SUNOCO LOGISTICS PARTNERS L.P.
Form SC 13G/A
February 05, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 1)*

SUNOCO LOGISTICS PARTNERS LP
(Name of Issuer)

Common Units
(Title of Class of Securities)

86764L108
(CUSIP Number)

12/31/2015
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:
[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.: 86764L108

1.	Names of Reporting Persons: OppenheimerFunds, Inc. IRS Identification No: 13-2527171

2.	Check the Appropriate Box if a Member of a Group (See Instructions): Joint Filing
3.	SEC Use Only
4.	Citizenship or Place of Organization: Colorado
Number of Shares Beneficially Owned by Each Reporting Person With	5. Sole Voting Power: 0 6. Shared Voting Power: 16,425,326 7. Sole Dispositive Power: 0 8. Shared Dispositive Power: 16,425,326
9.	Aggregate Amount Beneficially Owned by Each Reporting Person: 16,425,326 (beneficial ownership disclaimed pursuant to Rule 13d-4 of the Exchange Act of 1934)
10.	Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) [ ]
11.	Percent of Class Represented by Amount in Row (9): 6.31
12.	Type of Reporting Person (See Instructions): IA

Item:

1(a) Name of Issuer:
SUNOCO LOGISTICS PARTNERS LP

1(b) Address of Issuer's Principal Executive Offices:
1818 Market Street
Suite 1500
Philadelphia, PA 19103

2(a) Name of Person Filing:
OppenheimerFunds, Inc.

2(b) Address of Principal Business Office or, if none, Residence:
2 World Financial Center
225 Liberty Street
New York, NY 10281

2(c) Citizenship:
Colorado

2(d)

Title of Class of Securities:
Common Units

2(e) CUSIP Number:
86764L108

3 If this statement is filed pursuant to §240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:
[X] An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E)

4(a) Amount beneficially owned:
16,425,326
(beneficial ownership disclaimed pursuant to Rule 13d-4 of the Exchange Act of 1934)

4(b) Percent of class:
6.31

4(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote:
0

(ii) Shared power to vote or to direct the vote:
16,425,326

(iii) Sole power to dispose or to direct the disposition of:
0

(iv) Shared power to dispose or to direct the disposition of:
16,425,326

5 Ownership of Five Percent or Less of a Class: [ ]

6 Ownership of More than Five Percent on Behalf of Another Person.:
N/A

7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company:
N/A

8 Identification and Classification of Members of the Group:
N/A

9 Notice of Dissolution of Group:
N/A

10 Certification:
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

02/05/2016
Date

/s/ Mary Ann Picciotto
Signature

Mary Ann Picciotto, Sr. Vice President and Chief Compliance Officer
Name/Title

If you have questions please contact Jake Burford at 303-768-2826 or by email at jburford@ofiglobal.com

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2.2
47
1.0
684
1,670

Europe

Personal - mortgages
15,548
3,144

872
20.2
28
5.6
226
287
- unsecured
265
52
46
19.6
88
17.4
5
11
Property and construction
1,055
85
84
8.1
99
8.0
(56)
933
Other
3,920
279
165
7.1
59
4.2
(156)
665
Latent
-
-
83
-
-
-
(204)
-
Total
20,788
3,560
1,250
17.1
35
6.0
(185)
1,896

Total banks
17,291
-
-
-
-
-
-
-

Note:
(1) Mortgages are reported in sectors other than personal mortgages by certain businesses based on the nature of the relationship with the customer.
Appendix 1 Capital and risk management

Credit risk: Balance sheet analysis (continued)
Debt securities and AFS reserves
The table below shows debt securities by issuer and IAS 39 measurement classifications. The Other Financial Institutions category includes US government sponsored agencies and securitisation entities, the latter principally relating to asset-backed securities (ABS). Ratings are based on the lowest of Standard & Poor's, Moody's and Fitch.

