ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 03, 2018

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

3 August 2018

Commission file number: 001-10306

Form 6-K

The Royal Bank of Scotland Group plc

Gogarburn

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Scotland

United Kingdom

(Address of principal executive offices)

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

Form 20-F _X_ Form 40-F __

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

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

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

Yes __ No _X_

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

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

This report on Form 6-K, except for any information contained on any websites linked in this report, shall be deemed incorporated by reference into the company’s Registration Statement on Form F-3 (File No. 333-222022) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Forward-looking statements

Cautionary statement regarding forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS’s transformation programme, the satisfaction of the Group’s residual EU State Aid obligations; the continuation of RBS’s balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; RBS’s exposure to political and economic risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group’s strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document, including in the risk factors and other uncertainties set out in the Group's 2017 Annual Report on Form 20-F and other materials filed with, or furnished to, the US Securities and Exchange Commission, and other risk factors and uncertainties discussed in this document. These include the significant risks for RBS presented by RBS's ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring and transformation programme, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; economic, regulatory and political risks, including as may result from the uncertainty arising from Brexit and from the outcome of general elections in the UK and changes in government policies; the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); the dependence of the Group's operations on its IT systems; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS's ability to achieve its capital, funding, liquidity and leverage requirements or targets which will depend in part on RBS's success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS's ability to access sufficient sources of capital, liquidity and funding when required; RBS's ability to satisfy its residual EU State Aid obligations and the timing thereof; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.

Forward-looking statements

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring and transformation initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks, including risks arising out of geopolitical events and political developments; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; RBS's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny (including by competition authorities) and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS's IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the application of stabilisation or resolution powers in significant stress situations; the execution of the run-down and/or sale of certain portfolios and assets; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

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

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

Introduction

Presentation of information

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

Any information contained on any websites linked or report references in this report is for information only and shall not be deemed to be incorporated by reference in this report.

Non-GAAP financial information

RBS prepares its financial statements in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles (‘GAAP’). This document contains a number of non-GAAP (or non-IFRS) financial measures. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure.

The non-GAAP financial measures used in this document generally exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management, in conjunction with IFRS financial measures, to measure performance and make decisions regarding the future direction of the business. Management believes these non-GAAP financial measures, when provided in combination with reported IFRS results, provide helpful supplementary information for investors. These adjusted measures, derived from the reported results are non-IFRS financial measures but are not a substitute to IFRS reported measures.

The main non-GAAP measures used in this document include:

- Performance, funding and credit metrics such as ‘return on tangible equity’, and related RWA equivalents incorporating the effect of capital deductions (RWAes), total assets excluding derivatives (funded assets), net interest margin (NIM) adjusted for items designated at fair value through profit or loss (non-statutory NIM), cost:income ratio and loan:deposit ratio. These are internal metrics used to measure business performance;
- Personal & Business Banking (PBB) franchise results, combining the reportable segments of UK Personal & Business Banking (UK PBB) and Ulster Bank RoI, Commercial & Private Banking (CPB) franchise results, combining the reportable segments of Commercial Banking and Private Banking results which are presented to provide investors with a summary of the Group’s business performance; and

The Commercial Banking, Private Banking, RBS International and NatWest Markets operating segment period on period comparison is impacted by a number of business transfers executed in preparation for ring-fencing. Commentary on the movements in the period for these segments has been adjusted for these item and reconciliation notes provided.

Introduction

Key operating indicators

This document includes a number of operational metrics which management believes may be helpful to investors in understanding the Group's business, including the Group's position against its own targets. These metrics include performance, funding and credit metrics such as 'return on tangible equity' and related RWA equivalents incorporating the effect of capital deductions (RWAes), total assets excluding derivatives (funded assets) and net interest margin (NIM) adjusted for items designated at fair value through profit or loss (non-statutory NIM), cost:income ratio, and loan:deposit ratio. These are internal metrics used to measure business performance.

Capital and liquidity measures

Certain liquidity and capital measures and ratios are presented in this document as management believes they are helpful for investors' understanding of the liquidity and capital profile of the business and the Group's position against its own targets and applicable regulatory requirements. Some of these measures are used by management for risk management purposes and may not yet be required to be disclosed by a government, governmental authority or self-regulatory organisation. As a result, the basis of calculation of these measures may not be the same as that used by the Group's peers. These capital and liquidity measures and ratios include: the liquidity coverage ratio, stressed outflow coverage and net stable funding ratio. The Group also presents a pro forma CET1 ratio which is on an adjusted basis, this has not been prepared in accordance with Regulation S-X and should be read in conjunction with the notes provided as well as the section titled "Forward-looking Statements" on page 1.

Recent developments

It has now been confirmed by the independent body tasked with managing the previously announced alternative remedies package, Banking Competition Remedies Limited, that package is due to launch in November 2018.

The Royal Bank of Scotland Group plc

Interim Results for the period ending 30 June 2018

RBS reported an operating profit before tax of £1,826 million for H1 2018, including an £801 million litigation and conduct charge. RBS announces its intention to declare an interim dividend of 2p per share.

H1 2018 attributable profit of £888 million and a Q2 2018 attributable profit of £96 million.

Q2 2018 operating profit before tax of £613 million, compared with £1,238 million in Q2 2017.

Continued track record of delivery

Income resilient in a competitive market:

Total income decreased by £217 million, or 3.1%, compared with H1 2017. Income was broadly stable compared with H1 2017 excluding NatWest Markets, Central items and one-off gains in Commercial Banking.

Q2 2018 net interest margin of 2.01% decreased by 3 basis points compared with Q1 2018 reflecting increased liquidity and continued competitive margin pressure.

Lower costs through continued transformation and increased digitisation:

Compared with H1 2017, other expenses decreased by £133 million, or 3.6%, excluding a VAT release in 2017 and FTEs reduced by 6.7%.

6.0 million customers now regularly using our mobile app, 9% higher than December 2017. Over 80% of Commercial Banking customers are now interacting with us digitally, 41% of whom have migrated to new Bankline.

Legacy issues diminishing:

Reached civil settlement in principle with the US Department of Justice (DoJ) in relation to the DoJ's investigation into RBS's issuance and underwriting of US Residential Mortgage Backed Securities (RMBS) between 2005 and 2007, resulting in a £1,040 million additional provision in Q2 2018. In addition, a £241 million provision release relating to a RMBS litigation indemnity was recognised in the quarter.

Entered into a Memorandum of Understanding with the Trustees of the Main scheme of the RBS Group Pension Fund to address the historical funding weakness of the pension scheme, recognising a pre-tax £2.0 billion contribution against reserves and an equivalent reduction in CET1 capital.

Stronger capital position:

CET1 ratio of 16.1% includes the impact of the £2 billion pre-tax pension contribution, the civil settlement in principle with the DoJ and the accrual of the intended interim dividend. Excluding these items, CET1 ratio increased by 110 basis points in the quarter driven by underlying profitability and RWA reductions.

RWAs decreased by £3.9 billion in the quarter primarily reflecting reductions in NatWest Markets and continued active capital management in Commercial Banking.

Outlook [1]

We retain the outlook guidance we provided in the 2017 Annual Report on Form 20-F.

We intend to declare an interim dividend of 2p per ordinary share. Declaration of the interim dividend is subject to the timing of finalisation of the previously announced civil settlement in principle with the DoJ in relation to the DoJ's investigation into RBS's issuance and underwriting of US RMBS. We expect to finalise the settlement with the DoJ and will make a further announcement at the relevant time.

Note:

(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the "Risk Factors" on pages 55 and 56 of this document and on pages 349 to 379 of the 2017 Annual Report on Form 20-F. These statements constitute forward-looking statements; refer to Forward-looking statements in this document.

Business performance summary

	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
Performance key metrics and ratios	**2018**	2017		**2018**	2018	2017
Operating profit before tax	**£1,826m**	£1,951m		**£613m**	£1,213m	£1,238m
Profit attributable to ordinary shareholders	**£888m**	£939m		**£96m**	£792m	£680m
Net interest margin	**2.02%**	2.18%		**2.01%**	2.04%	2.13%
Average interest earning assets	**£431,211m**	£413,598m		**£434,928m**	£427,394m	£421,981m
Cost:income ratio (1)	**70.4%**	69.8%		**80.0%**	60.5%	64.4%
Earnings per share						
- basic	**7.4p**	7.9p		**0.8p**	6.6p	5.7p
- basic fully diluted	**7.4p**	7.9p		**0.8p**	6.6p	5.7p
Return on tangible equity	**5.3%**	5.6%		**1.1%**	9.3%	8.0%
Average tangible equity	**£33,754m**	£33,705m		**£33,522m**	£34,216m	£33,974m
Average number of ordinary shares						
outstanding during the period (millions)						
- basic	**11,980**	11,817		**12,003**	11,956	11,841
- fully diluted (2)	**12,039**	11,897		**12,062**	12,015	11,923
				30 June	31 March	31 December
Balance sheet related key metrics and ratios				**2018**	2018	2017
Total assets				**£748.3bn**	£738.5bn	£738.1bn
Funded assets				**£597.2bn**	£588.7bn	£577.2bn
Loans and advances to customers (excludes reverse repos)				**£320.0bn**	£319.1bn	£323.2bn
Impairment provisions (3)				**£3.9bn**	£4.2bn	£3.8bn
Customer deposits (excludes repos)				**£366.3bn**	£358.3bn	£367.0bn
Liquidity coverage ratio (LCR)				**167%**	151%	152%
Liquidity portfolio				**£198bn**	£180bn	£186bn
Net stable funding ratio (NSFR) (4)				**140%**	137%	132%
Loan:deposit ratio				**87%**	89%	88%
Total wholesale funding				**£75bn**	£73bn	£70bn
Short-term wholesale funding				**£13bn**	£17bn	£18bn
Common Equity Tier (CET1) ratio				**16.1%**	16.4%	15.9%

Total capital ratio	**21.5%**	21.6%	21.3%
Pro forma CET 1 ratio, pre 2018 dividend accrual (5)	**16.2%**	16.4%	15.9%
Risk-weighted assets (RWAs)	**£198.8bn**	£202.7bn	£200.9bn
CRR leverage ratio	**5.2%**	5.4%	5.3%
UK leverage ratio	**6.0%**	6.2%	6.1%
Tangible net asset value (TNAV) per ordinary share	**287p**	297p	294p
Tangible net asset value (TNAV) per ordinary share - fully diluted	**286p**	295p	292p
Tangible equity	**£34,564m**	£35,644m	£35,164m
Number of ordinary shares in issue (millions)	**12,028**	11,993	11,965
Number of ordinary shares in issue (millions) - fully diluted (2,6)	**12,095**	12,075	12,031

Notes:

(1) Operating lease depreciation included in income for H1 2018 - £57 million and £26 million for Q2 2018; (Q1 2018 - £31 million; H1 2017 - £72 million; Q2 2017 - £36 million).

(2) Includes the effect of dilutive share options and convertible securities. Dilutive shares on an average basis for H1 2018 were 59 million shares and for Q2 2018 were 59 million shares; (Q1 2018 - 59 million shares; H1 2017 - 80 million shares; Q2 2017 - 82 million shares) and as at 30 June 2018 were 67 million shares (31 March 2018 - 82 million shares; 31 December 2017 - 66 million shares).

(3) 30 June 2018 and 31 March 2018 prepared under IFRS 9, 31 December 2017 prepared under IAS 39. Refer to the February 2018 IFRS 9 Transition Report published on our website for further details.

(4) In November 2016, the European Commission published its proposal for NSFR rules within the EU as part of its CRR2 package of regulatory reforms. CRR2 NSFR is expected to become the regulatory requirement in future within the EU and the UK. RBS has changed its policy on the NSFR to align with its interpretation of the CRR2 proposals with effect from 1 January 2018. The pro forma CRR2 NSFR at 31 December 2017 under CRR2 proposals is estimated to be 139%.

(5) The pro forma CET 1 ratio at 30 June 2018 excludes the impact of the foreseeable interim dividend of £240 million that RBS intends to declare. The Group presents a pro forma CET1 ratio on an adjusted basis, which has not been prepared in accordance with Regulation S-X and should be read in conjunction the section titled "Forward-looking Statements" on page 1.

(6) Includes 9 million treasury shares (31 March 2018 - 18 million shares; 31 December 2017 - 16 million shares).

Document navigation

The following are contained within this document:

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Business performance summary

Summary consolidated income statement for the half year ended 30 June 2018						
	Half year ended			Quarter ended		
	30 June	30 June		**30 June**	31 March	30 June
	2018	2017		**2018**	2018	2017
	£m	£m		**£m**	£m	£m
Net interest income	**4,326**	4,472		**2,180**	2,146	2,238
Own credit adjustments	**39**	(73)		**18**	21	(44)
Loss on redemption of own debt	**-**	(7)		**-**	-	(9)
Strategic disposals	**-**	156		**-**	-	156
Other non-interest income	**2,337**	2,371		**1,202**	1,135	1,366
Non-interest income	**2,376**	2,447		**1,220**	1,156	1,469
Total income	**6,702**	6,919		**3,400**	3,302	3,707
Litigation and conduct costs	**(801)**	(396)		**(782)**	(19)	(342)
Strategic costs	**(350)**	(790)		**(141)**	(209)	(213)
Other expenses	**(3,584)**	(3,666)		**(1,801)**	(1,783)	(1,844)
Operating expenses	**(4,735)**	(4,852)		**(2,724)**	(2,011)	(2,399)
Profit before impairment losses	**1,967**	2,067		**676**	1,291	1,308
Impairment losses	**(141)**	(116)		**(63)**	(78)	(70)
Operating profit before tax	**1,826**	1,951		**613**	1,213	1,238
Tax charge	**(741)**	(727)		**(412)**	(329)	(400)
Profit for the period	**1,085**	1,224		**201**	884	838
Attributable to:						
Non-controlling interests	**(16)**	29		**(23)**	7	18
Other owners	**213**	256		**128**	85	140
Ordinary shareholders	**888**	939		**96**	792	680

Notable items within total income						

IFRS volatility in Central items (1)	**(111)**	154		**17**	(128)	172
UK PBB debt sale gain	**26**	8		**-**	26	-
FX gains/losses in Central items and other	**4**	(108)		**19**	(15)	(56)
Commercial Banking fair value and						
and disposal gain	**192**	-		**115**	77	-
NatWest Markets legacy business disposal losses	**(57)**	(103)		**(41)**	(16)	(53)
Own credit adjustments	**39**	(73)		**18**	21	(44)
Strategic disposals	**-**	156		**-**	-	156
Notable items within operating expenses						
Litigation and conduct costs	**(801)**	(396)		**(782)**	(19)	(342)
of which: US RMBS	**(802)**	(222)		**(803)**	1	(222)
of which: DoJ	***(1,040)***	-		***(1,040)***	-	-
Nomura	***241***	-		***241***	-	-
Strategic costs	**(350)**	(790)		**(141)**	(209)	(213)
VAT recovery in Central items and other	**-**					