

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 03, 2007
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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 August 2007

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

Business House F, Level 2

RBS, Gogarburn, PO Box 1000

Edinburgh EH12 1HQ, DEPOT CODE: 045

(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 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

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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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Interim Results 2007

**Interim Results
for the half year ended
30 June 2007**

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2007 FIRST HALF HIGHLIGHTS

*Group operating profit up 11% to £5,106 million.

Profit after tax up 20% to £3,736 million.

Adjusted earnings per ordinary share up 21% to 38.4p.

Interim dividend up 25% to 10.1p.

Income up 8% to £14,690 million (10% at constant exchange rates).

UK income up 10% to £10.9 billion.

International income £3.8 billion, up 10% at constant exchange rates.

Cost:income ratio down to 41.4% from 41.9%.

Impairment losses improved to 0.40% of loans and advances.

At constant exchange rates, Group operating profit up 13%.

Average loans and advances to customers up 9%.

Average customer deposits up 10%.

Adjusted return on equity 19.6%, up from 18.5%.

Tier 1 capital ratio 7.4%.

Total capital ratio 12.5%.

* profit before tax, purchased intangibles amortisation and integration costs.

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RESULTS SUMMARY

	First half	First half		Full year
	2007	2006	Increase	2006
	£m	£m	£m	£m
Total income	14,690	13,642	1,048	28,002
Operating expenses (1)	6,298	5,948	350	12,252
Operating profit before impairment losses (1)	5,977	5,490	487	11,292
Group operating profit (2)	5,106	4,603	503	9,414
Purchased intangibles amortisation	43	49	(6)	94
Integration costs	55	43	12	134
Profit before tax	5,008	4,511	497	9,186
Cost:income ratio (3)	41.4%	41.9%		42.1%
Basic earnings per ordinary share	37.6p	31.0p	6.6p	64.9p
Adjusted earnings per ordinary share (4)	38.4p	31.7p	6.7p	66.7p

(1) *excluding purchased intangibles amortisation and integration costs.*

(2) *profit before tax, purchased intangibles amortisation and integration costs.*

(3) *the cost:income ratio is based on total income and operating expenses as defined in (1) above, and after netting operating lease depreciation against rental income.*

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

Sir Fred Goodwin, Group Chief Executive, said:

Diversification has enabled the Group to prosper consistently through a wide range of business, market and economic conditions. These results demonstrate the continuing value of our approach and give us confidence in our ability to deliver in the future for our customers, our people and our shareholders.

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THE ROYAL BANK OF SCOTLAND GROUP plc

GROUP CHIEF EXECUTIVE'S REVIEW

Our Group has consistently demonstrated its ability to deliver organic growth in income, profit and earnings per share and we have done so once again in the first half of 2007, with a strong performance from our range of diversified businesses. Total income rose to £14,690 million, up 8%, operating profit increased by 11% to £5,106 million and adjusted earnings per share by 21% to 38.4p.

Income growth has been built on increasing customer activity across our core franchises. Each of our divisions faces different market conditions, but across the Group as a whole we have grown average customer deposits by 10% and lending by 9%, demonstrating the resilience of our operating model. Adverse movements in exchange rates have affected not only Citizens but also Corporate Markets and Wealth Management. In constant currency terms, we grew income by 10% and operating profit by 13%.

We have also expanded our product capabilities and broadened our geographical footprint, with excellent results from Corporate Markets, Wealth Management and Ulster Bank. We have made particularly good progress in Asia, where we more than doubled income, benefiting from the investments we are making in building our franchise.

Income growth has been accompanied by good cost discipline. In the first half the Group cost:income ratio improved further to 41.4%. Our customer-facing divisions have directed investment towards faster-growth opportunities while tightly managing their direct costs. Our Manufacturing division held infrastructure and support cost growth to just 2% while supporting increased business volumes.

Strong credit metrics highlight our conservative risk profile across the Group, and impairment losses fell 2% to £871 million. The quality of our corporate loan portfolio remains very strong, and we believe that we have passed the peak of bad debts in the UK unsecured personal credit market. Our early action to tighten lending criteria and reduce activity in the direct loan market is now reflected in falling arrears and a 7% reduction in Retail impairment losses. Our trading book risk remains modest.

Many of our customers' homes have been damaged by the severe flooding the UK has experienced over the last two months, and we have been working hard to process their claims as quickly as possible and assist them at this difficult time. This has, naturally, affected RBS Insurance's results, with June flood claims estimated to have cost a net £125 million. Had it not been for this factor, our Group operating profit would have grown by 16% on a constant currency basis.

