

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
October 26, 2018

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 26, 2018  
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  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

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 Company announcements in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Q3 2018

Interim Management Statement

The Royal Bank of Scotland Group plc

Q3 2018 Interim Management Statement

RBS reported an operating profit before tax of £961 million for Q3 2018, compared with £871 million in Q3 2017, and £2,787 million for the year to date.

Q3 2018 attributable profit of £448 million and £1,336 million for the year to date.

Income stable in a competitive market:

Income increased by £268 million, or 2.7%, for the year to date compared with 2017. Excluding NatWest Markets and Central items and notable items in UK PBB and Commercial Banking, income was broadly stable.

Q3 2018 income increased by £485 million, or 15.4%, compared with Q3 2017 principally reflecting indemnity insurance recoveries of £272 million and lower disposal losses.

Q3 2018 net interest margin of 1.93% decreased by 8 basis points compared with Q2 2018. Excluding one-off items, net interest margin was down 5 basis points, of which 3 basis points related to competitive pressure and 2 basis points due to higher average liquidity balances.

Lower costs through continued transformation and increased digitisation:

Compared with 2017, other expenses for the year to date decreased by £183 million, or 3.3%, excluding VAT releases in 2017, and FTEs reduced by 6.8%.

We continue to transition from physical to digital services. 6.2 million customers now regularly use our mobile app, 14% higher than Q4 2017. In UK PBB, total digital sales increased by 22% for the year to date, representing 43% of all sales.

Strong capital position:

CET1 ratio of 16.7% increased by 60 basis points in the quarter reflecting further RWA reductions and the attributable profit for Q3 2018.

RWAs decreased by £4.3 billion in the quarter primarily reflecting reductions in NatWest Markets and the impact of capital initiatives in Commercial Banking.

We have taken an additional £100 million impairment charge reflecting the more uncertain economic outlook and a further net £60 million impairment charge in our Irish business in relation to ongoing sales from our loan book to further reduce the level of non performing loans. Underlying credit conditions remained benign during the quarter.

Following final settlement with the US Department of Justice, RBS declared a 2p interim dividend on 14 August 2018.

Outlook and recent developments (1)

We retain the outlook guidance we provided in the 2017 Annual Results document.

Further to previously announced plans to be operationally ready to serve our European Economic Area (EEA) customers when the UK leaves the European Union on 29 March 2019, we have received approval from the Dutch regulator (DNB) for the repurposing of the existing NatWest Markets N.V. (formerly RBS N.V.) banking licence.

## Note:

The targets, expectations and trends (including but not limited to impairment provisions) in this document represent management's current expectations and are subject to change, including as a result of the "Risk Factors" on (1) pages 372 to 402 of the 2017 Annual Report and Accounts and the Summary Risk Factors on pages 48 and 49 of the 2018 Interim Results. These statements constitute forward-looking statements; refer to Forward-looking statements in this document.

## Business performance summary

| Performance key metrics and ratios   | Nine months ended |                   | Quarter ended     |              |                   |
|--|-------------------|-------------------|-------------------|--------------|-------------------|
|  | 30 September 2018 | 30 September 2017 | 30 September 2018 | 30 June 2018 | 30 September 2017 |
| Operating profit before tax  | £2,787m           | £2,822m           | £961m             | £613m        | £871m             |
| Profit attributable to ordinary shareholders                               | £1,336m           | £1,331m           | £448m             | £96m         | £392m             |
| Net interest margin  | 1.99%             | 2.16%             | 1.93%             | 2.01%        | 2.12%             |
| Average interest earning assets  | £435,218m         | £419,450m         | £443,092m         | £434,928m    | £430,962m         |
| Cost:income ratio (1)  | 69.1%             | 69.1%             | 66.7%             | 80.0%        | 67.5%             |
| Earnings per share   |                   |                   |                   |              |                   |
| - basic  | 11.1p             | 11.2p             | 3.7p              | 0.8p         | 3.3p              |
| - basic fully diluted  | 11.1p             | 11.2p             | 3.7p              | 0.8p         | 3.3p              |
| Return on tangible equity  | 5.3%              | 5.2%              | 5.4%              | 1.1%         | 4.5%              |
| Average tangible equity  | £33,699m          | £33,964m          | £33,492m          | £33,522m     | £34,465m          |
| Average number of ordinary shares outstanding during the period (millions) |                   |                   |                   |              |                   |
| - basic  | 11,998            | 11,840            | 12,034            | 12,003       | 11,886            |
| - fully diluted (2)  | 12,053            | 11,913            | 12,083            | 12,062       | 11,943            |
|  |                   |                   | 30 September 2018 | 30 June 2018 | 31 December 2017  |
| Balance sheet related key metrics and ratios                               |                   |                   |                   |              |                   |
| Total assets   |                   |                   | £719.9bn          | £748.3bn     | £738.1bn          |
| Funded assets  |                   |                   | £587.3bn          | £597.2bn     | £577.2bn          |
| Loans and advances to customers (excludes reverse repos)                   |                   |                   | £319.6bn          | £320.0bn     | £323.2bn          |
| Impairment provisions (3)  |                   |                   | £3.9bn            | £3.9bn       | £3.8bn            |
| Customer deposits (excludes repos)   |                   |                   | £366.0bn          | £366.3bn     | £367.0bn          |
| Liquidity coverage ratio (LCR)   |                   |                   | 158%              | 167%         | 152%              |
| Liquidity portfolio  |                   |                   | £195bn            | £198bn       | £186bn            |
| Net stable funding ratio (NSFR) (4)  |                   |                   | 139%              | 140%         | 132%              |
| Loan:deposit ratio   |                   |                   | 87%               | 87%          | 88%               |
| Total wholesale funding  |                   |                   | £78bn             | £75bn        | £70bn             |
| Short-term wholesale funding   |                   |                   | £14bn             | £13bn        | £18bn             |
| Common Equity Tier (CET1) ratio  |                   |                   | 16.7%             | 16.1%        | 15.9%             |
| Total capital ratio  |                   |                   | 22.1%             | 21.5%        | 21.3%             |
| Pro forma CET 1 ratio, pre 2018 dividend accrual (5)                       |                   |                   | 16.8%             | 16.2%        | 15.9%             |
| Risk-weighted assets (RWAs)  |                   |                   | £194.5bn          | £198.8bn     | £200.9bn          |
| CRR leverage ratio   |                   |                   | 5.4%              | 5.2%         | 5.3%              |
| UK leverage ratio  |                   |                   | 6.3%              | 6.0%         | 6.1%              |

