ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 02, 2013

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For August 2, 2013

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):_________

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Appendix 1

Capital and leverage ratios

Appendix 1 Capital and leverage ratios

Contents

Appendix 1 Capital and leverage ratios (continued)

CRR capital estimate

A reconciliation between the accounting capital as published in the interim financial statements and the Capital Requirements Regulations (CRR) capital position is set out below.

Although the CRR text has been finalised, the related technical standards are still draft. The finalisation of these could have a material impact in a number of areas such as the scope of the deduction for insignificant financial holdings.

The 'year 1 transitional basis' applies the rules as if 2013 was year 1 of the transition period. The full basis shows the same calculation based on a complete implementation of CRR. This is based on the Group's current interpretation of the final text of the CRR, as published on 27 June 2013, and the draft regulatory technical standards.

Instruments which do not include a call option and an incentive to redeem will be grandfathered. Instruments which have a call option and an incentive to redeem will generally be grandfathered until their effective maturity (first call date). Instruments which are not eligible for grandfathering are excluded.

In the first year of transition, the regulatory adjustments will be calculated under the new rules. The CRR deductions are determined by applying the transitional percentage (20% in year 1). The residual balance will be deducted according to the current rules, except where the PRA has specified a different treatment.

	30 June 2013			31 December 2012		
	Current basis	Transitional basis	Full basis	Current basis	Transitional basis	Full basis
Core Tier 1 capital	£48,444m	£54,821m	£41,045m	£47,320m	£53,963m	£37,908m
RWAs (1)	£436bn	£471bn	£471bn	£460bn	£495bn	£495bn
Core Tier 1 ratio	11.1%	11.6%	8.7%	10.3%	10.9%	7.7%

Key points

- Refinements to interpretations and re-assessments on the treatment of the nominal value of the B shares post transition, deferred tax assets and incurred CVA have resulted in the increase in the CRR end point capital base.

- The reduction in RWAs under current rules is due to continued Non-Core run-off and the strategic reshaping of the Markets business. Under CRR rules, corporate SME lending attracts a lower weighting.

Appendix 1 Capital and leverage ratios (continued)

CRR capital estimate (continued)

	30 June 2013			31 December 2012		
	Current basis £m	Transitional basis £m	Full basis £m	Current basis £m	Transitional basis £m	Full basis £m
Common Equity Tier 1 (CET1) capital: instruments and reserves						
Capital instruments and the related share premium accounts						
- Ordinary shares	31,584	31,584	31,584	30,864	30,864	30,864
- B shares (1)	510	510	510	510	510	-
Retained earnings including current year loss	11,105	11,105	11,105	10,596	10,596	10,596
Accumulated other comprehensive income	25,984	25,984	25,984	26,160	26,160	26,160
Less innovative issues moved to Additional Tier 1	(979)	(979)	(979)	(431)	(431)	(431)

(AT1) capital						
Less preference shares moved to AT1 capital	(4,313)	(4,313)	(4,313)	(4,313)	(4,313)	(4,313)
Non-controlling interests per accounting balance sheet	475	380	-	2,318	2,318	2,318
Less innovative issues moved to AT1 capital	-	-	-	(548)	(548)	(548)
Less minority interest deconsolidated	-	-	-	(1,367)	(1,367)	(1,770)
Minority interests allowable	475	380	-	403	403	-
Common Equity Tier 1 (before regulatory adjustments)	64,366	64,271	63,891	63,789	63,789	62,876
Common Equity Tier 1: regulatory adjustments						
Additional value adjustments (2)	-	(267)	(267)	-	(310)	(310)
Intangible assets (net of related tax liability)	(13,997)	(2,811)	(14,053)	(13,545)	-	(13,956)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (3)	-	(261)	(2,606)	-	(323)	(3,231)
Fair value reserves related to gains or losses on cash flow hedges	(491)	(491)	(491)	(1,666)	(1,666)	(1,666)
Excess of expected loss over impairment provisions (4)	(2,032)	(1,099)	(5,496)	(1,904)	-	(6,154)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing (5)	447	400	208	691	691	493
Defined benefit pension fund assets	628	(141)	(141)	913	(144)	(144)
Exposure amount which qualify for a risk-weighting of 1,250%, where the institution opts for the deduction alternative (securitisation positions)	(1,051)	-	-	(1,107)	-	-
Regulatory adjustments relating to unrealised gains and losses	714	714	-	346	346	-
Of which:						
- unrealised losses on AFS debt	800	800	-	409	409	-
	(86)	(86)	-	(63)	(63)	-

