

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
October 31, 2014

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 October 31, 2014

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): _____

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-

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:

The Royal Bank of Scotland Group plc
Q3 2014 Results

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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’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group’s (RBS) restructuring and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; RBS’s future financial performance; the level and extent of future impairments and write-downs; and RBS’s exposure to political risks, 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 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 about 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 cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global and UK economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on RBS in particular; the ability to implement strategic plans on a timely basis, or at all, including the on-going simplification of RBS’s structure, rationalisation of and investment in its IT systems and the reliability and resilience of those systems, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy

or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of RBS to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of RBS's operations) in the UK, the US and other countries in which RBS operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of RBS; reputational risk; the conversion of the B Shares issued by RBS in accordance with their terms; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and RBS does not undertake 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

The financial information on pages 4 to 33, prepared using RBS's accounting policies, shows the operating performance of The Royal Bank of Scotland Group (RBS) on a non-statutory basis which excludes own credit adjustments, gain on redemption of own debt, write down of goodwill, strategic disposals and RFS Holdings minority interest (RFS MI). Such information is provided to give a better understanding of the results of RBS's operations.

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 2013 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.

Contacts

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RBS Press Office +44 (0) 131 523 4205

Analysts and investors conference call

RBS will hold an audio Q&A session for analysts and investors on the results for the quarter ended 30 September 2014. Details are as follows:

Date: Friday 31 October 2014
Time: 9.00 am UK time
Webcast: www.rbs.com/results
Dial in details: International – +44 (0) 1452 568 172
UK Free Call – 0800 694 8082
US Toll Free – 1 866 966 8024

Announcement and slides

This announcement and the background slides are available on www.rbs.com/results

Financial supplement

A financial supplement containing income statement and balance sheet information for the nine quarters ending 30 September 2014 is available on www.rbs.com/results

Highlights

RBS reports a third successive quarterly profit, improved capital and further progress in de-risking.

Q3 2014 attributable profit was £896 million, up from £230 million in Q2 2014 and a loss of £828 million in Q3 2013. Profit before tax was £1,270 million compared with £1,010 million in Q2 2014 and a loss of £634 million in Q3 2013.

The quarter included net impairment provision releases of £801 million, principally in Ulster Bank and RBS Capital Resolution, and litigation and conduct costs of £780 million.

RBS continues to make excellent progress in building its capital ratios. The Common Equity Tier 1 ratio has strengthened 220 basis points since the year end and 70 basis points in the quarter to 10.8%.

Capital build was supported by further excellent progress in the nine months to 30 September in de-risking the balance sheet, including:

- Further disposals and run-off in RCR, with funded assets down £11 billion.
- A 16% reduction in RWAs in Corporate & Institutional Banking, including running down our US-backed product franchise.
- The sale of €9 billion of securities in the RBS N.V. liquidity portfolio.

Personal & Business Banking continued to perform strongly with income growth of 3% in the quarter. Operating profit in Q3 2014 was £881 million, up 66% on Q2 2014.

Commercial & Private Banking had an improved performance with income up 1% compared with Q2 2014. Operating profit in Q3 2014 was £471 million, up 23% on Q2 2014.

Corporate & Institutional Banking had a weak quarter with an operating loss of £557 million which reflected litigation and conduct costs of £562 million, including £400 million relating to potential costs following investigations into the foreign exchange market, and significantly lower income.

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Further progress has been made on improving efficiency, with adjusted operating expenses down 5% over the quarter. RBS remains on track to deliver its £1 billion operating cost reduction target for 2014, at constant foreign exchange rates.

The quarter saw RBS achieve the largest ever IPO of a US bank, listing 28.75% of Citizens Financial Group. We continue to target an IPO of Williams & Glyn towards the end of 2016.

RBS confirms it will retain Ulster Bank following completion of the strategic review. Ulster Bank remains a core part of RBS, offering a good strategic fit with our focused retail and commercial banking strategy. We have a good market position and believe that Ulster Bank can deliver attractive returns, with appropriate investment.

Highlights

Ross McEwan, Chief Executive, said:

“In February I placed trust at the heart of my new strategy for our bank. We have taken the first steps towards that goal, with early progress in making RBS simpler, clearer and fairer.

We are reducing costs, and are on track to achieve our capital targets.

UK and Ireland are showing signs of growth, and impairment trends are significantly better than we had anticipated at the start of the year.

We have confirmed today that Ulster Bank remains a core part of our bank. We have a good market position and believe that, with investment, Ulster Bank can deliver attractive shareholder returns in the future.

But we know we still have a long list of conduct and litigation issues to deal with and much, much more to do to restore our customers’ trust in us.”

Highlights

Summary consolidated income statement for the period ended 30 September 2014

| | Quarter ended | | Nine months ended | | |
|------------------------------|-------------------------------|-----------------------|--------------------------------|-------------------------------|--------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013* £m | 30 September 2014 £m | 30 September 2013* £m |
| Net interest income | 2,863 | 2,798 | 2,783 | 8,359 | 8,225 |
| Non-interest income | 1,496 | 2,127 | 2,111 | 5,978 | 7,277 |
| Total income | 4,359 | 4,925 | 4,894 | 14,337 | 15,502 |
| Staff and non-staff expenses | (2,923) | (3,065) | (3,325) | (9,267) | (10,184) |
| Restructuring costs | (180) | (385) | (205) | (694) | (476) |
| Litigation and conduct costs | (780) | (250) | (349) | (1,030) | (969) |

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| | | | | | |
|---|---------|---------|---------|----------|----------|
| Operating expenses | (3,883) | (3,700) | (3,879) | (10,991) | (11,629) |
| Operating profit before impairment releases/(losses) | 476 | 1,225 | 1,015 | 3,346 | 3,873 |
| Impairment releases/(losses) | 801 | 93 | (1,170) | 532 | (3,320) |
| Operating profit/(loss) | 1,277 | 1,318 | (155) | 3,878 | 553 |
| Own credit adjustments | 49 | (190) | (496) | (2) | (120) |
| Gain on redemption of own debt | - | - | 13 | 20 | 204 |
| Write down of goodwill | - | (130) | - | (130) | - |
| Strategic disposals | - | - | (7) | 191 | (7) |
| RFS Holdings minority interest | (56) | 12 | 11 | (35) | 110 |
| Profit/(loss) before tax | 1,270 | 1,010 | (634) | 3,922 | 740 |
| Tax charge | (333) | (371) | (81) | (1,066) | (759) |
| Profit/(loss) from continuing operations | 937 | 639 | (715) | 2,856 | (19) |
| Profit/(loss) from discontinued operations, net of tax | 3 | 26 | (5) | 38 | 133 |
| Profit/(loss) for the period | 940 | 665 | (720) | 2,894 | 114 |
| Non-controlling interests | 53 | (23) | (6) | 11 | (123) |
| Other owners' dividends | (97) | (92) | (102) | (264) | (284) |
| Dividend access share dividend | - | (320) | - | (320) | - |
| Profit/(loss) attributable to ordinary and B shareholders | 896 | 230 | (828) | 2,321 | (293) |

*Restated - see page 39.

| Key metrics and ratios | Quarter ended | | | Nine months ended | |
|--|-------------------|--------------|-------------------|-------------------|-------------------|
| | 30 September 2014 | 30 June 2014 | 30 September 2013 | 30 September 2014 | 30 September 2013 |
| Net interest margin | 2.26% | 2.22% | 2.01% | 2.20% | 1.98% |
| Cost:income ratio | 89% | 75% | 79% | 77% | 75% |
| Earnings/(loss) per share from continuing operations | | | | | |
| - basic | 7.9p | 1.9p | (7.4p) | 20.4p | (3.6p) |
| - adjusted (1) | 7.5p | 4.3p | (3.9p) | 19.6p | (4.5p) |
| Return on tangible equity (2) | 8.2% | 2.2% | (6.9%) | 7.3% | (0.8%) |
| Average tangible equity (2) | £43,536m | £42,122m | £48,282m | £42,231m | £49,025m |
| Average number of ordinary shares and equivalent B shares outstanding during the period (millions) | 11,384 | 11,335 | 11,223 | 11,333 | 11,176 |

Notes:

- (1) Adjusted earnings excludes own credit adjustments, gain on redemption of own debt, write down of goodwill, strategic disposals and RFS MI.
- (2) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

Details of other comprehensive income are provided on page 35.

Highlights

Summary consolidated balance sheet at 30 September 2014

| | 30 September 2014 £m | 30 June 2014 £m | 31 December 2013 £m |
|---|----------------------------------|-------------------------|---------------------------------|
| Cash and balances at central banks | 67,900 | 68,670 | 82,659 |
| Net loans and advances to banks (1,2) | 29,090 | 28,904 | 27,555 |
| Net loans and advances to customers (1,2) | 392,969 | 385,554 | 390,825 |
| Reverse repurchase agreements and stock borrowing | 75,491 | 81,705 | 76,413 |
| Debt securities and equity shares | 115,078 | 120,628 | 122,410 |
| Intangible assets | 12,454 | 12,173 | 12,368 |
| Other assets (3) | 39,107 | 38,568 | 27,609 |
| Funded assets | 732,089 | 736,202 | 739,839 |
| Derivatives | 314,021 | 274,906 | 288,039 |
| Total assets | 1,046,110 | 1,011,108 | 1,027,878 |
| Bank deposits (2,4) | 38,986 | 39,179 | 35,329 |
| Customer deposits (2,4) | 405,367 | 401,226 | 414,396 |
| Repurchase agreements and stock lending | 75,101 | 83,262 | 85,134 |
| Debt securities in issue | 53,487 | 59,087 | 67,819 |
| Subordinated liabilities | 24,412 | 24,809 | 24,012 |
| Derivatives | 310,361 | 270,087 | 285,526 |
| Other liabilities (3) | 73,558 | 72,495 | 56,447 |
| Total liabilities | 981,272 | 950,145 | 968,663 |
| Non-controlling interests | 2,747 | 618 | 473 |
| Owners' equity | 62,091 | 60,345 | 58,742 |
| Total liabilities and equity | 1,046,110 | 1,011,108 | 1,027,878 |
| Contingent liabilities and commitments | 238,248 | 239,121 | 242,009 |
| Key metrics and ratios | 30 September 2014 | 30 June 2014 | 31 December 2013 |

| | | | |
|--|----------|----------|----------|
| Tangible net asset value per ordinary and B share (5) | 388p | 376p | 363p |
| Loan:deposit ratio | 97% | 96% | 94% |
| Short-term wholesale funding (6) | £31bn | £34bn | £32bn |
| Wholesale funding (6) | £94bn | £102bn | £108bn |
| Liquidity portfolio | £143bn | £138bn | £146bn |
| Liquidity coverage ratio (7) | 102% | 104% | 102% |
| Net stable funding ratio (8) | 110% | 111% | 118% |
| Common Equity Tier 1 ratio | 10.8% | 10.1% | 8.6% |
| Risk-weighted assets | £381.7bn | £392.1bn | £429.1bn |
| Tangible equity (9) | £44,345m | £42,880m | £41,082m |
| Number of ordinary shares and equivalent B shares in issue (millions) (10) | 11,421 | 11,400 | 11,303 |

Notes:

- (1) Excludes reverse repurchase agreements and stock borrowing.
- (2) Excludes disposal groups.
- (3) Includes disposal groups.
- (4) Excludes repurchase agreements and stock lending.
- (5) Tangible net asset value per ordinary and B share represents total tangible equity divided by the number of ordinary shares and equivalent B shares in issue.
- (6) Excludes derivative collateral.
- (7) In January 2013, the BCBS published its final guidance for calculating LCR currently expected to come into effect from January 2015 on a phased basis. Pending the finalisation of the LCR rules within the EU, RBS monitors LCR based on its interpretation of current guidance available for EU LCR reporting. The reported LCR will change over time with regulatory developments. Due to differences in interpretation, RBS's ratio may not be comparable with those of other financial institutions.
- (8) NSFR for all periods has been calculated using RBS's current interpretations of the existing rules relating to various BCBS guidance to date. BCBS is expected to issue revised guidance on NSFR towards the end of 2014 or early in 2015. Therefore, reported NSFR will change over time with regulatory developments. Due to differences in interpretation, RBS's ratio may not be comparable with those of other financial institutions.
- (9) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.
- (10) Includes 33 million Treasury shares (30 June 2014 - 33 million; 31 December 2013 - 34 million).

Highlights
Q3 2014 performance

Operating profit(1) was £1,277 million compared with £1,318 million in Q2 2014 and a loss of £155 million in Q3 2013. Restructuring costs totalled £180 million, down from £385 million in the prior quarter, while litigation and conduct costs, including £400 million of potential conduct costs following investigations into the foreign exchange market and an additional £100 million provision for Payment Protection Insurance, were £780 million compared with £250 million in Q2 2014.

Operating profit(1) excluding restructuring costs and litigation and conduct costs (adjusted operating profit) improved to £2,237 million from £1,953 million in Q2 2014 and £399 million in Q3 2013.

Total income was 11% lower at £4,359 million, mostly driven by the scaling back of activity in CIB, the non-repeat of the £170 million gain on CFG's sale of the Illinois franchise in Q2 2014, and £104 million(2) losses recorded on the disposal of available-for-sale debt securities in the RBS N.V. liquidity portfolio. These were partly offset by a £65 million improvement in net interest income resulting from better deposit margins and a £121 million quarter on quarter improvement in RCR non-interest income principally driven by disposal gains. Income was up 3% in PBB and 1% in CPB.

Operating expenses were up 5% at £3,883 million. Excluding restructuring costs and litigation and conduct costs totalling £960 million (Q2 2014 - £635 million), operating expenses were down 5% compared with Q2 2014. RBS remains on track to deliver £1 billion of cost reductions in 2014.

A net release of impairment provisions of £801 million in the quarter compares with a net release of £93 million in Q2 2014. These were recorded primarily in RCR and Ulster Bank, reflecting the sustained improvements in economic and asset market conditions in the UK and especially Ireland. While net impairment charges increased in UK PBB and in CPB as a result of lower latent provision releases than in Q2 2014, underlying credit conditions remain benign. Risk elements in lending declined by 11% or £3.6 billion in the quarter; the reduction from the beginning of the year was £8.9 billion, or 23%.

Profit before tax, which includes a gain on own credit of £49 million, was £1,270 million, up 26% from Q2 2014.

Profit attributable to ordinary and B shareholders was £896 million, up from £230 million in Q2 2014.

Tangible net asset value per ordinary and B share was 388p at 30 September 2014, compared with 376p at 30 June 2014.

Balance sheet and capital

Funded assets fell by £4.1 billion to £732.1 billion at 30 September 2014. Growth in lending in the core business was more than offset by disposals and run-off in RCR, disposals of available-for-sale securities, and continuing risk reduction in CIB. These balance sheet reductions, partially offset by the impact of the strengthening US currency on dollar-denominated balances, resulted in a 3% reduction in risk-weighted assets (RWAs) to £381.7 billion.

Total assets increased by £35.0 billion, driven by increases in the market value of derivatives. The increase in derivative assets and liabilities mostly related to foreign exchange contracts: primarily due to the strengthening of the US dollar but also reflecting somewhat higher trading volumes following an upsurge in currency volatility. The value of interest rate derivatives also increased, driven largely by the downward shift in yields.

Notes:

- (1) Operating profit before tax, own credit adjustments, gain on redemption of own debt, write down of goodwill, strategic disposals and RFS Holdings minority interest (“operating profit”). Statutory operating profit before tax was £1,270 million for the quarter ended 30 September 2014 and £3,922 million for the nine months ended 30 September 2014.
- (2) An additional £73 million loss attributable to other shareholders is included within RFS Holdings minority interest.

Highlights

Balance sheet and capital (continued)

Loans and advances to customers grew by £7.4 billion, or 2%, to £393.0 billion.

UK PBB loans and advances to customers grew by £0.6 billion, with net mortgage growth of £0.8 billion partially offset by declining card balances. Commercial Banking loans and advances grew by £1.1 billion, with demand strongest in the mid- and large corporate segments.

CIB’s loans and advances increased by £4.1 billion driven by a combination of lending to large corporates, and collateral movements.