	Central and local government			Banks	Other Financial Institutions	Corporate	Total	Of which ABS
	UK	US	Other					
30 June 2017	£m	£m	£m	£m	£m	£m	£m	£m
Held-for-trading (HFT)	3,629	5,924	19,849	1,897	2,926	641	34,866	887
Designated as at fair value	-	-	-	-	-	-	-	-
Available-for-sale (AFS)	15,449	8,286	12,795	2,201	4,018	108	42,857	2,019
Loans and receivables	-	19	-	1,118	2,615	146	3,898	3,733
Held-to-maturity (HTM)	4,548	-	-	-	-	-	4,548	-
Total	23,626	14,229	32,644	5,216	9,559	895	86,169	6,639
Short positions (HFT)	(4,542)	(3,443)	(20,268)	(456)	(971)	(180)	(29,860)	-
Ratings								
AAA	-	-	10,130	2,386	6,352	15	18,883	4,003
AA to AA+	23,626	14,229	5,153	593	673	60	44,334	279

A to AA-	-	-	11,387	266	1,544	236	13,433	808
BBB- to A-	-	-	5,466	1,437	437	218	7,558	1,187
Non-investment grade	-	-	508	149	300	108	1,065	233
Unrated	-	-	-	385	253	258	896	129
Available-for-sale								
AFS reserves (gross of tax)	123	12	122	4	123	(1)	383	5
Gross unrealised gains	682	99	359	8	34	1	1,183	11
Gross unrealised losses	(42)	(42)	(24)	(3)	(9)	(2)	(122)	(1)
31 December 2016								
Held-for-trading	2,615	4,133	14,087	821	2,299	549	24,504	886
Designated as at fair value	-	-	25	-	2	-	27	-
Available-for-sale	10,581	6,953	15,678	1,852	4,072	118	39,254	2,263
Loans and receivables	-	-	-	-	3,774	194	3,968	3,814
Held-to-maturity	4,769	-	-	-	-	-	4,769	-
Total	17,965	11,086	29,790	2,673	10,147	861	72,522	6,963
Short positions (HFT)	(2,644)	(4,989)	(13,346)	(334)	(640)	(121)	(22,074)	-
Ratings								
AAA	-	-	11,478	1,610	6,024	36	19,148	3,993
AA to AA+	17,965	11,086	5,533	481	720	34	35,819	244
A to AA-	-	-	9,727	238	2,128	150	12,243	1,627
BBB- to A-	-	-	2,737	155	698	378	3,968	645
Non-investment grade	-	-	315	69	458	31	873	381
Unrated	-	-	-	120	119	232	471	73
Available-for-sale								
AFS reserves (gross of tax)	79	(66)	190	5	144	(6)	346	46
Gross unrealised gains	768	56	504	8	93	2	1,431	75
Gross unrealised losses	(16)	(123)	(13)	(1)	(43)	(2)	(198)	(32)

Held-for-trading: Assets and short positions increased largely due to trading activity in NatWest Markets, including trading in Japanese government and eurozone bonds. Higher UK gilt balances reflected market-making activity and client flow trading.

Available-for-sale: The increase in UK government securities reflected liquidity portfolio management, as gilts offered higher capital adjusted returns relative to central bank cash balances. Reductions in other government securities, principally euro, reflected lower collateral requirements.

Appendix 1 Capital and risk management

Credit risk: Balance sheet analysis (continued)

Derivatives and valuation reserves

The table below shows derivatives by type of contract. The master netting agreements and collateral shown below do not result in a net presentation on the balance sheet under IFRS.

	30 June 2017			31 December 2016		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities

	£bn	£m	£m	£bn	£m	£m
Interest rate (5)	17,383	139,219	126,605	17,973	170,524	158,485
Exchange rate	4,146	53,586	56,938	4,451	75,442	77,148
Credit	30	475	425	42	682	557
Equity and commodity	9	251	193	25	333	285
Balance sheet	21,568	193,531	184,161	22,491	246,981	236,475
Counterparty mark-to-market netting		(153,703)	(153,703)		(197,288)	(197,288)
Cash collateral		(23,249)	(20,484)		(28,742)	(20,417)
Securities collateral		(6,522)	(4,312)		(8,435)	(11,048)
Net exposure		10,057	5,662		12,516	7,722
Banks (1)		712	831		1,260	1,339
Other financial institutions (2)		2,924	2,185		3,090	2,897
Corporate (3)		5,631	2,533		7,348	3,393
Government (4)		790	113		818	93
Net exposure		10,057	5,662		12,516	7,722
UK		5,827	2,309		7,065	3,009
Europe		2,620	2,412		3,466	3,215
US		853	535		930	673
RoW		757	406		1,055	825
Net exposure		10,057	5,662		12,516	7,722

Valuation reserves	£m	£m
Funding valuation adjustments (FVA)	736	936
Credit valuation adjustments (CVA)	454	618
Bid-offer reserves	327	334
Product and deal specific	554	643
Valuation reserves	2,071	2,531

Notes:

(1) Transactions with certain counterparties with whom RBS has netting arrangements but collateral is not posted on a daily basis: certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions, for example China, where the collateral arrangements are not deemed to be legally enforceable.