- unrealised gains on AFS equity						
Other adjustments for regulatory purposes	(140)	-	-	(197)	-	-
Qualifying AT1 deductions that exceed the AT1 capital (6)	-	(5,494)	-	-	(8,420)	-
Common Equity Tier 1 (total regulatory adjustments)	(15,922)	(9,450)	(22,846)	(16,469)	(9,826)	(24,968)
Common Equity Tier 1 capital (7)	48,444	54,821	41,045	47,320	53,963	37,908

For the notes to this table refer to page 5.

Appendix 1 Capital and leverage ratios (continued)

CRR capital estimate (continued)

	30 June 2013			31 December 2012		
	Current basis £m	Transitional basis £m	Full basis £m	Current basis £m	Transitional basis £m	Full basis £m
Additional Tier 1 capital: instruments						
Capital instruments and related share premium accounts	5,123	-	-	5,075	-	-
Qualifying Tier 1 capital and the related share premium accounts subject to phase out from AT1	4,427	4,448	-	4,125	4,571	-
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties (subject to phase out £3,695 million)	302	3,498	-	292	4,042	-
Additional Tier 1 capital (before regulatory adjustments)	9,852	7,946	-	9,492	8,613	-
Additional Tier 1: regulatory adjustments						
Deductions from AT1 capital during the transitional period	-	(13,440)	-	-	(17,033)	-
Of which:						

- intangible assets	-	(11,242)	-	-	(13,956)	-
- excess of expected loss over impairment provisions	-	(2,198)	-	-	(3,077)	-
Other Basel II regulatory adjustments	(508)	-	-	323	-	-
Additional Tier 1 (total regulatory adjustments)	(508)	(13,440)	-	323	(17,033)	-
Additional Tier 1 capital	9,344	(5,494)	-	9,815	(8,420)	-
Qualifying AT1 deductions that exceed the AT1 capital (6)	-	5,494	-	-	8,420	-
Tier 1 capital (8)	57,788	54,821	41,045	57,135	53,963	37,908
Tier 2 capital: instruments and provisions						
Capital instruments and the related share premium accounts	15,666	-	-	15,614	-	-
Qualifying items and the related share premium	-	1,015	5,071	-	2,774	7,292
Qualifying own funds instruments issued by subsidiaries and held by third parties	-	13,441	10,229	-	12,605	5,185
Unrealised gains on AFS equity shares	86	-	-	63	-	-
Credit risk adjustments	415	415	415	399	399	399
Tier 2 capital (before regulatory adjustments)	16,167	14,871	15,715	16,076	15,778	12,876
Tier 2 regulatory adjustments						
Residual amounts deducted during the transitional period						
- excess of expected loss over impairment provisions	-	(2,198)	-	-	(3,077)	-
Other Basel II regulatory adjustments	(4,823)	-	-	(3,924)	-	-
Tier 2 (total regulatory adjustments)	(4,823)	(2,198)	-	(3,924)	(3,077)	-
Tier 2 capital	11,344	12,673	15,715	12,152	12,701	12,876
Total deductions	(310)	-	-	(2,487)	-	-
Total capital	68,822	67,494	56,760	66,800	66,664	50,784

For the notes to this table refer to page 5.

Appendix 1 Capital and leverage ratios (continued)

CRR capital estimate (continued)

Flow statement (CRR)
The table below analyses the movement in Common Equity Tier 1, Other Tier 1 and Tier 2 capital during the first half of the year.

	Common Equity Tier 1 £m	Tier 2 £m	Total £m
At 1 January 2013	37,908	12,876	50,784
Attributable profit net of movements in fair value of own credit	250	-	250
Share capital and reserve movements in respect of employee share schemes	220	-	220
Nominal value of B shares	510	-	510
Available for sale reserve	(368)	-	(368)
Foreign exchange reserve	1,293	-	1,293
Foreign exchange movements	-	794	794
Increase in goodwill and intangibles	(97)	-	(97)
Deferred tax asset	625	-	625
Excess of expected loss over impairment provisions	658	-	658
Grandfathered instruments under CRR text	-	2,748	2,748
Dated subordinated debt issues	-	652	652
Dated subordinated debt maturities and redemptions	-	(1,421)	(1,421)
Other movements	46	66	112
At 30 June 2013	41,045	15,715	56,760

Notes:
General:
Estimates, including RWAs, are based on the current interpretation, expectations, and understanding of the proposed CRR requirements, anticipated compliance with all necessary enhancements to model calibration and other refinements, as well as further regulatory clarity and implementation guidance from the UK and EU authorities. The actual CRR impact may differ from these estimates due to the finalisation of the technical standards and interpretive issues, for example the eligibly of counterparties that qualify for exemption when applying the credit valuation adjustment (CVA) volatility charge.

Capital base:

(1) Includes the nominal value of B shares (£0.5 billion) on the assumption that RBS will be privatised in the future and that they will count as permanent equity in some form by the end of 2017.

(2) The additional valuation adjustment, arising from the application of the prudent valuation requirements to all assets measured at fair value, has been included in full in the year one transition in line with the guidance from the PRA. This uses

methodology agreed with the PRA pending the issue of the final Regulatory Technical Standards (RTS) by the European Banking Authority.

(3) The PRA requires firms to take a CET1 deduction in the year one transition equal to 10% of the deferred tax assets (DTAs) which do not relate to temporary differences. The netting of deferred tax liabilities against DTAs reflects our interpretation of the final CRR text.

(4) In our current interpretation of the CRR final rules, we have assumed that incurred CVA will be counted as eligible provisions in the determination of the deduction for expected losses.

(5) The deduction for the valuation adjustment for own credit risk for derivative liabilities (the debit valuation adjustment) is assumed to transition on the same basis as other regulatory adjustments (20% in year one of transition).

(6) Where the deductions from AT1 capital exceed the amount of AT1 capital, the excess is deducted from CET1 capital. The excess of AT1 deductions over AT1 capital in the year 1 transition is due to the application of the current rules to the transitional amounts.

(7) The fully loaded CRD IV Core Tier 1 capital ratio as reported in the Capital management section on page 130 of the Group's Interim Results 2013 is based on Core Tier 1 capital of £41.2 billion assuming full divestment of Direct Line Group.

(8) Should the regulatory technical standard relating to maturity restrictions on hedging be implemented without amendment, the fully loaded Tier 1 capital position would reduce by approximately £1.5 billion for insignificant investments based on our estimate of current positions. The Group has already announced its intention to exit the equities businesses as part of Markets strategic change; this will reduce positions to the extent that no deduction will be required. However there could be a modest short-term impact on the Group's transitional ratio.

Appendix 1 Capital and leverage ratios (continued)

CRR capital estimate (continued)

Notes (continued)
Risk weighted assets:

(1) Current securitisation positions are shown as RWAs risk weighted at 1,250%.

(2) RWA uplifts include the impact of credit valuation adjustments and asset valuation correlation on banks and CCPs.

(3) RWAs assume implementation of the full IMM model suite, that existing waivers will continue and includes methodology changes that take effect immediately on CRR implementation

(4) Non-financial counterparties and sovereigns that meet the eligibility criteria under CRR are exempt from the CVA volatility charges.

(5) The CRR final text includes a reduction in the risk weight relating to SMEs

CRR leverage estimate
The Group monitors and reports an internationally recognised leverage definition (assets/equity) based on funded tangible assets (total assets minus derivatives and intangible assets) divided by qualifying regulatory Tier 1 capital.

The Basel III agreement introduced a leverage ratio as a non-risk-based backstop limit intended to supplement the risk-based capital requirements. It aims to constrain the build up of excess of leverage in the banking sector, introducing additional safeguards against model risk and measurement errors.

The FPC on 19 March 2013 required the PRA to take steps to ensure that the major UK banks would hold resources equivalent to at least 7% of RWAs by the end 2013 after reflecting adjustments recommended by FPC. The PRA statement of 20 June 2013, relating to the FPC's capital shortfall exercise, indicated that meeting the 7% RWA capital standard will be sufficient for leverage ratios to be no less than 3%. The Group's estimated leverage ratios under both the CRR and Basel III texts are above 3%.

The PRA has requested that UK banks publish a leverage ratio based on:

Tier 1 capital as set out in the final CRR text

Exposure measure calculated using the December 2010 Basel III text; further specificity being sourced from the instructions in the July 2012 Quantitative Impact Study and the related Frequently Asked Questions

Appendix 1 Capital and leverage ratios (continued)

CRR leverage estimate (continued)

The leverage ratios based on both the final CRR text and the basis requested by the PRA are set out below.

	30 June 2013				31 December 2012			
Leverage ratio	Exposure £bn	Tier 1 capital £bn	Leverage	Leverage %	Exposure £bn	Tier 1 capital £bn	Leverage	Leverage %
Assets/equity basis:								
Tier 1 leverage ratio	828.5	57.8	14x	7.0	856.9	57.1	15x	6.7
Tangible equity leverage ratio (1)	828.5	49.9	17x	6.0	856.9	49.8	17x	5.8
CRR basis:								
Transitional measure	1,193.4	54.6	22x	4.6	1,205.2	54.0	22x	4.5
Full end point measure (excluding grandfathering)	1,191.1	41.0	29x	3.4	1,202.3	37.9	32x	3.1
Adjusted end point measure (including grandfathering) (2)	1,191.1	50.9	23x	4.3	1,202.3	48.0	25x	4.0
Basel III basis:								
Transitional measure	1,223.3	54.6	22x	4.5	1,225.8	54.0	23x	4.4
Full end point measure (excluding grandfathering)	1,221.0	41.0	29x	3.4	1,222.9	37.9	32x	3.1
	1,221.0	50.9	24x	4.2	1,222.9	48.0	25x	3.9

Adjusted end point measure (including grandfathering) (2)

Notes:
(1) Tangible equity leverage ratio is total tangible equity divided by total tangible assets (after netting derivatives).
(2) Basel III adjusted Tier 1 capital includes grandfathered ineligible capital instruments.

Key point

· Both the CRR and Basel III end point leverage ratios have improved by 30 basis points to 3.4%, primarily reflecting the increase in Common Equity Tier 1 capital base from £38 billion to £41 billion as highlighted on pages 2 and 3.

Appendix 1 Capital and leverage ratios (continued)

CRR leverage estimate (continued)

