

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

Report of Foreign Private Issuer

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

For July 30, 2015

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

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(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

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

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Yes ___

No X

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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:

Appendix 1

Capital and risk management

Appendix 1 Capital and risk management

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Presentation of information

The assets and liabilities of disposal groups are presented as single lines in the consolidated balance sheet as required by IFRS. As allowed by IFRS, exposures, measures and ratios in this Appendix include disposal groups, primarily

relating to CFG and international private banking, on a line-by-line basis. A summary of this presentation is set out in Appendix 2.

The disclosures in this appendix supplement disclosures in Analysis of results - Balance sheet related key metrics and ratios; Impairment losses; Capital and leverage ratios. An overview by risk type is included in the General overview, supporting analyses and additional detailed commentary are included in specific risk sections.

Appendix 1 Capital and risk management

General overview*

RBS's main risks are described in Capital and risk management - Risk coverage in the 2014 Annual Report and Accounts. The table below is an overview of these risks, including any developments during H1 2015.

Risk type	Overview
Capital and leverage	<ul style="list-style-type: none"> · RBS's CET1 ratio: continued to strengthen from 11.2% at the end of 2014 to 12.3% at 30 June 2015, an improvement of 110 basis points. · Key milestones were: <ul style="list-style-type: none"> o the reduction of CFG ownership interest to 40.8%; and o the continued run down of RCR and CIB assets. · RWAs: continued to decline with a £30 billion reduction from the 2014 year end to £326 billion, £26 billion above the year end 2015 target of £300 billion, following reductions in CIB (£19.1 billion) and RCR (£7.6 billion). · Leverage ratio (under the revised 2014 Basel III leverage ratio framework and the 2015 CRR Delegated Act): 4.6% compared with 4.2% at the end of 2014 reflecting capital strength and leverage exposure reduction, from £940 billion to £875 billion, principally in CIB. · RBS plans to issue £4-5 billion of end-point CRR compliant Additional Tier 1, of which £2 billion is planned to be issued in 2015.
Liquidity and funding	<ul style="list-style-type: none"> · Liquidity position continues to be robust: the liquidity portfolio of £161 billion at 30 June 2015 covered short-term wholesale funding by more than six times. Excluding CFG, the liquidity portfolio was £148 billion. Short-term wholesale funding reduced to £25 billion, due to term debt maturities. · Liquidity portfolio increased by £10.8 billion in the six months to 30 June 2015 mainly driven by CIB and RCR run-down, Citizens share disposals and continuation of sales from RBS N.V. treasury portfolio. · Liquidity coverage ratio (LCR) improved by five percentage points to 117% since the year end; excluding Citizens the LCR was 118%. From 1 October 2015, RBS will be required by the PRA to have a LCR of at least 80%. · Net stable funding ratio (NSFR) at 30 June 2015 was 115% in total and 112% excluding Citizens, broadly unchanged from 2014 year end. · The loan:deposit ratio fell to 92% at 30 June 2015, primarily reflecting asset reductions and a stable deposit base. · Based on its current assessment of the Financial Stability Board's proposals, RBS may issue £3-£5 billion of qualifying debt per annum between 2015 and 2019 to meet future total loss absorbing capacity requirements.
Conduct and legal	<ul style="list-style-type: none"> · RBS continued to remediate historical conduct issues. RBS co-operated with global regulators on investigations into the foreign exchange market

and the more significant penalties were settled. Litigation and conduct costs were £1.3 billion in H1 2015 compared with £0.25 billion in H1 2014. The conduct risk framework was further embedded in Conduct and Regulatory Affairs' new operating model, focussing assurance coverage and testing towards customer outcomes.

*Not within the scope of Deloitte LLP's review report

Appendix 1 Capital and risk management

General overview* (continued)

Risk type	Overview
Credit	<ul style="list-style-type: none"> · RBS's credit risk exposures continued to fall overall, with an improvement in credit quality and a net release of impairment provisions in H1 2015. RCR disposals - particularly in the commercial real estate sector in Ireland - contributed significantly to the reductions in exposure and to the provision release. These results also reflect benign economic and market conditions in the UK and Ireland, better liquidity and increased collateral values. Lower sector and asset/product class limits were implemented following the new CIB strategy. · The growth in UK PBB gross mortgage lending was within credit risk appetite and against a backdrop of sustained house price growth in 2015 that has outstripped earnings growth. Economic fundamentals continue to look strong, helping to underpin mild improvements in the UK housing and mortgage market. · From a low of US\$45 per barrel in January 2015, oil prices recovered to US\$61 per barrel by the end of June 2015. However, the market is still considered to be oversupplied and the outlook is uncertain. Risk appetite to the oil and gas sector was further reduced during H1 2015 following a review in March 2015, with continued focus on ensuring that the portfolio remains high investment grade. · Overall credit metrics strengthened in the first half of 2015 principally reflecting RCR disposals but also improvements in economic conditions: <ul style="list-style-type: none"> o Credit risk RWAs fell by £23 billion or 8% to £273 billion at 30 June 2015 from £295 billion at the 2014 year end primarily reflecting CIB portfolio sales and risk reduction and RCR disposal strategy. o Impairment provisions of £11.3 billion (2014 - £18.0 billion) covered risk elements in lending (REIL) of £18.7 billion (2014 - £28.2 billion) by 60% (2014 - 64%). o CRE lending fell to £36.4 billion from £43.3 billion at the end of 2014, of which £7.2 billion (2014 - £13.3 billion) was in REIL with provision coverage of 64% (2014 - 68%).
Market	Average trading internal VaR decreased to £21.8 million (H1 2014 - £30.6 million; FY 2014 - £27.8 million), largely in credit spread VaR, reflecting the continued exit from the US asset-backed products trading business.

Market risk RWAs decreased by £1.7 billion to £22.3 billion, driven by a decline in the standardised risk capital charge reflecting reduced securitisation exposures in the trading book, partly offset by a small increase in the Pillar 1 risk capital charge.

Non-trading interest rate VaR was lower as RBS positioned its structural interest rate closer to the neutral position prescribed by its risk management policy

*Not within the scope of Deloitte LLP's review report

Appendix 1 Capital and risk management

General overview* (continued)

Risk type	Overview
Country	RBS continued to maintain a cautious stance as it becomes a UK-centred bank with a focus on Western Europe. Total eurozone net balance sheet exposure decreased by £12 billion or 12% to £85.6 billion in the first half of 2015. Eurozone periphery exposures decreased by £7.4 billion or 24%, to £24.0 billion. Most of this reduction was in Italy, driven by maturity of derivative transactions and higher short positions due to uncertainty around Greece, and in Ireland, reflecting RCR portfolio sales and currency movements. Total exposure to Greece was reduced from £0.4 billion to £110 million and £86 million after the effect of credit mitigation. Exposure to Russia remained under strict control and continued to be reviewed regularly against international sanctions.
Operational	The risks associated with RBS's transformation plan are being closely monitored. Separate to this activity, in June, there was a one or two day delay to payments applied to some customer accounts. A detailed investigation is underway into the root cause of the problem - the findings will be used to reduce the risk of recurrence.
Regulatory	The level of regulatory risk remained high, given the large volume of regulatory change still impacting the industry. Various legacy conduct issues also continued to be managed.
Reputational	The most material threats to RBS's reputation continued to be as a result of conduct and operational-related matters: RBS was the subject of investigations and review by a number of regulators, some of which resulted in fines and public censure. The failure of IT systems in June 2015 also impacted customers, with reputational damage to the bank.
Business	RBS further reduced its business risk profile by continuing to scale back CIB's business activities and by pursuing RCR's asset disposal strategy.
Strategic	2015 has seen further progress in RBS's shift towards the UK and the retail and commercial banking segments to achieve a lower risk profile. Capital ratios continued to increase further towards targets which, when attained, will provide RBS with increased strategic options

*Not within the scope of Deloitte LLP's review report

Appendix 1 Capital and risk management

Capital management

RBS aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements, and operates within an agreed risk appetite. The appropriate level of capital is determined based on the dual aims of: (i) meeting minimum regulatory capital requirements; and (ii) ensuring RBS maintains sufficient capital to uphold customer, investor and rating agency confidence in the organisation, thereby supporting its business franchises and funding capacity. For a description of the capital management framework, governance and basis of preparation refer to Capital management in the 2014 Annual Report and Accounts.

Pillar 2A and MDA

RBS's current Pillar 2A requirement is 3.4% of RWAs (31 December 2014 - 3.5%). From 1 January 2015, 56% of the total Pillar 2A or 1.9% of RWAs is required to be met from CET1 capital. Pillar 2A is a point in time regulatory assessment of the amount of capital that is required to be held to meet the overall financial adequacy rules. This PRA assessment may change over time, including as a result of at least an annual assessment and supervisory review of RBS's Internal Capital Adequacy Assessment Process (ICAAP); the latest ICAAP based on the end of 2014 data was completed in May 2015.

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

Based on current capital requirements, on the illustrative assumption that current estimates of Pillar 2A remain constant, RBS estimates that its 'fully phased' CET1 MDA requirement would be 10.4% in 2019, assuming RBS's current risk profile is unchanged. It should be noted that this estimate does not reflect the anticipated impact of RBS's planned restructuring and balance sheet risk reduction programmes, changes in the regulatory framework or other factors that could impact target CET1 ratios. This estimated 2019 MDA requirement comprises:

- 4.5% Pillar 1 minimum CET1 ratio;
- 2.5% Capital conservation buffer;
- 1.9% Pillar 2A CET1 ratio; and
- 1.5% Global Systemically Important Institution buffer.

Based on the assumptions above, assuming a 13% steady state CET1 capital ratio is achieved, RBS currently estimates that it would have headroom of 2.6% to fully phased MDA trigger in 2019. This headroom will be subject to ongoing review to accommodate regulatory and other changes.

Appendix 1 Capital and risk management

Developments in prudential regulation

The European Union Capital Requirements Regulation (CRR) is in transition until 2019. Recent developments are set out below.

Capital

The Basel Committee on Banking Supervision (BCBS) has consulted on implementing capital floors, and the expectation is that the framework design will be based on a standardised methodology that is currently being revised.

Systemic capital buffers - Global Systemically Important Banks (G-SIB) are assessed according to methodology set out by BCBS, and an additional loss absorbency requirement has been set according to the size. An annual assessment of size is undertaken and RBS is currently required to hold a 1.5% buffer. Additional requirements are being set for domestic (D-SIB) by the EBA (up to 2%) and for ring-fenced banks by the Financial Policy Committee of the Bank of England (up to 3%).

BCBS is still considering its proposals on the possible inclusion of interest rate risk in the banking book within Pillar 1 capital rather than the existing Pillar 2 treatment. Similarly, there is a possibility that operational risk charges will be moved from Pillar 2 to Pillar 1 capital.

A comprehensive review by BCBS into the market risk framework (Fundamental Review of the Trading Book) is likely to result in changes to the banking book/trading book boundary, replacing VaR with an expected shortfall model and new, more risk sensitive standardised methodologies which will need to be calculated for the entire book, regardless of whether a firm has permission to use a modelled approach.

BCBS has finalised rules for the capital requirements of securitisation positions. There is a new hierarchy of methods, as well as changes to the methodologies. The new rules, effective from 1 January 2018, aim to reduce reliance on credit rating agencies, although their use will still be permitted subject to local approval, reduce cliff effects seen in the current rules, and enhance risk sensitivity.

PRA has published a new approach to setting Pillar 2 capital requirements, replacing the capital planning buffer with a 'PRA buffer'. Broadly this follows the consultation paper of January 2015.

Disclosure requirements required by regulators will be more frequent, more extensive and much more standardised (Pillar 3). BCBS requirements will be introduced from the end of 2016 and the more detailed EU requirements are being phased in during late 2015.

Leverage ratio

The PRA is consulting on implementation of a UK leverage ratio framework, expected to come into force from 2016, which will incorporate a systemic capital buffer and a countercyclical buffer when establishing the minimum leverage ratio for banks. There will also be disclosures and related measurement bases for exposures.

Recovery & resolution planning

The Financial Stability Board is continuing impact studies on Total Loss Absorbency Capacity (TLAC) for G-SIBs with an expectation of final proposals to be issued in late 2015 for implementation in 2019. Minimum requirement for eligible liabilities (MREL) is the EU equivalent of TLAC but is not restricted to G-SIBs. The required amount will be set on a case by case basis by resolution authorities, with the Bank of England proposing that MREL be aligned to TLAC.

Appendix 1 Capital and risk management

Capital resources

End-point CRR basis (1)			PRA transitional basis (1)		
		31			31
30 June	31 March	December	30 June	31 March	December
2015	2015	2014	2015	2015	2014
£m	£m	£m	£m	£m	£m

Shareholders' equity (excluding

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non-controlling interests)						
Shareholders' equity	56,064	56,808	57,246	56,064	56,808	57,246
Preference shares - equity	(4,313)	(4,313)	(4,313)	(4,313)	(4,313)	(4,313)
Other equity instruments	(634)	(634)	(784)	(634)	(634)	(784)
	51,117	51,861	52,149	51,117	51,861	52,149
Regulatory adjustments and deductions						
Own credit	345	609	500	345	609	500
Defined benefit pension fund adjustment	(250)	(245)	(238)	(250)	(245)	(238)
Cash flow hedging reserve	(435)	(1,109)	(1,029)	(435)	(1,109)	(1,029)
Deferred tax assets	(1,206)	(1,140)	(1,222)	(1,206)	(1,140)	(1,222)
Prudential valuation adjustments	(366)	(393)	(384)	(366)	(393)	(384)
Goodwill and other intangible assets	(7,198)	(7,619)	(7,781)	(7,198)	(7,619)	(7,781)
Expected losses less impairments	(1,319)	(1,512)	(1,491)	(1,319)	(1,512)	(1,491)
Other regulatory adjustments	(635)	(327)	(585)	(612)	(305)	(855)
	(11,064)	(11,736)	(12,230)	(11,041)	(11,714)	(12,500)
CET1 capital	40,053	40,125				