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|   |          |          |          |
|---|----------|----------|----------|
| Tangible net asset value (TNAV) per ordinary share                  | 288p     | 287p     | 294p     |
| Tangible net asset value (TNAV) per ordinary share - fully diluted  | 287p     | 286p     | 292p     |
| Tangible equity   | £34,672m | £34,564m | £35,164m |
| Number of ordinary shares in issue (millions)                       | 12,048   | 12,028   | 11,965   |
| Number of ordinary shares in issue (millions) - fully diluted (2,6) | 12,091   | 12,095   | 12,031   |

Notes:

Operating lease depreciation included in income for the nine months ended 30 September 2018 - £89 million; Q3 (1) 2018 - £32 million (nine months ended 30 September 2017 - £107 million; Q2 2018 - £26 million; Q3 2017 - £35 million).

Includes the effect of dilutive share options and convertible securities. Dilutive shares on an average basis for Q3 (2) 2018 were 49 million shares and for the nine months ended 30 September 2018 were 55 million shares; (Q2 2018 - £59 million, Q3 2017 - £57 million; nine months ended 30 September 2017 - £73 million and as at 30 September 2018 were 43 million shares (30 June 2018 - 67 million shares; 31 December 2017 - 66 million shares).

30 September 2018 and 30 June 2018 prepared under IFRS 9, 31 December 2017 prepared under IAS 39. Refer to (3) Note 2 for further details.

In November 2016, the European Commission published its proposal for NSFR rules within the EU as part of its CRR2 package of regulatory reforms. CRR2 NSFR is expected to become the regulatory requirement in future (4) within the EU and the UK. RBS has changed its policy on the NSFR to align with its interpretation of the CRR2 proposals with effect from 1 January 2018. The pro forma CRR2 NSFR at 31 December 2017 under CRR2 proposals is estimated to be 139%.

The pro forma CET 1 ratio at 30 September 2018 excludes a charge of £120 million (1p per share) that is a (5) reasonably foreseeable final dividend, related to Q3 2018 profits. The 30 June 2018 ratio excluded a charge of £240 million (2p per share) that was a reasonably foreseeable interim dividend related to H1 2018 profits.

(6) Includes 9 million treasury shares (30 June 2018 - 9 million shares; 31 December 2017 - 16 million shares).

Business performance summary

Summary consolidated income statement for the period ended 30 September 2018

|                                | Nine months ended |                   | Quarter ended     |              |                   |
|--------------------------------|-------------------|-------------------|-------------------|--------------|-------------------|
|                                | 30 September 2018 | 30 September 2017 | 30 September 2018 | 30 June 2018 | 30 September 2017 |
|                                | £m                | £m                | £m                | £m           | £m                |
| Net interest income            | 6,480             | 6,776             | 2,154             | 2,180        | 2,304             |
| Own credit adjustments         | 59                | (78)              | 20                | 18           | (5)               |
| Loss on redemption of own debt | -                 | (7)               | -                 | -            | -                 |
| Strategic disposals            | -                 | 156               | -                 | -            | -                 |
| Other non-interest income      | 3,805             | 3,229             | 1,468             | 1,202        | 858               |
| Non-interest income            | 3,864             | 3,300             | 1,488             | 1,220        | 853               |
| Total income                   | 10,344            | 10,076            | 3,642             | 3,400        | 3,157             |
| Litigation and conduct costs   | (1,190)           | (521)             | (389)             | (782)        | (125)             |
| Strategic costs                | (649)             | (1,034)           | (299)             | (141)        | (244)             |
| Other expenses                 | (5,337)           | (5,440)           | (1,753)           | (1,801)      | (1,774)           |
| Operating expenses             | (7,176)           | (6,995)           | (2,441)           | (2,724)      | (2,143)           |