	30 June 2013			31 December 2012		
Exposure measure	Assets/ equity basis £bn	Pro forma CRR leverage £bn	Pro forma Basel III leverage £bn	Assets/ equity basis £bn	Pro forma CRR leverage £bn	Pro forma Basel III leverage £bn
Cash and balances at central banks	89.6	89.6	89.6	79.3	79.3	79.3
Debt securities	138.2	138.2	138.2	157.4	157.4	157.4
Equity shares	11.4	11.4	11.4	15.2	15.2	15.2
Derivatives	373.7	373.7	373.7	441.9	441.9	441.9
Loans and advances to banks and customers	449.0	449.0	449.0	459.3	459.3	459.3
Reverse repurchase agreements and stock borrowing	99.3	99.3	99.3	104.8	104.8	104.8
Assets of disposal groups	1.3	1.3	1.3	14.0	14.0	14.0
Goodwill and intangible assets	14.0	14.0	14.0	13.5	13.5	13.5
Other assets	39.7	39.7	39.7	26.9	26.9	26.9
Total assets	1,216.2	1,216.2	1,216.2	1,312.3	1,312.3	1,312.3
Netting:						
- Derivatives		(279.5)	(279.5)		(340.4)	(340.4)
- Securities financing transactions (SFTs) (1)		(82.2)	(50.7)		(75.3)	(52.5)
Exclude derivatives	(373.7)			(441.9)		

Regulatory deductions and other adjustments (2)	(14.0)	(3.8)	(3.8)	(13.5)	(14.9)	(14.9)
Adjusted total tangible assets	828.5			856.9		
Potential future exposure on derivatives (3)		150.1	148.5		133.1	130.9
Undrawn commitments		190.3	190.3		187.5	187.5
End point leverage exposure measure		1,191.1	1,221.0		1,202.3	1,222.9
Transitional adjustments to assets deducted from regulatory Tier 1 capital		2.3	2.3		2.9	2.9
Transitional leverage exposure measure		1,193.4	1,223.3		1,205.2	1,225.8

Notes:
(1) Under Basel III view, the balance sheet value is reduced for allowable netting under the Basel II framework (excluding cross-product netting) which mainly relates to cash positions under a master netting agreement. In the CRR calculation, the balance sheet value is replaced with the related regulatory exposure value which allows netting of both cash positions and related collateral of SFTs.
(2) Regulatory deductions: to ensure consistency between the numerator and the denominator, items that are deducted from capital are also deducted from total assets (comprising goodwill and intangibles £14.1 billion (31 December 2012 - £13.5 billion), deferred tax assets £2.6 billion (31 December 2012 - £3.2 billion), additional valuation adjustment £0.3 billion and cash flow hedge reserves £0.5 billion (31 December 2012 - £1.7 billion)). Other adjustments reflect the difference between the scope of the regulatory consolidation and the consolidation for financial reporting.
(3) Potential future exposure on derivatives: the regulatory add-on which is calculated by assigning percentages based on the type of instrument and the residual maturity of the contract to the nominal amounts or underlying values of derivative contracts.

Appendix 1 Capital and leverage ratios (continued)

CRR leverage estimate (continued)
Undrawn commitments represent regulatory add-on relating to off-balance sheet undrawn commitments based on a 10% credit conversion factor (CCF) for unconditionally cancellable commitments and 100% of other commitments. Off-balance sheet items comprise:

30 June 2013	UK Retail £bn	UK Corporate £bn	Wealth £bn	International Banking (1) £bn	Ulster Bank £bn	US Retail & Commercial £bn	Markets £bn	Total £bn
Unconditionally cancellable items (after	3.1	0.4	0.1	0.7	0.2	1.9	-	6.4

application of 10% CCF)								
Undrawn commitments	9.3	33.6	5.3	104.3	2.2	17.4	11.8	183.9
	12.4	34.0	5.4	105.0	2.4	19.3	11.8	190.3
31 December 2012								
Unconditionally cancellable items (after application of 10% CCF)	3.3	0.5	0.1	0.8	0.2	1.8	-	6.7
Undrawn commitments	9.6	33.9	4.7	102.6	2.1	15.6	12.3	180.8
	12.9	34.4	4.8	103.4	2.3	17.4	12.3	187.5

Note:
(1) International Banking facilities are primarily undrawn facilities to large multinational corporations, many of which are domiciled in the UK.

Appendix 2

Funding and related risks

Appendix 2 Funding and related risks

Contents

Net stable funding ratio (NSFR)
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