

ROYAL BANK OF SCOTLAND GROUP PLC

Form 6-K

June 08, 2005

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## **FORM 6-K**

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# **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**

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## **The Royal Bank of Scotland Group plc**

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**42 St Andrew Square**

**Edinburgh EH2 2YE**

**Scotland**

**(Address of principal executive offices)**

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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.

**CONTACTS**

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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	<b>23,391</b>	22,754	<b>11,192</b>	10,964
Operating expenses*	<b>9,797</b>	9,662	<b>4,697</b>	4,639
Operating profit before provisions*	<b>9,334</b>	9,612	<b>4,505</b>	4,602
Profit before tax, intangibles amortisation and integration costs	<b>7,849</b>	8,101	<b>3,767</b>	3,851
Intangibles amortisation	<b>45</b>	915	<b>4</b>	413
Integration costs	<b>520</b>	269	<b>178</b>	57
Profit before tax	<b>7,284</b>	6,917	<b>3,585</b>	3,381
Cost:income ratio**	<b>40.0%</b>	40.8%	<b>40.1%</b>	40.6%
Basic earnings per ordinary share	<b>157.4p</b>	138.0p	<b>79.7p</b>	69.9p
Adjusted earnings per ordinary share***	<b>170.2p</b>	172.5p	<b>83.9p</b>	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
<b>Net interest income</b>	9,208	(137)	<b>9,071</b>
Non-interest income (excluding insurance premium income)	8,602	71	<b>8,673</b>
Insurance net premium income	4,944	703	<b>5,647</b>
<b>Non-interest income</b>	<b>13,546</b>	<b>774</b>	<b>14,320</b>
<b>Total income</b>	<b>22,754</b>	<b>637</b>	<b>23,391</b>
<b>Operating expenses</b>	<b>9,662</b>	<b>135</b>	<b>9,797</b>
<b>Profit before other operating charges</b>	<b>13,092</b>	<b>502</b>	<b>13,594</b>
Insurance net claims	3,480	780	<b>4,260</b>
<b>Operating profit before provisions</b>	<b>9,612</b>	<b>(278)</b>	<b>9,334</b>
Provisions	1,511	(26)	<b>1,485</b>
<b>Profit before tax, intangible assets amortisation and integration costs</b>	<b>8,101</b>	<b>(252)</b>	<b>7,849</b>
Amortisation of purchased intangible assets	915	(870)	<b>45</b>
Integration costs	269	251	<b>520</b>
<b>Profit on ordinary activities before tax</b>	<b>6,917</b>	<b>367</b>	<b>7,284</b>
Tax on profit on ordinary activities	2,155	(160)	<b>1,995</b>
<b>Profit for period</b>	<b>4,762</b>	<b>527</b>	<b>5,289</b>
Minority interests	(250)	73	<b>(177)</b>
Preference dividends	(256)		<b>(256)</b>
Profit attributable to ordinary shareholders	4,256	600	<b>4,856</b>
<b>Ordinary dividends</b>	<b>1,837</b>	<b>(249)</b>	<b>1,588</b>
<b>Basic earnings per ordinary share (Note 1 on page 40)</b>	<b>138.0p</b>	<b>19.4p</b>	<b>157.4p</b>
<b>Adjusted earnings per ordinary share (Note 1 on page 40)</b>	<b>172.5p</b>	<b>(2.3p)</b>	<b>170.2p</b>

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

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
<b>Assets</b>			
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)	
<b>Total assets</b>	<b>583,467</b>	<b>4,655</b>	<b>588,122</b>
<b>Liabilities</b>			
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)	
<b>Total liabilities</b>	<b>583,467</b>	<b>4,655</b>	<b>588,122</b>

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
<b>Assets</b>			
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)	
<b>Total assets</b>	<b>518,266</b>	<b>3,782</b>	<b>522,048</b>
<b>Liabilities</b>			
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)	
<b>Total liabilities</b>	<b>518,266</b>	<b>3,782</b>	<b>522,048</b>

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
<b>Assets</b>			
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)	
<b>Total assets</b>	<b>454,428</b>	<b>2,555</b>	<b>456,983</b>
<b>Liabilities</b>			
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)	
<b>Total liabilities</b>	<b>454,428</b>	<b>2,555</b>	<b>456,983</b>

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)	<b>4,244</b>
Retail Banking	3,220	(8)	<b>3,212</b>
Retail Direct	964	(115)	<b>849</b>
Manufacturing	(2,546)	27	<b>(2,519)</b>
Wealth Management	374	(17)	<b>357</b>
RBS Insurance	862	1	<b>863</b>
Ulster Bank	450	(2)	<b>448</b>
Citizens	1,061		<b>1,061</b>
Central items	(634)	(32)	<b>(666)</b>
Profit before amortisation of purchased intangibles and integration costs	8,101	(252)	<b>7,849</b>

		Effect	
	UK GAAP	of IFRS	IFRS
Half year ended 30 June 2004 (unaudited)	£m	£m	£m
Corporate Banking and Financial Markets	2,081	(19)	<b>2,062</b>
Retail Banking			