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|   |         |         |       |       |         |       |
|---|---------|---------|-------|-------|---------|-------|
| Profit before impairment losses                         | 3,168   | 3,081   | 1,201 | 676   | 1,014   |       |
| Impairment losses(1)                                    | (381)   | (259)   | (240) | (63)  | (143)   |       |
| Operating profit before tax                             | 2,787   | 2,822   | 961   | 613   | 871     |       |
| Tax charge  | (1,139) | (992)   | (398) | (412) | (265)   |       |
| Profit for the period                                   | 1,648   | 1,830   | 563   | 201   | 606     |       |
| Attributable to:  |         |         |       |       |         |       |
| Non-controlling interests                               | 6       | 21      | 22    | (23)  | (8)     |       |
| Other owners  | 306     | 478     | 93    | 128   | 222     |       |
| Ordinary shareholders                                   | 1,336   | 1,331   | 448   | 96    | 392     |       |
| Notable items within total income                       |         |         |       |       |         |       |
| IFRS volatility in Central items (2)                    |         | (34)    | 175   | 77    | 17      | 21    |
| Insurance indemnity                                     |         | 272     | -     | 272   | -       | -     |
| of which:   |         |         |       |       |         |       |
| NatWest Markets   |         | 165     | -     | 165   | -       | -     |
| Central items & other                                   |         | 107     | -     | 107   | -       | -     |
| UK PBB debt sale gain                                   |         | 26      | 176   | -     | -       | 168   |
| FX gains/losses in Central items & other                |         | (7)     | (175) | (11)  | 19      | (67)  |
| Commercial Banking fair value and disposal gain/(loss)  |         | 179     | 52    | (13)  | 115     | 52    |
| NatWest Markets legacy business disposal (losses)/gains |         | (43)    | (549) | 14    | (41)    | (446) |
| Notable items within expenses                           |         |         |       |       |         |       |
| Litigation and conduct costs                            |         | (1,190) | (521) | (389) | (782)   | (125) |
| of which: US RMBS                                       |         | (823)   | (222) | (21)  | (803)   | -     |
| of which: DoJ   |         | (1,040) | -     | -     | (1,040) | -     |
| Nomura  |         | 241     | -     | -     | 241     | -     |
| of which: PPI   |         | (200)   | -     | (200) | -       | -     |
| of which: Ulster Bank RoI                               |         | (54)    | (34)  | (37)  | (8)     | (1)   |
| VAT recovery in Central items & other                   |         | -       | 80    | -     | -       | 29    |

Notes:

30 September 2018 and 30 June 2018 prepared under IFRS 9, 31 December 2017 and 30 September 2017

- (1) prepared under IAS 39. Refer to Note 2 for further information on the impact of IFRS 9 on classification and basis of preparation.
- (2) IFRS volatility relates to loans which are economically hedged but for which hedge accounting is not permitted under IFRS.

Business performance summary

Personal & Business Banking – UK Personal & Business Banking

|              | Quarter ended     |              |                   |                                   | As at             |              |                  |
|--------------|-------------------|--------------|-------------------|-----------------------------------|-------------------|--------------|------------------|
|              | 30 September 2018 | 30 June 2018 | 30 September 2017 |                                   | 30 September 2018 | 30 June 2018 | 31 December 2017 |
|              | £m                | £m           | £m                | £bn                               | £bn               | £bn          |                  |
| Total income | 1,564             | 1,570        | 1,757             | Net loans & advances to customers | 163.2             | 161.9        | 161.7            |
|              | (959)             | (746)        | (819)             |                                   |                   |              |                  |

## Operating expenses

|                     |       |       |       |                   |       |       |       |
|---------------------|-------|-------|-------|-------------------|-------|-------|-------|
| Impairment losses   | (70)  | (90)  | (78)  | Customer deposits | 183.4 | 182.2 | 180.6 |
| Operating profit    | 535   | 734   | 860   | RWAs              | 45.4  | 43.4  | 43.0  |
| Return on equity    | 20.9% | 30.0% | 34.2% |                   |       |       |       |
| Net interest margin | 2.76% | 2.81% | 2.83% |                   |       |       |       |

## Q3 2018 performance

UK PBB now has 6.2 million regular mobile app users, 19% higher than Q3 2017 and 14% higher than Q4 2017, supporting 71% digital penetration of active current account customers. Total digital sales increased by 22% in the year to date compared with the prior period, representing 43% of all sales, compared with 36% in the prior period. In personal banking, 56% of personal loans and 60% of mortgage switching was done digitally in the year to date. In business banking, 89% of current accounts and 66% of loans less than £50,000 were originated digitally in the year to date.

Total income was £193 million, or 11.0%, lower than Q3 2017 reflecting a £168 million debt sale gain in Q3 2017 and £11 million transfer of the Collective Investment business to Private Banking. Excluding these items, income was £14 million, or 0.9%, lower than Q3 2017, including an £8 million reduction in overdraft fees. Net interest margin decreased by 5 basis points to 2.76% compared with Q2 2018 driven by ongoing mortgage margin compression partly offset by improving deposit margins as interest rates rise.

