ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 09, 2016

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

9 November 2016

Form 6-K

The Royal Bank of Scotland Group plc

Gogarburn

PO Box 1000

Edinburgh EH12 1HQ

Scotland

United Kingdom

(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):__

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 X

If "Yes" is marked, indicate below the file number assigned to

the registrant in connection with Rule 12g3-2(b): 82-______

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

The Royal Bank of Scotland Group plc

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘may’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group plc and its subsidiaries (RBS) restructuring which includes the divestment of Williams & Glyn, litigation, government and regulatory investigations, the proposed restructuring of RBS’s CIB business, the implementation of the UK ring-fencing regime, cost-reduction targets and progress relating there to the implementation of a major development program to update RBS’s IT infrastructure and the continuation of its balance sheet reduction programme, the impact of the UK’s referendum on its membership of the European Union and impact thereof on the RBS’s markets, prospects, financial and capital position and strategy, as well as capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios and requirements, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), Pillar 2A, return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other funding plans, funding and credit risk profile; RBS’s future financial performance; the level and extent of future impairments and write-downs; including with respect to goodwill; future pension contributions and RBS’s exposure to political risks, operational risk, conduct risk and credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in RBS’s 2015 Annual Report on Form 20-F and RBS’s 2016 Interim Form 6-K – and in this report under “highlights – Outlook”. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes (including where resolved by settlement); the economic, regulatory and political uncertainty arising from the majority vote to leave in the referendum on the UK’s membership in the European Union and the revived political uncertainty regarding Scottish independence; the divestment of Williams & Glyn; RBS’s ability to successfully implement the various initiatives that are comprised in its restructuring plan, particularly the proposed restructuring of its CIB business and the balance sheet reduction programme as well as the significant restructuring required to be undertaken by RBS in order to implement the UK ring fencing regime; the significant changes, complexity and costs relating to the implementation of its restructuring, the separation and divestment of Williams & Glyn and the UK ring-fencing regime; whether RBS will emerge from its restructuring and the UK ring-fencing regime as a viable, competitive, customer focused and profitable bank; RBS's ability to achieve its capital and leverage requirements or targets which will depend on RBS's success in reducing the size of its business and future profitability; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK the impact of global economic and financial market conditions (including low or negative interest rates) as well as increasing competition. In addition, there are other risks and uncertainties. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and systems, the risk of failing to preventing a failure of RBS's IT systems or to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; increased competitive pressures resulting from new incumbents and disruptive technologies; RBS's ability to attract and retain qualified personnel; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as at the date hereof, and RBS does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Introduction

Presentation of information

In this document, ‘RBSG plc’ or the ‘parent company’ refers to The Royal Bank of Scotland Group plc, and ‘RBS’ or the ‘Group’ refers to RBSG plc and its subsidiaries.

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (‘the Act’). The statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

As described in Note 1 on page 38, RBS prepares its financial statements in accordance with IFRS as adopted by the European Union (EU). The EU has not adopted the complete text of IAS 39; it has relaxed some of the standard's hedging requirements. RBS has not taken advantage of this relaxation, therefore its financial statements are also prepared in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles (‘GAAP’).

The unaudited condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and related notes presented on pages 34 to 41 inclusive are presented on a statutory basis as described above.

Non GAAP financial measures

This document contains a number of adjusted or alternative performance measures, also known as non-GAAP financial measures which have not been prepared in accordance with EU IFRS. These measure exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management to measure performance and management believes provide helpful supplementary information for investors. These adjusted measures, derived from the reported results are non-IFRS financial measures and are not a substitute to IFRS reported measures.

These measures include:

- ‘Adjusted’ measures of financial performance, principally operating performance before own credit adjustments; gain or loss on redemption of own debt; strategic disposals; restructuring costs and litigation and conduct costs (A reconciliation of the non-GAAP and GAAP measures of segment results is included on pages 13 to 15);
- ‘Return on tangible equity’, ‘adjusted return on tangible equity’ and related RWA equivalents incorporating the effect of capital deductions (RWAes) and total assets excluding derivatives (funded assets) which are internal metrics used to measure business performance;
- Personal & Business Banking (PBB) franchise, combining the reportable segments of UK Personal & Business Banking (UK PBB) and Ulster Bank RoI; and Commercial & Private Banking (CPB) franchise, combining the reportable segments of Commercial Banking, Private Banking and RBS International (RBSI). The combined presentation of the Group’s reportable segments provides investors with a summary of the Group’s business performance and is prepared on a non-IFRS basis. Segment results prepared on a statutory basis are included on pages 13 to 15; and
- Cost savings progress and 2016 target calculated using operating expenses excluding litigation and conduct costs, restructuring costs, the impairment of other intangible assets, the operating costs of Williams & Glyn and the VAT recovery.

