

Letter from the Chairman

These results demonstrate the strength of our underlying customer businesses with operating profit - excluding restructuring and conduct charges - of £1.8 billion for the quarter, up 11% on Q1. We have reported an attributable profit for the quarter, albeit a loss for the half year, which reflects the restructuring and conduct costs we are continuing to work through.

We are seeing progress in our UK retail and commercial businesses. More customers are choosing us to help them buy their homes than ever before, while the commercial business grew its loan book by £1.4 billion since 30 June 2014.

RBS is closely involved in the UK's improving economic performance. In partnership with Entrepreneurial Spark, RBS is opening business accelerator hubs in Birmingham, Brighton, Bristol and Leeds, with plans to open further hubs in major cities across the UK as we continue to support UK entrepreneurs and businesses providing free space, mentoring and financial support. The latest data from UK Export Finance shows that we are currently the biggest backer (by volume and value) of export contracts for 2015/16 and we are well on track to exceed our business for the previous financial year.

In the first six months of the year we have increased our UK focus by further reducing our stake in Citizens in the US and by agreeing to sell our International Private Bank. We have made excellent progress running down the parts of the business that no longer fit with our strategy.

We have also once again improved our core capital position, and have had six consecutive quarters of capital growth. RBS is now a much better capitalised bank.

The RBS of today is of course very different from the bank of 2009. It has a greater focus on the quality of earnings and the control of risks.

There have naturally been ups and downs along the way, which have required the strategy to change, but the focus on making this a stronger, simpler and fairer organisation has been the right one. The decisions to sell or run-off significant parts of the business while investing in our core customer franchises has meant we are better positioned to deal with the constraints of structural regulatory reform, notably ring-fencing.

Of course there are still some obstacles to overcome especially the resolution of outstanding conduct issues, including the investigations into our sale of residential mortgage-backed securities in the US between 2005-07, and the investigation by UK authorities into the bank's approach to distressed businesses.

Past experience at RBS and many other banks has demonstrated the readiness of regulators to impose substantial fines and costly redress schemes. These conduct and litigation costs have greatly exceeded the expectations of banks and their investors. Judging the ultimate scale of conduct costs remains extremely challenging.

Looking forward, however, making customer service, trust and advocacy the focus of our strategy is starting to deliver results and by the end of this year I am confident that shareholders will see a clearer picture of the bank that RBS will become.

This is an appropriate backdrop to the sale of shares by the UK government, which will be a significant moment for this bank.

Philip Hampton
Chairman