Operating expenses were £140 million, or 17.1%, higher than Q3 2017 driven by increased litigation and conduct costs of £206 million, of which £200 million related to Payment Protection Insurance. Excluding litigation and conduct costs, operating expenses were £66 million, or 8.1%, lower driven by reduced headcount reflecting continued operating efficiencies.

Net loans and advances increased by 0.8% compared with Q2 2018. Gross new mortgage lending in Q3 2018 was £8.2 billion. Mortgage new business market share was approximately 12% in Q3 2018, supporting stock share of 10%, with mortgage approval share of approximately 13%.

RWAs increased by £2.0 billion compared with Q2 2018 primarily reflecting model updates, particularly mortgages.

## Personal &amp; Business Banking – Ulster Bank RoI

|                              | Quarter ended |         |              |                      | As at        |         |             |
|------------------------------|---------------|---------|--------------|----------------------|--------------|---------|-------------|
|                              | 30 September  | 30 June | 30 September |                      | 30 September | 30 June | 31 December |
|                              | 2018          | 2018    | 2017         | 2018                 | 2018         | 2017    |             |
|                              | €m            | €m      | €m           | €bn                  | €bn          | €bn     |             |
| Total income                 | 169           | 190     | 166          | Net loans & advances |              |         |             |
| Operating expenses           | (188)         | (140)   | (141)        | to customers         | 21.6         | 21.6    | 22.0        |
| Impairment (losses)/releases | (68)          | 39      | 11           | Customer deposits    | 20.4         | 19.9    | 19.8        |
| Operating (loss)/profit      | (87)          | 89      | 36           | RWAs                 | 18.6         | 19.0    | 20.2        |
| Return on equity             | (12.7%)       | 12.5%   | 4.6%         |                      |              |         |             |
| Net interest margin          | 1.72%         | 1.91%   | 1.58%        |                      |              |         |             |

## Q3 2018 performance

Total income increased by €3 million, or 1.8%, compared with Q3 2017 reflecting an increase in lending income and lower cost of deposits, with a 14 basis point increase in net interest margin, largely offset by a reduction in income from free funds. Compared with Q2 2018, net interest margin decreased by 19 basis points primarily reflecting a €13 million one-off funding benefit in the prior quarter.

Operating expenses increased by €47 million, or 33.3%, compared with Q3 2017 principally due to higher litigation and conduct costs, largely relating to customer remediation and project costs associated with legacy business issues.

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A net impairment loss of €68 million includes a provision for a further non performing loan sale that we expect would result in a material reduction in our non performing exposure ratio.

RWAs reduced by €0.4 billion compared with Q2 2018 principally reflecting an improvement in credit metrics.

Business performance summary

Commercial & Private Banking – Commercial Banking

|                              | Quarter ended |         |              |                                   | As at        |         |             |
|------------------------------|---------------|---------|--------------|-----------------------------------|--------------|---------|-------------|
|                              | 30 September  | 30 June | 30 September |                                   | 30 September | 30 June | 31 December |
|                              | 2018          | 2018    | 2017         |                                   | 2018         | 2018    | 2017        |
|                              | £m            | £m      | £m           | £bn                               | £bn          | £bn     |             |
| Total income                 | 789           | 915     | 928          | Net loans & advances to customers | 90.1         | 90.7    | 97.0        |
| Operating expenses           | (443)         | (404)   | (443)        | Customer deposits                 | 96.4         | 96.4    | 98.0        |
| Impairment (losses)/releases | (103)         | 4       | (151)        | RWAs                              | 69.0         | 71.7    | 71.8        |
| Operating profit             | 243           | 515     | 334          |                                   |              |         |             |
| Return on equity             | 6.6%          | 15.9%   | 8.6%         |                                   |              |         |             |
| Net interest margin          | 1.71%         | 1.66%   | 1.74%        |                                   |              |         |             |

Comparisons with prior periods are impacted by the transfer of shipping and other activities from NatWest Markets, the transfer of whole business securitisations and Relevant Financial Institutions to NatWest Markets in preparation for ring-fencing and the transfer of the funds and trustee depository business to RBS International. The net impact of the transfers on Q3 2017 operating profit would have been to reduce income by £81 million, operating expenses by £2 million and impairments by £34 million. The net impact on the Q2 2018 balance sheet would have been to reduce net loans and advances by £0.2 billion and RWAs by £0.4 billion. The variances in the commentary below have been adjusted for the impact of these transfers unless otherwise stated.

Q3 2018 performance (comparisons adjusted for transfers)

After successfully testing Bankline mobile with 750 customers, we will be launching in the Apple app store in Q4 2018. We are now onboarding 90% of new customers digitally, up from 75% as at the end of 2017 with a greater than 50% reduction in time taken to complete the application.

Total income of £789 million was £58 million, or 6.8%, lower than Q3 2017, reflecting £13 million of fair value and disposal losses compared with £28 million of gains in Q3 2017 and lower asset volumes. On an unadjusted basis, net interest margin of 1.71% increased by 5 basis points compared with Q2 2018 due to continued progress on pricing. Operating expenses were £2 million lower than Q3 2017 reflecting lower staff costs through headcount reductions, partially offset by increased strategic, litigation and conduct costs.

Net impairment losses were £14 million lower than Q3 2017 reflecting lower single name charges.

Net loans and advances decreased by £0.4 billion compared with Q2 2018 principally reflecting the impact of active capital management, although we continue to grow in target sectors.

RWAs decreased by £2.3 billion compared with Q2 2018 primarily reflecting the net impact of capital initiatives.

Commercial & Private Banking – Private Banking

|  | Quarter ended |         |              |     | As at        |         |             |
|--|---------------|---------|--------------|-----|--------------|---------|-------------|
|  | 30 September  | 30 June | 30 September |     | 30 September | 30 June | 31 December |
|  | 2018          | 2018    | 2017         |     | 2018         | 2018    | 2017        |
|  | £m            | £m      | £m           | £bn | £bn          | £bn     |             |

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|                     |       |       |       |                      |      |      |      |
|---------------------|-------|-------|-------|----------------------|------|------|------|
| Total income        | 195   | 198   | 166   | Net loans & advances |      |      |      |
| Operating expenses  | (110) | (104) | (103) | to customers         | 14.2 | 13.8 | 13.5 |
| Impairment          |       |       |       | Customer deposits    | 27.2 | 26.4 | 26.9 |
| (losses)/releases   | (1)   | --    | 3     | RWAs                 | 9.5  | 9.4  | 9.1  |
| Operating profit    | 84    | 94    | 66    | AUM                  | 21.8 | 21.3 | 21.5 |
| Return on equity    | 17.3% | 19.3% | 13.2% |                      |      |      |      |
| Net interest margin | 2.54% | 2.54% | 2.39% |                      |      |      |      |

Comparisons with prior periods are impacted by the transfer of the Collective Investment Fund business from UK PBB and by the transfers of Coutts Crown Dependency and the International Client Group Jersey to RBS International. The net impact of the transfers on Q3 2017 operating profit would have been to increase income by £9 million and increase operating expenses by £3 million. The variances in the commentary below have been adjusted for the impact of these transfers, unless otherwise stated.

Q3 2018 performance (comparisons adjusted for transfers)

Total Income of £195 million was £20 million, or 11.4%, higher than Q3 2017, principally reflecting increased assets under management, higher lending volumes and increased deposit income. Compared with Q2 2018, net interest margin remained stable at 2.54%.

Operating expenses increased by £4 million compared with Q3 2017, as increased back-office operations costs have been partially offset by lower staff expenses, reflecting an 9.5% reduction in headcount.

Net loans and advances increased by £0.4 billion compared with Q2 2018 principally reflecting continued targeted growth in mortgage lending, whilst capital efficient lending has kept RWAs broadly stable.

Assets under management increased by £0.5 billion compared with Q2 2018, reflecting new business inflows and investment performance. In addition, Private Banking manages a further £7.1 billion of assets under management which sit in other parts of the Group. Total assets under management increased by 1.2%.

Business performance summary

RBS International

|                     | Quarter ended     |              |                   |                      | As at             |              |                  |
|---------------------|-------------------|--------------|-------------------|----------------------|-------------------|--------------|------------------|
|                     | 30 September 2018 | 30 June 2018 | 30 September 2017 |                      | 30 September 2018 | 30 June 2018 | 31 December 2017 |
|                     | £m                | £m           | £m                | £bn                  | £bn               | £bn          |                  |
| Total income        | 155               | 147          | 97                | Net loans & advances |                   |              |                  |
| Operating expenses  | (60)              | (55)         | (59)              | to customers         | 13.0              | 13.0         | 8.7              |
| Impairment          |                   |              |                   | Customer deposits    | 27.0              | 28.5         | 29.0             |
| (losses)/releases   | (3)               | 3            | 2                 | RWAs                 | 6.9               | 6.8          | 5.1              |
| Operating profit    | 92                | 95           | 40                |                      |                   |              |                  |
| Return on equity    | 26.9%             | 27.9%        | 10.4%             |                      |                   |              |                  |
| Net interest margin | 1.73%             | 1.72%        | 1.39%             |                      |                   |              |                  |

Comparisons with prior periods are impacted by the transfer of the funds and trustee depositary business from Commercial Banking and by the transfers of Coutts Crown Dependency and the International Client Group from Private Banking. The net impact of the transfers on Q3 2017 would have increased income by £44 million and increased operating expenses by £3 million. The variances in the commentary below have been adjusted for the impact of these transfers, unless otherwise stated.



## Q3 2018 performance (comparisons adjusted for transfers)

Total Income of £155 million was £14 million, or 9.9%, higher than Q3 2017 principally reflecting deposit margin benefits. Net interest margin increased by 1 basis point compared with Q2 2018 reflecting funding benefits partially offset by an increase in deposits placed with central banks.

Operating expenses were £2 million lower than Q3 2017 as a reduction in conduct costs has been partially offset by increased back-office costs, associated with becoming a non ring-fenced bank.

Net loans and advances were stable compared with Q2 2018. Customer deposits decreased by £1.5 billion, or 5.3%, reflecting higher outflows of short term placements in the Funds sector since June.

## NatWest Markets(1)

|                                 | Quarter ended        |                 |                      | As at                |                 |                     |       |
|---------------------------------|----------------------|-----------------|----------------------|----------------------|-----------------|---------------------|-------|
|                                 | 30 September<br>2018 | 30 June<br>2018 | 30 September<br>2017 | 30 September<br>2018 | 30 June<br>2018 | 31 December<br>2017 |       |
|                                 | £m                   | £m              | £m                   | £bn                  | £bn             | £bn                 |       |
| Total income                    | 569                  | 284             | 20                   | Funded assets        | 120.9           | 134.5               | 118.7 |
| Operating expenses              | (478)                | (322)           | (526)                | RWAs                 | 46.5            | 50.1                | 52.9  |
| Impairment<br>(losses)/releases | (4)                  | (13)            | 71                   |                      |                 |                     |       |
| Operating profit/(loss)         | 87                   | (51)            | (435)                |                      |                 |                     |       |
| Return on equity                | 1.8%                 | (3.0%)          | (15.4%)              |                      |                 |                     |       |

## Note:

(1) The NatWest Markets operating segment should not be assumed to be the same as the NatWest Markets Plc legal entity or group following completion of the capital reduction on 2 July 2018.

Comparisons with prior periods are impacted by the transfer of shipping and other activities to Commercial Banking and the transfer of whole business securitisations and Relevant Financial Institutions from Commercial Banking in preparation for ring-fencing. The net impact of the transfers on Q3 2017 operating profit would have been to increase total income by £40 million, reduce the impairment release by £34 million and reduce operating expenses by £1 million.

## Q3 2018 performance (comparisons adjusted for transfers)

Total income increased by £509 million to £569 million compared with Q3 2017 primarily reflecting indemnity insurance recoveries in the quarter of £165 million and non recurring disposal losses in the legacy business in Q3 2017. Income of £331 million in the core business decreased by £70 million compared with Q3 2017 reflecting more muted market conditions, although customer activity remained stable.

Operating expenses decreased by £47 million, or 9.0%, compared with Q3 2017 reflecting reductions in both the core and legacy businesses, partially offset by higher strategic costs, up £36 million to £93 million, and litigation and conduct costs, up £11 million to £113 million.

Funded assets decreased by £13.6 billion compared with Q2 2018 as the business continues to manage leverage exposure in line with becoming a non ring-fenced bank.

RWAs decreased by £3.6 billion in the quarter as core RWAs reduced by £2.3 billion, primarily reflecting lower market risk, and legacy RWAs reduced by £1.3 billion. RWAs of £46.5 billion include £5.8 billion relating to Alawwal.

## Central items &amp; other

Central items not allocated represented a charge of £4 million in Q3 2018, principally reflecting strategic costs of £131 million, partially offset by indemnity insurance recoveries of £107 million.

## Business performance summary

|   | End-point CRR basis  |                 |                     |
|---|----------------------|-----------------|---------------------|
|   | 30 September<br>2018 | 30 June<br>2018 | 31 December<br>2017 |
| Risk asset ratios                         | %                    | %               | %                   |
| CET1                                      | 16.7                 | 16.1            | 15.9                |
| Tier 1                                    | 18.8                 | 18.1            | 17.9                |
| Total                                     | 22.1                 | 21.5            | 21.3                |
| Capital                                   | £m                   | £m              | £m                  |
| Tangible equity                           | 34,672               | 34,564          | 35,164              |
| Expected loss less impairment provisions  | (606)                | (636)           | (1,286)             |
| Prudential valuation adjustment           | (574)                | (608)           | (496)               |
| Deferred tax assets                       | (731)                | (746)           | (849)               |
| Own credit adjustments                    | (264)                | (224)           | (90)                |
| Pension fund assets                       | (283)                | (316)           | (287)               |
| Cash flow hedging reserve                 | 370                  | 151             | (227)               |
| Other adjustments for regulatory purposes | (129)                | (235)           | 28                  |
| Total deductions                          | (2,217)              | (2,614)         | (3,207)             |
| CET1 capital                              | 32,455               | 31,950          | 31,957              |
| AT1 capital                               | 4,051                | 4,051           | 4,041               |
| Tier 1 capital                            | 36,506               | 36,001          | 35,998              |
| Tier 2 capital                            | 6,455                | 6,659           | 6,765               |
| Total regulatory capital                  | 42,961               | 42,660          | 42,763              |
| Risk-weighted assets                      |                      |                 |                     |
| Credit risk                               |                      |                 |                     |
| - non-counterparty                        | 142,500              | 144,000         | 144,700             |
| - counterparty                            | 14,100               | 15,100          | 15,400              |
| Market risk                               | 15,500               | 17,300          | 17,000              |
| Operational risk                          | 22,400               | 22,400          | 23,800              |
| Total RWAs                                | 194,500              | 198,800         | 200,900             |
| Leverage (1)                              |                      |                 |                     |
| Cash and balances at central banks        | 106,500              | 102,600         | 98,300              |
| Derivatives                               | 132,600              | 151,100         | 160,800             |
| Loans and advances                        | 337,200              | 338,100         | 339,400             |
| Reverse repos                             | 29,800               | 38,900          | 40,700              |
| Other assets                              | 113,800              | 117,600         | 98,900              |
| Total assets                              | 719,900              | 748,300         | 738,100             |
| Derivatives                               |                      |                 |                     |
| - netting and variation margin            | (136,900)            | (153,400)       | (161,700)           |
| - potential future exposures              | 42,700               | 46,200          | 49,400              |

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|   |                |                |                |
|---|----------------|----------------|----------------|
| Securities financing transactions gross up  | 1,700          | 2,700          | 2,300          |
| Undrawn commitments                         | 49,500         | 50,700         | 53,100         |
| Regulatory deductions and other adjustments | (700)          | (1,200)        | (2,100)        |
| <b>CRR Leverage exposure</b>                | <b>676,200</b> | <b>693,300</b> | <b>679,100</b> |
| <b>CRR leverage ratio%</b>                  | <b>5.4</b>     | <b>5.2</b>     | <b>5.3</b>     |
| <b>UK leverage exposure (2)</b>             | <b>580,300</b> | <b>597,700</b> | <b>587,100</b> |
| <b>UK leverage ratio% (2)</b>               | <b>6.3</b>     | <b>6.0</b>     | <b>6.1</b>     |

Notes:

- (1) Based on end-point CRR Tier 1 capital and leverage exposure under the CRR Delegated Act.  
(2) Based on end-point CRR Tier 1 capital and UK leverage exposures reflecting the post EU referendum measures announced by the Bank of England in the third quarter of 2016.

Segment performance

| Segment performance   | Quarter ended 30 September 2018 |         |         |         |                 |               |         |                       |
|---|---------------------------------|---------|---------|---------|-----------------|---------------|---------|-----------------------|
|   | PBB                             | Ulster  |         | CPB     |                 | RBS           | NatWest | Central items & Total |
| Segment performance   | UK PBB                          | Bank    | RoI     | Banking | Private Banking | International | Markets | other (1) RBS         |
|   | £m                              | £m      | £m      | £m      | £m              | £m            | £m      | £m                    |
| <b>Income statement</b>                                     |                                 |         |         |         |                 |               |         |                       |
| Net interest income   | 1,289                           | 110     | 525     | 133     | 124             | 15            | (42)    | 2,154                 |
| Other non-interest income                                   | 275                             | 41      | 264     | 62      | 31              | 534           | 261     | 1,468                 |
| Own credit adjustments                                      | -                               | -       | -       | -       | -               | 20            | -       | 20                    |
| Total income  | 1,564                           | 151     | 789     | 195     | 155             | 569           | 219     | 3,642                 |
| Direct expenses - staff costs                               | (221)                           | (51)    | (131)   | (39)    | (26)            | (120)         | (299)   | (887)                 |
| - other costs   | (76)                            | (31)    | (57)    | (16)    | (12)            | (61)          | (613)   | (866)                 |
| Indirect expenses   | (415)                           | (45)    | (221)   | (52)    | (19)            | (91)          | 843     | -                     |
| Strategic costs - direct                                    | -                               | (1)     | (8)     | 1       | (2)             | (78)          | (211)   | (299)                 |
| - indirect  | (41)                            | (2)     | (17)    | (4)     | (1)             | (15)          | 80      | -                     |
| Litigation and conduct costs                                | (206)                           | (37)    | (9)     | -       | -               | (113)         | (24)    | (389)                 |
| Operating expenses  | (959)                           | (167)   | (443)   | (110)   | (60)            | (478)         | (224)   | (2,441)               |
| Operating profit/(loss) before impairment (losses)/releases | 605                             | (16)    | 346     | 85      | 95              | 91            | (5)     | 1,201                 |
| Impairment (losses)/releases                                | (70)                            | (60)    | (103)   | (1)     | (3)             | (4)           | 1       | (240)                 |
| Operating profit/(loss)                                     | 535                             | (76)    | 243     | 84      | 92              | 87            | (4)     | 961                   |
| <b>Additional information</b>                               |                                 |         |         |         |                 |               |         |                       |
| Return on equity (2)  | 20.9%                           | (12.7%) | 6.6%    | 17.3%   | 26.9%           | 1.8%          | nm      | 5.4%                  |
| Cost:income ratio (3)                                       | 61.3%                           | 110.6%  | 54.3%   | 56.4%   | 38.7%           | 84.0%         | nm      | 66.7%                 |
| Loan impairment rate  | 0.17%                           | 1.18%   | 0.45%   | nm      | nm              | nm            | nm      | 0.30%                 |
| Net interest margin (%)                                     | 2.76%                           | 1.72%   | 1.71%   | 2.54%   | 1.73%           | 0.22%         | nm      | 1.93%                 |
| Third party customer asset rate                             | 3.39%                           | 2.42%   | 2.89%   | 2.91%   | 2.29%           | nm            | nm      | nm                    |
| Third party customer funding rate                           | (0.29%)                         | (0.20%) | (0.33%) | (0.26%) | (0.11%)         | nm            | nm      | nm                    |
| Average interest earning assets (£bn)                       | 185.2                           | 25.4    | 122.0   | 20.8    | 28.4            | 26.7          | 34.6    | 443.1                 |
| Total assets (£bn)  | 195.6                           | 25.3    | 144.0   | 21.4    | 29.0            | 253.3         | 51.3    | 719.9                 |
| Funded assets (£bn)   | 195.6                           | 25.3    | 144.0   | 21.4    | 29.0            | 120.9         | 51.1    | 587.3                 |