(2) Transactions with securitisation vehicles and funds where collateral posting is contingent on RBS's external rating.

(3) Predominantly large corporate with whom RBS may have netting arrangements in place, but operational capability does not support collateral posting.

(4) Sovereigns and supranational entities with one way collateral arrangements in their favour.

(5) The notional amount of interest rate derivatives include £11,045 billion (31 December 2016 - £9,724 billion) in respect of contracts cleared through central clearing counterparties. The associated derivatives assets and liabilities including variation margin reflected IFRS offset of £29 billion (31 December 2016 - £51 billion) and £29 billion (31 December 2016 - £51 billion) respectively.

(6) Valuation reserves reflect adjustments to mid-market valuations to cover bid-offer spread, liquidity and credit risk.

The decrease in foreign exchange derivative fair values reflected the US dollar weakening against the yen, the euro and sterling during the period. The interest rate derivative decrease in fair values reflected the upward movement in euro and sterling yields.
Foreign exchange notional reductions were driven by maturities, buyouts and foreign exchange retranslation. Interest rate notionals also declined as participation in tear-up cycles and Capital Resolution wind-downs more than offset new trading activity in NatWest Markets.
Overall exposure was an asset position broadly flat from the prior year.
FVA reduced during H1 2017. This reflected a reduction in exposure due to market moves together with an increase in funding costs included in the discount rate applied to derivative cash flows.
The reduction in CVA resulted from a reduction in exposure due to market moves, together with tightening credit spreads and trade close-outs.
Product and deal-specific reserves decreased primarily due to trade close-outs and novations.

Appendix 1 Capital and risk management

Market risk
Market risk is the risk of losses arising from fluctuations in interest rates, credit spreads, foreign currency rates, equity prices, commodity prices and other factors, such as market volatilities, that may lead to a reduction in earnings, economic value or both.

Key developments (Not within the scope of EY's review report)
During H1 2017, revised non-traded and traded market risk appetite metrics were approved by the Board and cascaded to the franchises.

Political events during the half-year, notably elections in the UK, France and the Netherlands, resulted in periods of market volatility. UK and European interest rates remained at historically low levels, although the US Federal Reserve began raising interest rates. Both non-traded and traded market risk remained within set appetite throughout H1 2017.

Non-traded market risk VaR peaked at £83.1 million, mainly driven by an increase in the proportion of bonds held within Treasury's liquidity portfolio, which was aimed at investing surplus cash, rather than meeting increased liquidity requirements. The appreciation of foreign currency bonds within this portfolio, primarily US and German sovereign debt, also contributed.

Traded VaR increased on an average basis compared to both H1 2016 and H2 2016. In H1 2016, traded VaR was at a reduced level as a result of concerns over the stability of the financial sector. The traded VaR level normalised in H2 2016, followed by a marginal increase in H1 2017.

Non-trading portfolios
Value-at-risk
The following table presents 1-day internal banking book VaR at a 99% confidence level, analysed by type of risk.

	Half year ended 30 June 2017				30 June 2016				31 December 2016			
	Average £m	Max £m	Min £m	Period end £m	Average £m	Max £m	Min £m	Period end £m	Average £m	Max £m	Min £m	Period end £m
Interest rate	8.6	12.6	6.3	7.6	7.5	10.1	6.1	6.2	11.8	19.3	4.7	18.0
Euro	3.2	4.1	2.3	2.3	3.0	3.5	2.1	3.1	3.1	3.8	2.1	3.8

Sterling	7.7	13.8	5.0	5.1	7.0	10.9	4.8	4.8	13.4	23.7	5.0	20.6
US dollar	3.1	4.9	2.1	4.9	2.9	4.7	1.6	1.6	2.9	4.3	1.7	2.1
Other	1.1	1.1	1.0	1.0	2.1	2.4	1.8	1.8	1.4	1.8	1.1	1.1
Credit spread	70.0	82.4	62.0	62.0	50.9	57.8	41.6	57.8	63.5	66.6	61.3	62.9
Structural FX rate	10.3	11.4	9.3	11.4	11.8	15.5	10.7	15.5	15.1	19.6	10.5	10.5
Pipeline risk	0.8	1.1	0.6	0.9	0.8	1.2	0.2	0.8	0.4	0.5	0.3	0.5
Diversification (1)	(18.8)			(27.0)	(20.6)			(20.6)	(27.0)			(20.2)
Total	70.9	83.1	54.9	54.9	50.4	59.7	41.5	59.7	63.8	71.7	60.0	71.7

Note:

(1) RBS benefits from diversification as it reduces risk by allocating positions across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

On an average basis, total non-traded VaR increased during H1 2017 compared to both H1 2016 and H2 2016 due to the increase in the proportion of bonds held within Treasury's liquidity portfolio, as explained above.