By the end of September 2014, pro-active ‘Statements of Appetite’ had been issued to more than 300,000 SME customers, offering in excess of £12.2 billion of new or additional funding. Gross new lending to SMEs (including customers in both PBB and CPB) totalled £2.6 billion in Q3 2014, up 24% from Q3 2013.

Customer deposits grew by £4.1 billion, or 1%, to £405.4 billion, mostly reflecting CFG’s growth in money markets and term deposits, amplified by the strengthening of the US dollar.

CET1 ratio strengthened to 10.8%, compared with 10.1% at 30 June 2014 and 8.6% at 31 December 2013. The improvement reflects the attributable profit for the quarter together with favourable movements in cash flow and foreign currency reserves along with a 3% reduction in risk-weighted assets. The leverage ratio improved by 20 basis points to 3.9%.

RBS’s results in the European Banking Authority’s stress test, which was based on data from the end of 2013, were satisfactory. These results do not reflect the significant de-risking and good capital accretion that has taken place in the first three quarters of 2014 during which time the CET1 ratio has increased by 220 basis points to 10.8%.

Performance measures(1)

| | Measure | FY 2013 | Q3 2014 | Medium-term | Long-term |
|------------|-------------------------------|----------|---------|-------------|-------------------------------------|
| People | Great place to work | 78% | 72% | | Engagement index \geq GFS norm(2) |
| Efficiency | Cost:income ratio | 95% | 89% | ~55% | ~50% |
| | Adjusted cost:income ratio(3) | 72% | 67% | | |
| Returns | | Negative | 8% | ~9-11% | ~12%+ |

| | | | | | |
|---------------------|------------------------------|------|-------|----------|-------|
| | Return on tangible equity(4) | | | | |
| Capital strength(5) | Common Equity Tier 1 ratio | 8.6% | 10.8% | ≥12% | ≥12% |
| | Leverage ratio | 3.4% | 3.9% | 3.5-4.0% | ≥4.0% |

Notes:

- (1) This table contains forecasts with significant contingencies. Please refer to 'Forward-looking statements'.
- (2) Global Financial Services (GFS) norm currently stands at 82%.
- (3) Excluding restructuring costs and litigation and conduct costs.
- (4) Calculated with tangible equity limited to a CET1 ratio of 12%.
- (5) Based on end-point CRR basis Tier 1 capital and revised 2014 Basel leverage framework.

Highlights

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

| | | NatWest | | RBS | | |
|--------------------------|-------------------------------|-----------------|-----------|-----------|-----------|-----------|
| | | 6 month rolling | Sept 2013 | Sept 2014 | Sept 2013 | Sept 2014 |
| Personal Banking | Score | | 4 | 7 | (17) | (4) |
| | Current gap to be clear #1(1) | | | 24pts | | 30pts |
| Net Promoter Score (NPS) | 4 quarter rolling | Q3 2013 | Q3 2014 | Q3 2013 | Q3 2014 | Q3 2014 |
| Business Banking | Score | (12) | (13) | (35) | (27) | (27) |
| | Current gap to be clear #1 | | 37pts | | | 59pts |
| Commercial Banking | 4 quarter rolling | Q3 2013 | Q3 2014 | Q3 2013 | Q3 2014 | Q3 2014 |
| | Score | (3) | 15 | (5) | (5) | 0 |
| | Current gap to be clear #1 | | 4pts | | | 19pts |

Note:

Personal: GfK FRS 6 month roll data. Latest base sizes NatWest England & Wales (3614) RBS Scotland (541)

Question: "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?"

- (1) Current gap to be clear #1 is defined as the improvement in NPS required from the current score to establish a statistically significant lead over the current number one in each market or the improvement needed to establish a clear lead in a situation where our score is too close to another bank's to claim sole position as number one in the market. The gap is based on sample numbers as at 6 months ending September 2014 (Market: Main Financial Institutions which are either, banks or building societies with a national network of branded outlets and providing all main categories of financial products).

Business Banking: Charterhouse Business Banking Survey. Latest Base: NatWest England & Wales 1356, RBS Scotland 441.

Commercial Banking: Charterhouse Research GB Business Banking Survey, based on interviews with businesses with annual turnover between £2 million and £25 million, 12 month roll data (524 NatWest main bank customers, 225 RBS), weighted by region and turnover to be representative of businesses in GB.

Our purpose is to serve customers well. Our actions are beginning to have an impact.

We are seeing early signs of results from becoming simpler and clearer. Our 'Instant Saver with Savings Goals' product is the first, and only, banking product to achieve the 5-star Fairbanking Mark and we intend to achieve Fairbanking Marks for our other products.

While NatWest's NPS is flat for Personal Banking, it has made strong progress in Commercial Banking where no other bank scored more highly in Q3 2014. For the RBS brand, NPS scores recovered from minus seventeen to minus four in Personal Banking and from minus five to zero in Commercial Banking. However, we have much more to do in order to reach our goal of being number one for service, trust and advocacy by 2020.

Highlights

Outlook

These results reflect improvements in economic activity and asset values in RBS's core UK and Irish markets so far in 2014. Economic growth in our core markets is expected to continue, although the pace looks likely to moderate into 2015. Against this backdrop, we anticipate further credit impairment releases in Q4 2014 offset by modest new impairments. The outlook for 2015 remains relatively benign, albeit with some risks to the downside. At such low levels of impairments there may be volatility in any quarter.

The net interest margin in Q4 2014 is expected to remain at around Q3 2014 levels, with modest asset margin pressure balanced by lower funding costs.

Income from the fixed income product suite is expected to remain weak during Q4, reflecting our ongoing balance sheet reduction programme, lower risk appetite, costs associated with exiting legacy portfolios and a weaker than anticipated trading performance during October.

RBS remains on track to deliver its targeted £1 billion of cost reductions in 2014 on a constant currency basis. Restructuring costs in Q4 2014 are expected to be higher, with some potential write-downs, as we reduce our footprint and simplify our systems and product set. Previous guidance on restructuring costs in the four year period to 2017 remains unchanged at £5 billion.

RCR guidance remains unchanged from the 30 September 2014 Trading Statement and, if market conditions remain favourable, we expect continuing strong progress in balance sheet and risk reductions and an accelerated timetable to achieve its wind-down goals.

Ongoing conduct and regulatory investigations and litigation continue to present challenges and are expected to be a material drag on both earnings and capital generation over the coming quarters. The timing and amounts of any further settlements or redress however remain uncertain and could be significant.

Analysis of results

Income

| | Quarter ended | | | Nine months ended | |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Net interest income | 2,863 | 2,798 | 2,783 | 8,359 | 8,225 |
| Average interest-earning assets | | | | | |
| - RBS | 501,383 | 502,347 | 539,396 | 505,285 | 550,599 |
| - Personal & Business Banking | 155,818 | 155,848 | 158,527 | 155,133 | 159,605 |
| - Commercial & Private Banking | 93,021 | 93,669 | 92,551 | 93,280 | 93,402 |
| - Citizens Financial Group | 69,520 | 68,234 | 65,065 | 68,409 | 65,137 |
| Gross yield on interest-earning assets of banking business | 3.04% | 3.05% | 3.07% | 3.03% | 3.09% |
| Cost of interest-bearing liabilities of banking business | (1.10%) | (1.16%) | (1.38%) | (1.16%) | (1.43%) |
| Interest spread of banking business | 1.94% | 1.89% | 1.69% | 1.87% | 1.66% |
| Benefit from interest free funds | 0.32% | 0.33% | 0.32% | 0.33% | 0.32% |
| Net interest margin (1,2) | | | | | |
| - RBS | 2.26% | 2.22% | 2.01% | 2.20% | 1.98% |
| - Personal & Business Banking | 3.47% | 3.40% | 3.24% | 3.41% | 3.18% |
| - Commercial & Private Banking | 2.96% | 2.91% | 2.91% | 2.92% | 2.77% |
| - Citizens Financial Group | 2.82% | 2.93% | 2.94% | 2.89% | 2.92% |
| Non-interest income | | | | | |
| Net fees and commissions | 1,094 | 1,063 | 1,144 | 3,212 | 3,392 |
| Income from trading activities | 235 | 626 | 599 | 1,717 | 2,489 |
| Other operating income | 167 | 438 | 368 | 1,049 | 1,396 |
| Total non-interest income | 1,496 | 2,127 | 2,111 | 5,978 | 7,277 |
| Total income | 4,359 | 4,925 | 4,894 | 14,337 | 15,502 |

Notes:

For the purposes of net interest margin calculations the following adjustments have been made.

- (1) Net interest income has been reduced by £7 million in Q3 2014 (Q2 2014 - £14 million; Q3 2013 - £19 million) and by £35 million in the nine months ended 30 September 2014 (nine months ended 30 September 2013 - £57 million) in respect of interest on financial assets and liabilities designated as at fair value through profit or loss.
- (2) Net interest income has been reduced by £38 million in Q3 2013 and £7 million in the nine months ended 30 September 2013 in respect of

non-recurring adjustments.

Q3 2014 compared with Q2 2014

- Net interest income increased by 2% to £2,863 million with improvements in deposit margins in UK PBB and Commercial Banking, supported by the quarter's higher day count.
- Net interest margin (NIM) increased by four basis points to 2.26% supported by deposit re-pricing initiatives in UK PBB and Commercial Banking. CFG's reduced NIM was driven by: lower commercial lending spreads; higher borrowing costs resulting from the growth in money market accounts, term deposits and the issue of subordinated debt; and the impact of the Illinois franchise sale in Q2 2014.
- Non-interest income totalled £1,496 million, down 30% from £2,127 million in Q2 2014. Within this, income from trading activities declined by £391 million, reflecting the strategic decision to concentrate on core product areas in CIB. Other operating income reduced by £271 million compared with Q2 2014, reflecting a non-repeat of the £170 million gain in Q2 2014 on the sale of the Illinois franchise by CFG, and losses of £104 million(1) on the disposal of available-for-sale debt securities.

Note:

- (1) An additional £73 million loss attributable to other shareholders is included within RFS Holdings minority interest.

Analysis of results

Operating expenses

| | Quarter ended | | | Nine months ended | |
|---------------------------------------|-------------------------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Staff expenses | 1,611 | 1,693 | 1,758 | 4,951 | 5,343 |
| Premises and equipment | 490 | 485 | 540 | 1,569 | 1,619 |
| Other | 516 | 605 | 683 | 1,808 | 2,162 |
| Restructuring costs* | 180 | 385 | 205 | 694 | 476 |
| Litigation and conduct costs | 780 | 250 | 349 | 1,030 | 969 |
| Administrative expenses | 3,577 | 3,418 | 3,535 | 10,052 | 10,569 |
| Depreciation and amortisation | 306 | 282 | 344 | 857 | 1,060 |
| Write down of other intangible assets | - | - | - | 82 | - |
| Operating expenses | 3,883 | 3,700 | 3,879 | 10,991 | 11,629 |
| Adjusted operating expenses (1) | 2,923 | 3,065 | 3,325 | 9,267 | 10,184 |

*Restructuring costs comprise:

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| | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|
| - staff expenses | 79 | 153 | 137 | 275 | 279 |
| - premises and equipment | 53 | 137 | 4 | 249 | 29 |
| - other | 48 | 95 | 64 | 170 | 168 |
| Restructuring costs | 180 | 385 | 205 | 694 | 476 |
| Staff costs as a % of total income | 37% | 34% | 36% | 35% | 34% |
| Cost:income ratio | 89% | 75% | 79% | 77% | 75% |
| Cost:income ratio - adjusted (1) | 67% | 62% | 68% | 65% | 66% |
| Employee numbers (FTEs - thousands) | 110.8 | 113.6 | 120.3 | 110.8 | 120.3 |

Note:

(1) Excluding restructuring costs and litigation and conduct costs.

Q3 2014 compared with Q2 2014

- Operating expenses increased by 5% to £3,883 million, principally reflecting a £530 million increase in litigation and conduct costs to £780 million, which was partly offset by lower restructuring costs, down £205 million.
- Litigation and conduct costs in Q3 2014 included £400 million of potential conduct costs following investigations into the foreign exchange market and an additional £100 million charge for PPI reflecting higher than expected reactive complaint volumes.
- Adjusted operating expenses declined to £2,923 million, down £142 million or 5%. The fall was primarily attributable to tight control of discretionary expenditure, lower incentive accruals in CFG and CIB in particular, and the impact of the sale of the Illinois branches in Q2 2014. Adjusted operating expenses for the first nine months of the year were 9% lower than the comparable period in 2013.
- The cost:income ratio was 89% compared with 75% in Q2 2014 reflecting higher litigation and conduct costs along with lower income. The adjusted cost:income ratio was 67%, up from 62% for Q2 2014, as lower income, primarily in CIB and Centre, outweighed the decline in operating expenses.

Analysis of results

Impairment (releases)/losses

| | Quarter ended | | | Nine months ended | |
|------------|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Loans | (803) | (89) | 1,120 | (532) | 3,281 |
| Securities | 2 | (4) | 50 | - | 39 |

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| | | | | | |
|--|--------|--------|-----------|---------|----------|
| Total impairment (releases)/losses | (801) | (93) | 1,170 | (532) | 3,320 |
| Loan impairment (releases)/losses | | | | | |
| - individually assessed | (410) | (42) | 580 | (297) | 2,052 |
| - collectively assessed | 52 | 221 | 287 | 400 | 1,021 |
| - latent | (445) | (258) | 253 | (625) | 217 |
| Customer loans | (803) | (79) | 1,120 | (522) | 3,290 |
| Bank loans | - | (10) | - | (10) | (9) |
| Loan impairment (releases)/losses | (803) | (89) | 1,120 | (532) | 3,281 |
| RBS excluding RCR/Non-Core | (193) | 36 | 584 | 97 | 1,842 |
| RCR | (610) | (125) | n/a | (629) | n/a |
| Non-Core | n/a | n/a | 536 | n/a | 1,439 |
| RBS loan impairment (releases)/losses | (803) | (89) | 1,120 | (532) | 3,281 |
| Customer loan impairment charge as a % of gross loans and advances (1) | | | | | |
| RBS | (0.8%) | (0.1%) | 1.0% | (0.2%) | 1.0% |
| RBS excluding RCR/Non-Core | (0.2%) | - | 0.6% | - | 0.6% |
| RCR | (9.5%) | (1.7%) | n/a | (3.3%) | n/a |
| Non-Core | n/a | n/a | 5.2% | n/a | 4.7% |
| | | | 30 | | 31 |
| | | | September | 30 June | December |
| | | | 2014 | 2014 | 2013 |
| Loan impairment provisions | | | £20.0bn | £22.4bn | £25.2bn |
| Risk elements in lending | | | £30.5bn | £34.1bn | £39.4bn |
| Provisions as a % of REIL | | | | | |
| - RBS | | | 66% | 66% | 64% |
| - RBS excluding RCR/Non-Core | | | 57% | 59% | 56% |
| - RCR | | | 72% | 71% | n/a |
| - Non-Core | | | n/a | n/a | 73% |
| REIL as a % of gross customer loans | | | | | |
| - RBS | | | 7.4% | 8.3% | 9.4% |
| - RBS excluding RCR/Non-Core | | | 3.4% | 3.6% | 5.3% |
| - RCR | | | 67.6% | 68.1% | n/a |
| - Non-Core | | | n/a | n/a | 51.8% |

Note:

(1) Excludes reverse repurchase agreements and includes disposals groups.

Analysis of results

Q3 2014 compared with Q2 2014

- A net loan impairment release of £803 million was recorded in Q3 2014, £714 million higher than in Q2 2014. This included a £610 million release in RCR driven by the improved economic environment and rising asset values in the UK and especially Ireland, together with net provision releases in Ulster Bank supported by rising Irish residential property prices and proactive debt management. While UK PBB's net impairment charge increased as a result of lower latent releases, underlying credit conditions remain benign.
- REIL decreased by £3.6 billion to £30.5 billion during Q3 2014. Of the reduction, £3.0 billion was in RCR which continued its strategy of disposing of non-performing assets. Continued favourable market conditions resulted in some disposals being achieved at prices above net book value. The £0.6 billion reduction in non-RCR was primarily in Commercial Banking portfolios due to repayments and write-offs.
- REIL as a percentage of gross customer loans declined, both in RCR, to 67.6%, and in the rest of RBS to 3.4%.