Adjusted earnings per share increased by 21% to 38.4p, driven by our strong operating performance, a reduction in the number of shares in issue following last year's share buyback, and an effective tax rate of 25.4% in the first half of 2007. This tax rate includes the full impact on deferred tax of the change in the UK corporation tax rate from April 2008. Excluding this deferred tax reduction, adjusted earnings per share rose by 16%.

Adjusted return on equity improved to 19.6%, or to 18.7% excluding the deferred tax reduction.

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GROUP CHIEF EXECUTIVE S REVIEW (continued)

Our businesses

These very good results endorse the strength of our business model and emphasise the importance of diversity in our sources of income. They also reflect the measured investments we have made over recent years to take advantage of growth opportunities across our businesses. In each of our divisions we have achieved good growth in core customer numbers, underpinning these results and strengthening our franchise for the future.

Our businesses have continued to balance volume growth against profitability, and we have maintained a more cautious approach towards a number of business segments in which we have not considered that the available returns matched the costs and risks entailed. We have, therefore, further reduced our business volumes in markets such as direct loans, intermediary mortgages and insurance partnerships, with a consequent improvement in profitability.

Global Banking & Markets has produced another strong performance, as its expanding product set and broadening geographical footprint have yielded a 19% increase in operating profit, while UK Corporate Banking has maintained its consistently good pace of growth. Ulster Bank and Wealth Management, too, have kept up their momentum, and we are continuing to invest in these high-growth businesses.

Retail Markets has continued to build its core current account franchise, providing the platform for strong growth in its savings and investments business. Lending growth has been more subdued but our cautious credit stance has produced a reduction in impairment losses, and this, together with flat underlying costs, drove a 10% increase in operating profit.

Citizens has increased its customer numbers by 5% and made significant progress in its efforts to diversify its income streams away from its traditional deposit products, with good growth in credit cards and merchant acquiring. That diversification has emphatically not included the sub-prime credit markets, and we have no regrets over our decision to avoid this segment. Average corporate lending increased by 12%, demonstrating the momentum we are building towards our objective of developing a significant corporate and commercial banking presence in the US. Operating profit rose by 2% in US dollar terms.

RBS Insurance has also performed well in the first half. Whilst its headline operating profit is lower, reflecting the £125 million net cost of the June floods, its underlying performance shows a meaningful improvement. In our own-brand businesses we have increased prices and improved risk selection while holding volumes steady, with the result that operating profit in this segment rose by 10%, excluding the flood effect. In our partnership operations, where we provide underwriting and processing services to third party distributors, we have put profitability ahead of volume, exiting some low-margin partnership contracts.

Capital

We have managed our balance sheet carefully, generating capital to fund a 9% increase in risk-weighted assets since 30 June 2006 while holding our Tier 1 ratio at 7.4%, in the middle of our target range of 7-8%. The Financial Services Authority has endorsed our Basel II programme and we will be among the small group of financial institutions permitted to use the advanced approach to credit risk management when the new capital adequacy framework comes into effect next year.

In line with our established policy, we will be paying an interim dividend equivalent to one third of the previous year's total dividend. Allowing for the bonus share issue in May, that equates to 10.1p per share, up 25%.

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GROUP CHIEF EXECUTIVE S REVIEW (continued)

Outlook

Some of the structural headwinds we have experienced in Retail Markets, Citizens and RBS Insurance have begun to abate. The strength of our franchise coupled with the diversity of our income streams means the Group is well placed to compete as the market evolves. We remain confident of the Group's ability to continue to deliver sustainable organic growth in income, profit and earnings per share.

Sir Fred Goodwin

Group Chief Executive

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SUMMARY CONSOLIDATED INCOME STATEMENT**FOR THE HALF YEAR ENDED 30 JUNE 2007 (unaudited)**

In the income statement set out below, amortisation of purchased intangible assets and integration costs are shown separately. In the statutory income statement on page 30, these items are included in operating expenses.

	First half 2007	First half 2006	Full year 2006
	£m	£m	£m
Net interest income	5,383	5,194	10,596
Non-interest income (excluding insurance net premium income)	6,259	5,468	11,433
Insurance net premium income	3,048	2,980	5,973
Non-interest income	9,307	8,448	17,406
Total income	14,690	13,642	28,002
Operating expenses	6,298	5,948	12,252
Profit before other operating charges	8,392	7,694	15,750
Insurance net claims	2,415	2,204	4,458
Operating profit before impairment losses	5,977	5,490	11,292
Impairment losses	871	887	1,878
Profit before tax, purchased intangibles amortisation and integration costs	5,106	4,603	9,414
Amortisation of purchased intangible assets	43	49	94
Integration costs	55	43	134
Profit before tax	5,008	4,511	9,186
Tax	1,272	1,387	2,689
Profit for the period	3,736	3,124	6,497
Minority interests	75	55	104
Preference dividends	106	91	191
Profit attributable to ordinary shareholders	3,555	2,978	6,202
Basic earnings per ordinary share (Note 4)	37.6p	31.0p	64.9p
Adjusted earnings per ordinary share (Note 4)	38.4p	31.7p	66.7p

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FINANCIAL REVIEW

Profit

Profit before tax was up 11%, from £4,511 million to £5,008 million, reflecting strong organic income growth in Corporate Markets, Wealth Management and Ulster Bank.

Group operating profit increased by 11% or £503 million, from £4,603 million to £5,106 million.

Total income

The Group achieved strong growth in income during the first half of 2007. Total income was up 8% or £1,048 million to £14,690 million.

Net interest income increased by 4% to £5,383 million and represents 37% of total income (2006 - 38%). Average loans and advances to customers and average customer deposits grew by 9% and 10% respectively.

Non-interest income increased by 10% to £9,307 million and represents 63% of total income (2006 - 62%).

Net interest margin

The Group's net interest margin at 2.42% was down from 2.45% in the first half of 2006.

Operating expenses

Operating expenses, excluding purchased intangibles amortisation and integration costs, rose by 6% to £6,298 million.

Cost:income ratio

The Group's cost:income ratio was 41.4% compared with 41.9% in 2006.

Net insurance claims

Bancassurance and general insurance claims, after reinsurance, increased by 10% to £2,415 million reflecting volume growth and adverse weather conditions in the first half of 2007. Excluding the impact of severe weather in June, net insurance claims increased by 3%.

Impairment losses

Impairment losses fell 2% to £871 million, compared with £887 million in 2006.

Risk elements in lending and potential problem loans represented 1.51% of gross loans and advances to customers excluding reverse repos at 30 June 2007 (31 December 2006 - 1.57%).

Provision coverage of risk elements in lending and potential problem loans was 63% (31 December 2006 - 62%).

Integration

Integration costs were £55 million compared with £43 million in 2006.

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FINANCIAL REVIEW (continued)

Taxation

The effective tax rate for the first half of 2007 was 25.4% (first half 2006 - 30.7%). The tax rate benefited from a reduction of £157 million in deferred tax liability following the change in the rate of UK Corporation Tax from 30% to 28% from 1 April 2008. The change in the rate of taxation also reduced net interest income by £19 million to reflect lower rentals on leases with tax variation clauses.

Earnings and dividends

Basic earnings per ordinary share increased by 21%, from 31.0p to 37.6p. Earnings per ordinary share adjusted for purchased intangibles amortisation and integration costs also increased by 21%, from 31.7p to 38.4p.

An interim dividend of 10.1p per ordinary share, representing one third of last year's total dividend will be paid on 5 October 2007 to shareholders registered on 17 August 2007. The interim dividend is covered 3.8 times by earnings before purchased intangibles amortisation and integration costs.

Balance sheet

Total assets were £1,011.3 billion at 30 June 2007, 16% higher than total assets of £871.4 billion at 31 December 2006.

Lending to customers, excluding repurchase agreements and stock borrowing (reverse repos), increased in the first half of 2007 by 5% or £19.7 billion to £423.7 billion. Customer deposits, excluding repurchase agreements and stock lending (repos), grew by 5% or £17.4 billion to £337.6 billion.

Capital ratios at 30 June 2007 were 7.4% (Tier 1) and 12.5% (Total).

Profitability

The adjusted after-tax return on ordinary equity, which is based on profit attributable to ordinary shareholders before purchased intangibles amortisation and integration costs, and average ordinary equity, was 19.6% compared with 18.5% in the first half of 2006.

Bonus issue

In May 2007, the Group capitalised £1,576 million of its share premium account by way of a bonus issue of two new ordinary shares of 25p each for every one held.

RESTATEMENTS

Divisional results for 2006 have been restated to reflect transfers of businesses between divisions in the second half of 2006 and the first half of 2007. These changes do not affect the Group's results. A divisional analysis of these restatements is set out on page 51.

The number of ordinary shares in issue and per share data for prior periods have been restated to reflect the bonus issue in May 2007.

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DESCRIPTION OF BUSINESS

Corporate Markets is focused on the provision of debt and risk management services to medium and large businesses and financial institutions in the UK and around the world. Its activities are organised into two businesses, Global Banking & Markets and UK Corporate Banking, in order to enhance our focus on the distinct needs of these two customer segments.

Global Banking & Markets is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt financing, risk management and investment services to its customers.

UK Corporate Banking is the largest provider of banking, finance and risk management services to UK corporate customers. Through its network of relationship managers across the country it distributes the full range of Corporate Markets products and services to companies.

Retail Markets leads the co-ordination and delivery of our multi-brand retail strategy across our product range and comprises Retail and Wealth Management.

Retail comprises both The Royal Bank of Scotland and NatWest retail brands. It offers a full range of banking products and related financial services to the personal, premium and small business markets (SMEs) through the largest network of branches and ATMs in the UK, as well as through telephone and internet banking. Retail is the UK market leader in small business banking. Retail issues a comprehensive range of credit and charge cards and other financial products through The Royal Bank of Scotland, NatWest and other brands, including MINT, First Active UK and Tesco Personal Finance. It is the leading merchant acquirer in Europe and ranks 4th globally.

Wealth Management provides private banking and investment services to its global clients through Coutts Group, Adam & Company, The Royal Bank of Scotland International and NatWest Offshore.

Ulster Bank, including First Active, provides a comprehensive range of retail and wholesale financial services in the Republic of Ireland and Northern Ireland. Retail Banking has a network of branches throughout Ireland and operates in the personal, commercial and wealth management sectors. Corporate Markets provides a wide range of services in the corporate and institutional markets. RBS's European Consumer Finance (ECF) activities, previously part of RBS Retail Markets, are now managed within Ulster Bank. ECF provides consumer finance products, particularly card-based revolving credits and fixed-term loans, in Germany and the Benelux countries.

Citizens is engaged in retail and corporate banking activities through its branch network in 13 states in the United States and through non-branch offices in other states. Citizens was ranked the 9th largest commercial banking organisation in the US based on deposits as at 31 March 2007. Citizens Financial Group includes the seven Citizens Banks, Charter One, RBS National Bank, our US credit card business, RBS Lync, our US merchant acquiring business, and Kroger Personal Finance, our credit card joint venture with the second largest US supermarket group.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Direct Line, Churchill and Privilege sell general insurance products direct to the customer. Through its International Division, RBS Insurance sells general insurance, mainly motor, in Spain, Germany and Italy. The Intermediary and Broker Division sells general insurance products through 2,500 independent brokers.

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DESCRIPTION OF BUSINESS (continued)

Manufacturing supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Manufacturing drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and has become the centre of excellence for managing large-scale and complex change.

The expenditure incurred by Manufacturing relates to costs principally in respect of the Group's banking and insurance operations in the UK and Ireland. These costs reflect activities that are shared between the various customer-facing divisions and consequently cannot be directly attributed to individual divisions. Instead, the Group monitors and controls each of its customer-facing divisions on revenue generation and direct costs whilst in Manufacturing such control is exercised through appropriate efficiency measures and targets. For financial reporting purposes the Manufacturing costs have been allocated to the relevant customer-facing divisions on a basis management considers to be reasonable.

The Centre comprises group and corporate functions, such as capital raising, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital requirements and Group-wide regulatory projects and provides services to the operating divisions.

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DIVISIONAL PERFORMANCE

The profit before amortisation of purchased intangible assets and integration costs and after allocation of Manufacturing costs where appropriate, of each division is detailed below, and is described as operating profit in the divisional analyses that follow. The allocations of Manufacturing costs are shown separately in the results for each division.

	First half 2007	First half 2006	Increase	Full year 2006
	£m	£m	%	£m
Corporate Markets				
- Global Banking & Markets	2,170	1,829	19	3,816
- UK Corporate Banking	981	878	12	1,758
Total Corporate Markets	3,151	2,707	16	5,574
Retail Markets				
- Retail	1,160	1,085	7	2,258
- Wealth Management	202	158	28	318
Total Retail Markets	1,362	1,243	10	2,576
Ulster Bank	238	198	20	421
Citizens	752	812	(7)	1,582
RBS Insurance	255	351	(27)	749
Manufacturing				
Central items	(652)	(708)	8	(1,488)
Group operating profit	5,106	4,603	11	9,414

Risk-weighted assets of each division were as follows:

	30 June 2007	31 December 2006	30 June 2006
	£bn	£bn	£bn
Corporate Markets			
- Global Banking & Markets	144.0	138.1	127.8
- UK Corporate Banking	99.9	93.1	88.0
Total Corporate Markets	243.9	231.2	215.8
Retail Markets			
- Retail	69.9	70.6	71.9
- Wealth Management	7.0	6.4	6.5
Total Retail Markets	76.9	77.0	78.4
Ulster Bank	32.3	29.7	