

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	30 June	30 June	31 March	30 June
	2014	2013	2014	2014	2013
	£m	£m	£m	£m	£m
Interest receivable	7,621	8,560	3,821	3,800	4,281
Interest payable	(2,128)	(3,123)	(1,023)	(1,105)	(1,514)
Net interest income	5,493	5,437	2,798	2,695	2,767
Fees and commissions receivable	2,605	2,708	1,314	1,291	1,392
Fees and commissions payable	(487)	(460)	(251)	(236)	(250)
Income from trading activities	1,493	2,064	541	952	949
Gain on redemption of own debt	20	191	-	20	242
Other operating income	1,036	1,332	345	691	720
Non-interest income	4,667	5,835	1,949	2,718	3,053
Total income	10,160	11,272	4,747	5,413	5,820
Staff costs	(3,536)	(3,727)	(1,845)	(1,691)	(1,840)
Premises and equipment	(1,275)	(1,104)	(622)	(653)	(548)
Other administrative expenses	(1,662)	(2,181)	(951)	(711)	(1,418)
Depreciation and amortisation	(554)	(736)	(282)	(272)	(349)
Write-down of goodwill and other intangible assets	(212)	-	(130)	(82)	-
Operating expenses	(7,239)	(7,748)	(3,830)	(3,409)	(4,155)
Profit before impairment losses	2,921	3,524	917	2,004	1,665
Impairment (losses)/recoveries	(269)	(2,150)	93	(362)	(1,117)
Operating profit before tax	2,652	1,374	1,010	1,642	548
Tax charge	(733)	(678)	(371)	(362)	(328)
Profit from continuing operations	1,919	696	639	1,280	220
Profit from discontinued operations, net of tax	35	138	26	9	9
Profit for the period	1,954	834	665	1,289	229
Non-controlling interests	(42)	(117)	(23)	(19)	14
Preference share and other dividends	(487)	(182)	(412)	(75)	(101)

Profit attributable to ordinary and

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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

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- 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

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Accruals, deferred income and other liabilities	14,876	15,336	16,017
Retirement benefit liabilities	2,742	2,829	3,210
Deferred tax	605	583	507
Subordinated liabilities	24,809	24,139	24,012
Liabilities of disposal groups	125	3,238	3,378
 Total liabilities	 950,145	 962,834	 968,663
 Equity			
Non-controlling interests	618	612	473
Owners' equity*			
Called up share capital	6,811	6,752	6,714
Reserves	53,534	53,572	52,028
 Total equity	 60,963	 60,936	 59,215
 Total liabilities and equity	 1,011,108	 1,023,770	 1,027,878
 * Owners' equity attributable to:			
Ordinary and B shareholders	55,053	55,032	53,450
Other equity owners	5,292	5,292	5,292
	60,345	60,324	58,742

Average balance sheet

	Half year ended		Quarter ended	
	30 June	30 June	30 June	31 March
	2014	2013	2014	2014
	%	%	%	%
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	3.03	3.10	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

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

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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	30 June	30 June	31 March	30 June
	2014	2013	2014	2014	2013
	£m	£m	£m	£m	£m
Retained earnings					
At beginning of period	867	10,596	1,986	867	10,949
Profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	1,895	607	627	1,268	241

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- 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.

Notes

2. Accounting policies (continued)

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

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

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to pensions; goodwill; provisions for liabilities; deferred tax; loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgments are described on pages 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	30 June	30 June	31 March	30 June
	2014	2013	2014	2014	2013
	£m	£m	£m	£m	£m
Loans and advances to customers	7,061	7,640	3,543	3,518	3,809

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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

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

Note:

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

Payment Protection Insurance (PPI)

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

	Half year ended		Quarter ended		30 June 2013 £m
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £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).

Assumption	Actual to date	Current assumption	Sensitivity	
			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 2013 £m
	30 June 2014 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	
At beginning of period	1,077	676	878	1,077	702
Charge to income statement	100	50	100	-	-
Utilisations	(417)	(56)	(218)	(199)	(32)
At end of period	760	670	760	878	670

Notes

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

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

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

Regulatory and legal actions

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

4. Pensions

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

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

Notes

5. Loan impairment provisions and REIL

Loan impairments

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

	30 June 2014			Half year ended		
				30 June 2013		
	RBS excl. RCR £m	RCR £m	Total £m	RBS excl. Non-Core £m	Non-Core £m	Total £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

	30 June 2014			Quarter ended			30 June 2013		
				31 March 2014					
	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
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:

	30 June 2014			Half year ended			30 June 2013		
	RBS excl. RCR £m	RCR £m	Total £m	RBS excl. Non-Core £m	Non-Core £m	Total £m	RBS excl. Non-Core £m	Non-Core £m	Total £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

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	30 June 2014			31 March 2014			30 June 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
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 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £m
Profit before tax	2,652	1,374	1,010	1,642	548
Expected tax charge	(570)	(319)	(217)	(353)	(127)

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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 30 June 2014 £m	30 June 2013 £m	Quarter ended		
			30 June 2014 £m	31 March 2014 £m	30 June 2013 £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 £m	30 June 2013 £m	30 June 2014 £m	31 March 2014 £m	30 June 2013 £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.

Notes

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)

	Net interest income £m	Non- interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
Half year ended 30 June 2014						
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.

Notes

10. Segmental analysis (continued)

Analysis of operating profit (continued)

	Net interest income £m	Non- interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
Half year ended 30 June 2013*						
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.

Notes

10. Segmental analysis (continued)

Analysis of operating profit (continued)

	Net interest income £m	Non- interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
Quarter ended 30 June 2014						
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.

Notes

10. Segmental analysis (continued)

Analysis of operating profit (continued)

	Net interest income £m	Non- interest income £m	Total income £m	Operating expenses £m	Impairment (losses)/ recoveries £m	Operating profit/(loss) £m
Quarter ended 31 March 2014*						
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

10. Segmental analysis (continued)

Analysis of operating profit (continued)

Net Non- Impairment

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	interest income £m	interest income £m	Total income £m	Operating expenses £m	(losses)/ recoveries £m	Operating profit/(loss) £m
Quarter ended 30 June 2013*						
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

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	30 June 2014			30 June 2013*		
	External	Inter segment	Total	External	Inter segment	Total
	£m	£m	£m	£m	£m	£m
Total revenue						
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)

	30 June 2014			Quarter ended 31 March 2014*			30 June 2013*		
	External	Inter segment	Total	External	Inter segment	Total	External	Inter segment	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue									
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 £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Total assets						
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						Amortised	Finance	Non financial assets/ liabilities	Total
	HFT (1)	DFV (2)	HD (3)	AFS (4)	LAR (5)	HTM(6)	cost	leases		
30 June 2014	£m	£m	£m	£m	£m	£m	£m	£m	£m	£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										