Introduction

Other operating Indicators

This document also includes a number of operational metrics which include certain capital, liquidity and credit measures and ratios which management believes may be helpful to investors in understanding the Group's business and performance.

These measures are used internally by management to measure performance and for risk management purposes and may not yet be required to be disclosed by a government, governmental authority or self-regulatory organisation. As a result, the basis of calculation of these measures may not be the same as that used by the Group's peers.

Recent developments

FCA's review of the treatment of SME's in the RBS Global Restructuring Group

On 8 November 2016, the Financial Conduct Authority (FCA) published an update on its review into the treatment of small and medium enterprise (SME) customers in RBS's former Global Restructuring Group (GRG) between 2008 and 2013.

In response, RBS has announced steps that will impact SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. Those steps are (i) an automatic refund of certain complex fees and; (ii) a new complaints process, overseen by an Independent Third Party. – These steps have been developed with the involvement of the FCA which agrees that they are appropriate for RBS to take.

RBS estimates the costs associated with the new complaints review process and the automatic refund of complex fees to be approximately £400 million, which will be recognised as a provision in Q4 2016. This includes operational costs together with the cost of refunded complex fees and the additional estimated redress costs arising from the new complaints process.

The FCA has announced that its review will continue. RBS continues to cooperate fully with the review and it would not be appropriate to comment further until further announcement by the FCA.

Martinez v. Deutsche Bank AG and others

On 2 November 2016, a complaint was filed in the United States District Court for the Southern District of Illinois against RBS N.V. and certain other financial institutions (Deutsche Bank, HSBC, Barclays, Standard Chartered, Credit Suisse, Bank Saderat, and Commerzbank). The plaintiffs are a number of US military personnel (or their estates, survivors, or heirs) who were killed or injured in 21 attacks in Iraq between 2006 and 2011. The attacks were allegedly perpetrated by Hezbollah and certain Iraqi terror cells allegedly funded by the Islamic Republic of Iran. According to the complaint, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells, in violation of the US Anti- Terrorism Act, by, among other things, agreeing to engage in "stripping" of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected. As previously disclosed, RBS N.V. has made a motion to dismiss the complaint in another Anti-Terrorism Act case (Freeman v. HSBC Holdings PLC and others, pending in the United States District Court for the Eastern District of New York) which asserts substantially similar allegations on behalf of other US nationals injured in Iraq.

Condensed consolidated income statement for the period ended 30 September 2016 (unaudited)

	Nine months ended		Quarter ended		
	30 September 2016	30 September 2015*	**30 September 2016**	30 June 2016	30 September 2015*
	£m	£m	**£m**	£m	£m
Interest receivable	**8,432**	9,070	**2,776**	2,827	2,963
Interest payable	**(1,932)**	(2,465)	**(609)**	(650)	(776)
Net interest income	**6,500**	6,605	**2,167**	2,177	2,187
Fees and commissions receivable	**2,519**	2,838	**843**	810	880
Fees and commissions payable	**(592)**	(558)	**(200)**	(180)	(195)
Income from trading activities	**384**	1,045	**401**	(55)	170
(Loss)/gain on redemption of own debt	**(127)**	-	**3**	(130)	-
Other operating income	**690**	509	**96**	378	141
Non-interest income	**2,874**	3,834	**1,143**	823	996
Total income	**9,374**	10,439	**3,310**	3,000	3,183
Staff costs	**(3,982)**	(4,449)	**(1,287)**	(1,372)	(1,562)
Premises and equipment	**(1,006)**	(1,380)	**(354)**	(328)	(635)
Other administrative expenses	**(3,234)**	(3,096)	**(1,095)**	(1,564)	(730)
Depreciation and amortisation	**(529)**	(994)	**(175)**	(176)	(282)
Write down of other intangible assets	**(89)**	(673)	**-**	(69)	(67)
Operating expenses	**(8,840)**	(10,592)	**(2,911)**	(3,509)	(3,276)
Profit/(loss) before impairment (losses)/releases	**534**	(153)	**399**	(509)	(93)
Impairment (losses)/releases	**(553)**	400	**(144)**	(186)	79
Operating (loss)/profit before tax	**(19)**	247	**255**	(695)	(14)
Tax (charge)/credit	**(922)**	(284)	**(582)**	(260)	3
Loss from continuing operations	**(941)**	(37)	**(327)**	(955)	(11)
Profit from discontinued operations, net of tax	**-**	1,451	**-**	-	1,093

(Loss)/profit for the period	**(941)**	1,414		**(327)**	(955)	1,082
						.
Attributable to:						
Non-controlling interests	**37**	389		**7**	8	45
Preference share and other dividends	**343**	264		**135**	114	97
Dividend access share	**1,193**	-		**-**	-	-
Ordinary shareholders	**(2,514)**	761		**(469)**	(1,077)	940
(Loss)/earnings per ordinary share (EPS) (1)						
Basic EPS from continuing and discontinued operations	**(21.5p)**	6.6p		**(3.9p)**	(9.3p)	8.1p
Basic EPS from continuing operations	**(21.5p)**	(3.2p)		**(3.9p)**	(9.3p)	(1.0p)

* Restated - refer to page 38 for further details

Note:

(1) There was no dilutive impact in any period.