On a period-end basis, total non-traded VaR decreased, driven by credit spread VaR, which fell due to a change in the source of the market data used for the VaR model.

Appendix 1 Capital and risk management

Market risk: Non-trading portfolios (continued)

Sensitivity of projected net interest earnings (Not within the scope of EY's review report)

The following table shows the sensitivity of net interest earnings, over the next 12 months, to an immediate upward or downward change of 25 and 100 basis points to all interest rates. All yield curves are expected to move in parallel, except for interest rates that are assumed to floor at zero per cent or, for euro rates, at the current negative rate. The result of the scenario is compared to a base-case scenario using market-implied levels of future interest rates at 30 June 2017.

The main driver of earnings sensitivity relates to interest rate pass-through assumptions on customer products. The scenario also captures the impact of the reinvestment of maturing structural hedges at higher or lower rates than the base-case earnings sensitivity. As the forward-looking horizon is limited to one year, the impact of maturing structural hedges being reinvested at higher or lower rates is relatively low.

The scenario results should not be considered predictive of future performance. They assume no management or customer response to changes in the interest rate environment. The analysis is also limited to interest earnings rather than non-interest earnings.

30 June 2017	Euro £m	Sterling £m	US dollar £m	Other £m	Total £m
+25 basis point shift in yield curves	16	176	15	1	208
-25 basis point shift in yield curves	(4)	(273)	(10)	(3)	(290)
+100 basis point shift in yield curves	60	620	57	2	739
-100 basis point shift in yield curves	(5)	(480)	(55)	(7)	(547)

30 June 2016

+25 basis point shift in yield curves	-	49	16	3	68
-25 basis point shift in yield curves	-	(125)	(16)	1	(140)
+100 basis point shift in yield curves	(20)	393	65	11	449
-100 basis point shift in yield curves	-	(298)	(46)	3	(341)
31 December 2016					
+25 basis point shift in yield curves	4	79	11	2	96
-25 basis point shift in yield curves	(1)	(222)	(11)	(2)	(236)
+100 basis point shift in yield curves	9	436	42	13	500
-100 basis point shift in yield curves	(2)	(337)	(30)	(9)	(378)

Interest income sensitivity increased in H1 2017 across all scenarios.
Changes in assumed pass-through rates on customer products as well as the impact of Treasury activity were the main drivers of the increase in positive sensitivity to higher rates at 30 June 2017 compared with 31 December 2016. Higher market implied levels of future interest rates at 30 June 2017 compared with 31 December 2016 were a significant driver of the more adverse sensitivity to lower interest rates at 30 June 2017. Wholesale market interest rates fell further in the downward 100 basis-point scenario before they hit an assumed zero per cent floor. As customer deposit rates are much less affected by downward interest-rate shifts, profit margins compress. Although the sensitivity was more adverse, the higher market curve also resulted in a higher base-case income forecast. Therefore the absolute level of income may be unaffected.

Appendix 1 Capital and risk management

Market risk: Non-trading portfolios (continued)
Structural hedging (Not within the scope of EY’s review report)
RBS has the benefit of a significant pool of stable, non and low interest bearing liabilities, principally comprising equity and money transmission accounts. These balances are usually hedged, either by investing directly in longer-term fixed rate assets or by the use of interest rate swaps, in order to provide a consistent and predictable revenue stream.

After hedging RBS’s net interest rate exposure externally, Treasury allocates income to products or equity in structural hedges by reference to the relevant interest rate swap curve. Over time, the hedging programme has built up a portfolio of interest rate swaps that provide a basis for stable income attribution. The programme aims to track a time series of medium-term swap rates, but the yield will be affected by changes in product volumes and RBS’s capital composition.

The table below presents the incremental income allocation (above 3-month LIBOR), the average notional and the overall yield (including 3-month LIBOR) associated with the product and equity hedges managed by Treasury.

Half year ended								
30 June 2017			30 June 2016			31 December 2016		
Incremental income	Average notional	Overall yield	Incremental income	Average notional	Overall yield	Incremental income	Average notional	Overall yield
£m	£bn	%	£m	£bn	%	£m	£bn	%
317	28	2.48	310	35	2.35	323	32	2.41

Equity structural hedging									
Product structural hedging	334	98	1.04	315	87	1.28	320	93	1.13
Total	651	126	1.36	625	122	1.59	643	125	1.47

The table below presents the incremental income associated with product structural hedges at segment level. These relate to the main UK banking businesses except Private Banking and RBS International.

Net interest earnings - impact of product structural hedging	Half year ended 30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
UK Personal & Business Banking	191	170	176
Commercial Banking	116	118	117
Capital Resolution	2	6	4
Williams & Glyn	25	21	23
Total	334	315	320

Interest rates remained low across H1 2017, with a significant upward shift only occurring the last few days of the period. As a result, the overall yield (including 3-month LIBOR) fell compared to 31 December 2016, reflecting the combined impact of lower equity hedges and maturing hedges being reinvested at lower market rates.
The fall in the average notional of the equity hedge primarily reflected the decline in the equity base resulting from the provision for various investigations and litigation matters.
The increase in the average notional of the product hedge reflected growth in current account balances.
As at 30 June 2017, the 10-year and 5-year sterling swap rates were 1.27% and 0.91% respectively. The market rate matching the amortising structure of the sterling proportion of the total structural hedge was 0.83%.

Appendix 1 Capital and risk management

Foreign exchange risk
The table below shows structural foreign currency exposures.

30 June 2017	Net investments in foreign operations £m	NCI (1) £m	Net investments in foreign operations excluding NCI £m	Net investment hedges £m	Structural foreign currency exposures pre-economic hedges £m	Economic hedges (2) £m	Residual structural foreign currency exposures £m
US dollar	(878)	-	(878)	1,239	361	(361)	-
Euro	6,795	114	6,681	(518)	6,163	(2,203)	3,960
Other non-sterling	3,007	668	2,339	(1,267)	1,072	(485)	587
	8,924	782	8,142	(546)	7,596	(3,049)	4,547

31 December 2016

US dollar	(595)	-	(595)	(28)	(623)	-	(623)
Euro	6,085	(4)	6,089	(582)	5,507	(2,289)	3,218
Other non-sterling	3,366	761	2,605	(1,491)	1,114	(625)	489
	8,856	757	8,099	(2,101)	5,998	(2,914)	3,084

Notes:

(1) Non-controlling interests (NCI) represents the structural foreign exchange exposure not attributable to owners equity.

(2) Economic hedges mainly represent US dollar and euro preference shares in issue that are treated as equity under IFRS and do not qualify as hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available.

Following the recognition of further RMBS provisions in US subsidiaries in Q1 2017, hedges of US dollar exposure to RMBS were documented as net investment hedges. This was the main driver of the increase in reported structural foreign currency exposures during H1 2017.
Changes in foreign currency exchange rates affect equity in proportion to the structural foreign currency exposures. For example, a 5% strengthening or weakening in foreign currencies against sterling would respectively result in a gain or loss of £0.4 billion in equity.

Appendix 1 Capital and risk management

Trading portfolios
Traded internal VaR
The table below presents the internal value-at-risk (VaR) for trading portfolios split by type of market risk exposure. The internal traded 99% one-day VaR captures trading book positions for all products, locations and legal entities.

	Half year ended 30 June 2017				30 June 2016				31 December 2016			
	Average	Max	Min	Period end	Average	Max	Min	Period end	Average	Max	Min	Period end
Traded VaR (1-day 99%)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
General interest rate (1)	14.6	24.5	8.8	11.3	12.3	22.3	7.8	10.2	12.6	19.3	7.8	16.9
Specific interest rate (2)	11.1	14.3	8.8	9.9	8.4	12.5	5.8	9.7	10.6	13.7	8.0	9.7
Currency	4.7	7.9	2.5	5.0	4.0	9.0	1.0	4.3	5.2	14.3	2.4	5.4
Equity	1.2	1.9	0.6	1.3	0.5	2.1	0.2	0.5	0.6	2.0	0.3	1.9
Commodity	0.4	1.3	0.1	0.5	0.6	1.7	0.2	0.8	0.8	2.4	0.2	0.3
Diversification (3)	(12.2)			(12.5)	(10.4)			(9.6)	(11.1)			(10.4)
Total	19.8	25.2	13.9	15.5	15.4	27.3	9.9	15.9	18.7	29.3	13.2	23.8

Note:

(1) General interest rate risk arises from the impact of changes in interest rates and volatilities on cash instruments and derivatives. This includes interest rate tenor basis risk and cross-currency basis risk.

(2) Specific interest rate risk arises from the impact of changes in the credit spreads of sovereign bonds, corporate bonds, securitised products and credit derivatives.

(3) RBS benefits from diversification as it reduces risk by allocating positions across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

Traded VaR fluctuated throughout H1 2017, reflecting political developments, market events, customer flows and other macroeconomic factors. Throughout the period, the VaR was managed within risk appetite.

On an average basis, traded VaR in H1 2017 increased marginally compared to H2 2016, mainly due to refinements to the VaR methodology used for certain credit products. Average traded VaR also increased more significantly compared to H1 2016 as the risk profile in the earlier period had been reduced compared to normal levels due to concerns over the stability of the financial sector.

Appendix 1 Capital and risk management

Other risks (Not within the scope of EY’s review report)

Key developments

Operational risk

A single RBS-wide Risk & Control Assessment methodology was established in 2016. By the end of H1 2017, approximately 120 assessments had been completed across RBS. These were designed to reflect the end-to-end customer journeys of the most material products, processes and services as well as to enable a consistent, holistic view of RBS’s key risks and their mitigation.

Cyber security and associated risks remain an industry concern. In May and June 2017, organisations around the world - including a number of UK entities - were subjected to two separate high-profile cyber attacks. However, there were no associated impacts on RBS. In both cases, reviews were carried out in order to improve and develop RBS’s cyber risk management and defence strategy.

Conduct & regulatory risk

The FCA has announced a strategic review of business models in the retail banking sector. The review is expected to consider the full range of personal banking products and services, as well as SME banking. The FCA expects to produce a project update in H1 2018, explaining its preliminary analysis and conclusions.

The remediation of PPI continued, with the FCA publishing its rules and guidance on the PPI complaints deadline and how firms should deal with Plevin complaints. The FCA confirmed it will implement a two-year deadline along with Plevin rules from 29 August 2017.

Appendix 2

Segmental income statement reconciliations

Segmental income statement reconciliations

PBB		CPB						Central items &	Total
	Ulster	Commercial	Private	RBS	NatWest	Capital	Williams		

	UK PBB	Bank RoI	Banking	Banking	International	Markets	Resolution	& Glyn	other	RBS
Half year ended 30 June 2017	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement										
Total income - statutory	2,755	293	1,750	321	195	932	(102)	417	358	6,919
Own credit adjustments	-	3	-	-	-	48	22	-	-	73
Loss on redemption of own debt	-	-	-	-	-	-	-	-	7	7
Strategic disposals	-	-	-	-	-	-	-	-	(156)	(156)
Total income - adjusted	2,755	296	1,750	321	195	980	(80)	417	209	6,843
Operating expenses - statutory	(1,586)	(293)	(996)	(232)	(94)	(775)	(539)	(158)	(179)	(4,852)
Restructuring costs - direct	23	24	40	-	-	30	130	-	543	790
Restructuring costs - indirect	137	19	77	14	4	73	4	-	(328)	-
Litigation and conduct costs	13	33	4	-	-	34	272	-	40	396
Operating expenses - adjusted	(1,413)	(217)	(875)	(218)	(90)	(638)	(133)	(158)	76	(3,666)
Impairment (losses)/releases	(72)	11	(94)	(7)	(5)	(1)	78	(25)	(1)	(116)
Operating profit/(loss) - statutory	1,097	11	660	82	96	156	(563)	234	178	1,951
Operating profit/(loss) - adjusted	1,270	90	781	96	100	341	(135)	234	284	3,061
Additional information										
Return on equity (1)	27.8%	0.8%	8.2%	7.7%	13.1%	2.3%	nm	22.2%	nm	5.6%
Return on equity - adjusted (1,2)	32.4%	6.8%	10.1%	9.3%	13.7%	7.2%	nm	22.2%	nm	11.5%
Cost:income ratio (3)	57.6%	100.0%	55.1%	72.3%	48.2%	83.2%	nm	37.9%	nm	69.8%
Cost:income ratio - adjusted (2,3)	51.3%	73.3%	47.9%	67.9%	46.2%	65.1%	nm	37.9%	nm	53.1%
Half year ended 30 June 2016										

