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

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

9 November 2016

Form 6-K

The Royal Bank of Scotland Group plc

Gogarburn

PO Box 1000

Edinburgh EH12 1HQ

Scotland

United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F __

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

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):__

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

Yes __ No X

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

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

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(File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

The Royal Bank of Scotland Group plc

Q3 2016 Results

Contents

Forward-looking statements

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

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

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

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

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

Introduction

Presentation of information

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

Statutory results

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

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

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

Non GAAP financial measures

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

These measures include:

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

Introduction

Other operating Indicators

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

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

Recent developments

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

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

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

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

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

Martinez v. Deutsche Bank AG and others

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

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

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

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

* Restated - refer to page 38 for further details

Note:

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

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

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

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

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

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

Highlights

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

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

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

Q3 2016 RBS performance summary

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

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

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

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

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

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

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

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

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

Refer to page 9 for footnotes.