Analysis of results

Risk elements in lending (REIL) and loan impairment provisions

| | Quarter ended 30 September 2014 | | | | | |
|---|---------------------------------|-----------|-------------|---------------------------|-----------|-------------|
| | REIL | | | Impairment provisions (1) | | |
| | RBS excl. RCR £m | RCR £m | Total £m | RBS excl. RCR £m | RCR £m | Total £m |
| At beginning of period | 13,653 | 20,428 | 34,081 | 8,041 | 14,405 | 22,446 |
| Currency translation and other adjustments | (72) | (258) | (330) | (41) | (190) | (231) |
| Additions | 808 | 445 | 1,253 | | | |
| Repayments and disposals and transfers to performing book | (840) | (2,187) | (3,027) | - | (6) | (6) |
| Transfers between REIL and potential problem loans | (91) | (18) | (109) | | | |
| Amounts written-off | (403) | (962) | (1,365) | (403) | (962) | (1,365) |
| Recoveries of amounts previously written-off | | | | 43 | 3 | 46 |
| Net release to the income statement - continuing operations | | | | (193) | (610) | (803) |
| Unwind of discount (2) | | | | (29) | (27) | (56) |
| At end of period | 13,055 | 17,448 | 30,503 | 7,418 | 12,613 | 20,031 |

Nine months ended 30 September 2014

| | |
|------|---------------------------|
| REIL | Impairment provisions (1) |
|------|---------------------------|

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| | RBS | | | RBS | | |
|--|-----------|---------|---------|-----------|---------|---------|
| | excl. RCR | RCR | Total | excl. RCR | RCR | Total |
| | £m | £m | £m | £m | £m | £m |
| At beginning of period | 15,276 | 24,116 | 39,392 | 8,716 | 16,500 | 25,216 |
| Currency translation and other adjustments | (239) | (916) | (1,155) | (159) | (585) | (744) |
| Additions | 3,081 | 2,332 | 5,413 | | | |
| Repayments and disposals and transfers to performing book | (3,580) | (5,537) | (9,117) | - | (6) | (6) |
| Transfers between REIL and potential problem loans | (212) | 34 | (178) | | | |
| Amounts written-off | (1,271) | (2,581) | (3,852) | (1,271) | (2,581) | (3,852) |
| Recoveries of amounts previously written-off | | | | 127 | 17 | 144 |
| Net charge/(release) to the income statement - continuing operations | | | | 97 | (629) | (532) |
| Unwind of discount (2) | | | | (92) | (103) | (195) |
| At end of period | 13,055 | 17,448 | 30,503 | 7,418 | 12,613 | 20,031 |

Notes:

- (1) Includes provisions relating to loans and advances to banks (refer to the following page).
- (2) Recognised in interest income.

Analysis of results

Loans and related credit metrics: Loans, REIL, provisions and impairments

The table below analyses gross loans and advances to banks and customers (excluding reverse repos) and related credit metrics by sector and geography (by location of lending office).

| | Gross loans | REIL | Provisions | Credit metrics | | | Quarter ended | |
|-------------------------------|-------------|--------|------------|----------------------------|---------------------------|----------------------------------|-------------------------------|---------------------|
| | | | | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | Impairment charge/ (releases) | Amounts written-off |
| 30 September 2014 (1) | £m | £m | £m | % | % | % | £m | £m |
| Central and local government | 8,490 | 1 | 1 | - | 100 | - | (4) | - |
| Finance | 37,552 | 454 | 280 | 1.2 | 62 | 0.7 | (15) | 2 |
| Personal - mortgages | 149,505 | 5,722 | 1,579 | 3.8 | 28 | 1.1 | (61) | 60 |
| - unsecured | 28,592 | 2,038 | 1,700 | 7.1 | 83 | 5.9 | 101 | 178 |
| Property | 54,236 | 14,582 | 10,261 | 26.9 | 70 | 18.9 | (295) | 708 |
| Construction | 6,178 | 1,146 | 722 | 18.5 | 63 | 11.7 | 3 | 48 |
| Manufacturing | 22,854 | 526 | 378 | 2.3 | 72 | 1.7 | 16 | 109 |
| Finance leases (2) | 13,798 | 184 | 138 | 1.3 | 75 | 1.0 | 1 | 10 |
| Retail, wholesale and repairs | 18,430 | 1,010 | 698 | 5.5 | 69 | 3.8 | (23) | 27 |

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| | | | | | | | | |
|-------------------------------|---------|--------|--------|------|-----|------|-------|-------|
| Transport and storage | 15,200 | 1,179 | 552 | 7.8 | 47 | 3.6 | (31) | 62 |
| Health, education and leisure | 15,404 | 775 | 422 | 5.0 | 54 | 2.7 | 24 | 80 |
| Hotels and restaurants | 8,099 | 1,265 | 712 | 15.6 | 56 | 8.8 | (33) | 19 |
| Utilities | 5,429 | 123 | 56 | 2.3 | 46 | 1.0 | (14) | 2 |
| Other | 30,314 | 1,456 | 1,138 | 4.8 | 78 | 3.8 | (27) | 51 |
| Latent | - | - | 1,354 | - | - | - | (445) | n/a |
| | 414,081 | 30,461 | 19,991 | 7.4 | 66 | 4.8 | (803) | 1,356 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 113,064 | 1,590 | 233 | 1.4 | 15 | 0.2 | (22) | 30 |
| - personal lending | 16,116 | 1,722 | 1,538 | 10.7 | 89 | 9.5 | 77 | 131 |
| - property | 38,740 | 6,219 | 3,573 | 16.1 | 57 | 9.2 | (158) | 566 |
| - construction | 4,569 | 832 | 466 | 18.2 | 56 | 10.2 | (10) | 46 |
| - other | 112,986 | 3,260 | 2,230 | 2.9 | 68 | 2.0 | (122) | 166 |
| Europe | | | | | | | | |
| - residential mortgages | 15,759 | 3,210 | 1,196 | 20.4 | 37 | 7.6 | (54) | (5) |
| - personal lending | 1,160 | 112 | 101 | 9.7 | 90 | 8.7 | 1 | 18 |
| - property | 9,732 | 8,278 | 6,642 | 85.1 | 80 | 68.2 | (139) | 139 |
| - construction | 1,107 | 304 | 247 | 27.5 | 81 | 22.3 | 12 | 3 |
| - other | 21,120 | 3,247 | 2,703 | 15.4 | 83 | 12.8 | (425) | 164 |
| US | | | | | | | | |
| - residential mortgages | 20,320 | 907 | 148 | 4.5 | 16 | 0.7 | 16 | 36 |
| - personal lending | 10,272 | 188 | 42 | 1.8 | 22 | 0.4 | 24 | 28 |
| - property | 4,991 | 60 | 21 | 1.2 | 35 | 0.4 | 2 | 3 |
| - construction | 465 | 2 | 1 | 0.4 | 50 | 0.2 | - | 1 |
| - other | 29,605 | 230 | 624 | 0.8 | 271 | 2.1 | 1 | 26 |
| RoW | 14,075 | 300 | 226 | 2.1 | 75 | 1.6 | (6) | 4 |
| | 414,081 | 30,461 | 19,991 | 7.4 | 66 | 4.8 | (803) | 1,356 |
| Banks | 29,146 | 42 | 40 | 0.1 | 95 | 0.1 | - | 9 |

Notes:

- (1) Includes disposal groups.
- (2) Includes instalment credit.

Analysis of results

Capital and leverage ratios

| Risk asset ratios | End-point CRR basis (1) | | | PRA transitional basis | | |
|-------------------|-------------------------|---------|----------|------------------------|---------|----------|
| | 30 | | 31 | 30 | | 31 |
| | September | 30 June | December | September | 30 June | December |
| | 2014 | 2014 | 2013 (2) | 2014 | 2014 | 2013 (2) |
| | % | % | % | % | % | % |

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| | | | | | | |
|--|---------|---------|---------|-------|-------|-------|
| CET1 (3) | 10.8 | 10.1 | 8.6 | 10.8 | 10.1 | 8.6 |
| Tier 1 | 10.8 | 10.1 | 8.6 | 12.7 | 12.1 | 10.3 |
| Total | 13.1 | 12.4 | 10.6 | 16.3 | 15.6 | 13.6 |
| Capital | £bn | £bn | £bn | £bn | £bn | £bn |
| Tangible equity | 44.3 | 42.9 | 41.1 | 44.1 | 42.9 | 41.1 |
| Expected loss less impairment provisions | (1.6) | (1.3) | (1.7) | (1.6) | (1.3) | (1.7) |
| Prudential valuation adjustment (PVA) | (0.4) | (0.5) | (0.8) | (0.4) | (0.5) | (0.8) |
| Deferred tax assets | (1.6) | (1.7) | (2.3) | (1.6) | (1.7) | (2.3) |
| Own credit adjustments | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Pension fund assets | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) |
| Other deductions | 0.1 | (0.1) | 0.1 | 0.2 | (0.1) | 0.1 |
| Total deductions | (3.1) | (3.2) | (4.3) | (3.0) | (3.2) | (4.3) |
| CET1 capital | 41.2 | 39.7 | 36.8 | 41.1 | 39.7 | 36.8 |
| AT1 capital | - | - | - | 7.5 | 7.6 | 7.5 |
| Tier 1 capital | 41.2 | 39.7 | 36.8 | 48.6 | 47.3 | 44.3 |
| Tier 2 capital | 8.8 | 9.0 | 8.7 | 13.6 | 13.9 | 13.8 |
| Total regulatory capital | 50.0 | 48.7 | 45.5 | 62.2 | 61.2 | 58.1 |
| Risk-weighted assets | £bn | £bn | £bn | £bn | £bn | £bn |
| Credit risk | | | | | | |
| - non-counterparty | 277.0 | 283.3 | 317.9 | 277.0 | 283.3 | 317.9 |
| - counterparty | 38.2 | 38.6 | 39.1 | 38.2 | 38.6 | 39.1 |
| Market risk | 29.7 | 33.4 | 30.3 | 29.7 | 33.4 | 30.3 |
| Operational risk | 36.8 | 36.8 | 41.8 | 36.8 | 36.8 | 41.8 |
| Total RWAs | 381.7 | 392.1 | 429.1 | 381.7 | 392.1 | 429.1 |
| Leverage | £bn | £bn | £bn | | | |
| Derivatives | 314.0 | 274.9 | 288.0 | | | |
| Loans and advances | 422.1 | 414.5 | 418.4 | | | |
| Reverse repos | 75.5 | 81.7 | 76.4 | | | |
| Other assets | 234.5 | 240.0 | 245.1 | | | |
| Total assets | 1,046.1 | 1,011.1 | 1,027.9 | | | |
| Derivatives | | | | | | |
| - netting | (254.5) | (217.5) | (227.3) | | | |
| - potential future exposures | 106.2 | 102.5 | 128.0 | | | |
| Securities financing transactions gross up | 72.9 | 77.5 | 59.8 | | | |
| Undrawn commitments | 98.7 | 98.0 | 100.2 | | | |

| | | | |
|---|---------|---------|---------|
| Regulatory deductions and other adjustments | (1.4) | (1.4) | (6.6) |
| Leverage exposure | 1,068.0 | 1,070.2 | 1,082.0 |
| Leverage ratio % (4) | 3.9 | 3.7 | 3.4 |

Notes:

- (1) Capital Requirements Regulation (CRR) as implemented by the Prudential Regulation Authority in the UK, with effect from 1 January 2014.
- (2) Estimated end-point CRR basis.
- (3) Common Equity Tier 1 (CET1) ratio includes the benefit of the retained profit for the period.
- (4) Based on end-point CRR Tier 1 capital and revised 2014 Basel III leverage ratio framework.

Analysis of results

Q3 2014 compared with Q2 2014

- The end-point CRR CET1 ratio improved to 10.8% from 10.1%, principally driven by retained earnings and favourable movements in cash flow and foreign currency reserves, and the continuing reduction in RWAs.
- RWA reductions of £10.4 billion were achieved during the quarter, particularly in RCR (down £4.5 billion), CIB (down £4.6 billion) and Ulster Bank (down £3.8 billion). These were partially offset by an increase in CFG (up £3.7 billion) which was amplified by the strengthening of the US dollar.
- The leverage ratio improved by 20 basis points reflecting increased attributable profit as leverage exposure remained broadly stable.

Customer franchise and segment performance

| | Quarter ended 30 September 2014 | | | | | | | | | | | |
|---------------------|---------------------------------|-----|-------|-------|---------|---------|-------|---------------|-----|------|-------|-----|
| | PBB | | | CPB | | | CIB | Central items | | | Total | |
| | UK | PBB | Bank | Total | Banking | Banking | Total | | (1) | CFG | RCR | RBS |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Income statement | | | | | | | | | | | | |
| Net interest income | 1,198 | 163 | 1,361 | 521 | 172 | 693 | 230 | 109 | 493 | (23) | 2,863 | |
| Non-interest income | 345 | 51 | 396 | 290 | 98 | 388 | 601 | (249) | 215 | 145 | 1,496 | |

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| | | | | | | | | | | | |
|---|-------|-------|---------|-------|-------|-------|---------|-------|-------|------|---------|
| Total income | 1,543 | 214 | 1,757 | 811 | 270 | 1,081 | 831 | (140) | 708 | 122 | 4,359 |
| Direct expenses | | | | | | | | | | | |
| - staff costs | (223) | (57) | (280) | (124) | (79) | (203) | (179) | (657) | (255) | (37) | (1,611) |
| - other costs | (78) | (20) | (98) | (54) | (19) | (73) | (50) | (836) | (231) | (24) | (1,312) |
| Indirect expenses | (481) | (61) | (542) | (196) | (105) | (301) | (593) | 1,460 | - | (24) | - |
| Restructuring costs | | | | | | | | | | | |
| - direct | (2) | - | (2) | - | - | - | (22) | (143) | (13) | - | (180) |
| - indirect | (63) | (12) | (75) | (18) | (7) | (25) | 6 | 98 | - | (4) | - |
| Litigation and conduct costs | (118) | - | (118) | - | - | - | (562) | (100) | - | - | (780) |
| Operating expenses | (965) | (150) | (1,115) | (392) | (210) | (602) | (1,400) | (178) | (499) | (89) | (3,883) |
| Profit/(loss) before impairment losses | 578 | 64 | 642 | 419 | 60 | 479 | (569) | (318) | 209 | 33 | 476 |
| Impairment (losses)/releases | (79) | 318 | 239 | (12) | 4 | (8) | 12 | (1) | (46) | 605 | 801 |
| Operating profit/(loss) | 499 | 382 | 881 | 407 | 64 | 471 | (557) | (319) | 163 | 638 | 1,277 |
| Additional information | | | | | | | | | | | |
| Operating expenses - adjusted (£m) (2) | (782) | (138) | (920) | (374) | (203) | (577) | (822) | (33) | (486) | (85) | (2,923) |
| Operating profit/(loss) - adjusted (£m) (2) | 682 | 394 | 1,076 | 425 | 71 | 496 | 21 | (174) | 176 | 642 | 2,237 |
| Return on equity (3) | 26.9% | 42.2% | 30.6% | 16.0% | 13.3% | 15.5% | (11.0%) | nm | 5.6% | nm | 8.2% |
| Return on equity - adjusted (2,3) | 36.8% | 43.5% | 37.4% | 16.7% | 14.8% | 16.4% | 0.4% | nm | 6.1% | nm | 16.0% |
| Cost:income ratio | 63% | 70% | 63% | 48% | 78% | 56% | 168% | nm | 71% | nm | 89% |
| Cost:income ratio - adjusted (2) | 51% | 64% | 52% | 46% | 75% | 53% | 99% | nm | 69% | nm | 67% |
| Funded assets (£bn) | 134.2 | 26.3 | 160.5 | 89.7 | 21.0 | 110.7 | 274.9 | 87.6 | 80.5 | 17.9 | 732.1 |
| Total assets (£bn) | 134.2 | 26.5 | 160.7 | 89.7 | 21.1 | 110.8 | 572.9 | 89.5 | 80.9 | 31.3 | 1,046.1 |
| Risk-weighted assets (£bn) | 44.7 | 23.9 | 68.6 | 64.9 | 12.2 | 77.1 | 123.2 | 17.8 | 64.4 | 30.6 | 381.7 |
| Employee numbers (FTEs - thousands) | 25.2 | 4.5 | 29.7 | 6.8 | 3.5 | 10.3 | 4.0 | 48.5 | 17.5 | 0.8 | 110.8 |

nm = not meaningful

For the notes to this table refer to page 20.

Customer franchise and segment performance

| | Quarter ended 30 June 2014 | | | | | | | | | | |
|--|----------------------------|--------------|----------------|-----------------------------|--------------------------|--------------|-------------------------------|--------------|--------------|-------------|----------------|
| | PBB | | | CPB | | | CIB | | | Total | |
| | Ulster | | Total £m | Commercial Banking £m | Private Banking £m | Total £m | Central items (1) £m | CFG £m | RCR £m | RBS £m | |
| UK PBB £m | Bank £m | | | | | | | | | | |
| Income statement | | | | | | | | | | | |
| Net interest income | 1,152 | 169 | 1,321 | 511 | 174 | 685 | 186 | 100 | 499 | 7 | 2,798 |
| Non-interest income | 347 | 42 | 389 | 287 | 98 | 385 | 890 | 44 | 391 | 28 | 2,127 |
| Total income | 1,499 | 211 | 1,710 | 798 | 272 | 1,070 | 1,076 | 144 | 890 | 35 | 4,925 |
| Direct expenses | | | | | | | | | | | |
| - staff costs | (225) | (62) | (287) | (133) | (80) | (213) | (217) | (664) | (261) | (51) | (1,693) |
| - other costs | (93) | (18) | (111) | (60) | (14) | (74) | (140) | (781) | (252) | (14) | (1,372) |
| Indirect expenses | (458) | (63) | (521) | (189) | (104) | (293) | (587) | 1,433 | - | (32) | - |
| Restructuring costs | | | | | | | | | | | |
| - direct | (6) | 8 | 2 | (40) | (2) | (42) | (9) | (267) | (69) | - | (385) |
| - indirect | (23) | (20) | (43) | (21) | (1) | (22) | (143) | 208 | - | - | - |
| Litigation and conduct costs | | | | | | | | | | | |
| | (150) | - | (150) | (50) | - | (50) | (50) | - | - | - | (250) |
| Operating expenses | (955) | (155) | (1,110) | (493) | (201) | (694) | (1,146) | (71) | (582) | (97) | (3,700) |
| Profit/(loss) before impairment losses | 544 | 56 | 600 | 305 | 71 | 376 | (70) | 73 | 308 | (62) | 1,225 |
| Impairment (losses)/releases | (60) | (10) | (70) | 9 | (1) | 8 | 45 | 13 | (31) | 128 | 93 |
| Operating profit/(loss) | 484 | 46 | 530 | 314 | 70 | 384 | (25) | 86 | 277 | 66 | 1,318 |
| Additional information | | | | | | | | | | | |
| Operating expenses - adjusted (£m) (2) | (776) | (143) | (919) | (382) | (198) | (580) | (944) | (12) | (513) | (97) | (3,065) |
| Operating profit/(loss) - adjusted (£m) (2) | 663 | 58 | 721 | 425 | 73 | 498 | 177 | 145 | 346 | 66 | 1,953 |
| Return on equity (3) | 25.3% | 4.6% | 17.4% | 12.4% | 14.5% | 12.8% | (0.5%) | nm | 9.8% | nm | 2.2% |
| Return on equity - adjusted (2,3) | 34.7% | 5.8% | 23.6% | 16.8% | 15.1% | 16.5% | 3.3% | nm | 12.2% | nm | 6.8% |
| Cost:income ratio | 64% | 73% | 65% | 62% | 74% | 65% | 107% | nm | 65% | nm | 75% |
| Cost:income ratio - adjusted (2) | 52% | 68% | 54% | 48% | 73% | 54% | 88% | nm | 58% | nm | 62% |
| Funded assets (£bn) | 133.6 | 26.6 | 160.2 | 88.6 | 20.8 | 109.4 | 278.7 | 91.3 | 75.7 | 20.9 | 736.2 |
| Total assets (£bn) | 133.6 | 26.7 | 160.3 | 88.6 | 20.8 | 109.4 | 537.6 | 93.3 | 76.1 | 34.4 | 1,011.1 |
| Risk-weighted assets (£bn) | 47.0 | 27.7 | 74.7 | 63.0 | 11.8 | 74.8 | 127.8 | 19.0 | 60.7 | 35.1 | 392.1 |

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| | | | | | | | | | | | |
|---|------|------|------|------|------|------|-------|------|------|------|-------|
| Employee numbers (FTEs - thousands) | 25.7 | 4.5 | 30.2 | 7.1 | 3.5 | 10.6 | 4.3 | 49.9 | 17.7 | 0.9 | 113.6 |
| RWAs - FLB3 basis at 1 January 2014 (£bn) | 49.7 | 28.2 | 77.9 | 61.5 | 12.0 | 73.5 | 147.1 | 23.3 | 60.6 | 46.7 | 429.1 |

For the notes to this table refer to the following page.

Customer franchise and segment performance

| | Quarter ended 30 September 2013* | | | | | | | | | | |
|---|----------------------------------|--------------|----------------|-----------------------------|--------------------------|--------------|-------------------------------|--------------|----------------|--------------|----------------|
| | PBB | | | CPB | | | CIB | | | Total | |
| | UK PBB £m | Bank £m | Total £m | Commercial Banking £m | Private Banking £m | Total £m | Central items (1) £m | CFG £m | Non-Core £m | RBS £m | |
| Income statement | | | | | | | | | | | |
| Net interest income | 1,141 | 153 | 1,294 | 511 | 168 | 679 | 162 | 205 | 485 | (42) | 2,783 |
| Non-interest income | 349 | 60 | 409 | 281 | 102 | 383 | 1,090 | 43 | 263 | (77) | 2,111 |
| Total income | 1,490 | 213 | 1,703 | 792 | 270 | 1,062 | 1,252 | 248 | 748 | (119) | 4,894 |
| Direct expenses | | | | | | | | | | | |
| - staff costs | (232) | (64) | (296) | (129) | (81) | (210) | (262) | (674) | (270) | (46) | (1,758) |
| - other costs | (121) | (15) | (136) | (57) | (22) | (79) | (138) | (915) | (253) | (46) | (1,567) |
| Indirect expenses | (485) | (63) | (548) | (206) | (112) | (318) | (614) | 1,565 | (32) | (53) | - |
| Restructuring costs | | | | | | | | | | | |
| - direct | (21) | (3) | (24) | (3) | (3) | (6) | (17) | (159) | (2) | 3 | (205) |
| - indirect | (29) | (3) | (32) | (8) | (2) | (10) | (112) | 156 | - | (2) | - |
| Litigation and conduct costs | (250) | - | (250) | - | - | - | (99) | - | - | - | (349) |
| Operating expenses | (1,138) | (148) | (1,286) | (403) | (220) | (623) | (1,242) | (27) | (557) | (144) | (3,879) |
| Profit/(loss) before impairment losses | 352 | 65 | 417 | 389 | 50 | 439 | 10 | 221 | 191 | (263) | 1,015 |
| Impairment (losses)/releases | (138) | (204) | (342) | (93) | (1) | (94) | (28) | (66) | (59) | (581) | (1,170) |
| Operating profit/(loss) | 214 | (139) | 75 | 296 | 49 | 345 | (18) | 155 | 132 | (844) | (155) |
| Additional information | (838) | (142) | (980) | (392) | (215) | (607) | (1,014) | (24) | (555) | (145) | (3,325) |

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| | | | | | | | | | | | |
|---|-------|---------|-------|-------|-------|-------|--------|-------|------|-------|---------|
| Operating expenses - adjusted (£m) (2) | | | | | | | | | | | |
| Operating profit/(loss) - adjusted (£m) (2) | 514 | (133) | 381 | 307 | 54 | 361 | 210 | 158 | 134 | (845) | 399 |
| Return on equity (3) | 10.2% | (11.8%) | 2.2% | 11.1% | 9.9% | 10.9% | (0.3%) | nm | 4.9% | nm | (6.9%) |
| Return on equity - adjusted (2,3) | 24.6% | (11.3%) | 11.1% | 11.5% | 10.9% | 11.4% | 3.8% | nm | 5.0% | nm | (3.4%) |
| Cost:income ratio | 76% | 69% | 76% | 51% | 81% | 59% | 99% | nm | 74% | nm | 79% |
| Cost:income ratio - adjusted (2) | 56% | 67% | 58% | 49% | 80% | 57% | 81% | nm | 74% | nm | 68% |
| Funded assets (£bn) | 131.9 | 29.2 | 161.1 | 88.9 | 21.0 | 109.9 | 309.6 | 116.4 | 71.5 | 37.3 | 805.8 |
| Total assets (£bn) | 131.9 | 29.4 | 161.3 | 88.9 | 21.1 | 110.0 | 625.9 | 118.0 | 71.9 | 42.3 | 1,129.4 |
| Risk-weighted assets (£bn) (4) | 52.2 | 31.8 | 84.0 | 66.4 | 12.1 | 78.5 | 129.0 | 21.5 | 56.1 | 40.9 | 410.0 |
| Employee numbers (FTEs - thousands) | 26.8 | 4.8 | 31.6 | 7.2 | 3.6 | 10.8 | 4.8 | 52.7 | 18.6 | 1.8 | 120.3 |

*Restated - refer to page 39.

Notes:

- (1) Central items include unallocated income and expenses which principally comprise profits/losses on the sale of the Treasury AFS portfolio (quarter ended 30 September 2014 - £72 million loss; quarter ended 30 June 2014 - £13 million profit; quarter ended 30 September 2013 - £150 million profit) and profit and loss on hedges that do not qualify for hedge accounting.
- (2) Excluding restructuring costs and litigation and conduct costs.
- (3) Return on equity is based on operating profit after tax divided by average notional equity (based on 12% of the monthly average of divisional RWAs; 2013 RWAs are on a Basel 2.5 basis).
- (4) RWAs at 30 September 2013 are on a Basel 2.5 basis.

Segment performance

Q3 2014 compared with Q2 2014

UK Personal & Business Banking

Operating profit increased by 3% to £499 million primarily reflecting higher income. Adjusted operating profit increased by 3% to £682 million.

Total income grew by 3% to £1,543 million, supported by improvements in deposit margins. Operating expenses remained broadly stable at £965 million.

Net impairment losses increased by £19 million primarily reflecting lower latent releases. However, underlying default charges continued to decrease, down 5% in the quarter with continued improvements in asset quality.

Gross new mortgage lending totalled £5.3 billion. Net mortgage growth was £0.8 billion with strong retention in fixed rate roll-offs and higher repayments.

Business Banking gross new lending increased by 44% in the year to date compared with the same period in 2013. The recent launch of the Small Business Fund demonstrates the business's continued commitment to this market sector.

Ulster Bank

Operating profit increased by £336 million to £382 million, primarily due to further net impairment releases supported by rising Irish residential property prices coupled with proactive debt management. The potential exists for further releases in the future if market conditions continue to improve. Restructuring costs were stable. Adjusted operating profit increased by £336 million to £394 million.

Total income grew by 1% to £214 million. Proactive re-pricing of deposits has contributed to the improvement in net interest margin since Q3 2013. In both Q2 2014 and Q3 2014 net interest margin benefited from the recognition of interest income on non-performing assets. Management continues to focus on implementing cost saving initiatives but expenses during 2014 have been adversely impacted by a number of additional regulatory charges and levies.

Trading conditions improved further during Q3 2014 supported by GDP growth, lower unemployment and a recovery in property values but the business environment remains challenging. Ulster Bank has seen an increase in demand for new lending, from both personal and business customers throughout 2014.

Commercial Banking

Commercial Banking continues to focus on simplifying the way customers do business with the bank. The business improved the online customer lending process, streamlined its product range, reduced the average account opening time by ten days and implemented a further 56 'simplifying customer life' ideas.

Progress has been made on integrating the Commercial and Private businesses resulting in an increase in referrals and helping to ensure that customers' broadest needs are met.

Operating profit grew by 30% to £407 million quarter on quarter, primarily reflecting the absence of litigation and conduct costs during the quarter and lower restructuring costs (down 70%). Adjusted operating profit remained stable with higher income and lower operating expenses offset by modest net impairment charges compared with net impairment release in Q2 2014.

Total income grew by 2% to £811 million partly as a result of margin expansion, primarily from deposit re-pricing. Cost saving initiatives resulted in an 8% reduction in direct expenses.

Segment performance

Q3 2014 compared with Q2 2014 (continued)

Commercial Banking (continued)

Net impairment losses totalled £12 million compared with a £9 million net release in Q2 2014 as a result of lower releases of latent provisions.

Deposit balances decreased by £1.0 billion to £87.0 billion reflecting active management of the bank's funding surplus, while net loans and advances to customers grew by £1.1 billion across a number of sectors to £85.0 billion. RWAs increased by £1.9 billion primarily from a change in methodology.

Private Banking

Following a review of the high net worth business, RBS has decided to exit the international business. This exit will be carried out with a focus on minimising client and business disruption while maximising value and certainty of execution. Private Banking UK remains a core business with a significant opportunity to integrate and leverage the franchise within Commercial & Private Banking.

Operating profit decreased by 9% to £64 million principally due to higher restructuring costs. Adjusted operating profit declined by 3% to £71 million.

Total income decreased by 1% to £270 million while operating expenses excluding restructuring costs increased by 3% to £203 million primarily due to remediation expenses.

Net impairment releases totalled £4 million compared with a £1 million net impairment charge in Q2 2014.

Client assets and liabilities grew by £0.7 billion in Q3 2014 with increases across all categories. This includes growth of £0.2 billion in assets under management to £28.9 billion across the UK and international businesses.

Corporate & Institutional Banking

Corporate & Institutional Banking continued to make progress on reducing RWAs and controlling discretionary expenditure during Q3 2014, focusing on strengths in core product areas to serve its customers better whilst moving to a lower risk model.

Operating loss grew by £532 million to £557 million reflecting higher litigation and conduct charges partly offset by lower restructuring costs. Adjusted operating profit was subdued, declining by £156 million to £21 million, driven by lower income, partially offset by lower operating expenses as the business continued to manage down discretionary expenditure. Adjusted operating profit was £570 million in the year to date compared with £506 million in the same period in 2013.

Total income declined by 23% to £831 million in Q3 2014. Rates performance was relatively muted, falling 19% to £240 million. Credit fell by £111 million, primarily due to Asset Backed Products, where resources deployed by the business continued to reduce in line with the strategic decision to concentrate on core product areas. RWAs in Assets Backed Products have almost halved to £12 billion in 2014.

RWAs were £123.2 billion, down £4.6 billion compared with end Q2 2014, reflecting both risk reduction and business mitigation actions, and despite adverse

currency movements of £1.3 billion.

Segment performance

Q3 2014 compared with Q2 2014 (continued)

Citizens Financial Group

The initial public offering of Citizens Financial Group (CFG) was successfully completed with shares priced at \$21.50 per share, and trading began on the New York Stock Exchange on 24 September. Given the trading strength of the stock, the underwriters also exercised their overallotment option, resulting in a total of \$3.5 billion of common stock being sold. As a result, RBS's holding in CFG stood at 71.25% as of 30 September and was reduced to 70.5% of shares outstanding following a buyback by CFG on 8 October.

Operating profit for Q3 2014 was \$271 million. Excluding the \$283 million net gain on the sale of the Illinois franchise in Q2 2014 and restructuring costs, operating profit was down \$5 million or 2% from Q2 2014.

Total income was down 21% from Q2 2014, principally driven by the impact of the Illinois franchise sale.

Operating expenses, excluding restructuring costs, decreased by 6% largely due to the impact of the Illinois franchise sale as well as lower incentive accruals and higher consumer regulatory compliance costs in Q2 2014.

Loans and advances were up 2%, driven by higher commercial loans, auto loan organic growth and purchases and a strategic initiative to purchase residential mortgages. Customer deposits have also increased by 2% from the prior quarter maintaining a 98% loan:deposit ratio.

RBS Capital Resolution

RCR funded assets were £18 billion, down £11 billion or 38% since inception on 1 January 2014; with £3 billion of the reduction in the current quarter driven by disposals and run-off.

RWA equivalent (RWAE)(1) decreased to £38 billion, a reduction of £27 billion or 41% since 1 January 2014. The RWAE reduction of £5.2 billion in the quarter reflects a combination of disposals and run-off partially offset by the impact of impairment releases.

Operating profit for the quarter was £638 million, up £572 million compared with Q2 2014, including £605 million of net provision releases reflecting improving economic conditions.

RCR has been capital accretive since its formation on 1 January 2014.

Central items

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Operating loss in Central items in Q3 2014 was £319 million compared with an £86 million operating profit in Q2 2014. In Q3 2014, RBS took advantage of improved market prices to dispose of €9 billion of available-for-sale debt securities at a loss of £104 million⁽²⁾ and recognised a loss of £110 million primarily relating to IFRS volatility arising from interest rate movements. Q2 2014 benefited from a number of small gains on asset realisations.

Notes:

- (1) RWA equivalent (RWAE) is an internal metric that measures the equity capital employed in segments. RWAE converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAE by applying a multiplier of 10.
- (2) An additional £73 million loss attributable to other shareholders is included within RFS Holdings minority interest.

UK Personal & Business Banking

| | Quarter ended | | | Nine months ended | |
|---------------------------------|----------------------|-----------------|----------------------|-------------------------|-------------------------|
| | 30 September 2014 | 30 June 2014 | 30 September 2013 | 30 September 2014 | 30 September 2013 |
| | £m | £m | £m | £m | £m |
| Income statement | | | | | |
| Net interest income | 1,198 | 1,152 | 1,141 | 3,474 | 3,341 |
| Net fees and commissions | 335 | 304 | 344 | 972 | 968 |
| Other non-interest income | 10 | 43 | 5 | 59 | 10 |
| Non-interest income | 345 | 347 | 349 | 1,031 | 978 |
| Total income | 1,543 | 1,499 | 1,490 | 4,505 | 4,319 |
| Direct expenses | | | | | |
| - staff costs | (223) | (225) | (232) | (672) | (698) |
| - other costs | (78) | (93) | (121) | (298) | (321) |
| Indirect expenses | (481) | (458) | (485) | (1,463) | (1,435) |
| Restructuring costs | | | | | |
| - direct | (2) | (6) | (21) | (8) | (91) |
| - indirect | (63) | (23) | (29) | (76) | (68) |
| Litigation and conduct costs | (118) | (150) | (250) | (268) | (410) |
| Operating expenses | (965) | (955) | (1,138) | (2,785) | (3,023) |
| Profit before impairment losses | 578 | 544 | 352 | 1,720 | 1,296 |
| Impairment losses | (79) | (60) | (138) | (227) | (394) |
| Operating profit | 499 | 484 | 214 | 1,493 | 902 |

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| | | | | | |
|-----------------------------------|-------|-------|-------|-------|-------|
| Operating profit - adjusted (1) | 682 | 663 | 514 | 1,845 | 1,471 |
| Analysis of income by product | | | | | |
| Personal advances | 231 | 232 | 233 | 698 | 676 |
| Personal deposits | 194 | 160 | 125 | 496 | 352 |
| Mortgages | 657 | 649 | 663 | 1,944 | 1,940 |
| Cards | 187 | 176 | 213 | 561 | 632 |
| Business banking | 261 | 245 | 245 | 751 | 726 |
| Other | 13 | 37 | 11 | 55 | (7) |
| Total income | 1,543 | 1,499 | 1,490 | 4,505 | 4,319 |
| Analysis of impairments by sector | | | | | |
| Personal advances | 46 | 40 | 34 | 125 | 118 |
| Mortgages | (8) | 4 | 18 | (3) | 44 |
| Business banking | 20 | 1 | 56 | 50 | 143 |
| Cards | 21 | 15 | 30 | 55 | 89 |
| Total impairment losses | 79 | 60 | 138 | 227 | 394 |
| Performance ratios | | | | | |
| Return on equity (2) | 26.9% | 25.3% | 10.2% | 26.1% | 14.3% |
| Return on equity - adjusted (1,2) | 36.8% | 34.7% | 24.6% | 32.2% | 23.4% |
| Net interest margin | 3.72% | 3.64% | 3.60% | 3.65% | 3.54% |
| Cost:income ratio | 63% | 64% | 76% | 62% | 70% |
| Cost:income ratio - adjusted (1) | 51% | 52% | 56% | 54% | 57% |

| | 30 September 2014 £bn | 30 June 2014 £bn | December 2013 £bn |
|-------------------------------------|-----------------------------|------------------------|-------------------------|
| Capital and balance sheet | | | |
| Funded assets | 134.2 | 133.6 | 132.2 |
| Total assets | 134.2 | 133.6 | 132.2 |
| Net loans and advances to customers | 127.0 | 126.4 | 124.8 |
| Risk elements in lending | 4.1 | 4.2 | 4.7 |
| Impairment provisions | (2.7) | (2.8) | (3.0) |
| Customer deposits | 146.0 | 146.0 | 144.9 |
| Risk-weighted assets (3) | 44.7 | 47.0 | 51.2 |

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) Return on equity is based on operating profit after tax divided by average notional equity (based on 12% of the monthly average of segmental RWAs; 2013 RWAs are on a Basel 2.5 basis).
- (3) RWAs reported as at 31 December 2013 are on a Basel 2.5 basis. RWAs on an FLB3 basis as at 1 January 2014 are set out on page 20.

Ulster Bank

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| | Quarter ended | | | Nine months ended | |
|--|----------------------------|-----------------------|----------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Income statement | | | | | |
| Net interest income | 163 | 169 | 153 | 486 | 455 |
| Net fees and commissions | 35 | 34 | 35 | 101 | 104 |
| Other non-interest income | 16 | 8 | 25 | 39 | 98 |
| Non-interest income | 51 | 42 | 60 | 140 | 202 |
| Total income | 214 | 211 | 213 | 626 | 657 |
| Direct expenses | | | | | |
| - staff costs | (57) | (62) | (64) | (182) | (188) |
| - other costs | (20) | (18) | (15) | (55) | (42) |
| Indirect expenses | (61) | (63) | (63) | (187) | (188) |
| Restructuring costs | | | | | |
| - direct | - | 8 | (3) | 8 | (18) |
| - indirect | (12) | (20) | (3) | (34) | (9) |
| Litigation and conduct costs | - | - | - | - | (25) |
| Operating expenses | (150) | (155) | (148) | (450) | (470) |
| Profit before impairment losses | 64 | 56 | 65 | 176 | 187 |
| Impairment releases/(losses) | 318 | (10) | (204) | 261 | (707) |
| Operating profit/(loss) | 382 | 46 | (139) | 437 | (520) |
| Operating profit/(loss) - adjusted (1) | 394 | 58 | (133) | 463 | (468) |
| Analysis of income by product | | | | | |
| Corporate | 65 | 65 | 76 | 199 | 246 |
| Retail | 111 | 100 | 101 | 301 | 310 |
| Other | 38 | 46 | 36 | 126 | 101 |
| Total income | 214 | 211 | 213 | 626 | 657 |
| Analysis of impairments by sector | | | | | |
| Mortgages | (168) | 16 | 30 | (133) | 211 |
| Commercial real estate | | | | | |
| - investment | (18) | 1 | 104 | (9) | 201 |
| - development | (9) | (3) | 12 | (15) | 38 |
| Other corporate | (130) | (9) | 51 | (122) | 237 |
| Other lending | 7 | 5 | 7 | 18 | 20 |
| Total impairment (releases)/losses | (318) | 10 | 204 | (261) | 707 |

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| | | | | | |
|-----------------------------------|-------|-------|---------|-------|---------|
| Performance ratios | | | | | |
| Return on equity (2) | 42.2% | 4.6% | (11.8%) | 14.9% | (14.0%) |
| Return on equity - adjusted (1,2) | 43.5% | 5.8% | (11.3%) | 15.8% | (12.6%) |
| Net interest margin | 2.32% | 2.35% | 1.83% | 2.32% | 1.82% |
| Cost:income ratio | 70% | 73% | 69% | 72% | 72% |
| Cost:income ratio - adjusted (1) | 64% | 68% | 67% | 68% | 64% |

| | | | | |
|-------------------------------------|--|--------------|---------|----------|
| | | | | 31 |
| | | 30 September | 30 June | December |
| | | 2014 | 2014 | 2013 |
| Capital and balance sheet | | £bn | £bn | £bn |
| Funded assets | | 26.3 | 26.6 | 28.0 |
| Total assets | | 26.5 | 26.7 | 28.2 |
| Net loans and advances to customers | | 22.0 | 22.4 | 26.0 |
| Risk elements in lending | | 4.8 | 4.9 | 8.5 |
| Impairment provisions | | (2.9) | (3.3) | (5.4) |
| Customer deposits | | 19.7 | 20.7 | 21.7 |
| Risk-weighted assets (3) | | 23.9 | 27.7 | 30.7 |

For the notes to this table refer to page 24.

Commercial Banking

| | Quarter ended | | | Nine months ended | |
|------------------------------|---------------|---------|--------------|-------------------|--------------|
| | 30 September | 30 June | 30 September | 30 September | 30 September |
| | 2014 | 2014 | 2013 | 2014 | 2013 |
| Income statement | £m | £m | £m | £m | £m |
| Net interest income | 521 | 511 | 511 | 1,520 | 1,447 |
| Net fees and commissions | 220 | 227 | 232 | 668 | 709 |
| Other non-interest income | 70 | 60 | 49 | 191 | 185 |
| Non-interest income | 290 | 287 | 281 | 859 | 894 |
| Total income | 811 | 798 | 792 | 2,379 | 2,341 |
| Direct expenses | | | | | |
| - staff costs | (124) | (133) | (129) | (390) | (381) |
| - other costs | (54) | (60) | (57) | (176) | (201) |
| Indirect expenses | (196) | (189) | (206) | (598) | (610) |
| Restructuring costs | | | | | |
| - direct | - | (40) | (3) | (40) | (17) |
| - indirect | (18) | (21) | (8) | (40) | (23) |
| Litigation and conduct costs | - | (50) | - | (50) | (25) |
| Operating expenses | (392) | (493) | (403) | (1,294) | (1,257) |

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| | | | | | |
|--|-------|-------|-------|-------|-------|
| Profit before impairment losses | 419 | 305 | 389 | 1,085 | 1,084 |
| Impairment (losses)/releases | (12) | 9 | (93) | (43) | (375) |
| Operating profit | 407 | 314 | 296 | 1,042 | 709 |
| Operating profit - adjusted (1) | 425 | 425 | 307 | 1,172 | 774 |
| Analysis of income by business | | | | | |
| Commercial lending | 459 | 448 | 468 | 1,353 | 1,430 |
| Deposits | 95 | 81 | 56 | 248 | 144 |
| Asset and invoice finance | 188 | 186 | 169 | 554 | 503 |
| Other | 69 | 83 | 99 | 224 | 264 |
| Total income | 811 | 798 | 792 | 2,379 | 2,341 |
| Analysis of impairments by sector | | | | | |
| Commercial real estate | (1) | (17) | 36 | (7) | 198 |
| Asset and invoice finance | 2 | - | 5 | 4 | 11 |
| Private sector services (education, health, etc) | 2 | - | 34 | (8) | 97 |
| Banks & financial institutions | (1) | (1) | 4 | - | 6 |
| Wholesale and retail trade repairs | 2 | 2 | 3 | 16 | 6 |
| Hotels and restaurants | 2 | (4) | (1) | 1 | 18 |
| Manufacturing | 2 | 4 | 2 | 9 | (2) |
| Construction | 4 | 2 | - | 8 | (1) |
| Other | - | 5 | 10 | 20 | 42 |
| Total impairment losses/(releases) | 12 | (9) | 93 | 43 | 375 |
| Performance ratios | | | | | |
| Return on equity (2) | 16.0% | 12.4% | 11.1% | 13.7% | 8.7% |
| Return on equity - adjusted (1,2) | 16.7% | 16.8% | 11.5% | 15.4% | 9.6% |
| Net interest margin | 2.78% | 2.73% | 2.75% | 2.72% | 2.60% |
| Cost:income ratio | 48% | 62% | 51% | 54% | 54% |
| Cost:income ratio - adjusted (1) | 46% | 48% | 49% | 49% | 51% |

| | 30 September 2014 | 30 June 2014 | 31 December 2013 |
|-------------------------------------|----------------------|-----------------|------------------------|
| Capital and balance sheet | £bn | £bn | £bn |
| Funded assets | 89.7 | 88.6 | 87.9 |
| Total assets | 89.7 | 88.6 | 87.9 |
| Net loans and advances to customers | 85.0 | 83.9 | 83.5 |
| Risk elements in lending | 2.6 | 2.9 | 4.3 |
| Impairment provisions | (1.0) | (1.2) | (1.5) |
| Customer deposits | 87.0 | 88.0 | 90.7 |
| Risk-weighted assets (3) | 64.9 | 63.0 | 65.8 |

For the notes to this table refer to page 24.

Private Banking

| | Quarter ended | | | Nine months ended | |
|-----------------------------------|----------------------------|-----------------------|----------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Income statement | | | | | |
| Net interest income | 172 | 174 | 168 | 516 | 485 |
| Net fees and commissions | 85 | 84 | 90 | 257 | 270 |
| Other non-interest income | 13 | 14 | 12 | 42 | 46 |
| Non-interest income | 98 | 98 | 102 | 299 | 316 |
| Total income | 270 | 272 | 270 | 815 | 801 |
| Direct expenses | | | | | |
| - staff costs | (79) | (80) | (81) | (239) | (254) |
| - other costs | (19) | (14) | (22) | (51) | (51) |
| Indirect expenses | (105) | (104) | (112) | (310) | (341) |
| Restructuring costs | | | | | |
| - direct | - | (2) | (3) | (2) | (4) |
| - indirect | (7) | (1) | (2) | (8) | (6) |
| Operating expenses | (210) | (201) | (220) | (610) | (656) |
| Profit before impairment losses | 60 | 71 | 50 | 205 | 145 |
| Impairment releases/(losses) | 4 | (1) | (1) | 4 | (8) |
| Operating profit | 64 | 70 | 49 | 209 | 137 |
| Operating profit - adjusted (1) | 71 | 73 | 54 | 219 | 147 |
| Analysis of income by business | | | | | |
| Investments | 44 | 45 | 49 | 134 | 146 |
| Banking | 226 | 227 | 221 | 681 | 655 |
| Total income | 270 | 272 | 270 | 815 | 801 |
| Performance ratios | | | | | |
| Return on equity (2) | 13.3% | 14.5% | 9.9% | 14.5% | 9.2% |
| Return on equity - adjusted (1,2) | 14.8% | 15.1% | 10.9% | 15.1% | 9.9% |
| Net interest margin | 3.65% | 3.73% | 3.54% | 3.70% | 3.40% |
| Cost:income ratio | 78% | 74% | 81% | 75% | 82% |
| Cost:income ratio - adjusted (1) | 75% | 73% | 80% | 74% | 81% |

30 September 30 June

| | | | 31 |
|-------------------------------------|-------|-------|----------|
| | | | December |
| | 2014 | 2014 | 2013 |
| | £bn | £bn | £bn |
| Capital and balance sheet | | | |
| Funded assets | 21.0 | 20.8 | 21.0 |
| Total assets | 21.1 | 20.8 | 21.2 |
| Net loans and advances to customers | 16.7 | 16.5 | 16.7 |
| Risk elements in lending | 0.2 | 0.2 | 0.3 |
| Impairment provisions | (0.1) | (0.1) | (0.1) |
| Customer deposits | 36.2 | 35.9 | 37.2 |
| Risk-weighted assets (3) | 12.2 | 11.8 | 12.0 |

For the notes to this table refer to page 24.

Corporate & Institutional Banking

| | Quarter ended | | | Nine months ended | |
|---|---------------|---------|--------------|-------------------|-----------|
| | 30 September | 30 June | 30 September | 30 | 30 |
| | 2014 | 2014 | 2013 | September | September |
| | £m | £m | £m | 2014 | 2013 |
| | £m | £m | £m | £m | £m |
| Income statement | | | | | |
| Net interest income from banking activities | 230 | 186 | 162 | 595 | 476 |
| Net fees and commissions | 263 | 247 | 288 | 753 | 844 |
| Income from trading activities | 329 | 597 | 772 | 1,811 | 2,525 |
| Other operating income | 9 | 46 | 30 | 99 | 115 |
| Non-interest income | 601 | 890 | 1,090 | 2,663 | 3,484 |
| Total income | 831 | 1,076 | 1,252 | 3,258 | 3,960 |
| Direct expenses | | | | | |
| - staff costs | (179) | (217) | (262) | (666) | (841) |
| - other costs | (50) | (140) | (138) | (300) | (421) |
| Indirect expenses | (593) | (587) | (614) | (1,773) | (1,941) |
| Restructuring costs | | | | | |
| - direct | (22) | (9) | (17) | (44) | (51) |
| - indirect | 6 | (143) | (112) | (163) | (161) |
| Litigation and conduct costs | (562) | (50) | (99) | (612) | (509) |
| Operating expenses | (1,400) | (1,146) | (1,242) | (3,558) | (3,924) |
| (Loss)/profit before impairment losses | (569) | (70) | 10 | (300) | 36 |
| Impairment releases/(losses) | 12 | 45 | (28) | 51 | (251) |

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| | | | | | |
|--|---------|--------|--------|--------|--------|
| Operating loss | (557) | (25) | (18) | (249) | (215) |
| Operating profit - adjusted (1) | 21 | 177 | 210 | 570 | 506 |
| Analysis of income by product | | | | | |
| Rates | 240 | 297 | 406 | 896 | 873 |
| Currencies | 193 | 159 | 232 | 544 | 711 |
| Credit | 198 | 309 | 304 | 972 | 1,296 |
| Global Transaction Services | 207 | 214 | 229 | 628 | 654 |
| Portfolio | 164 | 156 | 144 | 482 | 467 |
| Total (excluding revenue share and run-off businesses) | | | | | |
| | 1,002 | 1,135 | 1,315 | 3,522 | 4,001 |
| Inter-segment revenue share | (58) | (59) | (63) | (177) | (204) |
| Run-off businesses | (113) | - | - | (87) | 163 |
| Total income | 831 | 1,076 | 1,252 | 3,258 | 3,960 |
| Performance ratios | | | | | |
| Return on equity (2) | (11.0%) | (0.5%) | (0.3%) | (1.5%) | (1.2%) |
| Return on equity - adjusted (1,2) | 0.4% | 3.3% | 3.8% | 3.5% | 2.9% |
| Net interest margin | 1.08% | 0.90% | 0.79% | 0.95% | 0.74% |
| Cost:income ratio | 168% | 107% | 99% | 109% | 99% |
| Cost:income ratio - adjusted (1) | 99% | 88% | 81% | 84% | 81% |

| | 30 September 2014 £bn | 30 June 2014 £bn | December 2013 £bn |
|-------------------------------------|-----------------------------|------------------------|-------------------------|
| Capital and balance sheet | | | |
| Funded assets | 274.9 | 278.7 | 268.6 |
| Total assets | 572.9 | 537.6 | 551.2 |
| Reverse repos | 72.9 | 78.8 | 76.2 |
| Net loans and advances to customers | 73.1 | 69.0 | 68.2 |
| Net loans and advances to banks | 19.5 | 19.4 | 20.5 |
| Securities | 65.6 | 67.9 | 72.1 |
| Risk-weighted assets (3) | 123.2 | 127.8 | 120.4* |
| - credit risk | | | |
| - non-counterparty | 48.5 | 58.4 | 61.8 |
| - counterparty | 37.2 | 28.9 | 17.5 |
| - market risk | 25.7 | 28.7 | 26.4 |
| - operational risk | 11.8 | 11.8 | 14.7 |

*On a fully loaded Basel 3 basis risk-weighted assets at 1 January were £147.1 billion.

For the notes to this table refer to page 24.

Citizens Financial Group (US dollar)

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| | Quarter ended | | Nine months ended | | |
|-----------------------------------|----------------------|-----------------|----------------------|-------------------------|-------------------------|
| | 30 September 2014 | 30 June 2014 | 30 September 2013 | 30 September 2014 | 30 September 2013 |
| | \$m | \$m | \$m | \$m | \$m |
| Income statement | | | | | |
| Net interest income | 824 | 838 | 748 | 2,471 | 2,197 |
| Net fees and commissions | 291 | 305 | 302 | 875 | 892 |
| Other non-interest income | 68 | 353 | 101 | 520 | 392 |
| Non-interest income | 359 | 658 | 403 | 1,395 | 1,284 |
| Total income | 1,183 | 1,496 | 1,151 | 3,866 | 3,481 |
| Direct expenses | | | | | |
| - staff costs | (425) | (439) | (415) | (1,280) | (1,298) |
| - other costs | (388) | (423) | (388) | (1,223) | (1,132) |
| Indirect expenses | - | - | (49) | - | (123) |
| Restructuring costs | (22) | (115) | (3) | (137) | (8) |
| Operating expenses | (835) | (977) | (855) | (2,640) | (2,561) |
| Profit before impairment losses | 348 | 519 | 296 | 1,226 | 920 |
| Impairment losses | (77) | (53) | (91) | (251) | (169) |
| Operating profit | 271 | 466 | 205 | 975 | 751 |
| Operating profit - adjusted (1) | 293 | 581 | 208 | 1,112 | 759 |
| Average exchange rate - US\$/£ | 1.669 | 1.683 | 1.551 | 1.669 | 1.543 |
| Analysis of impairments by sector | | | | | |
| Residential mortgages | 2 | 10 | 24 | 3 | 43 |
| Home equity | 6 | 25 | 43 | 63 | 99 |
| SBO home equity | (9) | (28) | - | (3) | - |
| Corporate and commercial | 28 | (2) | (21) | 41 | (74) |
| Other consumer | 50 | 45 | 38 | 144 | 94 |
| Securities | - | 3 | 7 | 3 | 7 |
| Total impairment losses | 77 | 53 | 91 | 251 | 169 |
| Performance ratios | | | | | |
| Return on equity (2) | 5.6% | 9.8% | 4.9% | 6.9% | 6.1% |
| Return on equity - adjusted (1,2) | 6.1% | 12.2% | 5.0% | 7.8% | 6.1% |
| Net interest margin | 2.82% | 2.93% | 2.94% | 2.89% | 2.92% |
| Cost:income ratio | 71% | 65% | 74% | 68% | 74% |
| Cost:income ratio - adjusted (1) | 69% | 58% | 74% | 65% | 73% |

30 September 30 June

| | | | 31 |
|-------------------------------------|-------|-------|----------|
| | | | December |
| | 2014 | 2014 | 2013 |
| Capital and balance sheet | \$bn | \$bn | \$bn |
| Funded assets | 130.7 | 129.5 | 117.9 |
| Total assets | 131.2 | 130.1 | 118.6 |
| Net loans and advances to customers | 90.4 | 88.4 | 83.2 |
| Risk elements in lending | 2.0 | 2.2 | 1.7 |
| Impairment provisions | (0.8) | (0.9) | (0.4) |
| Customer deposits (excluding repos) | 92.4 | 90.5 | 91.1 |
| Risk-weighted assets (3) | 104.5 | 103.8 | 92.8 |
| Spot exchange rate | 1.622 | 1.711 | 1.654 |

For the notes to this table refer to page 24.

RBS Capital Resolution

RCR is managed and analysed by four asset management groups - Ulster Bank (RCR Ireland), Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

| | Quarter ended | | | Nine months ended |
|--|---------------|---------|----------|-------------------------|
| | 30 September | 30 June | 31 March | September |
| | 2014 | 2014 | 2014 | 2014 |
| | £m | £m | £m | £m |
| Income statement | | | | |
| Net interest (expense)/income | (18) | 16 | (5) | (7) |
| Net fees and commissions | 12 | 17 | 14 | 43 |
| Income from trading activities (1) | 42 | (69) | 16 | (11) |
| Other operating income (1) | 86 | 71 | 48 | 205 |
| Non-interest income | 140 | 19 | 78 | 237 |
| Total income | 122 | 35 | 73 | 230 |
| Direct expenses | | | | |
| - staff costs | (37) | (51) | (38) | (126) |
| - other costs | (24) | (14) | (18) | (56) |
| Indirect expenses | (24) | (32) | (23) | (79) |
| Restructuring costs | (4) | - | - | (4) |
| Operating expenses | (89) | (97) | (79) | (265) |
| Profit/(loss) before impairment losses | 33 | (62) | (6) | (35) |
| Impairment releases/(losses) (1) | 605 | 128 | (108) | 625 |

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| | | | | |
|---|---------|--------|--------|--------|
| Operating profit/(loss) | 638 | 66 | (114) | 590 |
| Operating profit/(loss) - adjusted (2) | 642 | 66 | (114) | 594 |
| Total income | | | | |
| Ulster Bank | (29) | 14 | (13) | (28) |
| Real Estate Finance | 67 | 13 | 83 | 163 |
| Corporate | 72 | (12) | (2) | 58 |
| Markets | 12 | 20 | 5 | 37 |
| Total income | 122 | 35 | 73 | 230 |
| Impairment (releases)/losses | | | | |
| Ulster Bank | (379) | (67) | 52 | (394) |
| Real Estate Finance | (159) | (123) | 89 | (193) |
| Corporate | (70) | 73 | (34) | (31) |
| Markets | 3 | (11) | 1 | (7) |
| Total impairment (releases)/losses | (605) | (128) | 108 | (625) |
| Loan impairment charge as % of gross loans and advances (3) | | | | |
| Ulster Bank | (12.0%) | (1.9%) | 1.3% | (4.2%) |
| Real Estate Finance | (11.6%) | (6.6%) | 4.1% | (4.7%) |
| Corporate | (4.0%) | 3.7% | (1.5%) | (0.6%) |
| Markets | (0.6%) | (3.6%) | - | (1.9%) |
| Total | (9.5%) | (1.7%) | 1.2% | (3.3%) |

Notes:

- (1) Q3 2014 results include £332 million (Q2 2014 - £225 million; Q1 2014 - £56 million) of net gains from the disposal of assets, comprising £97 million gain (Q2 2014 - £6 million gain; Q1 2014 - £5 million loss) in income from trading activities, £3 million gain (Q2 2014 - £38 million; Q1 2014 - £3 million) in other operating income and £232 million (Q2 2014 - £257 million; Q1 2014 - £64 million) release of impairment provisions.
- (2) Excluding restructuring costs.
- (3) Includes disposal groups.

RBS Capital Resolution

| | 30 September 2014 £bn | 30 June 2014 £bn | 31 March 2014 £bn |
|---|-----------------------------|------------------------|-------------------------|
| Capital and balance sheet | | | |
| Loans and advances to customers (gross) (1) | 25.8 | 30.0 | 34.0 |

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| | | | |
|---|--------|--------|--------|
| Loan impairment provisions | (12.6) | (14.4) | (15.7) |
| Net loans and advances to customers | 13.2 | 15.6 | 18.3 |
| Debt securities | 1.7 | 1.9 | 2.2 |
| Funded assets | 17.9 | 20.9 | 24.3 |
| Total assets | 31.3 | 34.4 | 38.8 |
| Risk elements in lending (1) | 17.4 | 20.4 | 23.0 |
| Provision coverage (2) | 72% | 71% | 68% |
| Risk-weighted assets | | | |
| - Credit risk | | | |
| - non-counterparty | 18.7 | 22.6 | 29.6 |
| - counterparty | 8.2 | 8.2 | 5.7 |
| - Market risk | 3.7 | 4.3 | 5.2 |
| | 30.6 | 35.1 | 40.5 |
| Gross loans and advances to customers (1) | | | |
| Ulster Bank | 12.6 | 13.9 | 15.5 |
| Real Estate Finance | 5.5 | 7.4 | 8.6 |
| Corporate | 7.0 | 7.8 | 9.1 |
| Markets | 0.7 | 0.9 | 0.8 |
| | 25.8 | 30.0 | 34.0 |
| Funded assets - Ulster Bank | | | |
| Commercial real estate - investment | 1.5 | 1.9 | 2.4 |
| Commercial real estate - development | 0.7 | 0.7 | 0.8 |
| Other corporate | 0.7 | 0.9 | 1.2 |
| | 2.9 | 3.5 | 4.4 |
| Funded assets - Real Estate Finance | | | |
| UK | 3.2 | 4.4 | 4.7 |
| Germany | 0.8 | 1.0 | 1.4 |
| Spain | 0.5 | 0.5 | 0.6 |
| Other | 0.9 | 0.8 | 1.0 |
| | 5.4 | 6.7 | 7.7 |
| Funded assets - Corporate | | | |
| Structured finance | 1.7 | 2.0 | 2.2 |
| Shipping | 1.9 | 1.9 | 2.0 |
| Other | 3.1 | 3.5 | 4.4 |
| | 6.7 | 7.4 | 8.6 |
| Funded assets - Markets | | | |
| Securitised products | 2.3 | 2.7 | 3.0 |
| Emerging markets | 0.6 | 0.6 | 0.6 |

2.9 3.3 3.6

Notes:

- (1) Includes disposal groups.
 (2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

RBS Capital Resolution

Funded assets

| | 1 July | Net | Disposals | | | 30 |
|---------------------------------|--------|---------|-----------------|-------|-------|-----------|
| | 2014 | run-off | (1) Impairments | Other | | September |
| Quarter ended 30 September 2014 | £bn | £bn | £bn | £bn | £bn | 2014 |
| Ulster Bank | 3.5 | - | (0.8) | 0.4 | (0.2) | 2.9 |
| Real Estate Finance | 6.7 | (0.5) | (0.8) | 0.1 | (0.1) | 5.4 |
| Corporate | 7.4 | (0.6) | (0.4) | 0.1 | 0.2 | 6.7 |
| Markets | 3.3 | (0.4) | (0.1) | - | 0.1 | 2.9 |
| Total | 20.9 | (1.5) | (2.1) | 0.6 | - | 17.9 |

Risk-weighted assets

| | 1 July | Net | Disposals | Risk | | | 30 |
|---------------------------------|--------|---------|-----------|-----------------|-------|-------|-----------|
| | 2014 | run-off | (1) | (2) Impairments | Other | | September |
| Quarter ended 30 September 2014 | £bn | £bn | £bn | £bn | £bn | £bn | 2014 |
| Ulster Bank | 2.3 | - | - | (0.1) | - | (0.1) | 2.1 |
| Real Estate Finance | 6.4 | (0.3) | - | (0.5) | - | - | 5.6 |
| Corporate | 15.1 | (0.9) | (0.8) | (0.1) | - | 0.7 | 14.0 |
| Markets | 11.3 | (0.7) | (0.9) | (0.8) | - | - | 8.9 |
| Total | 35.1 | (1.9) | (1.7) | (1.5) | - | 0.6 | 30.6 |

Capital deductions

| | 1 July | Net | Disposals | Risk | | | 30 |
|---------------------------------|--------|---------|-----------|-----------------|-------|----|-----------|
| | 2014 | run-off | (1) | (2) Impairments | Other | | September |
| Quarter ended 30 September 2014 | £m | £m | £m | £m | £m | £m | 2014 |
| | | | | | | | |

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| | | | | | | | | |
|--------------------------------|------|------|------|----|-----|----|-------|-----|
| Commercial real estate | | | | | | | | |
| - investment | 8.4 | 6.0 | 3.5 | 71 | 58 | 42 | (299) | 572 |
| - development | 7.1 | 6.7 | 5.9 | 94 | 88 | 83 | (127) | 105 |
| Asset finance | 2.4 | 0.8 | 0.4 | 33 | 50 | 17 | 7 | 21 |
| Other corporate | 7.8 | 3.9 | 2.8 | 50 | 72 | 36 | (165) | 255 |
| Other | 0.1 | - | - | - | - | - | (21) | - |
| | 25.8 | 17.4 | 12.6 | 67 | 72 | 49 | (605) | 953 |
| By donating segment and sector | | | | | | | | |
| Ulster Bank | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3.8 | 3.5 | 2.5 | 92 | 71 | 66 | (168) | 86 |
| - development | 6.4 | 6.2 | 5.6 | 97 | 90 | 88 | (116) | 77 |
| Other corporate | 2.4 | 2.2 | 1.7 | 92 | 77 | 71 | (95) | 11 |
| Total Ulster Bank | 12.6 | 11.9 | 9.8 | 94 | 82 | 78 | (379) | 174 |
| Commercial Banking | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 1.6 | 0.8 | 0.3 | 50 | 38 | 19 | (44) | 62 |
| - development | 0.5 | 0.4 | 0.2 | 80 | 50 | 40 | (16) | 20 |
| Asset finance | - | - | - | - | - | - | - | 1 |
| Other corporate | 1.2 | 0.6 | 0.4 | 50 | 67 | 33 | (38) | 36 |
| Other | - | - | - | - | - | - | (3) | - |
| Total Commercial Banking | 3.3 | 1.8 | 0.9 | 55 | 50 | 27 | (101) | 119 |
| CIB | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3.0 | 1.7 | 0.7 | 57 | 41 | 23 | (87) | 424 |
| - development | 0.2 | 0.1 | 0.1 | 50 | 100 | 50 | 5 | 8 |
| Asset finance | 2.4 | 0.8 | 0.4 | 33 | 50 | 17 | 7 | 20 |
| Other corporate | 4.2 | 1.1 | 0.7 | 26 | 64 | 17 | (32) | 208 |
| Other | 0.1 | - | - | - | - | - | (18) | - |
| Total CIB | 9.9 | 3.7 | 1.9 | 37 | 51 | 19 | (125) | 660 |
| Total | 25.8 | 17.4 | 12.6 | 67 | 72 | 49 | (605) | 953 |
| Of which: | | | | | | | | |
| UK | 11.3 | 6.3 | 4.1 | 56 | 65 | 36 | (245) | 630 |
| Europe | 13.4 | 10.7 | 8.3 | 80 | 78 | 62 | (357) | 302 |

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| | | | | | | | | |
|-----------|------|------|------|----|----|----|-------|-----|
| US | 0.3 | 0.1 | - | 33 | - | - | (1) | 18 |
| RoW | 0.8 | 0.3 | 0.2 | 38 | 67 | 25 | (2) | 3 |
| Customers | 25.8 | 17.4 | 12.6 | 67 | 72 | 49 | (605) | 953 |
| Banks | 0.6 | - | - | - | - | - | - | 9 |
| Total | 26.4 | 17.4 | 12.6 | 66 | 72 | 48 | (605) | 962 |

Notes:

- (1) Includes disposal groups.
(2) Impairment losses/(releases) include those relating to AFS securities; sector analyses above include allocation of latent impairment charges.

Selected condensed statutory financial statements

Condensed consolidated income statement for the period ended 30 September 2014

| | Quarter ended | | | Nine months ended | |
|---|----------------------------|-----------------------|----------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Interest receivable | 3,839 | 3,821 | 4,207 | 11,460 | 12,767 |
| Interest payable | (976) | (1,023) | (1,427) | (3,104) | (4,550) |
| Net interest income | 2,863 | 2,798 | 2,780 | 8,356 | 8,217 |
| Fees and commissions receivable | 1,296 | 1,314 | 1,382 | 3,901 | 4,090 |
| Fees and commissions payable | (202) | (251) | (238) | (689) | (698) |
| Income from trading activities | 268 | 541 | 444 | 1,761 | 2,508 |
| Gain on redemption of own debt | - | - | 13 | 20 | 204 |
| Other operating income | 127 | 345 | 35 | 1,163 | 1,367 |
| Non-interest income | 1,489 | 1,949 | 1,636 | 6,156 | 7,471 |
| Total income | 4,352 | 4,747 | 4,416 | 14,512 | 15,688 |
| Staff costs | (1,690) | (1,845) | (1,895) | (5,226) | (5,622) |
| Premises and equipment | (543) | (622) | (544) | (1,818) | (1,648) |
| Other administrative expenses | (1,344) | (951) | (1,103) | (3,006) | (3,284) |
| Depreciation and amortisation | (306) | (282) | (338) | (860) | (1,074) |
| Write down of goodwill and other intangible assets | - | (130) | - | (212) | - |
| Operating expenses | (3,883) | (3,830) | (3,880) | (11,122) | (11,628) |
| | 469 | 917 | 536 | 3,390 | 4,060 |

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| | | | | | |
|---|-------|-------|---------|---------|---------|
| Profit before impairment releases/(losses) | | | | | |
| Impairment releases/(losses) | 801 | 93 | (1,170) | 532 | (3,320) |
| Operating profit/(loss) before tax | 1,270 | 1,010 | (634) | 3,922 | 740 |
| Tax charge | (333) | (371) | (81) | (1,066) | (759) |
| Profit/(loss) from continuing operations | 937 | 639 | (715) | 2,856 | (19) |
| Profit/(loss) from discontinued operations, net of tax | 3 | 26 | (5) | 38 | 133 |
| Profit/(loss) for the period | 940 | 665 | (720) | 2,894 | 114 |
| Non-controlling interests | 53 | (23) | (6) | 11 | (123) |
| Preference share and other dividends | (97) | (412) | (102) | (584) | (284) |
| Profit/(loss) attributable to ordinary and B shareholders | 896 | 230 | (828) | 2,321 | (293) |
| Earnings/(loss) per ordinary and equivalent B share (EPS) (1) | | | | | |
| Basic EPS from continuing and discontinued operations | 7.9p | 2.0p | (7.4p) | 20.5p | (2.6p) |
| Basic EPS from continuing operations | 7.9p | 1.9p | (7.4p) | 20.4p | (3.6p) |

Note:

- (1) Diluted EPS for the quarter ended 30 September 2014 was 0.1p lower (quarter ended 30 June 2014 - 0.1p lower) and for the nine months ended 30 September 2014 was 0.2p lower than basic EPS. There was no dilutive impact on all other comparative periods.

Items excluded from the operating performance of reportable segments are recorded in the condensed consolidated income statement as follows:

| | Quarter ended | | Nine months ended | | |
|--|-------------------|--------------|-------------------|-------------------|-------------------|
| | 30 September 2014 | 30 June 2014 | 30 September 2013 | 30 September 2014 | 30 September 2013 |
| | £m | £m | £m | £m | £m |
| Own credit adjustments | | | | | |
| - income from trading activities | 33 | (84) | (155) | 44 | 20 |
| - other operating income | 16 | (106) | (341) | (46) | (140) |
| Gain on redemption of own debt | | | | | |
| - non-interest income | - | - | 13 | 20 | 204 |
| Write down of goodwill | | | | | |
| - write down of goodwill and other intangible assets | - | (130) | - | (130) | - |

| | | | | | |
|--------------------------------|------|----|-----|------|-----|
| Strategic disposals | | | | | |
| - other operating income | - | - | (7) | 191 | (7) |
| RFS Holdings minority interest | (56) | 12 | 11 | (35) | 110 |

Selected condensed statutory financial statements

Consolidated statement of comprehensive income
for the period ended 30 September 2014

| | Quarter ended | | | Nine months ended | |
|---|---------------|---------|-----------|-------------------|-----------|
| | 30 | | 30 | 30 | 30 |
| | September | 30 June | September | September | September |
| | 2014 | 2014 | 2013 | 2014 | 2013 |
| | £m | £m | £m | £m | £m |
| Profit/(loss) for the period | 940 | 665 | (720) | 2,894 | 114 |
| Items that do not qualify for reclassification | | | | | |
| Tax | - | - | (163) | - | (163) |
| Items that qualify for reclassification | | | | | |
| Available-for-sale financial assets | 79 | 265 | 430 | 608 | (303) |
| Cash flow hedges | 207 | (47) | (88) | 455 | (1,624) |
| Currency translation | 616 | (598) | (1,211) | (117) | 99 |
| Tax | (31) | (72) | 85 | (191) | 811 |
| Other comprehensive income/(loss) after tax | 871 | (452) | (947) | 755 | (1,180) |
| Total comprehensive income/(loss) for the period | 1,811 | 213 | (1,667) | 3,649 | (1,066) |
| Total comprehensive income/(loss) is attributable to: | | | | | |
| Non-controlling interests | 12 | 6 | (13) | 42 | 121 |
| Preference shareholders | 91 | 75 | 98 | 231 | 250 |
| Paid-in equity holders | 6 | 17 | 4 | 33 | 34 |
| Dividend access share | - | 320 | - | 320 | - |
| Ordinary and B shareholders | 1,702 | (205) | (1,756) | 3,023 | (1,471) |
| | 1,811 | 213 | (1,667) | 3,649 | (1,066) |

The movement in available-for-sale financial assets during the quarter predominantly reflects realised losses arising on the disposal of securities in the liquidity portfolio. In the nine months ended 30 September 2014, the movement primarily arises on unrealised gains on Spanish and US bonds.

Cash flow hedging gains in both the quarter and nine months largely result from decreases in the Sterling and Euro swap rates.

Currency translation gains in the quarter are principally due to the weakening of Sterling against the US dollar. The losses in the nine months are driven by the strengthening of Sterling against the Euro, partly offset by the weakening against the US dollar.

Selected condensed statutory financial statements

Condensed consolidated balance sheet at 30 September 2014

| | 30 September 2014 £m | 30 June 2014 £m | 31 December 2013 £m |
|---|-------------------------------|-----------------------|------------------------------|
| Assets | | | |
| Cash and balances at central banks | 67,900 | 68,670 | 82,659 |
| Net loans and advances to banks | 29,090 | 28,904 | 27,555 |
| Reverse repurchase agreements and stock borrowing | 24,860 | 28,163 | 26,516 |
| Loans and advances to banks | 53,950 | 57,067 | 54,071 |
| Net loans and advances to customers | 392,969 | 385,554 | 390,825 |
| Reverse repurchase agreements and stock borrowing | 50,631 | 53,542 | 49,897 |
| Loans and advances to customers | 443,600 | 439,096 | 440,722 |
| Debt securities | 106,769 | 112,794 | 113,599 |
| Equity shares | 8,309 | 7,834 | 8,811 |
| Settlement balances | 20,941 | 19,682 | 5,591 |
| Derivatives | 314,021 | 274,906 | 288,039 |
| Intangible assets | 12,454 | 12,173 | 12,368 |
| Property, plant and equipment | 6,985 | 7,115 | 7,909 |
| Deferred tax | 2,843 | 3,107 | 3,478 |
| Prepayments, accrued income and other assets | 7,185 | 7,418 | 7,614 |
| Assets of disposal groups | 1,153 | 1,246 | 3,017 |
| Total assets | 1,046,110 | 1,011,108 | 1,027,878 |
| Liabilities | | | |
| Bank deposits | 38,986 | 39,179 | 35,329 |
| Repurchase agreements and stock lending | 30,799 | 31,722 | 28,650 |
| Deposits by banks | 69,785 | 70,901 | 63,979 |
| Customer deposits | 405,367 | 401,226 | 414,396 |
| Repurchase agreements and stock lending | 44,302 | 51,540 | 56,484 |
| Customer accounts | 449,669 | 452,766 | 470,880 |
| Debt securities in issue | 53,487 | 59,087 | 67,819 |
| Settlement balances | 21,049 | 15,128 | 5,313 |
| Short positions | 34,499 | 39,019 | 28,022 |
| Derivatives | 310,361 | 270,087 | 285,526 |
| Accruals, deferred income and other liabilities | 14,618 | 14,876 | 16,017 |
| Retirement benefit liabilities | 2,629 | 2,742 | 3,210 |
| Deferred tax | 491 | 605 | 507 |
| Subordinated liabilities | 24,412 | 24,809 | 24,012 |

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| | | | |
|---|-----------|-----------|-----------|
| Liabilities of disposal groups | 272 | 125 | 3,378 |
| Total liabilities | 981,272 | 950,145 | 968,663 |
| Equity | | | |
| Non-controlling interests | 2,747 | 618 | 473 |
| Owners' equity* - called up share capital | 6,832 | 6,811 | 6,714 |
| - reserves | 55,259 | 53,534 | 52,028 |
| Total equity | 64,838 | 60,963 | 59,215 |
| Total liabilities and equity | 1,046,110 | 1,011,108 | 1,027,878 |
| * Owners' equity attributable to: | | | |
| Ordinary and B shareholders | 56,799 | 55,053 | 53,450 |
| Other equity owners | 5,292 | 5,292 | 5,292 |
| | 62,091 | 60,345 | 58,742 |
| Contingent liabilities and commitments | 238,248 | 239,121 | 242,009 |

Selected condensed statutory financial statements

Condensed consolidated statement of changes in equity
for the period ended 30 September 2014

| | Quarter ended | | Nine months ended | | |
|--------------------------------|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Called-up share capital | | | | | |
| At beginning of period | 6,811 | 6,752 | 6,632 | 6,714 | 6,582 |
| Ordinary shares issued | 21 | 59 | 65 | 118 | 115 |
| At end of period | 6,832 | 6,811 | 6,697 | 6,832 | 6,697 |
| Paid-in equity | | | | | |
| At beginning and end of period | 979 | 979 | 979 | 979 | 979 |
| Share premium account | | | | | |
| At beginning of period | 24,885 | 24,760 | 24,483 | 24,667 | 24,361 |
| Ordinary shares issued | 49 | 125 | 145 | 267 | 267 |
| At end of period | 24,934 | 24,885 | 24,628 | 24,934 | 24,628 |
| Merger reserve | | | | | |
| At beginning and end of period | 13,222 | 13,222 | 13,222 | 13,222 | 13,222 |

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| | | | | | |
|--|-------|-------|---------|---------|---------|
| Available-for-sale reserve | | | | | |
| At beginning of period | 138 | (62) | (714) | (308) | (346) |
| Unrealised (losses)/gains | (37) | 411 | 592 | 807 | 606 |
| Realised losses/(gains) | 52 | (148) | (164) | (314) | (769) |
| Tax | 28 | (63) | 34 | (40) | 367 |
| Transfer to retained earnings | (9) | - | - | (9) | - |
| Recycled to profit or loss on disposal of businesses (1) | - | - | - | 36 | (110) |
| At end of period | 172 | 138 | (252) | 172 | (252) |
| Cash flow hedging reserve | | | | | |
| At beginning of period | 94 | 141 | 491 | (84) | 1,666 |
| Amount recognised in equity | 575 | 315 | 163 | 1,543 | (696) |
| Amount transferred from equity to earnings | (368) | (362) | (251) | (1,088) | (928) |
| Tax | (44) | - | 44 | (114) | 405 |
| Transfer to retained earnings | 34 | - | - | 34 | - |
| At end of period | 291 | 94 | 447 | 291 | 447 |
| Foreign exchange reserve | | | | | |
| At beginning of period | 2,963 | 3,551 | 5,201 | 3,691 | 3,908 |
| Retranslation of net assets | 776 | (702) | (1,338) | (96) | 92 |
| Foreign currency gains on hedges of net assets | (161) | 123 | 148 | (6) | 17 |
| Tax | (15) | (9) | 7 | (26) | 4 |
| Transfer to retained earnings | (390) | - | - | (390) | - |
| Recycled to profit or loss on disposal of businesses | - | - | - | - | (3) |
| At end of period | 3,173 | 2,963 | 4,018 | 3,173 | 4,018 |
| Capital redemption reserve | | | | | |
| At beginning and end of period | 9,131 | 9,131 | 9,131 | 9,131 | 9,131 |
| Contingent capital reserve | | | | | |
| At beginning and end of period | - | - | (1,208) | - | (1,208) |

For the notes to this table refer the following page.

Selected condensed statutory financial statements

Condensed consolidated statement of changes in equity
for the period ended 30 September 2014

| | Quarter ended | | Nine months ended | |
|--|---------------|---------|-------------------|-----------|
| | 30 | 30 | 30 | 30 |
| | September | 30 June | September | September |

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| | 2014 | 2014 | 2013 | 2014 | 2013 |
|---|--------|--------|--------|--------|--------|
| | £m | £m | £m | £m | £m |
| Retained earnings | | | | | |
| At beginning of period | 2,258 | 1,986 | 11,105 | 867 | 10,596 |
| Profit/(loss) attributable to ordinary and B shareholders and other equity owners | | | | | |
| - continuing operations | 999 | 627 | (723) | 2,894 | (116) |
| - discontinued operations | (6) | 15 | (3) | 11 | 107 |
| Equity preference dividends paid | (91) | (75) | (98) | (231) | (250) |
| Dividend access share dividend | - | (320) | - | (320) | - |
| Paid-in equity dividends paid, net of tax | (6) | (17) | (4) | (33) | (34) |
| Transfer from available-for-sale reserve | 9 | - | - | 9 | - |
| Transfer from cash flow hedging reserve | (34) | - | - | (34) | - |
| Transfer from foreign exchange reserve | 390 | - | - | 390 | - |
| Costs relating to CFG IPO | (45) | - | - | (45) | - |
| Actuarial losses recognised in retirement benefit schemes | | | | | |
| - tax | - | - | (163) | - | (163) |
| Loss on disposal of own shares held | - | - | - | - | (18) |
| Shares released for employee benefits | - | (5) | - | (41) | (1) |
| Share-based payments | | | | | |
| - gross | 18 | 47 | 26 | 26 | 22 |
| - tax | 1 | - | 4 | - | 1 |
| At end of period | 3,493 | 2,258 | 10,144 | 3,493 | 10,144 |
| Own shares held | | | | | |
| At beginning of period | (136) | (136) | (139) | (137) | (213) |
| Disposal of own shares | - | - | 1 | 1 | 74 |
| Shares released for employee benefits | - | - | - | - | 1 |
| At end of period | (136) | (136) | (138) | (136) | (138) |
| Owners' equity at end of period | 62,091 | 60,345 | 67,668 | 62,091 | 67,668 |
| Non-controlling interests | | | | | |
| At beginning of period | 618 | 612 | 475 | 473 | 1,770 |
| Currency translation adjustments and other movements | 1 | (19) | (21) | (15) | (7) |
| (Loss)/profit attributable to non-controlling interests | | | | | |
| - continuing operations | (62) | 12 | 8 | (38) | 97 |
| - discontinued operations | 9 | 11 | (2) | 27 | 26 |

| | | | | | |
|---|--------|--------|--------|--------|---------|
| Movements in available-for-sale securities | | | | | |
| - unrealised (losses)/gains | (4) | (1) | 2 | (6) | 11 |
| - realised losses | 68 | 3 | - | 74 | - |
| - tax | - | - | - | - | (1) |
| - recycled to profit or loss on disposal of discontinued operations (2) | - | - | - | - | (5) |
| Equity raised (3) | 2,117 | - | - | 2,232 | - |
| Equity withdrawn and disposals | - | - | - | - | (1,429) |
| At end of period | 2,747 | 618 | 462 | 2,747 | 462 |
| Total equity at end of period | 64,838 | 60,963 | 68,130 | 64,838 | 68,130 |

Notes:

- (1) Net of tax - £11 million in the nine months ended 30 September 2014 (nine months ended 30 September 2013 - £35 million).
- (2) Net of tax - £1 million in the nine months ended 30 September 2013.
- (3) Includes £2,117 million relating to the initial public offering of Citizens Financial Group.

Notes

1. Basis of preparation

The condensed consolidated financial statements should be read in conjunction with RBS's 2013 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

Accounting policies

There have been no significant changes to RBS's principal accounting policies as set out on pages 377 to 386 of the 2013 Annual Report and Accounts. The adoption of a number of amendments to IFRSs effective for 2014 has not had a material effect on RBS's results.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of RBS's financial condition are those relating to pensions, goodwill, provisions for liabilities, deferred tax, loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgments are described on pages 386 to 389 of RBS's 2013 Annual Report and Accounts.

Going concern

Having reviewed RBS's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that RBS will continue in operational existence for the foreseeable future. Accordingly, the Interim Management Statement for the period ended 30 September 2014 has been prepared on a going concern basis.

Restatements

On 27 February 2014, RBS announced the reorganisation of the previously reported operating divisions into

three franchises. In addition, in order to present a more complete picture of funding, operational and business costs of the franchises and operating segments, certain reporting changes were implemented.

For further information on these changes refer to the Q2 2014 Restatement Document dated 21 July 2014, available on www.investors.rbs.com/restatement

Notes

2. Income

| | Quarter ended | | | Nine months ended | |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2014 £m | 30 June 2014 £m | 30 September 2013 £m | 30 September 2014 £m | 30 September 2013 £m |
| Loans and advances to customers | 3,571 | 3,543 | 3,829 | 10,632 | 11,469 |
| Loans and advances to banks | 94 | 89 | 106 | 272 | 328 |
| Debt securities | 174 | 189 | 272 | 556 | 970 |
| Interest receivable | 3,839 | 3,821 | 4,207 | 11,460 | 12,767 |
| Customer accounts | 467 | 471 | 692 | 1,454 | 2,269 |
| Deposits by banks | 24 | 41 | 95 | 119 | 318 |
| Debt securities in issue | 237 | 270 | 315 | 794 | 1,013 |
| Subordinated liabilities | 226 | 220 | 223 | 658 | 670 |
| Internal funding of trading businesses | 22 | 21 | 102 | 79 | 280 |
| Interest payable | 976 | 1,023 | 1,427 | 3,104 | 4,550 |
| Net interest income | 2,863 | 2,798 | 2,780 | 8,356 | 8,217 |
| Fees and commissions receivable | | | | | |
| - payment services | 316 | 325 | 375 | 963 | 1,064 |
| - credit and debit card fees | 237 | 245 | 284 | 737 | 813 |
| - lending (credit facilities) | 345 | 371 | 335 | 1,048 | 1,033 |
| - brokerage | 97 | 102 | 117 | 304 | 369 |
| - investment management | 100 | 100 | 109 | 306 | 319 |
| - trade finance | 87 | 71 | 73 | 225 | 226 |
| - other | 114 | 100 | 89 | 318 | 266 |
| Fees and commissions receivable | 1,296 | 1,314 | 1,382 | 3,901 | 4,090 |
| Fees and commissions payable | (202) | (251) | (238) | (689) | (698) |
| Net fees and commissions | 1,094 | 1,063 | 1,144 | 3,212 | 3,392 |
| Foreign exchange | 171 | 202 | 198 | 591 | 648 |
| Interest rate | 17 | 424 | 248 | 689 | 650 |
| Credit | 136 | 41 | 116 | 533 | 996 |

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| | | | | | |
|---|-------|-------|-------|--------|--------|
| Own credit adjustments | 33 | (84) | (155) | 44 | 20 |
| Other | (89) | (42) | 37 | (96) | 194 |
| Income from trading activities (1) | 268 | 541 | 444 | 1,761 | 2,508 |
| Gain on redemption of own debt | - | - | 13 | 20 | 204 |
| Operating lease and other rental income | 98 | 87 | 125 | 276 | 381 |
| Own credit adjustments | 16 | (106) | (341) | (46) | (140) |
| Changes in the fair value of FVTPL financial assets and liabilities and related derivatives | 41 | 9 | 36 | 70 | 65 |
| Changes in the fair value of investment properties | 6 | (31) | (7) | (37) | (23) |
| (Loss)/profit on sale of: | | | | | |
| - securities | (114) | 132 | 167 | 229 | 739 |
| - property, plant and equipment | 23 | 16 | 10 | 63 | 33 |
| - subsidiaries, networks and associates | 1 | 171 | (21) | 364 | (3) |
| Dividend income | 6 | 17 | 6 | 36 | 41 |
| Share of results of associates | 31 | 28 | 73 | 86 | 277 |
| Other income | 19 | 22 | (13) | 122 | (3) |
| Other operating income | 127 | 345 | 35 | 1,163 | 1,367 |
| Total non-interest income | 1,489 | 1,949 | 1,636 | 6,156 | 7,471 |
| Total income | 4,352 | 4,747 | 4,416 | 14,512 | 15,688 |

Note:

- (1) The analysis of income from trading activities is based on how the business is organised and the underlying risks managed. Income from trading activities comprises gains and losses on financial instruments held for trading, both realised and unrealised, interest income, dividends and the related hedging and funding costs in the trading book.

Notes

3. Earnings per ordinary and equivalent B share

Following agreement between RBS and Her Majesty's Treasury for the retirement of the Dividend Access Share (DAS), earnings per share for periods ended after 25 June 2014 only reflect DAS dividends recognised before the end of a reporting period: £320 million was recognised in the quarter ended 30 June 2014. For periods ending on or before 31 March 2014 earnings are allocated solely to the DAS and earnings per ordinary and equivalent B share for such periods are therefore nil. The DAS does not share in losses. For periods prior to 25 June 2014, adjusted earnings per ordinary and equivalent B share excludes the rights of the dividend access share.

4. Provisions for liabilities and charges

Other

Other

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| | PPI £m | IRHP £m | customer redress £m | LIBOR £m | regulatory provisions £m | Litigation £m | Property £m | Other £m | Total £m |
|--|-----------|------------|---------------------------|-------------|--------------------------------|------------------|----------------|-------------|-------------|
| At 1 January 2014 | 926 | 1,077 | 337 | 416 | 150 | 2,018 | 379 | 186 | 5,489 |
| Currency translation and other movements | - | - | - | (2) | (2) | (61) | (2) | - | (67) |
| Charge to income statement | | | | | | | | | |
| - continuing operations | 150 | 100 | 51 | - | - | 68 | 151 | 174 | 694 |
| Releases to income statement | | | | | | | | | |
| - continuing operations | - | - | (8) | - | - | (35) | (15) | - | (58) |
| Provisions utilised | (490) | (417) | (79) | (414) | (5) | (80) | (129) | (71) | (1,685) |
| At 30 June 2014 | 586 | 760 | 301 | - | 143 | 1,910 | 384 | 289 | 4,373 |
| Currency translation and other movements | - | - | - | - | - | 102 | (1) | - | 101 |
| Charge to income statement | | | | | | | | | |
| - continuing operations | 100 | - | 19 | - | 500 | 135 | 28 | 95 | 877 |
| Releases to income statement | | | | | | | | | |
| - continuing operations | - | - | (4) | - | - | (4) | - | - | (8) |
| Provisions utilised | (143) | (207) | (50) | - | (4) | (335) | (14) | (31) | (784) |
| At 30 September 2014 | 543 | 553 | 266 | - | 639 | 1,808 | 397 | 353 | 4,559 |

5. Litigation, investigations and reviews

Except for the developments noted below, there have been no material changes to litigation, investigations and reviews as disclosed in the Interim Results for the six months ended 30 June 2014. Other regulatory provisions increased by £500 million (see Note 4) during the three month period ended 30 September 2014, £400 million of which was in connection with the investigations and reviews around foreign exchange trading. Although RBS has established a provision with respect to these investigations, the effect of the outcome of these investigations, any regulatory findings and any related developments, including the timing and amount of fines or settlements, could result in the future outflow of resources in respect of these investigations ultimately proving to be substantially greater than or less than the aggregate provision RBS has recognised.

Litigation

ISDAFIX antitrust litigation

In September and October 2014, The Royal Bank of Scotland plc (RBS plc) and a number of other financial institutions were named as defendants in three purported class action complaints alleging manipulation of USD ISDAFIX rates, to the detriment of persons who entered into transactions that referenced those rates. The complaints were filed in the United States District Court for the Southern District of New York and contain claims for unjust enrichment and violations of the U.S. antitrust laws and the Commodities Exchange Act.

Notes

5. Litigation, investigations and reviews (continued)

Complex Systems

As previously disclosed, The Royal Bank of Scotland N.V. (RBS N.V.) was a defendant in an action heard in the United States District Court for the Southern District of New York filed by Complex Systems, Inc (CSI). The plaintiff alleged that RBS N.V. had since late 2007 been using the plaintiff's back-office trade finance processing software without a valid licence, in violation of the US Copyright Act. RBS N.V. and CSI have now reached a settlement of the action, and RBS N.V. has paid the agreed settlement sum to CSI. This brings an end to the proceedings and provides RBS companies with an on-going, perpetual licence to use the software at issue.

Investigations and reviews

LIBOR and other trading rates

On 21 October 2014, the European Commission (EC) announced its findings that RBS and one other financial institution had participated in a bilateral cartel aimed at influencing the Swiss franc Libor benchmark interest rate between March 2008 and July 2009. RBS agreed to settle the case with the EC and received full immunity from fines for revealing the existence of the cartel to the EC and co-operating closely with the EC's ongoing investigation. Also on 21 October 2014, the EC announced its findings that RBS and three other financial institutions had participated in a related cartel on bid-ask spreads of Swiss franc interest rate derivatives in the European Economic Area (EEA). Again, RBS received full immunity from fines for revealing the existence of the cartel to the EC and co-operating closely with the EC's ongoing investigation.

Foreign exchange trading

Various governmental and regulatory authorities in different countries have been conducting investigations into foreign exchange trading and sales activities apparently involving multiple financial institutions. RBS is under investigation by, has received enquiries from and/or is in discussion with certain of these authorities including, among others, the FCA and Serious Fraud Office in the UK, and the Department of Justice and certain other financial regulatory authorities in the United States. RBS is reviewing communications and procedures relating to certain currency exchange benchmark rates as well as foreign exchange trading and sales activity.

Technology incident in June 2012

As previously disclosed, on 19 June 2012, RBS was affected by a technology incident, as a result of which the processing of certain customer accounts and payments were subject to considerable delay. RBS agreed to reimburse customers for any loss suffered as a result of the incident and RBS made a provision of £175 million in 2012.

On 9 April 2013, the UK Financial Conduct Authority (FCA) announced that it had commenced an enforcement investigation into the incident. This was a joint investigation conducted by the FCA together with the UK Prudential Regulation Authority (PRA) and enforcement proceedings have since commenced. Separately the Central Bank of Ireland (CBI) initiated an investigation and has issued enforcement proceedings against Ulster Bank Ireland Limited, an RBS company. Ulster Bank Ireland Limited anticipates entering into settlement discussions with the CBI before the end of the year.

Notes

5. Litigation, investigations and reviews (continued)

Multilateral interchange fees

As previously disclosed, in 2007, the EC issued a decision that, while interchange is not illegal per se, MasterCard's multilateral interchange fee (MIF) arrangements for cross border payment card transactions with MasterCard and Maestro branded consumer credit and debit cards in the EEA were in breach of competition law. MasterCard appealed against the decision to the General Court, which upheld the EC's original decision. MasterCard appealed further to the Court of Justice and RBS intervened in those appeal proceedings. On 11 September 2014, the Court rejected MasterCard's appeal and confirmed the EC's original decision. MasterCard had negotiated interim cross border MIF levels to apply for the duration of the General Court and Court of Justice proceedings and further negotiation is expected in light of the Court's decision.

Investigation into advised mortgage sales

On 27 August 2014 the FCA announced that it had fined RBS £14.47 million in relation to an investigation into advised mortgage sales made by RBS plc and NatWest in the period June 2011 to March 2013 inclusive.

6. Risk factors

A summary of the principal risks which could adversely affect RBS are included on pages 135 to 137 of the Interim Results 2014.

7. Recent developments

CFG

On 8 October 2014, in a US\$334 million capital exchange transaction, CFG repurchased 14.3 million common shares from RBSG International Holdings Limited and issued US\$334 million of subordinated debt to The Royal Bank of Scotland Group plc. As a result, RBS's holding in CFG declined from 71.25% as at 30 September 2014 to 70.5% of shares outstanding.

On 24 October 2014, CFG declared a quarterly common stock dividend of US\$0.10 per share. This dividend will be paid on 20 November 2014 and will amount to US\$55 million in aggregate.

2014 EBA EU-wide stress test

On 26 October, 2014, the European Banking authority (EBA) announced the results of the 2014 EBA EU-wide stress test. RBSG plc and its subsidiaries Ulster Bank Ireland Limited and RBS N.V. all reported capital ratios above the respective post-stress minimum requirements.

8. Post balance sheet events

There have been no significant events between 30 September 2014 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 31 October 2014

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary