

ROYAL BANK OF SCOTLAND GROUP PLC

Form 6-K

June 08, 2005

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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 the month of June 2005

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

42 St Andrew Square

Edinburgh EH2 2YE

Scotland

(Address of principal executive offices)

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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 Form 40-F

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Yes No

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 Company announcements, in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K: _____

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THE ROYAL BANK OF SCOTLAND GROUP PLC

Pre-close Trading Update for the half year ending 30 June 2005 and IFRS Transition Report

Highlights:

Pre-close Trading Update

The Group continues to perform well in the first half of 2005

Strong overall income growth

The Group's efficiency programme remains to plan to deliver previously stated benefits

Overall credit metrics expected to remain stable

The integrations of Churchill, First Active and Charter One remain fully on track

Underlying profit growth remains broadly consistent with the comparable period

IFRS Transition Report

2004 IFRS restated results relative to UK GAAP:

2004 Restatement - retrospective basis

Income of £23,391 million, an increase of 3%

Profit before tax of £7,284 million, an increase of 5%

Basic adjusted earnings per share of 157.4p, an increase of 14%

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Adjusted earnings per share of 170.2p, a reduction of 1%

2004 Restatement - proforma (retrospective and prospective basis)

Profit before tax, a reduction of around 5%

Basic earnings per share, an increase of around 10%

Adjusted earnings per share, a reduction of around 5%

Pre-close Trading Update

8 June 2005

Introduction

The Royal Bank of Scotland Group (RBS) will be holding discussions with analysts and investors ahead of its close period for the half year ending 30 June 2005. This statement sets out the information that will be covered in those discussions.

Attached to this statement are RBS statutory results for 2004 restated under International Financial Reporting Standards (IFRS). These reflect the IFRS standards which are required to be applied to 2004.

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In addition, RBS results for 2005 will also be affected by IAS 32, IAS 39 and IFRS 4, which have been implemented from 1 January 2005. The comments in this statement are based on underlying trends as if IFRS had applied in full to our results for both 2004 and 2005. Proforma guidance on this basis is also included in the attachment to this statement.

Summary

RBS has continued to perform well in the first half of 2005. Highlights of our interim results for 2005 are expected to include continued strong organic growth in income, stable overall credit metrics and the delivery of expected benefits from recent acquisitions.

Income and Margins

Overall organic income growth remains strong, most notably in Citizens and Corporate Banking and Financial Markets, tempered by a lower rate of income growth in our UK Retail Markets business. UK Retail Markets, comprising Retail Banking, Retail Direct and Wealth Management have, as anticipated at the time of our 2004 results presentation in February, seen a degree of transition in consumer behaviour away from unsecured lending which has reduced our growth in income from this source. The impact upon the Group is however limited, as unsecured lending to UK consumers accounted for less than 10% of our income in 2004.

The Group's net interest margin is expected to be lower primarily as a result of changes in the business mix, including relatively strong growth in mortgages and large corporate lending, coupled with lower growth in unsecured personal lending.

Non-interest income has continued to grow, reflecting higher insurance premium income, higher corporate banking fee income and higher dealing profits. RBS Insurance has continued to increase its income, despite pressure on premium pricing in motor insurance reflecting very competitive conditions.

Expenses

The Group's efficiency programme remains on track to deliver the anticipated benefits, and whilst the Group cost:income ratio will marginally increase in absolute terms as a result of the application of IFRS and the acquisition of Charter One, the underlying trajectory is comparable to that on a UK GAAP basis.

Credit Quality and Provisions

Overall credit metrics are expected to have remained stable. Total provisions are expected to be higher than in 2004, but the increase is expected to be below the increase in average loans and advances. Provisions in UK Retail Markets have risen, reflecting both growth in lending and increased credit card arrears which, whilst higher than the historically low levels seen in recent years, remain within normal parameters. Citizens

credit metrics remain strong, and Corporate Banking and Financial Markets provision charges are expected to reduce.

Integration Activity

The integrations of Churchill, First Active and Charter One remain fully on track. In each case important stages in the IT conversion have been completed successfully and we remain confident that we shall be able to deliver the expected transaction benefits.

Profit

Strong overall income growth, coupled with our cost:income ratio and stable credit quality, is expected to produce underlying growth in profit before tax broadly consistent with that reported for the comparable period last year.

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International Financial Reporting Standards

Following resolution of the uncertainties surrounding the interpretation of IAS 39 which we referred to at the time of our last IFRS update in particular, in relation to impairment and hedging we estimate that the total impact on our 2004 adjusted earnings per share (before goodwill amortisation and integration costs), had all IFRS applied, would have been a reduction of around 5% relative to UK GAAP. We expect a similar impact on 2005 IFRS adjusted earnings per share relative to UK GAAP earnings.

Sir Fred Goodwin, Group Chief Executive, commented:

The Group continues to make good progress and, while the adoption of IFRS will make interpretation of the trends in results generally more challenging this year, the underlying strength of our business performance should be readily apparent when we publish our interim results.