Income statement										
Total income - statutory	2,615	293	1,699	331	185	818	(172)	411	(116)	6,064
Own credit adjustments	-	(3)	-	-	-	(137)	(184)	-	(126)	(450)
Loss on redemption of own debt	-	-	-	-	-	-	-	-	130	130
Strategic disposals	-	-	-	-	-	-	51	-	(246)	(195)
Total income - adjusted	2,615	290	1,699	331	185	681	(305)	411	(358)	5,549
Operating expenses - statutory	(2,042)	(312)	(984)	(278)	(71)	(729)	(478)	(242)	(793)	(5,929)
Restructuring costs - direct	51	24	1	1	1	10	12	45	485	630
Restructuring costs - indirect	60	1	40	19	2	23	25	-	(170)	-
Litigation and conduct costs	421	92	10	2	-	56	26	-	708	1,315
Operating expenses - adjusted	(1,510)	(195)	(933)	(256)	(68)	(640)	(415)	(197)	230	(3,984)
Impairment (losses)/releases	(40)	27	(103)	(2)	(11)	-	(263)	(17)	-	(409)
Operating profit/(loss) - statutory	533	8	612	51	103	89	(913)	152	(909)	(274)
Operating profit/(loss) - adjusted	1,065	122	663	73	106	41	(983)	197	(128)	1,156
Additional information										
Return on equity (1)	11.9%	0.6%	8.1%	5.1%	15.4%	0.8%	nm	14.3%	nm	(10.3%)
Return on equity - adjusted (1,2)	25.5%	9.3%	8.9%	7.6%	15.9%	(0.5%)	nm	18.6%	nm	(3.2%)
Cost:income ratio (3)	78.1%	106.5%	56.1%	84.0%	38.4%	89.1%	nm	58.9%	nm	97.7%
Cost:income ratio - adjusted (2,3)	57.7%	67.2%	53.0%	77.3%	36.8%	94.0%	nm	47.9%	nm	71.4%

Segmental income statement reconciliations

	PBB		CPB							
		Ulster	Commercial	Private	RBS	NatWest	Capital	Williams	Central items &	Total
			Banking	Banking	International	Markets	Resolution	& Glyn	other	RBS

	UK PBB	Bank RoI								
Quarter ended 30 June 2017	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement										
Total income - statutory	1,378	148	885	161	97	444	(43)	211	426	3,707
Own credit adjustments	-	2	-	-	-	28	15	-	(1)	44
Loss on redemption of own debt	-	-	-	-	-	-	-	-	9	9
Strategic disposals	-	-	-	-	-	-	-	-	(156)	(156)
Total income - adjusted	1,378	150	885	161	97	472	(28)	211	278	3,604
Operating expenses - statutory	(735)	(151)	(446)	(108)	(48)	(355)	(378)	(74)	(104)	(2,399)
Restructuring costs - direct	3	5	1	-	-	10	60	-	134	213
Restructuring costs - indirect	26	4	17	3	1	25	(12)	-	(64)	-
Litigation and conduct costs	9	33	1	-	-	3	266	-	30	342
Operating expenses - adjusted	(697)	(109)	(427)	(105)	(47)	(317)	(64)	(74)	(4)	(1,844)
Impairment (losses)/releases	(40)	(13)	(33)	(4)	2	(1)	33	(14)	-	(70)
Operating profit/(loss) - statutory	603	(16)	406	49	51	88	(388)	123	322	1,238
Operating profit/(loss) - adjusted	641	28	425	52	52	154	(59)	123	274	1,690
Additional information										
Return on equity (1)	30.8%	(2.4%)	10.7%	9.6%	14.0%	2.9%	nm	23.5%	nm	8.0%
Return on equity - adjusted (1,2)	32.8%	4.3%	11.4%	10.3%	14.3%	6.6%	nm	23.5%	nm	12.9%
Cost:income ratio (3)	53.3%	102.0%	48.3%	67.1%	49.5%	80.0%	nm	35.1%	nm	64.4%
Cost :income ratio - adjusted (2,3)	50.6%	72.7%	46.1%	65.2%	48.5%	67.2%	nm	35.1%	nm	50.7%
Quarter ended 31 March 2017										

Income statement										
Total income - statutory	1,377	145	865	160	98	488	(59)	206	(68)	3,212
Own credit adjustments	-	1	-	-	-	20	7	-	1	29
Gain on redemption of own debt	-	-	-	-	-	-	-	-	(2)	(2)
Total income - adjusted	1,377	146	865	160	98	508	(52)	206	(69)	3,239
Operating expenses - statutory	(851)	(142)	(550)	(124)	(46)	(420)	(161)	(84)	(75)	(2,453)
Restructuring costs - direct	20	19	39	-	-	20	70	-	409	577
Restructuring costs - indirect	111	15	60	11	3	48	16	-	(264)	-
Litigation and conduct costs	4	-	3	-	-	31	6	-	10	54
Operating expenses - adjusted	(716)	(108)	(448)	(113)	(43)	(321)	(69)	(84)	80	(1,822)
Impairment (losses)/releases	(32)	24	(61)	(3)	(7)	-	45	(11)	(1)	(46)
Operating profit/(loss) - statutory	494	27	254	33	45	68	(175)	111	(144)	713
Operating profit/(loss) - adjusted	629	62	356	44	48	187	(76)	111	10	1,371
Additional information										
Return on equity (1)	24.8%	4.0%	5.7%	6.0%	12.0%	1.7%	nm	20.9%	nm	3.1%
Return on equity - adjusted (1,2)	32.0%	9.3%	8.9%	8.6%	13.0%	7.9%	nm	20.9%	nm	9.7%
Cost:income ratio (3)	61.8%	97.9%	62.0%	77.5%	46.9%	86.1%	nm	40.8%	nm	76.1%
Cost:income ratio - adjusted (2,3)	52.0%	74.0%	49.7%	70.6%	43.9%	63.2%	nm	40.8%	nm	55.8%

Segmental income statement reconciliations

	PBB		CPB							
		Ulster	Commercial	Private	RBS	NatWest	Capital	Williams	Central items &	Total
	UK PBB	Bank RoI	Banking	Banking	International	Markets	Resolution	& Glyn	other	RBS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m

Quarter ended
30 June 2016

Income statement										
Total income - statutory	1,340	135	846	166	95	477	(325)	206	60	3,000
Own credit adjustments	-	-	-	-	-	(73)	(76)	-	(45)	(194)
Loss on redemption of own debt	-	-	-	-	-	-	-	-	130	130
Strategic disposals	-	-	-	-	-	-	45	-	(246)	(201)
Total income - adjusted	1,340	135	846	166	95	404	(356)	206	(101)	2,735
Operating expenses - statutory	(1,292)	(202)	(546)	(125)	(35)	(368)	(220)	(124)	(597)	(3,509)
Restructuring costs - direct	38	18	-	-	1	10	5	25	295	392
Restructuring costs - indirect	51	1	41	4	1	11	16	-	(125)	-
Litigation and conduct costs	421	92	8	2	-	38	16	-	707	1,284
Operating expenses - adjusted	(782)	(91)	(497)	(119)	(33)	(309)	(183)	(99)	280	(1,833)
Impairment (losses)/releases	(24)	14	(89)	-	(9)	-	(67)	(11)	-	(186)
Operating profit/(loss) - statutory	24	(53)	211	41	51	109	(612)	71	(537)	(695)
Operating profit/(loss) - adjusted	534	58	260	47	53	95	(606)	96	179	716
Additional information										
Return on equity (1)	(0.4%)	(8.2%)	4.9%	8.6%	15.0%	4.3%	nm	13.3%	nm	(11.0%)
Return on equity - adjusted (1,2)	24.2%	9.0%	6.6%	9.9%	15.7%	3.5%	nm	18.0%	nm	3.2%
Cost income ratio (3)	96.4%	149.6%	63.0%	75.3%	36.8%	77.1%	nm	60.2%	nm	117.2%
Cost income ratio - adjusted (2,3)	58.4%	67.4%	57.0%	71.7%	34.7%	76.5%	nm	48.1%	nm	66.6%

Notes:
(1)

RBS's CET1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 14% (Ulster Bank RoI - 11% prior to Q1 2017), 11% (Commercial Banking), 14% (Private Banking - 15% prior to Q1 2017), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). RBS Return on equity is calculated using profit for the period attributable to ordinary shareholders.

(2) Excluding own credit adjustments, (loss)/gain on redemption of own debt, strategic disposals, restructuring costs and litigation and conduct costs.

(3) Operating lease depreciation included in income (H1 2017 - £72 million; Q2 2017 - £36 million; H1 2016 – £76 million; Q1 2017 - £36 million and Q2 2016 - £38 million).

Legal Entity Identifier: 2138005O9XJIJN4JPN90

Date: 4 August 2017

THE ROYAL BANK OF SCOTLAND GROUP plc (Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary