoline insurers and credit derivative product companies (CDPC)	57	99
- other counterparties	1,433	1,667
	1,490	1,766
Other valuation reserves		
- bid-offer	405	513
- funding valuation adjustment	522	424
- product and deal specific	718	745
- other	27	8
	1,672	1,690
Valuation reserves	3,162	3,456

The table below analyses CVA relating to other counterparties by rating and sector.

Ratings:	30 June 2014 £m	31 December 2013 £m
AAA	85	104
AA to AA+	25	13
A to AA-	111	168
BBB- to A-	336	446
Non-investment grade	876	936

	1,433	1,667
Counterparty:		
Banks	38	89
Other financial institutions	196	199
Corporate	1,013	1,126
Government	186	253
	1,433	1,667

Key points

- The decrease in CVA was primarily driven by tightening of credit spreads.

- Other valuation reserves were broadly flat with balance sheet reduction impacts being offset by additional funding related reserves.

Notes

11. Financial instruments: Valuation reserves (continued)

Own credit

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

	Debt securities in issue (2)			Subordinated liabilities			
	HFT	DFV	Total	DFV	Total	Derivatives	Total (3)
Cumulative OCA (CR)/DR (1)	£m	£m	£m	£m	£m	£m	£m
30 June 2014	(395)	(87)	(482)	237	(245)	54	(191)
31 December 2013	(467)	(33)	(500)	256	(244)	96	(148)
30 June 2013	(488)	244	(244)	380	136	309	445
Carrying values of underlying liabilities	£bn	£bn	£bn	£bn	£bn		
30 June 2014	7.3	13.0	20.3	0.8	21.1		
31 December 2013	8.6	15.8	24.4	0.9	25.3		
30 June 2013	9.3	20.7	30.0	0.9	30.9		

Notes:

(1) The OCA does not alter cash flows and is not used for performance management.

(2) Includes wholesale and retail note issuances.

(3) The reserve movement between periods will not equate to the reported profit or loss for own credit. The balance sheet reserve is stated by conversion of underlying currency balances at spot rates for each period, whereas the income statement includes

intra-period foreign exchange sell-offs.

Key points

· The cumulative OCA decreased during the first half of 2014 due to tightening of RBS credit spreads in the second quarter of 2014 partially offset by the impact of time decay (e.g. the reduction in the remaining time to maturity of the trades reduces the impact of changes in RBS credit spreads).

· Senior issued debt OCA is determined by reference to secondary debt issuance spreads, the five year spread tightened to 72 basis points (31 December 2013 - 92 basis points; 30 June 2013 - 140 basis points).

· RBS CDS spreads tightened to 85 basis points (31 December 2013 - 114 basis points; 30 June 2013 - 228 basis points).

11. Financial instruments (continued)

Financial instruments carried at fair value - valuation hierarchy

Commentary on the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in the Group's 2013 Annual Report and Accounts. There have been no material changes to valuation or levelling approaches in the half year to 30 June 2014.

The tables below show financial instruments carried at fair value on the Group's balance sheet by valuation hierarchy – level 1, level 2 and level 3 and valuation sensitivities for level 3 balances.

					Level 3 sensitivity	
	Level 1	Level 2	Level 3	Total	Favourable	Unfavourable
30 June 2014	£bn	£bn	£bn	£bn	£m	£m
Assets						
Loans and advances to banks	-	34.7	0.3	35.0	20	(10)
Loans and advances to customers	-	71.2	0.2	71.4	20	(30)
Debt securities	58.3	44.6	1.8	104.7	130	(60)
Equity shares	6.1	1.1	0.6	7.8	100	(80)
Derivatives	0.1	271.8	3.1	275.0	330	(190)
	64.5	423.4	6.0	493.9	600	(370)
Proportion	13.1%	85.7%	1.2%	100.0%		
Of which						
RBS excluding RCR	64.4	409.5	4.4	478.3		
RCR	0.1	13.9	1.6	15.6		
	64.5	423.4	6.0	493.9		

31 December 2013

Assets						
Loans and advances to banks	-	35.5	0.3	35.8	30	(10)
Loans and advances to customers	-	68.9	0.2	69.1	20	(30)
Debt securities	58.0	49.7	2.1	109.8	160	(100)
Equity shares	7.0	1.1	0.7	8.8	120	(110)
Derivatives	0.1	284.4	3.5	288.0	390	(250)
	65.1	439.6	6.8	511.5	720	(500)
Proportion	12.7%	86.0%	1.3%	100.0%		
Of which						
RBS excluding Non-Core	64.9	436.2	4.9	506.0		
Non-Core	0.2	3.4	1.9	5.5		
	65.1	439.6	6.8	511.5		

Notes

11. Financial instruments: Valuation hierarchy (continued)

					Level 3 sensitivity	
	Level 1	Level 2	Level 3	Total	Favourable	Unfavourable
30 June 2014	£bn	£bn	£bn	£bn	£m	£m
Liabilities						
Deposits by banks	-	51.0	0.1	51.1	10	-
Customer accounts	-	61.2	0.2	61.4	-	(10)
Debt securities in issue	-	19.0	1.3	20.3	30	(50)
Short positions	34.3	4.7	-	39.0	-	-
Derivatives	0.1	267.6	2.5	270.2	130	(120)
Subordinated liabilities	-	0.8	-	0.8	-	-
	34.4	404.3	4.1	442.8	170	(180)
Proportion	7.8%	91.3%	0.9%	100.0%		
Of which						
RBS excluding RCR	34.4	393.5	3.7	431.6		
RCR	-	10.8	0.4	11.2		
	34.4	404.3	4.1	442.8		

31 December 2013

Liabilities						
Deposits by banks	-	42.8	0.1	42.9	10	-
Customer accounts	-	68.2	0.2	68.4	-	(10)
Debt securities in issue	-	23.1	1.3	24.4	50	(70)
Short positions	23.9	4.1	-	28.0	-	-
Derivatives	0.1	282.4	3.0	285.5	130	(120)
Subordinated liabilities	-	0.9	-	0.9	-	-
	24.0	421.5	4.6	450.1	190	(200)
Proportion	5.3%	93.7%	1.0%	100.0%		
Of which						
RBS excluding Non-Core	24.0	420.1	4.5	448.6		
Non-Core	-	1.4	0.1	1.5		
	24.0	421.5	4.6	450.1		

Notes

11. Financial instruments (continued)

Valuation techniques

The table below shows a breakdown of valuation techniques and the ranges for those unobservable inputs used in valuation models and techniques that have a material impact on the valuation of Level 3 financial instruments. The table excludes unobservable inputs where the impact on valuation is less significant. Movements in the underlying input may have a favourable or unfavourable impact on the valuation depending on the particular terms of the contract and the exposure. For example an increase in the credit spread of a bond would be favourable for the issuer and unfavourable for the note holder. Whilst we indicate where we consider that there are significant relationships between the inputs, these inter-relationships will be affected by macro economic factors including interest rates, foreign exchange rates or equity index levels.

	Level 3 (£bn)				Range	
Financial instruments	Assets	Liabilities	Valuation technique	Unobservable inputs	Low	High
Loans	0.3	0.1	Discounted cash flow (DCF)	Credit spreads (2)	285bps	1211bps
Deposits	0.2	0.2	Option pricing	Volatility (3)	27%	30%
			DCF	Credit spreads (2)	0bps	25bps
				Recovery rates (4)	0%	71%
			Price based	Price (5)	80%	100%
Debt securities						
RMBS	0.2		Price based	Price (5)	0%	99%

			DCF	Probability of default (6)	3%	12%
				Yield (5)	10%	40%
				Conditional prepayment rates (CPR) (7)	0%	10%
CDO and CLO	0.8		Price based	Price (5)	0%	100%
			DCF	Yield (5)	0%	40%
				Probability of default (6)	2%	10%
Other ABS	0.4		Price based	Price (5)	0%	100%
Other debt securities	0.4		DCF	Credit spreads (2)	100bps	109bps
			Price based	Price (5)	0%	100%
Equity securities	0.6		Price based	Price (5)	0%	100%
			EBITDA multiple	EBITDA multiple (8)	12x	40x
			DCF	Yield (5)	10%	30%
				Recovery rates (4)	0%	100%
Derivatives						
Foreign exchange	1.0	0.6	Option pricing model	Correlation (9)	(41%)	100%
				Volatility (3)	6%	23%
Interest rate	1.3	0.5	Option pricing model	Correlation (9)	(40%)	100%
			DCF	CPR (7)	2%	20%
Equities and commodities	0.1	0.6	Option pricing model	Volatility (3)	27%	30%
Credit	0.7	0.8	Price based	Price (5)	0%	100%
			DCF based on defaults and recoveries	Recovery rates (4)	0%	100%
				Credit spreads (2)	25bps	410bps

Notes

11. Financial instruments: Valuation techniques (continued)

Notes:
(1) Level 3 structured issued debt securities of £1.3 billion are not included in the table above as valuation is consistent with the valuation of the embedded derivative component.
(2) Credit spreads and discount margins: Credit spreads and margins express the return required over a benchmark rate or index to compensate for the credit risk associated with

a cash instrument. A higher credit spread would indicate that the underlying instrument has more credit risk associated with it. Consequently, investors require a higher yield to compensate for the higher risk. The discount rate comprises credit spread or margin plus the benchmark rate; it is used to value future cash flows.

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

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

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

(6) Probability of default: This is a measure of the expected rate of losses in an underlying portfolio of mortgages or other receivables. The higher the probability of default the lower the value of the underlying portfolio. The cumulative losses tend to move conversely to prepayment rates and in line with constant default rates. The higher the rate, the higher the expected number of defaults and therefore the expected losses. An increase in the default rate is likely to reduce the value of an asset.

(7) Conditional prepayment rate: The measure of the rate at which underlying mortgages or loans are prepaid. An increase in prepayment rates in a portfolio may increase or decrease its value depending upon the credit quality and payment terms of the underlying loans. For example an increase in prepayment rate of a portfolio of high credit quality underlying assets may reduce the value and size of the portfolio whereas for lower credit quality underlyings it may increase the value.

(8) EBITDA (earnings before interest, tax, depreciation and amortisation) multiple: This is a commonly used valuation technique for equity holdings. The EBITDA of a company is used as a proxy for the future cash flows and when multiplied by an appropriate factor gives an estimate for the value of the company.

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

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

(11) Improvements in price discovery resulted in transfers of £0.2 billion and £0.1 billion of asset and liabilities respectively from level 3 to level 2. Transfers from level 2 to level 3 mainly comprised debt securities in issue of £0.2 billion, derivative assets and liabilities of £0.1 billion each and debt securities of £0.1 billion due to increased unobservability of inputs used in the valuation of these instruments. There were no significant transfers between level 1 and level 2.

11. Financial instruments: Movement in level 3 portfolios

	At 1 January 2014	Amount recorded in Income statement (1)	SOCI (2)	Level 3 transfers In	Out	Purchases and issuances (3)	Settlements	Sales	Foreign exchange and other	At 30 June 2014	Amounts recorded in the income statement in respect of balances held at period end Unrealised	Realised
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets												
FVTPL (4)												
Loans and advances												
- banks	310	(12)	-	-	-	-	-	(5)	-	293	16	-
- customers	172	(1)	-	13	(3)	48	(14)	(10)	(3)	202	(13)	8
Debt securities	906	77	-	77	(52)	238	(41)	(225)	(5)	975	55	10
Equity shares	286	83	-	-	(38)	40	(31)	(46)	(3)	291	(22)	2
Derivatives	3,493	(282)	-	99	(55)	100	(212)	(65)	(14)	3,064	(297)	(2)
FVTPL assets	5,167	(135)	-	189	(148)	426	(298)	(351)	(25)	4,825	(261)	18
Of which ABS:												
- FVTPL (4)	591	84	-	24	(29)	181	(17)	(222)	(3)	609	59	7
- AFS	1,108	8	(9)	3	-	-	(195)	(111)	1	805	(3)	11
Available-for-sale (AFS)												
Debt securities	1,194	8	(9)	3	-	1	(297)	(53)	1	848	(3)	11
Equity shares	400	4	26	-	(61)	5	(24)	(61)	(7)	282	4	1
AFS assets	1,594	12	17	3	(61)	6	(321)	(114)	(6)	1,130	1	12
	6,761	(123)	17	192	(209)	432	(619)	(465)	(31)	5,955	(260)	30
Liabilities												
Deposits	253	13	-	10	-	-	(2)	-	1	275	13	-
Debt securities in issue	1,354	(60)	-	236	(34)	36	(230)	(5)	(1)	1,296	(7)	-
Short positions	17	(1)	-	-	(11)	7	-	(4)	-	8	(4)	-
Derivatives	3,007	(124)	3	79	(84)	53	(334)	(69)	(11)	2,520	(98)	-
	4,631	(172)	3	325	(129)	96	(566)	(78)	(11)	4,099	(96)	-
Net gains/(losses)		49	14								(164)	30

Notes:

(1) Net losses on HFT instruments of £94 million (31 December 2013 - £143 million) were recorded in income from trading activities. Net gains on other instruments of £143 million (31 December 2013 - £11 million) were

recorded in other operating income, interest income as appropriate.
(2) Consolidated statement of comprehensive income.
(3) Includes £36 million of debt securities in issue and £7 million derivative liabilities relating to issuances.
(4) Fair value through profit or loss comprises held-for-trading predominantly and designated at fair value through profit and loss.

Notes

11. Financial instruments (continued)

Fair value of financial instruments not carried at fair value
The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

	30 June 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
	£bn	£bn	£bn	£bn
Financial assets				
Loans and advances to banks	20.5	20.5	16.8	16.8
Loans and advances to customers	367.7	357.9	371.6	360.0
Debt securities	8.1	7.8	3.8	3.2
Financial liabilities				
Deposits by banks	19.3	19.3	20.3	20.3
Customer accounts	140.8	141.0	133.8	134.0
Debt securities in issue	38.8	40.4	43.4	44.7
Subordinated liabilities	24.0	24.4	23.1	22.5

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore, there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

For the following short-term financial instruments fair value approximates to carrying value: cash and balances at central banks, items in the course of collection from and transmission to other banks, settlement balances, customer demand deposits and notes in circulation. These are excluded from the table above.

Notes

12. Provisions for liabilities and charges

	PPI £m	IRHP £m	Other customer redress £m	LIBOR £m	Other regulatory provisions £m	Litigation £m	Property £m	Other £m	Total £m
At 1 January 2014	926	1,077	337	416	150	2,018	379	186	5,489
Currency translation and other movement	-	-	-	(2)	-	(15)	-	-	(17)
Charge to income statement - continuing operations	-	-	23	-	-	34	2	81	140
Releases to income statement - continuing operations	-	-	(5)	-	-	(4)	(5)	-	(14)
Provisions utilised	(218)	(199)	(26)	(414)	-	(13)	(59)	(32)	(961)
At 31 March 2014	708	878	329	-	150	2,020	317	235	4,637
Currency translation and other movement	-	-	-	-	(2)	(46)	(2)	-	(50)
Charge to income statement - continuing operations	150	100	28	-	-	34	149	93	554
Releases to income statement - continuing operations	-	-	(3)	-	-	(31)	(10)	-	(44)
Provisions utilised	(272)	(218)	(53)	-	(5)	(67)	(70)	(39)	(724)
At 30 June 2014	586	760	301	-	143	1,910	384	289	4,373

13. Contingent liabilities and commitments

	30 June 2014			31 March 2014			31 December 2013		
	RBS excl. RCR £m	RCR £m	Total £m	RBS excl. RCR £m	RCR £m	Total £m	RBS excl. Non-Core £m	Non-Core £m	Total £m
Contingent liabilities									
Guarantees and assets pledged as collateral security	19,542	220	19,762	19,634	270	19,904	19,563	616	20,179
Other	6,145	187	6,332	6,039	236	6,275	5,893	98	5,991
	25,687	407	26,094	25,673	506	26,179	25,456	714	26,170
Commitments									
Undrawn formal standby facilities, credit lines and other commitments to lend	208,299	2,076	210,375	208,550	2,482	211,032	210,766	2,280	213,046
Other	2,616	36	2,652	2,590	13	2,603	2,793	-	2,793
	210,915	2,112	213,027	211,140	2,495	213,635	213,559	2,280	215,839

Contingent liabilities and commitments	236,602	2,519	239,121	236,813	3,001	239,814	239,015	2,994	242,009

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

Notes

14. Litigation, investigations and reviews
Arising out of their normal business operations, the Company and certain members of the Group are party to legal proceedings and the subject of investigation and other regulatory and governmental action in the United Kingdom, the European Union, the United States and other jurisdictions.

The Group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation. While the outcome of the legal proceedings, investigations and regulatory and governmental matters in which the Group is involved is inherently uncertain, the directors believe that, based on the information available to them, appropriate provisions have been made in respect of legal proceedings, investigations and regulatory and governmental matters as at 30 June 2014 (see Note 12). The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that the Group has recognised.

In many proceedings, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. The Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities.

Other than those discussed below, no member of the Group is or has been involved in governmental, legal or regulatory proceedings (including those which are pending or threatened) that are material individually or in aggregate.

Litigation

Shareholder litigation
RBS and certain of its subsidiaries, together with certain current and former officers and directors were named as defendants in a purported class action filed in the United States District Court for the Southern District of New York involving holders of American Depositary Receipts (the ADR claims).

A consolidated amended complaint asserting claims under Sections 10 and 20 of the US Securities Exchange Act of 1934 and Sections 11, 12 and 15 of the Securities Act was filed in November 2011 on behalf of all persons who purchased or otherwise acquired the Group's American Depositary Receipts (ADRs) from issuance through 20 January 2009. In September 2012, the Court dismissed the ADR claims with prejudice. On 5 August 2013, the Court denied the plaintiffs' motions for reconsideration and for leave to re-plead their case. The plaintiffs appealed the dismissal of this case to the Second Circuit Court of Appeals and that appeal was heard on 19 June 2014. A decision in respect of the appeal is awaited.

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14. Litigation, investigations and reviews (continued)

Additionally, between March and July 2013, claims were issued in the High Court of Justice of England and Wales by sets of current and former shareholders, against the Group (and in one of those claims, also against certain former individual officers and directors) alleging that untrue and misleading statements and/or improper omissions were made in connection with the rights issue announced by the Group on 22 April 2008 in breach of the Financial Services and Markets Act 2000. On 30 July 2013 these and other similar threatened claims were consolidated by the Court via a Group Litigation Order. The Group's defence to the claims was filed on 13 December 2013. Since then, further High Court claims have been issued against the Group under the Group Litigation Order. There are likely to be further case management conferences which, in due course, will lead to a trial date being set.

Other securitisation and securities related litigation in the United States

Group companies have been named as defendants in their various roles as issuer, depositor and/or underwriter in a number of claims in the United States that relate to the securitisation and securities underwriting businesses. These cases include actions by individual purchasers of securities and purported class action suits. Together, the pending individual and class action cases involve the issuance of more than US$64 billion of mortgage-backed securities (MBS) issued primarily from 2005 to 2007. Although the allegations vary by claim, in general, plaintiffs in these actions claim that certain disclosures made in connection with the relevant offerings contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued. Group companies remain as defendants in more than 40 lawsuits and arbitrations brought by purchasers of MBS, including the purported class actions identified below.

Among these MBS lawsuits are two cases filed on 2 September 2011 by the US Federal Housing Finance Agency (FHFA) as conservator for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The primary FHFA lawsuit remains pending in the United States District Court for the District of Connecticut, and it relates to approximately US$32 billion of MBS for which Group entities acted as sponsor/depositor and/or lead underwriter or co-lead underwriter. Of these approximately US$10 billion were outstanding at 30 June 2014 with cumulative losses of approximately US$1.03 billion (being the loss of principal value suffered by security holders). On 30 September 2013, the Court denied the defendants' motion to dismiss FHFA's amended complaint in this case. Discovery is ongoing.

The other remaining FHFA lawsuit that involves the Group (in which the primary defendant is Nomura) names RBS Securities Inc. as a defendant by virtue of the fact that it was an underwriter of some of the securities at issue. This case is part of a coordinated proceeding in the United States District Court for the Southern District of New York in which discovery is underway. Three other FHFA lawsuits (against JP Morgan, Morgan Stanley and Countrywide) in which RBS Securities Inc. was an underwriter defendant were settled without any contribution from RBS Securities Inc. On 19 June 2014, another FHFA lawsuit in which RBS Securities Inc. was an underwriter defendant (against Ally

Financial Group) was settled by RBS Securities Inc. for US$99.5 million. This amount is fully provided for.

Other MBS lawsuits against Group companies include three cases filed by the National Credit Union Administration Board (on behalf of US Central Federal Credit Union, Western Corporate Federal Credit Union, Southwest Corporate Federal Credit Union, and Members United Corporate Federal Credit Union) and six cases filed by the Federal Home Loan Banks of Boston, Chicago, Indianapolis, Seattle and San Francisco.

14. Litigation, investigations and reviews (continued)

The purported MBS class actions in which Group companies are defendants include New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al. and In re IndyMac Mortgage-Backed Securities Litigation, the latter of which has been settled in principle subject to documentation and court approval. A third MBS class action, New Jersey Carpenters Vacation Fund et al. v. The Royal Bank of Scotland plc et al., has been settled in principle for US$275 million subject to court approval. There is a provision that fully covers this settlement amount. The case relates to more than US$15 billion of the issued MBS that are the subject of MBS claims pending against Group companies. The outcome in this case should not be seen as indicative of how other MBS lawsuits may be resolved.

RBS Securities Inc. was also a defendant in Luther v. Countrywide Financial Corp. et al. and related class action cases. On 5 December 2013, the court granted final approval of a US$500 million settlement of plaintiffs' claims to be paid by Countrywide without contribution from RBS Securities Inc. Several members of the settlement class are appealing the court-approved settlement to the United States Court of Appeals for the Ninth Circuit.

Certain other institutional investors have threatened to bring claims against the Group in connection with various mortgage-related offerings. The Group cannot predict whether any of these individual investors will pursue these threatened claims (or their outcome), but expects that several may. If such claims are asserted and were successful, the amounts involved may be material.

In many of these actions, the Group has or will have contractual claims to indemnification from the issuers of the securities (where a Group company is underwriter) and/or the underlying mortgage originator (where a Group company is issuer). The amount and extent of any recovery on an indemnification claim, however, is uncertain and subject to a number of factors, including the ongoing creditworthiness of the indemnifying party.

London Interbank Offered Rate (LIBOR)

Certain members of the Group have been named as defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints are substantially similar and allege that certain members of the Group and other panel banks individually and collectively violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

14. Litigation, investigations and reviews (continued)

Most of the USD LIBOR-related actions in which Group companies are defendants, including all purported class actions relating to USD LIBOR, have been transferred to a coordinated proceeding in the United States District Court for the Southern District of New York. In the coordinated proceeding, consolidated class action complaints were filed on behalf of (1) exchange-based purchaser plaintiffs, (2) over-the-counter purchaser plaintiffs, and (3) corporate debt purchaser plaintiffs. In orders dated 29 March 2013 and 23 June 2014, the Court dismissed plaintiffs' antitrust claims and claims under RICO (Racketeer Influenced and Corrupt Organizations Act), but declined to dismiss (a) certain Commodities Exchange Act claims on behalf of persons who transacted in Eurodollar futures contracts and options on futures contracts on the Chicago Mercantile Exchange (on the theory that defendants' alleged persistent suppression of USD LIBOR caused loss to plaintiffs), and (b) certain contract and unjust enrichment claims on behalf of over-the-counter purchaser plaintiffs who transacted directly with a defendant. Discovery is stayed. Over 35 other USD LIBOR-related actions involving RBS have been stayed pending further order from the Court. On 30 June 2014, the U.S. Supreme Court announced that it would consider an appeal by plaintiffs whose claims have been dismissed in their entirety to decide whether those plaintiffs have the procedural right to appeal the dismissals to the U.S. Court of Appeals for the Second Circuit on an interlocutory basis instead of waiting until there is a final judgment in the coordinated proceeding.

Certain members of the Group have also been named as defendants in class actions relating to (i) JPY LIBOR and Euroyen TIBOR (the "Yen action") and (ii) Euribor (the "Euribor action"), both of which are pending in the United States District Court for the Southern District of New York. On 28 March 2014, the Court in the Yen action dismissed the plaintiffs' antitrust claims, but refused to dismiss their claims under the Commodity Exchange Act for price manipulation.

Details of LIBOR investigations and their outcomes affecting the Group are set out under 'Investigations and reviews' on page 114.

Credit default swap antitrust litigation

Certain members of the Group, as well as a number of other financial institutions, are defendants in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York. The plaintiffs generally allege that defendants violated the U.S. antitrust laws by restraining competition in the market for credit default swaps through various means and thereby causing inflated bid-ask spreads for credit default swaps.

FX antitrust litigation

Certain members of the Group, as well as a number of other financial institutions, are defendants in a consolidated antitrust class action on behalf of U.S.-based plaintiffs and two similar complaints on behalf of non-U.S. plaintiffs in Norway and South Korea. The three cases are all pending in the United States District Court for the Southern District of New York. The plaintiffs generally allege that the defendants violated the U.S. antitrust laws, state statutes, and the common law by conspiring to manipulate the foreign exchange market by manipulating benchmark foreign exchange rates. On 30 May 2014, the defendants filed motions to dismiss the complaints in these actions.

14. Litigation, investigations and reviews (continued)

Madoff

In December 2010, Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC., filed a clawback claim against The Royal Bank of Scotland N.V. (RBS N.V.) in New

York bankruptcy court. In the operative complaint, filed in August 2012, the trustee seeks to recover US$75.8 million in redemptions that RBS N.V. allegedly received from certain Madoff feeder funds and US$162.1 million that RBS N.V. allegedly received from its swap counterparties at a time when RBS N.V. allegedly 'knew or should have known of Madoff's possible fraud'. The Trustee alleges that those transfers were preferences or fraudulent conveyances under the US bankruptcy code and New York law and he asserts the purported right to claw them back for the benefit of Madoff's estate. A further claim, for US$21.8 million, was filed in October 2011. These matters remain at the motion to dismiss stage of litigation.

Thornburg adversary proceeding

RBS Securities Inc. and certain other Group companies, as well as several other financial institutions, are defendants in an adversary proceeding filed in the U.S. bankruptcy court in Maryland by the trustee for TMST, Inc. (formerly known as Thornburg Mortgage, Inc.). The trustee seeks recovery of transfers made under certain restructuring agreements as, among other things, avoidable fraudulent and preferential conveyances and transfers.

Complex Systems

RBS N.V. is a defendant in an action being heard in the United States District Court for the Southern District of New York filed by Complex Systems, Inc (CSI). The plaintiff alleges that RBS N.V. has since late 2007 been using the plaintiff's back-office trade finance processing software without a valid licence, in violation of the US Copyright Act.

After granting summary judgment to CSI on the issue of liability, the Court on 9 May 2014 issued an injunction that requires RBS N.V. to cease using the disputed software. RBS N.V. has appealed the injunction and the underlying liability determination to the U.S. Court of Appeals for the Second Circuit. On 26 June 2014, that court denied RBS N.V.'s request that the injunction be stayed pending the outcome of the appeal. RBS N.V. is currently in discussions with CSI to resolve the dispute.

CPDO Litigation

CPDO claims have been served on RBS N.V. in England, the Netherlands and Australia relating to the sale of a type of structured financial product known as a constant proportion debt obligation (CPDO). In November 2012, the Federal Court of Australia issued a judgment against RBS N.V. and others in one such case. It held that RBS N.V. and others committed certain wrongful acts in connection with the rating and sale of the CPDO. In March 2013, RBS N.V. was ordered to pay A$19.7 million. RBS N.V. appealed this decision and the appeal court found against RBS N.V. in May 2014. RBS N.V. has made the required payment of A$19.7 million. The judgment may potentially have significance to the other claims served and to any future similar claims.

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14. Litigation, investigations and reviews (continued)

Investigations and reviews

The Group's businesses and financial condition can be affected by the fiscal or other policies and actions of various governmental and regulatory authorities in the United Kingdom, the European Union, the United States and elsewhere. The Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the United Kingdom, the European Union, the United States and elsewhere, on an ongoing and regular basis regarding operational, systems and control evaluations and issues including those related to compliance with applicable regulatory, anti-bribery, anti-money laundering and sanctions regimes. It is possible that any matters discussed or identified may result in investigatory or other action being taken by governmental and regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities or fines. Any of the events or circumstances mentioned below could have a material adverse effect on the Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

The Group is co-operating fully with the investigations and reviews described below.

LIBOR, other trading rates and foreign exchange trading
On 6 February 2013, the Group announced settlements with the Financial Services Authority in the United Kingdom, the United States Commodity Futures Trading Commission and the United States Department of Justice (DOJ) in relation to investigations into submissions, communications and procedures around the setting of the London Interbank Offered Rate (LIBOR). RBS agreed to pay penalties of £87.5 million, US$325 million and US$150 million to these authorities respectively to resolve the investigations. As part of the agreement with the DOJ, RBS plc entered into a Deferred Prosecution Agreement in relation to one count of wire fraud relating to Swiss Franc LIBOR and one count for an antitrust violation relating to Yen LIBOR. In addition, on 12 April 2013, RBS Securities Japan Limited entered a plea of guilty to one count of wire fraud relating to Yen LIBOR and on 6 January 2014, the US District Court for the District of Connecticut entered a final judgment in relation to the conviction of RBS Securities Japan Limited pursuant to the plea agreement. On 12 April 2013, RBS Securities Japan Limited received a business improvement order from Japan's Financial Services Agency requiring RBS to take remedial steps to address certain matters, including inappropriate conduct in relation to Yen LIBOR. Since such date, RBS Securities Japan Limited has been taking steps to address the issues raised in compliance with that order. In June 2013, RBS was listed amongst the 20 banks found by the Monetary Authority of Singapore (MAS) to have deficiencies in the governance, risk management, internal controls and surveillance systems relating to benchmark submissions following a finding by the MAS that certain traders made inappropriate attempts to influence benchmarks in the period 2007 - 2011. RBS was ordered at that time to set aside additional statutory reserves with MAS of SGD1-1.2 billion and to comply with certain directives set by MAS with oversight by an independent reviewer, including instituting proper benchmark rate governance, providing training and ensuring robust surveillance systems and proper management of conflicts of interest. RBS complied with all directives to the satisfaction of MAS and the statutory reserves amount has been repaid by MAS.

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14. Litigation, investigations and reviews (continued)
In February 2014, the Group paid settlement penalties of approximately EUR 260 million and EUR 131 million to resolve investigations by the European Commission into Yen LIBOR competition infringements and EURIBOR competition infringements respectively.

In July 2014, RBS entered into an Enforceable Undertaking (EU) with the Australian Securities and Investments Commission (ASIC) in relation to potential misconduct involving the Australian Bank Bill Swap Rate. RBS undertakes in the EU to (a) comply with its existing undertakings arising out of the February 2013 settlement with the United States Commodity Futures Trading Commission as they relate to Australian Benchmark Interest Rates, (b) implement remedial measures with respect to its trading in Australian reference bank bills and (c) appoint an independent compliance expert to review and report on RBS's implementation of such remedial measures. The remediation measures include ensuring appropriate records retention, training, communications surveillance and trading reviews are in place. As part of the EU, RBS also agreed to make a voluntary contribution of A$1.6 million to fund independent financial literacy projects in Australia.

The Group is co-operating with investigations and new and ongoing requests for information by various other governmental and regulatory authorities, including in the UK, US and Asia, into its submissions, communications and procedures relating to a number of trading rates, including LIBOR and other interest rate settings, ISDAFIX and non-deliverable forwards. The Group is also under investigation by competition authorities in a number of jurisdictions stemming from the actions of certain individuals in the setting of LIBOR and other trading rates, as well as interest rate-related trading.

In addition, various governmental and regulatory authorities have commenced investigations into foreign exchange trading and sales activities