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For media enquiries

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This announcement contains forward looking statements, including such statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements concern or may affect future matters, such as RBS's future economic results, business plans and strategies, and are based upon the current expectations of the directors. They are subject to a number of risks and uncertainties that might cause actual results and events to differ materially from the expectations expressed in the forward looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, regulatory developments, competitive conditions, technological developments and general economic conditions. These factors risks and uncertainties are discussed in RBS's SEC filings, including, but not limited to, RBS's report on Form 6-K containing this announcement and certain sections of RBS's Annual Report on Form 20-F. Information in this announcement of the price at which investments have been bought or sold in the past or the yield on investments cannot be relied upon as a guide to future performance. RBS assumes no responsibility to update any of the forward looking statements contained in this announcement.

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INTRODUCTION

In June 2002, the European Union (the EU) adopted a regulation that requires, from 1 January 2005, listed companies to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the EU.

As part of the process of moving to reporting under IFRS the Group is required to restate statutory comparative figures for 2004 on the basis only of the standards applicable at that time. Section 2 of this document contains such restatement of the 2004 results and the auditors' report thereon is set out on page 67.

A number of significant new standards are to be applied with prospective effect from 1 January 2005, and to facilitate comparisons with our 2005 results in due course, an overview of the impact on our 2004 results on a proforma basis of all new standards is included on pages 3 and 4.

Sections 3 and 4 of the document provide further analysis of the impact of IAS 32, IAS 39 and IFRS 4 and of the provisional accounting policies of the Group under IFRS together with an explanation of the differences between UK GAAP and IFRS accounting policies.

The UK GAAP data included in this announcement are as published by the Group in respect of its interim and full year 2004 results save for restatements of divisional results reflecting the transfer of businesses between divisions and the reallocation of pension costs to divisions from the Group Centre. These have no effect on the Group's results.

The information in this announcement is based on IFRS expected to be applicable at 31 December 2005. IFRS currently in issue, and adopted by the EU, are subject to interpretation issued from time to time by the International Financial Reporting Interpretation Committee. Further IFRS or interpretations may be issued during 2005, which may also be applicable for 2005. In addition, as market practice develops in respect of IFRS, alternative interpretations and applications of IFRS may result.

OVERVIEW OF THE IMPACT OF IFRS

The following provides an overview of the impact of all IFRS on the reported results of the Group on a proforma basis.

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RESULTS

Income, expenses and impairment are affected by rules on recognition and timing that are different to those followed under UK GAAP. While these do not change the economics or cash flows of a transaction, they affect the level of reported operating profit (profit before goodwill and integration costs), profit before tax and earnings per share in any single period.

In addition, within the income statement, certain items are now reported on a different line to that under UK GAAP. For example, the coupon payment on the majority of the Group's preference shares, which are tier one capital instruments, now appear above the line within interest paid in net interest income. While this will reduce reported operating profit and profit before tax, it has no effect on earnings per share.

Similarly, goodwill is no longer amortised. This increases reported profit before tax and basic earnings per share but has no impact on operating profit and adjusted earnings per share. The Group has for many years excluded goodwill amortisation from both of these measures.

The estimated impact of the full implementation of IFRS (retrospective and prospective adjustments) on reported measures, subject to any further changes to the standards or their interpretation, is as follows:

Adjusted earnings per share - a reduction of around 5% from that reported under UK GAAP, representing the application of the new rules on recognition and timing.

Basic earnings per share - an increase of around 10% with the impact of recognition and timing more than offset by goodwill no longer being amortised.

Profit before tax - a reduction of around 5%, representing the impact of the items affecting operating profit (above) in part offset by goodwill no longer being amortised.

BALANCE SHEET

Application of IFRS also affects the reported balance sheet of the Group. In addition new regulatory treatments apply to the calculation of Tier 1 and Total Capital.

As a result of the restatement of the Group's 2004 results under IFRS and with the impact of IAS 32, IAS 39 and IFRS 4 also included, the effect on shareholders' funds and regulatory capital of the Group is as follows:

Regulatory Capital Ratios

	<u>Shareholders Funds</u>	<u>Tier 1 Capital</u>	<u>Total Capital</u>
Reported under UK GAAP At 31 December 2004	£ 31.9bn	7.0%	11.7%
Reported under IFRS At 1 January 2005	£ 29.9bn	6.7%	11.6%

The analysis of the impact on shareholders funds is shown on page 46; an analysis of and the movement on capital ratios is shown on page 47.

Table of Contents**SECTION 2****2004 Results**

The financial information on pages 6 to 40 includes retrospective adjustments only and does not reflect the effects of IAS 32, IAS 39 and IFRS 4.

RESULTS SUMMARY

	Year ended		Half year ended	
	31 December 2004		30 June 2004	
	IFRS £m	UK GAAP £m	IFRS £m	UK GAAP £m
Total income	23,391	22,754	11,192	10,964
Operating expenses*	9,797	9,662	4,697	4,639
Operating profit before provisions*	9,334	9,612	4,505	4,602
Profit before tax, intangibles amortisation and integration costs	7,849	8,101	3,767	3,851
Intangibles amortisation	45	915	4	413
Integration costs	520	269	178	57
Profit before tax	7,284	6,917	3,585	3,381
Cost:income ratio**	40.0%	40.8%	40.1%	40.6%
Basic earnings per ordinary share	157.4p	138.0p	79.7p	69.9p
Adjusted earnings per ordinary share***	170.2p	172.5p	83.9p	84.4p

* *excluding intangibles amortisation and integration costs.*

** *the cost:income ratio is based on operating expenses excluding amortisation of purchased intangibles and integration costs, and after netting operating lease depreciation against rental income.*

*** *adjusted earnings per ordinary share is based on earnings adjusted for amortisation of purchased intangibles and integration costs.*

The IFRS results shown above exclude the effects of IAS 32, IAS 39 and IFRS 4.

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FINANCIAL REVIEW

The Group's 2004 results have been prepared in accordance with IFRS. As permitted by IFRS 1, they do not reflect the effects of IAS 32, IAS 39 and IFRS 4. The commentary set out below explains the effect of IFRS as applied on a retrospective basis to the full year 2004 results.

Income

Total income was £23,391 million, an increase of £637 million, 3% compared with £22,754 million under UK GAAP. Income in Retail Banking benefited by £798 million from the consolidation of the life assurance business on a line-by-line basis rather than the recognition of the change in embedded value as a single amount in other operating income. Insurance net premium income in RBS Insurance increased by £109 million due to proportional consolidation of Linea Directa, our joint venture in Spain. These were partially offset by a reduction in income due to the fact that TPF is proportionately consolidated under IFRS, and the transfer of the net return on pension fund to operating expenses.

Operating expenses

Operating expenses, excluding amortisation of purchased intangibles and integration costs, were £9,797 million, 1% or £135 million higher than under UK GAAP. The increase was principally due to operating expenses of the life assurance business (£106 million), share based payments (£36 million), amortisation of capitalised software development costs (£27 million) and leasing (£49 million). These were partially offset by the reduction in pension costs reflecting the net return on pension fund.

Claims

Under IFRS, net insurance claims were £780 million or 22% higher at £4,260 million, reflecting the line-by-line consolidation of the life assurance business and the proportional consolidation of Linea Directa.

Provisions

Provisions were £1,485 million, £26 million, 2% lower due to the proportional consolidation of TPF.

Purchased intangibles amortisation

The amortisation of intangible assets was £870 million lower at £45 million. Under IFRS goodwill is not amortised; instead it is tested annually for impairment. The Group's purchased intangible assets include core deposit intangibles and mortgage servicing rights. These are being

amortised over their expected economic lives.

Integration costs

Integration costs at £520 million were £251 million higher than reported under UK GAAP. The increase reflects the amortisation of capitalised software developed in respect of the integration of NatWest. Under IFRS, the costs of internally developed software are capitalised and amortised over their useful economic life; under the Group's UK GAAP accounting policy these costs were written off as incurred. The total integration costs relating to the acquisition of NatWest are unchanged. The change in accounting policy on software under IFRS results in such costs being recognised in different accounting periods than under UK GAAP.

Profit

Profit before tax was £7,284 million, £367 million, 5% higher than £6,917 million reported under UK GAAP. This reflects the fact that although profit before tax, intangibles amortisation and integration costs was 3%, £252 million lower at £7,849 million, this reduction is more than offset by non amortisation of goodwill.

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FINANCIAL REVIEW (continued)

Earnings and dividends

Basic earnings per ordinary share were 157.4p compared with 138.0p under UK GAAP. The increase of 14% or 19.4p per ordinary share is mainly due to non-amortisation of goodwill. Earnings per share adjusted for the amortisation of purchased intangibles and integration costs were 1% or 2.3p per ordinary share lower at 170.2p compared with 172.5p reflecting the impact of the retrospective adjustments on recognition and timing described above.

The appropriation for ordinary dividends was £249 million less than under UK GAAP. Under IFRS, dividends are recognised only when paid or approved by shareholders.

Balance sheet

Total assets at 31 December 2004 increased by £4.7 billion under IFRS, principally as a result of the consolidation of special purpose entities established to facilitate customer transactions (£5.0 billion), the non-amortisation of goodwill (£0.9 billion) and the capitalisation of software development costs (£0.6 billion) partially offset by the proportionate consolidation of TPF (£1.4 billion) and a reduction of £0.3 billion due to the changes in accounting for operating and finance leases.

Note

The information in this announcement is based on IFRS expected to be applicable at 31 December 2005. Further IFRS or interpretations may be issued during 2005, which may also be applicable for 2005. In addition, as market practice develops in respect of IFRS, alternative interpretations and applications of IFRS may result.

Table of Contents**SUMMARY CONSOLIDATED INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2004**

	UK GAAP £m	Effect of IFRS £m	IFRS £m
Net interest income	9,208	(137)	9,071
Non-interest income (excluding insurance premium income)	8,602	71	8,673
Insurance net premium income	4,944	703	5,647
Non-interest income	13,546	774	14,320
Total income	22,754	637	23,391
Operating expenses	9,662	135	9,797
Profit before other operating charges	13,092	502	13,594
Insurance net claims	3,480	780	4,260
Operating profit before provisions	9,612	(278)	9,334
Provisions	1,511	(26)	1,485
Profit before tax, intangible assets amortisation and integration costs	8,101	(252)	7,849
Amortisation of purchased intangible assets	915	(870)	45
Integration costs	269	251	520
Profit on ordinary activities before tax	6,917	367	7,284
Tax on profit on ordinary activities	2,155	(160)	1,995
Profit for period	4,762	527	5,289
Minority interests	(250)	73	(177)
Preference dividends	(256)		(256)
Profit attributable to ordinary shareholders	4,256	600	4,856
Ordinary dividends	1,837	(249)	1,588
Basic earnings per ordinary share (Note 1 on page 40)	138.0p	19.4p	157.4p
Adjusted earnings per ordinary share (Note 1 on page 40)	172.5p	(2.3p)	170.2p

The IFRS adjustments excluding IAS 32, IAS 39 and IFRS 4 are analysed on page 33.