Statutory results. For further information see pages 34 to 41.

Condensed consolidated balance sheet as at 30 September 2016 (unaudited)

	30 September 2016	30 June 2016	31 December 2015
	£m	£m	£m
Assets			
Cash and balances at central banks	**69,254**	65,307	79,404
Net loans and advances to banks	**19,741**	21,763	18,361
Reverse repurchase agreements and stock borrowing	**12,251**	14,458	12,285
Loans and advances to banks	**31,992**	36,221	30,646
Net loans and advances to customers	**326,736**	326,503	306,334
Reverse repurchase agreements and stock borrowing	**33,704**	31,320	27,558
Loans and advances to customers	**360,440**	357,823	333,892
Debt securities	**79,784**	84,058	82,097
Equity shares	**728**	749	1,361
Settlement balances	**10,298**	13,405	4,116
Derivatives	**283,049**	326,023	262,514
Intangible assets	**6,506**	6,525	6,537
Property, plant and equipment	**4,490**	4,589	4,482
Deferred tax	**1,684**	2,217	2,631
Prepayments, accrued income and other assets	**4,140**	4,311	4,242
Assets of disposal groups	**13**	396	3,486
Total assets	**852,378**	901,624	815,408
Liabilities			
Bank deposits	**32,172**	31,377	28,030
Repurchase agreements and stock lending	**6,557**	11,611	10,266
Deposits by banks	**38,729**	42,988	38,296
Customer deposits	**358,844**	355,719	343,186
Repurchase agreements and stock lending	**29,851**	29,270	27,112
Customer accounts	**388,695**	384,989	370,298
Debt securities in issue	**28,357**	27,148	31,150
Settlement balances	**10,719**	11,262	3,390
Short positions	**19,882**	21,793	20,809
Derivatives	**275,364**	322,390	254,705
Provisions, accruals and other liabilities	**15,954**	15,627	15,115

Retirement benefit liabilities	**526**	511	3,789
Deferred tax	**647**	824	882
Subordinated liabilities	**19,162**	20,113	19,847
Liabilities of disposal groups	**15**	252	2,980
Total liabilities	**798,050**	847,897	761,261
Equity			
Non-controlling interests	**853**	820	716
Owners' equity*			
Called up share capital	**11,792**	11,756	11,625
Reserves	**41,683**	41,151	41,806
Total equity	**54,328**	53,727	54,147
Total liabilities and equity	**852,378**	901,624	815,408
*Owners' equity attributable to:			
Ordinary shareholders	**46,328**	47,066	47,480
Other equity owners	**7,147**	5,841	5,951
	53,475	52,907	53,431

Statutory results. For further information see pages 34 to 41.

Highlights

RBS reported an operating profit before tax of £255 million, and a loss attributable to ordinary shareholders of £469 million in Q3 2016 which included restructuring costs of £469 million, litigation and conduct costs of £425 million and a £300 million deferred tax asset impairment.

Across our Personal & Business Banking (PBB), Commercial & Private Banking (CPB) and Corporate & Institutional Banking (CIB) franchises, RBS reported an adjusted operating profit before tax(1) of £1,331 million. RBS has generated over £1 billion of adjusted operating profit (1) across PBB, CPB and CIB in each quarter this year. Return on equity was (4.8%) for Q3 2016(2). Adjusted return on equity(3,4) across PBB, CPB and CIB was 14% for Q3 2016.

Common Equity Tier 1 ratio of 15.0% increased by 50 basis points in the quarter and remains ahead of our 13% target. Leverage ratio(5) increased by 40 basis points to 5.6% principally reflecting the £2 billion Additional Tier 1 (AT1) issuance.

Q3 2016 RBS performance summary

RBS reported a loss attributable to ordinary shareholders of £469 million in Q3 2016 compared with a profit of £940 million in Q3 2015 which included a £1,147 million gain on loss of control of Citizens. Q3 2016 included a £469 million restructuring cost, £425 million of litigation and conduct costs and a £300 million deferred tax asset impairment. The loss attributable to ordinary shareholders for the first nine months of the year was £2,514 million and operating loss before tax was £19 million.

Q3 2016 operating profit before tax of £255 million compared with an operating loss before tax of £14 million in Q3 2015. Adjusted operating profit before tax (1) of £1,333 million was £507 million, or 61%, higher than Q3 2015 reflecting increased income and reduced expenses.

Income across PBB and CPB was 2% higher than Q3 2015, adjusting for transfers(6), and was stable for the year to date, as increased lending volumes more than offset reduced margins. CIB income ,which includes own credit adjustments, increased by 16% to £471 million. CIB adjusted income increased by 71% to £526 million, adjusting for transfers(6), the highest quarterly income for the year, driven by Rates, which benefited from sustained customer activity and favourable market conditions following the EU referendum and central bank actions.

Net interest margin (NIM) of 2.17% for Q3 2016 was 7 basis points higher than Q3 2015, as the benefit associated with the reduction in low yielding assets more than offset modest asset margin pressure and mix impacts across the core franchises. NIM fell 4 basis points compared with Q2 2016 reflecting asset and liability margin pressure.

PBB and CPB net loans and advances have increased by 13% on an annualised basis since the start of 2016, with strong growth across both residential mortgages and commercial lending.

Operating expenses of £2,911 million were £365 million, or 11%, lower than Q3 2015. Adjusted operating expenses have been reduced by £695(4,7) million for the year to date. Cost:income ratio for the year to date was 94% compared to 101% in the prior year. Adjusted cost:income ratio(3,4) for the year to date was 66% compared with 67% in the prior year. Across PBB, CPB and CIB cost:income ratio year to date was 70% compared with 80% in the prior year. Across PBB, CPB and CIB adjusted cost:income ratio of 60% year to date was stable compared with 2015.

Restructuring costs were £469 million in the quarter, a reduction of £378 million compared with Q3 2015. Williams & Glyn(8) restructuring costs of £301 million include £127 million of termination costs associated with the decision to discontinue the programme to create a cloned banking platform.

Litigation and conduct costs of £425 million include an additional charge in respect of the recent settlement with the National Credit Union Administration Board to resolve two outstanding lawsuits in the United States relating to residential mortgage backed securities.

RBS has reviewed the recoverability of its deferred tax asset and, in light of the weaker economic outlook and recently enacted restrictions on carrying forward losses; an impairment of £300 million has been recognised in Q3 2016.

Refer to page 9 for footnotes.

Highlights

PBB, CPB and CIB performance

Across our PBB, CPB and CIB franchises operating profit of £1,170 million was £787 million higher than in Q2 2016. Adjusted operating profit(1) of £1,331 million, was £212 million higher than Q3 2015.

UK Personal and Business Banking (UK PBB) operating profit was £567 million compared with £549 million in Q3 2015 with 2% income growth and a 3% reduction in operating expenses partially offset by a modestly higher impairment charge. Adjusted operating profit(1) of £591 million was £14 million higher than Q3 2015.

Ulster Bank RoI operating profit of £54 million was £49 million lower than Q3 2015 primarily reflecting a lower net impairment release and income gains in Q3 2015. Adjusted operating profit(1) of £68 million compared with £108 million in Q3 2015.

Commercial Banking operating profit of £355 million in Q3 2016 compared with £376 million in Q3 2015. Adjusted operating profit(1) of £382 million was £7 million higher than Q3 2015 and was £122 million higher than Q2 2016, principally reflecting a single name impairment charge taken in respect of the oil and gas portfolio in Q2 2016 and a 1% increase in income, adjusting for transfers(9).

Private Banking(10) operating profit of £50 million was £12 million higher than Q3 2015 and was £9 million higher than Q2 2016. Adjusted operating profit(1) of £53 million was £16 million higher than Q3 2015, benefiting from a £13 million VAT recovery. RBS International (RBSI) operating profit of £54 million was 8% higher than Q3 2015 driven by increased income, whilst adjusted operating profit(1) was broadly stable at £53 million.

CIB total income, which includes own credit adjustments, increased by £65 million, or 16%, to £471 million compared with £406 million in Q3 2015. Adjusted income(3) of £526 million was 71% higher than Q3 2015, adjusting for transfers(6), principally driven by Rates. An operating profit of £90 million compared with an operating loss of £109 million in Q3 2015. Adjusted operating profit(1) of £184 million compared with a loss of £30 million in Q3 2015.

Capital Resolution & Central items

Capital Resolution operating loss of £454 million in Q3 2016 compared with a loss of £798 million in Q3 2015 and a loss of £612 million in Q2 2016. The Q3 2016 loss included a £190 million impairment loss on the shipping portfolio and a £160 million valuation adjustment gain. Adjusted operating loss(1) of £118 million compared with an adjusted operating loss(1) of £245 million in Q3 2015. RWAs reduced by £3.7 billion in the quarter to £38.6 billion

Central items not allocated represented a charge of £545 million in Q3 2016, an increase of £207 million compared with Q3 2015. Treasury funding costs were a charge of £177 million (compared with a charge of £117 million in Q3 2015) driven by a £150 million IFRS volatility charge(11). Restructuring costs in the quarter included £289 million relating to Williams & Glyn (Q3 2015 - £190 million). Partially offsetting this a gain of £97 million was recognised arising from a partial recycling of the accumulated foreign exchange reserve triggered by a capital reduction in a foreign subsidiary. Adjusted operating profit(1) of £24 million compared with an adjusted operating loss(1) of £163 million in Q3 2015.

Refer to the following page for footnotes.

Highlights

Progress on 2016 targets

Strategy goal	2016 target	Q3 2016 Progress
Strength and sustainability	Maintain Bank CET1 ratio of 13% £2 billion AT1 issuance Capital Resolution RWAs around £30-35 billion	CET1 ratio of 15.0% £2.0 billion equivalent issued in Q3 2016 RWAs down £10.4 billion to £38.6 billion for the year to date
Customer experience	Narrow the gap to No.1 in Net Promoter Score (NPS) in every primary UK brand	Year on year Commercial Banking(12) has seen an improvement in NPS and is the highest it has ever been.
Simplifying the bank	Reduce operating expenses by £800 million	Operating expenses down £695 million(7)
Supporting growth	Net 4% growth in PBB and CPB customer loans	Net customer loans in PBB and CPB are up 13% on an annualised basis for the year to date
Employee engagement	Raise employee engagement to within two points of the GFS norm	Down 3 points to within 6 points of GFS norm

Notes:

(1) Operating profit before tax excluding own credit adjustments, (loss)/gain on redemption of own debt, strategic disposals, restructuring costs and litigation and conduct costs.
(2) Calculated using (loss)/profit for the period attributable to ordinary shareholders.
(3) Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals.
(4) Excluding restructuring costs and litigation and conduct costs.
(5) Based on end-point Capital Requirements Regulation (CRR) Tier 1 capital and leverage exposure under the CRR Delegated Act.
(6) CIB's results include the following financials for businesses subsequently transferred to Commercial Banking: total income of £98 million for nine months ended 2015 (Q3 2015 - £20 million).
(7) Cost saving target and progress for the nine months ended 2016 calculated using operating expenses excluding restructuring costs £1,099 million (2015 - £2,317 million), litigation and conduct costs £1,740 (2015 - £1,444), write down of other intangible assets of £48 million (2015 - nil), the operating costs of Williams and Glyn £296 million (2015 - £252 million) and the VAT recovery £227 million.
(8) Williams & Glyn refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses, along with certain small and medium enterprises and corporate activities across the UK.
(9) The business transfers included: total income of £42 million (Q3 2015 - nil); operating expenses of £25 million (Q3 2015 - nil) and impairments of £7 million (Q3 2015 - nil).
(10) Private Banking serves high net worth individuals through Coutts and Adam & Co.

(11) IFRS volatility arises from the changes to fair value of hedges of loans which do not qualify for hedge accounting under IFRS.

(12) £2m+ combination of NatWest & Royal Bank of Scotland in GB (954) Question: “How likely would you be to recommend (bank)”. Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain.

Highlights

Building a stronger RBS

RBS is progressing with its plan to build a strong, simple, fair bank for customers and shareholders. CET1 remains ahead of our 13% target at 15.0%, a 50 basis point increase compared with Q2 2016 driven by a £10.0 billion reduction in RWAs principally reflecting a £5.1 billion reduction in UK PBB, largely due to the unwind of mortgage risk parameter model uplifts taken in the first half, and £3.7 billion of disposals and run-off in Capital Resolution.
On 10 August 2016 RBS announced that it had successfully completed the pricing of US$2.65 billion 8.625% AT1 capital notes, with £4.0 billion equivalent now issued since August 2015.
In addition, on 7 September 2016 we successfully issued US$2.65 billon seven year senior debt which is eligible to meet RBS's 'Minimum Requirement for Own Funds and Eligible Liabilities', with £4.2 billion equivalent issued this year.
Leverage ratio increased by 40 basis points to 5.6% largely driven by the AT1 issuance.
Risk elements in lending (REIL) of £12.6 billion were 3.8% of gross customer loans, down from 4.5% at 30 September 2015.
In June 2016, the triennial funding valuation of the Main Scheme of The Royal Bank of Scotland Group Pension Fund was agreed which showed that as at 31 December 2015 the value of liabilities exceeded the value of assets by £5.8 billion. In March 2016, to mitigate this anticipated deficit, RBS made a cash payment of £4.2 billion. The next triennial valuation is due to occur at the end of 2018 with agreement on any additional contributions by the end of March 2020. As at 30 September 2016, the Main Scheme had an unrecognised surplus reflected by a ratio of asset to liabilities of c.115% under IAS19 valuation principles. The surplus is unrecognised because the trustee's power to enhance member benefits could consume that surplus meaning that RBS does not control its ability to realise an asset. The existence of the asset, albeit unrecognised, does limit RBS's exposure to changes in actuarial assumptions and investment performance.

Building the number one bank for customer service, trust and advocacy in the UK

RBS continued to deliver strong support for both household and business customers. Within UK PBB, gross new mortgage lending of £7.9 billion was 12% higher than Q3 2015. Our market share of gross new mortgage lending in Q3 2016 was approximately 12% compared with a stock share of 8.7%. Commercial Banking net loans and advances have grown by an annualised 12% since the start of the year.
The Reward account continues to show positive momentum and now has over one million fee-paying customers compared with 202,000 at 31 December 2015.
We continue to make better use of our digital channels to make it simpler to serve our customers and for them to do business with us. We now have more than 4.3 million customers regularly using our mobile app, with over 20% of our customers now exclusively using digital banking for their day to day banking needs. We anticipate that this number will continue to grow as we make more of our products and services available digitally. Our new 'Online Account Opening' service allows start up business customers to submit an application online in just ten minutes and get a sort code and account number in under an hour.

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Highlights

Investment in subsidiaries and distributable reserves

As part of the Q3 2016 results we have reviewed the value of the investments in subsidiaries held in the parent company, RBSG plc, and in light of the deterioration in the economic outlook we have reduced the carrying value of the investments by £6.0 billion to £44.7 billion. This has the effect of reducing distributable reserves of RBSG plc by £6.0 billion to £7.2 billion. Whilst this level of distributable reserves does not impact upon our ability to pay coupons on existing securities, it is our intention to implement a capital reorganisation in 2017 in order to increase parent company distributable reserves, providing greater flexibility for future distributions and preference share redemptions. The capital reduction will be subject to shareholder approval (to be sought at the next Annual General Meeting) and court approval. The reorganisation in carrying value of the parent company's investment in its subsidiaries does not impact upon the Group's consolidated regulatory capital, including CET1, or tangible net asset value.

Recent developments

Work has continued to explore means to achieve separation and divestment of the business previously described as Williams & Glyn. RBS has had positive discussions with a number of interested parties concerning a transaction related to substantially all of the business. These discussions are ongoing and may or may not lead to a viable transaction. However, none of the proposals under discussion can deliver full separation and divestment by 31 December 2017. RBS is therefore in discussion with HM Treasury, and expects further engagement with the European Commission, to agree a solution with regards to its State Aid obligations.

As we no longer intend to pursue divestment by way of an Initial Public Offering, on 21 October 2016 RBS redeemed the £600 million exchangeable bond issued to a consortium of investors, led by Centerbridge and Corsair, in 2013 in accordance with the terms of the bond.

Highlights

Outlook

The current low interest rate and low growth environment presents a range of uncertainties which could impact the performance of our core business. Whilst we remain committed to achieving our long term cost:income ratio and returns targets, set out in 2014, we now do not expect to achieve these by 2019 as previously indicated. We also recognise that the ongoing discussions around further tightening of regulatory capital rules could result in RWA inflation in the medium term.
We expect PBB and CPB income to be broadly stable in 2016 compared with 2015 as strong planned balance sheet growth, particularly in mortgages but also in core commercial lending, is balanced by headwinds from low interest rates and the uncertain macroeconomic environment. We now anticipate that CIB will report a modest increase in income in 2016 compared with 2015.
RBS remains on track to achieve an £800 million cost reduction in 2016 after achieving a £695 million reduction in the first nine months of the year. Core franchise profitability will be adversely impacted by the annual bank levy charge in Q4 2016, around £200 million, and expense inflation associated with weaker sterling. We retain our expectation that the adjusted cost:income ratio across our combined PBB, CPB and CIB businesses will improve in 2016 compared with 2015. We plan to provide further cost guidance for 2017 as part of the 2016 year end results.
We do not anticipate a material change to the current impairment loss rate for 2016. The impairment charges taken during 2016 year to date largely relate to sector specific issues particularly in the shipping portfolio and oil and gas sector. We recognise the continuing risk of large single name/sector driven events across our portfolios given the uncertain macroeconomic environment. In the current environment there is an increased level of uncertainty; however it continues to be too early at this point to quantify the impact of potential credit losses that may result.
We now anticipate a restructuring charge of around £1.5 billion in 2016 compared with previous guidance of over £1.0 billion, as a result of additional Williams & Glyn charges in respect of the decision to discontinue the programme to create a cloned banking platform.
We now expect Capital Resolution disposal losses to total approximately £2.0 billion, up from the previous guidance of £1.5 billion. Total losses to date have been £997 million (of which 2015; £367 million and 2016 year to date; £630 million) including an impairment charge of £454 million in relation to the shipping portfolio during 2016 year to date. We anticipate that Capital Resolution RWAs will be in the range £30-£35 billion by the end of 2016. Excluding RBS's stake in Saudi Hollandi Bank (£7.9 billion at Q3 2016), we would expect RWAs to be in the range £15-£20 billion by end 2017.
We continue to deal with a range of uncertainties in the external environment and also manage conduct-related investigations and litigation, including US RMBS. Substantial additional charges and costs may be recognised in the coming quarters which would have an impact on the Group's level of capital.
In view of the above, the timing of returning excess capital to shareholders through dividends or buybacks remains uncertain.

Segmental income statement reconciliations

	PBB		CPB						
	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	CIB	Capital Resolution	Williams & Glyn	Central items & other
Nine months ended 30 September 2016	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement									
Total income - statutory	3,951	439	2,548	496	278	1,289	(69)	620	(178)
Own credit adjustments	-	(3)	-	-	-	(82)	(142)	-	(67)
Loss on redemption of own debt	-	-	-	-	-	-	-	-	127
Strategic disposals	-	-	-	-	-	-	81	-	(245)
Total income - adjusted	3,951	436	2,548	496	278	1,207	(130)	620	(363)
Operating expenses - statutory	(2,784)	(443)	(1,458)	(390)	(110)	(1,110)	(915)	(353)	(1,277)
Restructuring costs - direct	50	32	13	1	1	16	35	57	894
- indirect	86	4	49	22	2	50	35	-	(248)
Litigation and conduct costs	420	95	16	2	(1)	62	257	-	889
Operating expenses - adjusted	(2,228)	(312)	(1,380)	(365)	(108)	(982)	(588)	(296)	258
Impairment (losses)/releases	(67)	66	(123)	(5)	(11)	-	(383)	(31)	1
Operating profit/(loss) - adjusted	1,656	190	1,045	126	159	225	(1,101)	293	(104)
Additional information									
Return on equity (1)	17.0%	3.1%	8.5%	7.0%	15.4%	1.6%	nm	nm	nm
Return on equity - adjusted (1,2)	26.4%	9.5%	9.4%	8.9%	15.6%	2.4%	nm	nm	nm
Cost income ratio	70%	101%	57%	79%	40%	86%	nm	57%	nm
Cost income ratio - adjusted (2)	56%	72%	54%	74%	39%	81%	nm	48%	71%

Nine months ended 30 September 2015*									
Income statement									
Total income - statutory	3,946	434	2,457	486	272	1,341	801	625	77
Own credit adjustments	-	-	-	-	-	(186)	(180)	-	(58)
Strategic disposals	-	-	-	-	-	-	14	-	121
Total income - adjusted	3,946	434	2,457	486	272	1,155	635	625	140
Operating expenses - statutory	(2,606)	(322)	(1,291)	(439)	(120)	(1,938)	(2,955)	(252)	(669)
Restructuring costs - direct	7	19	12	-	-	44	359	-	1,876
- indirect	73	2	3	78	5	418	844	-	(1,423)
Litigation and conduct costs	365	(9)	59	2	-	373	607	-	47
Operating expenses - adjusted	(2,161)	(310)	(1,217)	(359)	(115)	(1,103)	(1,145)	(252)	(169)
Impairment (losses)/releases	(20)	131	(42)	(1)	-	5	369	5	(47)
Operating profit/(loss) - adjusted	1,765	255	1,198	126	157	57	(141)	378	(76)
Additional information									
Return on equity (1)	20.8%	13.1%	12.3%	2.0%	18.2%	(10.1%)	nm	nm	nm
Return on equity - adjusted (1,2)	28.3%	13.8%	13.2%	7.9%	18.8%	(0.5%)	nm	nm	nm
Cost income ratio	66%	74%	53%	90%	44%	145%	nm	40%	nm
Cost income ratio - adjusted (2)	55%	71%	50%	74%	42%	95%	nm	40%	nm

*Restated - refer to page 38 for further details.

For the notes to this table refer to page 15.

Segmental income statement reconciliations

	PBB		CPB							
	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	CIB	Capital Resolution	Williams & Glyn	Central items & other	Total RBS
Quarter ended 30 September 2016	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement										
Total income - statutory	1,336	146	849	165	93	471	103	209	(62)	3,310
Own credit adjustments	-	-	-	-	-	55	42	-	59	156
Gain on redemption of own debt	-	-	-	-	-	-	-	-	(3)	(3)
Strategic disposals	-	-	-	-	-	-	30	-	1	31
Total income - adjusted	1,336	146	849	165	93	526	175	209	(5)	3,494
Operating expenses - statutory	(742)	(131)	(474)	(112)	(39)	(381)	(437)	(111)	(484)	(2,911)
Restructuring costs - direct	(1)	8	12	-	-	6	23	12	409	469
- indirect	26	3	9	3	-	27	10	-	(78)	-
Litigation and conduct costs	(1)	3	6	-	(1)	6	231	-	181	425
Operating expenses - adjusted	(718)	(117)	(447)	(109)	(40)	(342)	(173)	(99)	28	(2,017)
Impairment (losses)/releases	(27)	39	(20)	(3)	-	-	(120)	(14)	1	(144)
Operating profit/(loss) - adjusted	591	68	382	53	53	184	(118)	96	24	1,333
Additional information										
Return on equity (1)	27.1%	7.8%	9.5%	11.1%	15.4%	3.1%	nm	nm	nm	(4.8%)
Return on equity - adjusted (1,2)	28.3%	9.9%	10.4%	11.8%	15.1%	8.0%	nm	nm	nm	4.6%
Cost income ratio	56%	90%	56%	68%	42%	81%	nm	53%	nm	88%
	54%	80%	53%	66%	43%	65%	99%	47%	nm	58%

Cost income ratio - adjusted (2)													
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	
- 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 (loss)/releases	(24)	14		(89)	-	(9)		-	(67)	(11)	-	(186)	
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	nm	nm	(11.0%)	
Return on equity - adjusted (1,2)	24.2%	9.0%		6.6%	9.9%	15.7%		3.5%	nm	nm	nm	3.2%	
Cost income ratio	96%	150%		65%	75%	37%		77%	nm	60%	nm	117%	
Cost income ratio - adjusted (2)	58%	67%		59%	72%	35%		76%	nm	48%	nm	67%	

For the notes to this table refer to page 15.

Segmental income statement reconciliations

	PBB		CPB						Central items & other	
	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	CIB	Capital Resolution	Williams & Glyn	Central items & other	Total RBS
Quarter ended 30 September 2015*	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement										
Total income - statutory	1,313	164	800	160	87	406	89	211	(47)	3,183
Own credit adjustments	-	-	-	-	-	(78)	(38)	-	(20)	(136)
Total income - adjusted	1,313	164	800	160	87	328	51	211	(67)	3,047
Operating expenses - statutory	(762)	(115)	(408)	(118)	(38)	(515)	(937)	(91)	(292)	(3,276)
Restructuring costs - direct	5	3	1	(2)	-	3	190	-	647	847
- indirect	23	2	(2)	1	2	148	300	-	(474)	-
Litigation and conduct costs	-	-	-	-	-	6	101	-	22	129
Operating expenses - adjusted	(734)	(110)	(409)	(119)	(36)	(358)	(346)	(91)	(97)	(2,300)
Impairment (losses)/releases	(2)	54	(16)	(4)	1	-	50	(5)	1	79
Operating profit/(loss) - adjusted	577	108	375	37	52	(30)	(245)	115	(163)	826
Additional information										
Return on equity (1)	27.2%	16.7%	12.3%	7.4%	18.0%	(6.4%)	nm	nm	nm	9.0%
Return on equity - adjusted (1,2)	28.7%	17.5%	12.3%	7.1%	18.8%	(2.7%)	nm	nm	nm	16.3%
Cost income ratio	58%	70%	51%	74%	44%	127%	nm	43%	nm	103%
Cost income ratio - adjusted (2)	56%	67%	51%	74%	41%	109%	nm	43%	nm	75%
*Restated - refer to page 38 for further details.										

Notes:

(1) RBS's CET 1 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 11% (Commercial Banking and Ulster Bank RoI), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect 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.

Analysis of results

	Nine months ended		Quarter ended		
	30 September	30 September	**30 September**	30 June	30 September
	2016	2015	**2016**	2016	2015
Net interest income	**£m**	£m	**£m**	£m	£m
Net interest income					
RBS	**6,500**	6,605	**2,167**	2,177	2,187
- UK Personal & Business Banking	**3,194**	3,122	**1,085**	1,090	1,055
- Ulster Bank RoI	**304**	280	**106**	93	90
- Commercial Banking	**1,601**	1,485	**534**	531	504
- Private Banking	**338**	328	**112**	113	109
- RBS International	**226**	225	**75**	76	73
- Corporate & Institutional Banking	**75**	59	**32**	24	29
- Capital Resolution	**195**	359	**27**	82	78
- Williams & Glyn	**488**	493	**164**	162	167
- Central items & other	**79**	254	**32**	6	82
Average interest-earning assets (IEA)					
RBS	**398,833**	415,352	**397,345**	396,008	413,670
- UK Personal & Business Banking	**140,696**	129,359	**145,649**	140,591	131,406
- Ulster Bank RoI	**24,835**	23,244	**26,026**	24,288	23,456
- Commercial Banking	**119,496**	104,686	**123,817**	119,768	105,905
- Private Banking	**16,621**	15,770	**16,978**	16,622	15,878
- RBS International	**22,073**	20,432	**23,332**	21,798	20,244
- Corporate & Institutional Banking	**11,817**	18,696	**11,960**	11,923	18,686
- Capital Resolution	**27,407**	67,659	**22,352**	29,157	51,786
- Williams & Glyn	**24,044**	22,810	**24,597**	24,172	23,020
- Central items & other	**11,844**	12,696	**2,634**	7,689	23,289
Yields, spreads and margins of the banking business					