Table of Contents**SUMMARY CONSOLIDATED INCOME STATEMENT****FOR THE HALF YEAR ENDED 30 JUNE 2004 (unaudited)**

	UK GAAP £m	Effect of IFRS £m	IFRS £m
Net interest income	4,378	(67)	4,311
Non-interest income (excluding insurance premium income)	4,170	5	4,175
Insurance net premium income	2,416	290	2,706
Non-interest income	6,586	295	6,881
Total income	10,964	228	11,192
Operating expenses	4,639	58	4,697
Profit before other operating charges	6,325	170	6,495
Insurance net claims	1,723	267	1,990
Operating profit before provisions	4,602	(97)	4,505
Provisions	751	(13)	738
Profit before tax, intangible assets amortisation and integration costs	3,851	(84)	3,767
Amortisation of purchased intangible assets	413	(409)	4
Integration costs	57	121	178
Profit on ordinary activities before tax	3,381	204	3,585
Tax on profit on ordinary activities	1,048	(61)	987
Profit for period	2,333	265	2,598
Minority interests	(111)	30	(81)
Preference dividends	(116)		(116)
Profit attributable to ordinary shareholders	2,106	295	2,401
Ordinary dividends	529	530	1,059
Basic earnings per ordinary share (Note 1 on page 40)	69.9p	9.8p	79.7p
Adjusted earnings per ordinary share (Note 1 on page 40)	84.4p	(0.5p)	83.9p

The IFRS adjustments excluding IAS 32, IAS 39 and IFRS 4 are analysed on page 34.

Table of Contents**CONSOLIDATED BALANCE SHEET****AT 31 DECEMBER 2004**

	UK GAAP £m	Effect of IFRS £m	IFRS £m
Assets			
Cash and balances at central banks	4,293		4,293
Items in the course of collection from other banks	2,629		2,629
Treasury bills and other eligible bills	6,110		6,110
Loans and advances to banks	58,260	184	58,444
Loans and advances to customers	345,469	1,782	347,251
Debt securities	91,211	2,697	93,908
Equity shares	2,960	1,763	4,723
Intangible fixed assets	17,576	1,666	19,242
Property, plant and equipment	16,294	134	16,428
Settlement balances	5,682		5,682
Other assets	22,255	183	22,438
Prepayments and accrued income	6,928	46	6,974
Long-term assurance assets	3,800	(3,800)	
Total assets	583,467	4,655	588,122
Liabilities			
Deposits by banks	99,081		99,081
Items in the course of transmission to other banks	802		802
Customer accounts	285,062	(1,747)	283,315
Debt securities in issue	58,960	5,039	63,999
Settlement balances and short positions	32,990		32,990
Other liabilities	26,152	(1,368)	24,784
Accruals and deferred income	15,588	459	16,047
Post-retirement benefit liabilities	1,901	1,039	2,940
Provisions for liabilities and charges			
- deferred taxation liabilities	2,873	(812)	2,061
- other provisions	198	4,142	4,340
Subordinated liabilities	20,366		20,366
Minority interests	3,829	(337)	3,492
Shareholders funds	31,865	2,040	33,905
Long-term assurance liabilities	3,800	(3,800)	
Total liabilities	583,467	4,655	588,122

The IFRS adjustments excluding IAS 32, IAS 39 and IFRS 4 are analysed on page 37.

Table of Contents**CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2004 (unaudited)

	UK GAAP £m	Effect of IFRS £m	IFRS £m
Assets			
Cash and balances at central banks	3,140	17	3,157
Items in the course of collection from other banks	3,149		3,149
Treasury bills and other eligible bills	6,902		6,902
Loans and advances to banks	60,152	191	60,343
Loans and advances to customers	290,154	1,451	291,605
Debt securities	89,813	2,211	92,024
Equity shares	2,315	1,695	4,010
Intangible fixed assets	13,589	1,231	14,820
Property, plant and equipment	14,866	243	15,109
Settlement balances	10,288		10,288
Other assets	14,424	233	14,657
Prepayments and accrued income	5,943	41	5,984
Long-term assurance assets	3,531	(3,531)	
Total assets	518,266	3,782	522,048
Liabilities			
Deposits by banks	84,120	3	84,123
Items in the course of transmission to other banks	996		996
Customer accounts	253,949	(1,585)	252,364
Debt securities in issue	51,721	3,838	55,559
Settlement balances and short positions	38,058		38,058
Other liabilities	17,301	76	17,377
Accruals and deferred income	13,862	237	14,099
Post-retirement benefit liabilities	1,490	618	2,108
Provisions for liabilities and charges			
- deferred taxation liabilities	2,097	(359)	1,738
- other provisions	217	3,818	4,035
Subordinated liabilities	17,832		17,832
Minority interests	2,685	(348)	2,337
Shareholders funds	30,407	1,015	31,422
Long-term assurance liabilities	3,531	(3,531)	
Total liabilities	518,266	3,782	522,048

The IFRS adjustments excluding IAS 32, IAS 39 and IFRS 4 are analysed on page 38.

Table of Contents**CONSOLIDATED OPENING BALANCE SHEET****AT 1 JANUARY 2004**

	Effect		IFRS
	UK GAAP	of IFRS	
	£m	£m	£m
Assets			
Cash and balances at central banks	3,822		3,822
Items in the course of collection from other banks	2,501		2,501
Treasury bills and other eligible bills	4,846		4,846
Loans and advances to banks	51,891	1,011	52,902
Loans and advances to customers	252,531	662	253,193
Debt securities	79,949	1,199	81,148
Equity shares	2,300	1,745	4,045
Intangible fixed assets	13,131	896	14,027
Property, plant and equipment	13,927	320	14,247
Settlement balances	2,857		2,857
Other assets	17,807	247	18,054
Prepayments and accrued income	5,309	32	5,341
Long-term assurance assets	3,557	(3,557)	
Total assets	454,428	2,555	456,983
Liabilities			
Deposits by banks	67,323		67,323
Items in the course of transmission to other banks	958		958
Customer accounts	236,963	(1,497)	235,466
Debt securities in issue	41,016	3,129	44,145
Settlement balances and short positions	21,369		21,369
Other liabilities	20,584	(1,019)	19,565
Accruals and deferred income	13,155	404	13,559
Post-retirement benefit liabilities	1,445	591	2,036
Provisions for liabilities and charges			
- deferred taxation liabilities	2,036	(300)	1,736
- other provisions	213	3,882	4,095
Subordinated liabilities	16,998		16,998
Minority interests	2,713	(321)	2,392
Shareholders funds	26,098	1,243	27,341
Long-term assurance liabilities	3,557	(3,557)	
Total liabilities	454,428	2,555	456,983

The IFRS adjustments excluding IAS 32, IAS 39 and IFRS 4 are analysed on page 39.

Table of Contents**DIVISIONAL PERFORMANCE**

The contribution of each division before amortisation of purchased intangibles and integration costs and, where appropriate, Manufacturing costs is detailed below.

	Effect		
	UK GAAP	of IFRS	IFRS
Year ended 31 December 2004	£m	£m	£m
Corporate Banking and Financial Markets	4,350	(106)	4,244
Retail Banking	3,220	(8)	3,212
Retail Direct	964	(115)	849
Manufacturing	(2,546)	27	(2,519)
Wealth Management	374	(17)	357
RBS Insurance	862	1	863
Ulster Bank	450	(2)	448
Citizens	1,061		1,061
Central items	(634)	(32)	(666)
Profit before amortisation of purchased intangibles and integration costs	8,101	(252)	7,849

	Effect		
	UK GAAP	of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Corporate Banking and Financial Markets	2,081	(19)	2,062
Retail Banking	1,613	(13)	1,600
Retail Direct	447	(44)	403
Manufacturing	(1,227)	16	(1,211)
Wealth Management	188	(5)	183
RBS Insurance	395	(1)	394
Ulster Bank	212	(1)	211
Citizens	430		430
Central items	(288)	(17)	(305)
Profit before amortisation of purchased intangibles and integration costs	3,851	(84)	3,767

As set out on pages 71 to 73, 2004 results have been restated to reflect the transfers of businesses between divisions.

Table of Contents**CORPORATE BANKING AND FINANCIAL MARKETS**

		Effect	
	UK GAAP	of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Net interest income excluding funding cost of rental assets	3,040	(41)	2,999
Funding cost of rental assets	(414)		(414)
Net interest income	2,626	(41)	2,585
Fees and commissions receivable	1,762	(25)	1,737
Fees and commissions payable	(277)	23	(254)
Dealing profits (before associated direct costs)	1,895		1,895
Income on rental assets	1,282		1,282
Other operating income	381	55	436
Non-interest income	5,043	53	5,096
Total income	7,669	12	7,681
Direct expenses			
- staff costs	1,708	5	1,713
- other	421	40	461
- operating lease depreciation	610	73	683
	2,739	118	2,857
Contribution before provisions	4,930	(106)	4,824
Provisions	580		580
Contribution	4,350	(106)	4,244

Contribution at £4,244 million, is £106 million or 2% lower than under UK GAAP. The reduction principally reflects the changes in accounting for finance and operating leases, fees eliminated on consolidation of special purpose entities and the timing difference created by amortisation of internally developed software which was previously written off as incurred under the Group's UK GAAP accounting policy.

Table of Contents**CORPORATE BANKING AND FINANCIAL MARKETS**

	UK GAAP	Effect of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Net interest income excluding funding cost of rental assets	1,465	(18)	1,447
Funding cost of rental assets	(197)		(197)
Net interest income	1,268	(18)	1,250
Fees and commissions receivable	825		825
Fees and commissions payable	(137)	11	(126)
Dealing profits (before associated direct costs)	1,025		1,025
Income on rental assets	618		618
Other operating income	160	31	191
Non-interest income	2,491	42	2,533
Total income	3,759	24	3,783
Direct expenses			
- staff costs	846	(16)	830
- other	214	19	233
- operating lease depreciation	303	40	343
	1,363	43	1,406
Contribution before provisions	2,396	(19)	2,377
Provisions	315		315
Contribution	2,081	(19)	2,062

Table of Contents**RETAIL BANKING**

	UK GAAP	Effect of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Net interest income	3,123	(47)	3,076
Insurance net premium income		594	594
Other non-interest income	1,657	252	1,909
Total income	4,780	799	5,579
Direct expenses			
- staff costs	910	54	964
- other	261	51	312
	1,171	105	1,276
Insurance net claims		702	702
Contribution before provisions	3,609	(8)	3,601
Provisions	389		389
Contribution	3,220	(8)	3,212

Contribution at £3,212 million is £8 million lower.

Virtually all of the IFRS adjustments arise from the consolidation of the life assurance business on a line-by-line basis. As a result, net interest income decreased by £47 million and non-interest income increased by £846 million. Staff costs and other costs increased by £54 million and £51 million respectively. Insurance net claims, which represent payments under assurance contracts, were £702 million.

Table of Contents**RETAIL BANKING**

	UK GAAP	Effect of IFRS	IFRS
	£m	£m	£m
Half year ended 30 June 2004 (unaudited)			
Net interest income	1,520	(21)	1,499
Insurance net premium income		242	242
Other non-interest income	829	48	877
Total income	2,349	269	2,618
Direct expenses			
- staff costs	440	31	471
- other	110	20	130
	550	51	601
Insurance net claims		231	231
Contribution before provisions	1,799	(13)	1,786
Provisions	186		186
Contribution	1,613	(13)	1,600

Table of Contents**RETAIL DIRECT**

	Effect		
	UK GAAP	of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Net interest income	851	(69)	782
Non-interest income	1,134	(139)	995
Total income	1,985	(208)	1,777
Direct expenses			
- staff costs	247	2	249
- other	434	(68)	366
	681	(66)	615
Contribution before provisions	1,304	(142)	1,162
Provisions	340	(27)	313
Contribution	964	(115)	849

Contribution at £849 million is £115 million, 12%, lower due principally to the proportionate consolidation of Tesco Personal Finance (TPF). The change in the accounting treatment of TPF does not affect the profit attributable to ordinary shareholders as there is a commensurate reduction in minority interests.

RETAIL DIRECT

	Effect		
	UK GAAP	of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Net interest income	415	(37)	378
Non-interest income	530	(59)	471
Total income	945	(96)	849
Direct expenses			
- staff costs	121	(3)	118
- other	220	(36)	184
	341	(39)	302

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Contribution before provisions	604	(57)	547
Provisions	157	(13)	144
Contribution	447	(44)	403

Table of Contents**MANUFACTURING**

	Effect		
	UK GAAP	of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Staff costs	870	(144)	726
Other costs	1,676	117	1,793
Total manufacturing costs	2,546	(27)	2,519

Total manufacturing costs were £2,519 million, £27 million or 1% lower.

The charge for amortisation of software development costs is lower than the amounts expensed under the Group's UK GAAP accounting policy. Staff costs are reduced as amounts are capitalised while other costs are increased due to the amortisation charge.

MANUFACTURING

	Effect		
	UK GAAP	of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Staff costs	432	(81)	351
Other costs	795	65	860
Total manufacturing costs	1,227	(16)	1,211

Table of Contents**WEALTH MANAGEMENT**

		Effect	
	UK GAAP	of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Net interest income	403		403
Non-interest income	370	1	371
Total income	773	1	774
Expenses			
- staff costs	262		262
- other	119	16	135
	381	16	397
Contribution before provisions	392	(15)	377
Provisions	18	2	20
Contribution	374	(17)	357

Contribution at £357 million is £17 million or 5% lower principally due to the amortisation of software development costs.

WEALTH MANAGEMENT

		Effect	
	UK GAAP	of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Net interest income	197		197
Non-interest income	173		173
Total income	370		370
Expenses			
- staff costs	123		123
- other	57	5	62
	180	5	185

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Contribution before provisions	190	(5)	185
Provisions	<u>2</u>	<u>—</u>	<u>2</u>
Contribution	<u>188</u>	<u>(5)</u>	<u>183</u>

Table of Contents**RBS INSURANCE**

		Effect	
	UK GAAP	of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Earned premiums	5,357	150	5,507
Reinsurers share	(413)	(41)	(454)
Insurance premium income	4,944	109	5,053
Net fees and commissions	(488)	7	(481)
Other income	478	(11)	467
Total income	4,934	105	5,039
Expenses			
- staff costs	293	11	304
- other	299	15	314
	592	26	618
Gross claims	3,724	102	3,826
Reinsurers share	(244)	(24)	(268)
Net claims	3,480	78	3,558
Contribution	862	1	863

Contribution at £863 million was £1 million higher. The increases in income, expenses and gross claims reflect the proportionate consolidation of Linea Directa.

RBS INSURANCE

		Effect	
	UK GAAP	of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Earned premiums	2,631	70	2,701
Reinsurers share	(215)	(21)	(236)
Insurance premium income	2,416	49	2,465
Net fees and commissions	(210)	4	(206)

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Other income	213	(4)	209
	<u> </u>	<u> </u>	<u> </u>
Total income	2,419	49	2,468
	<u> </u>	<u> </u>	<u> </u>
Expenses			
- staff costs	152	5	157
- other	149	8	157
	<u> </u>	<u> </u>	<u> </u>
	301	13	314
	<u> </u>	<u> </u>	<u> </u>
Gross claims	1,827	50	1,877
Reinsurers share	(104)	(13)	(117)
	<u> </u>	<u> </u>	<u> </u>
Net claims	1,723	37	1,760
	<u> </u>	<u> </u>	<u> </u>
Contribution	395	(1)	394
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**ULSTER BANK**

	UK GAAP	Effect of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Net interest income	550		550
Non-interest income	193		193
Total income	743		743
Expenses			
- staff costs	176		176
- other	77	2	79
	253	2	255
Contribution before provisions	490	(2)	488
Provisions	40		40
Contribution	450	(2)	448

Contribution at £448 million was £2 million lower due to the amortisation of software development costs.

Table of Contents**ULSTER BANK**

	UK GAAP	Effect of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Net interest income	256		256
Non-interest income	95		95
Total income	351		351
Expenses			
- staff costs	86		86
- other	35	1	36
	121	1	122
Contribution before provisions	230	(1)	229
Provisions	18		18
Contribution	212	(1)	211

CITIZENS

	UK GAAP	Effect of IFRS	IFRS
Year ended 31 December 2004 (unaudited)	£m	£m	£m
Net interest income	1,594		1,594
Non-interest income	652		652
Total income	2,246		2,246
Expenses			
- staff costs	572		572
- other	496		496
	1,068		1,068
Contribution before provisions	1,178		1,178
Provisions	117		117
Contribution	1,061		1,061



The implementation of IFRS, other than IAS 32 and IAS 39, has not affected Citizens' contribution.

Table of Contents**CITIZENS**

	UK GAAP	Effect of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Net interest income	666		666
Non-interest income	255		255
Total income	921		921
Expenses			
- staff costs	246		246
- other	190		190
	436		436
Contribution before provisions	485		485
Provisions	55		55
Contribution	430		430

Table of Contents**CENTRAL ITEMS**

Year ended 31 December 2004 (unaudited)	UK GAAP £m	Effect of IFRS £m	IFRS £m
Funding costs	267		267
Departmental and corporate costs	367	32	399
Total Central items	634	32	666

Total central items were £666 million, an increase of £32 million, or 5% reflecting the cost of share based payments. Under IFRS, the fair value of employee options at the date of grant is expensed on a straight line basis over the vesting period. UK GAAP did not require the recognition of the cost of stock options.

CENTRAL ITEMS

Half year ended 30 June 2004 (unaudited)	UK GAAP £m	Effect of IFRS £m	IFRS £m
Funding costs	113		113
Departmental and corporate costs	175	17	192
Total Central items	288	17	305

Table of Contents**ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4**

Year ended 31 December 2004

Group	Property, including investment property £m	Leases £m	TPF £m	Other JVs £m	Consolidation £m	Software development costs £m	Share based payments £m	Employee benefits £m	Bancassurance £m	Goodwill £m	Other £m	Total £m
Net interest income	(21)	(18)	(70)	4	(1)	16			(47)			(137)
Non-interest income	22	27	(138)	25	(29)			(85)	251		(2)	71
Insurance net premium income				109					594			703
Total income	1	9	(208)	138	(30)	16		(85)	798		(2)	637
Operating expenses	5	49	(74)	74	2	27	36	(83)	106	(5)	(2)	135
Insurance net claims				78					702			780
Operating profit before provisions	(4)	(40)	(134)	(14)	(32)	(11)	(36)	(2)	(10)	5		(278)
Provisions			(27)		1							(26)
Profit before intangibles amortisation and integration costs	(4)	(40)	(107)	(14)	(33)	(11)	(36)	(2)	(10)	5		(252)
Intangible assets amortisation										(870)		(870)
Integration costs						251						251
Profit before tax	(4)	(40)	(107)	(14)	(33)	(262)	(36)	(2)	(10)	875		367

Table of Contents**ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4**

Half year ended 30 June 2004 (unaudited)

Group	Property, including investment property	Leases	TPF	Other JVs	Consolidation	Software development costs	Share based payments	Employee benefits	Bancassurance	Goodwill	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	(11)	(6)	(37)	2		6			(21)			(67)
Non-interest income	9	17	(59)	14	(1)			(24)	47		2	5
Insurance net premium income				49					242		(1)	290
Total income	(2)	11	(96)	65	(1)	6		(24)	268		1	228
Operating expenses	(2)	29	(38)	28		(4)	15	(23)	52		1	58
Insurance net claims				37					231		(1)	267
Operating profit before provisions		(18)	(58)		(1)	10	(15)	(1)	(15)		1	(97)
Provisions			(13)									(13)
Profit before intangibles amortisation and integration costs		(18)	(45)		(1)	10	(15)	(1)	(15)		1	(84)
Intangible assets amortisation										(409)		(409)
Integration costs						121						121
Profit before tax		(18)	(45)		(1)	(111)	(15)	(1)	(15)	409	1	204

Table of Contents**ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4****Divisional analysis**

Year ended	Property, including investment property	Leases	TPF	Other JVs	Consolidation	Software development costs	Share based payments	Employee benefits	Bancassurance	Goodwill	Other	Total
31 December 2004	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate Banking and Financial Markets		(39)		(14)	(31)	(21)					(1)	(106)
Retail Banking						1			(9)			(8)
Retail Direct			(107)		(1)	(7)						(115)
Manufacturing						27						27
Wealth Management		(1)			(1)	(15)						(17)
RBS Insurance	(4)					6			(1)			1
Ulster Bank						(2)						(2)
Citizens												
Central items							(36)	(2)		5	1	(32)
Profit before intangibles amortisation and integration costs	(4)	(40)	(107)	(14)	(33)	(11)	(36)	(2)	(10)	5		(252)
Intangible assets amortisation										(870)		(870)
Integration costs						251						251
Profit before tax	(4)	(40)	(107)	(14)	(33)	(262)	(36)	(2)	(10)	875		367

Table of Contents**ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4****Divisional analysis**

Half year ended	Property, including investment property	Leases	TPF	Other JVs	Consolidation	Software development costs	Share based payments	Employee benefits	Bancassurance	Goodwill	Other	Total
30 June 2004 (unaudited)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate Banking and Financial Markets		(18)			(1)							(19)
Retail Banking						1			(14)			(13)
Retail Direct			(45)							1		(44)
Manufacturing Wealth Management						16						16
RBS Insurance						(6)			(1)	1		(5)
Ulster Bank						(1)						(1)
Citizens Central items							(15)	(1)		(2)	1	(17)
Profit before intangibles amortisation and integration costs		(18)	(45)		(1)	10	(15)	(1)	(15)		1	(84)
Intangible assets amortisation										(409)		(409)
Integration costs						121						121
Profit before tax		(18)	(45)		(1)	(111)	(15)	(1)	(15)	409	1	204

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ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4

	Dividends	Income tax	Property, plant and equipment	Leases	TPF	Other JVs	Consolidation	Software development costs	Investment property	Share based payment	Employee benefits	Bancassurance	Goodwill
December 2004	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
balances at													
by banks													
in the course of													
contribution from other													
for bills and other													
for bills													
for advances to													
					(2)							186	
for advances to													
for securities				(132)	(1,340)	(41)	4,554		(449)			(810)	
for shares						153	465					2,079	
for fixed assets								725				1,763	
for plant and													
equipment			(60)	(153)	(8)	75		(168)	447			1	
for net balances													
for assets				(12)		34	25				(4)	216	(76)
for provisions and													
for income				3	(12)	15	19		1			20	
for net assurance												(3,800)	
Assets			(60)	(294)	(1,362)	236	5,063	557	(1)		(4)	(345)	865
for													
by banks													
in the course of													
contribution to other													
for													
for accounts					(1,015)							(732)	
for securities in issue							5,039						
for net balances and													
for provisions													
for liabilities	(1,308)			6	(16)	31	(166)					85	
for and deferred													
for				19	(3)	198	214			20		11	
for retirement benefit													
for						14					1,025		
for provisions for liabilities													
for													
for taxation		109		(90)	6	3		164	1	(6)	(1,008)	12	(3)
for provisions												4,142	
for related liabilities													
for interests					(334)			6				(9)	

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ders funds	1,308	(109)	(60)	(229)	(10)	(24)	387	(2)	(14)	(21)	(54)	868
m assurance												(3,800)
ilities			(60)	(294)	(1,362)	236	5,063	557	(1)	(4)	(345)	865

Table of Contents**ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4**

	Dividends	Income tax	Property, plant and equipment	Leases	TPF	Other JVs	Consolidation	Software development costs	Investment property	Share based payment	Employee benefits	Bancassurance	Goodwill
(unaudited)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
balances at central							1					16	
course of													
om other banks													
ls and other													
advances to banks					(2)		75					118	
advances to				(120)	(1,327)	(48)	3,949		(417)			(586)	
ies						123	89					1,999	
es												1,695	
ixed assets								822				(1)	4
ant and equipment				(130)	(7)	79		(114)	415				
balances				(23)		40	(8)				(3)	227	
s and accrued					(4)	15	16		1			13	
assurance assets												(3,531)	
				(273)	(1,340)	209	4,122	708	(1)		(3)	(50)	4
banks													3
course of													
n to other banks													
accounts					(990)							(595)	
ies in issue							3,838						
balances and short													
ties	(529)			2	(27)	27	267					336	
d deferred income				20	12	176	15			12		2	
ent benefit											618		
or liabilities and													
axation liabilities		109		(82)	7	6		209		(4)	(603)	(1)	
isions												3,818	
d liabilities													
erests					(342)			6				(12)	
s funds	529	(109)		(213)			2	493	(1)	(8)	(18)	(70)	4
assurance												(3,531)	
				(273)	(1,340)	209	4,122	708	(1)		(3)	(50)	4

Table of Contents**ANALYSIS OF IFRS ADJUSTMENTS EXCLUDING IAS 32, IAS 39 AND IFRS 4**

	Dividends	Income tax	Property, plant and equipment	Leases	TPF	Other JVs	Consolidation	Software development costs	Investment property	Share based payment	Employee benefits	Bancassurance	Goodwill
January 2004	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
and balances at													
banks													
in the course													
reception from													
banks													
currency bills and													
eligible bills													
and advances													
assets					(2)							1,013	
and advances													
from customers				(147)	(1,310)	(55)	3,163		(448)			(541)	
securities						111	12					1,076	
shares												1,745	
and identifiable intangible fixed								896					
assets, property, plant and													
equipment				(127)	(7)	83		(78)	448			1	
and investment balances													
assets						49					(10)	208	
and investments and													
deferred income					(4)	16	11	1				8	
and term assurance												(3,557)	
Intangible assets				(274)	(1,323)	204	3,186	819					