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|   |       |       |       |       |      |       |      |       |
|---|-------|-------|-------|-------|------|-------|------|-------|
| Net loans and advances to customers (£bn) | 163.2 | 19.2  | 90.1  | 14.2  | 13.0 | 19.7  | 0.2  | 319.6 |
| Impairment provisions (£bn)(4)            | (1.4) | (1.2) | (1.0) | (0.1) | -    | (0.2) | -    | (3.9) |
| Customer deposits (£bn)                   | 183.4 | 18.1  | 96.4  | 27.2  | 27.0 | 12.8  | 1.1  | 366.0 |
| Risk-weighted assets (RWAs) (£bn)         | 45.4  | 16.5  | 69.0  | 9.5   | 6.9  | 46.5  | 0.7  | 194.5 |
| RWA equivalent                            | 47.1  | 16.6  | 72.5  | 9.5   | 6.9  | 49.9  | 0.7  | 203.2 |
| Employee numbers (FTEs - thousands)       | 24.8  | 3.1   | 8.1   | 1.9   | 1.7  | 4.9   | 24.1 | 68.6  |

For the notes to this table, refer to page 10. nm = not meaningful

Segment performance

|   | Nine months ended 30 September 2018 |             |                    |                 |                   |                 |                   |           |
|---|-------------------------------------|-------------|--------------------|-----------------|-------------------|-----------------|-------------------|-----------|
|   | PBB                                 |             | CPB                |                 |                   | Central         |                   |           |
|   | UK PBB                              | Ulster Bank | Commercial Banking | Private Banking | RBS International | NatWest Markets | items & other (1) | Total RBS |
|   | £m                                  | £m          | £m                 | £m              | £m                | £m              | £m                | £m        |
| <b>Income statement</b>                                     |                                     |             |                    |                 |                   |                 |                   |           |
| Net interest income   | 3,831                               | 334         | 1,522              | 385             | 343               | 82              | (17)              | 6,480     |
| Other non-interest income                                   | 894                                 | 129         | 1,047              | 192             | 96                | 1,149           | 298               | 3,805     |
| Own credit adjustments                                      | -                                   | -           | -                  | -               | -                 | 59              | -                 | 59        |
| Total income  | 4,725                               | 463         | 2,569              | 577             | 439               | 1,290           | 281               | 10,344    |
| Direct expenses - staff costs                               | (682)                               | (149)       | (404)              | (122)           | (77)              | (429)           | (927)             | (2,790)   |
| - other costs   | (207)                               | (76)        | (157)              | (44)            | (45)              | (176)           | (1,842)           | (2,547)   |
| Indirect expenses   | (1,279)                             | (133)       | (662)              | (157)           | (56)              | (292)           | 2,579             | -         |
| Strategic costs - direct                                    | (26)                                | 1           | (16)               | -               | (2)               | (106)           | (500)             | (649)     |
| - indirect  | (137)                               | (8)         | (50)               | (11)            | (4)               | (21)            | 231               | -         |
| Litigation and conduct costs                                | (210)                               | (54)        | (3)                | (1)             | 10                | (125)           | (807)             | (1,190)   |
| Operating expenses  | (2,541)                             | (419)       | (1,292)            | (335)           | (174)             | (1,149)         | (1,266)           | (7,176)   |
| Operating profit/(loss) before impairment (losses)/releases | 2,184                               | 44          | 1,277              | 242             | 265               | 141             | (985)             | 3,168     |
| Impairment (losses)/releases                                | (217)                               | (34)        | (122)              | (2)             | -                 | (8)             | 2                 | (381)     |
| Operating profit/(loss)                                     | 1,967                               | 10          | 1,155              | 240             | 265               | 133             | (983)             | 2,787     |
| <b>Additional information</b>                               |                                     |             |                    |                 |                   |                 |                   |           |
| Return on equity (2)  | 26.2%                               | 0.5%        | 11.6%              | 16.3%           | 26.0%             | 0.2%            | nm                | 5.3%      |
| Cost:income ratio (3)                                       | 53.8%                               | 90.5%       | 48.5%              | 58.1%           | 39.6%             | 89.1%           | nm                | 69.1%     |
| Loan impairment rate  | 0.18%                               | 0.22%       | 0.18%              | nm              | nm                | nm              | nm                | 0.16%     |
| Net interest margin %                                       | 2.79%                               | 1.81%       | 1.67%              | 2.53%           | 1.67%             | 0.41%           | nm                | 1.99%     |
| Third party customer asset rate %                           | 3.41%                               | 2.40%       | 2.81%              | 2.87%           | 2.38%             | nm              | nm                | nm        |
| Third party customer funding rate %                         | (0.28%)                             | (0.21%)     | (0.32%)            | (0.21%)         | (0.10%)           | nm              | nm                | nm        |
| Average interest earning assets (£bn)                       | 183.4                               | 24.7        | 121.8              | 20.3            | 27.4              | 27.0            | 30.6              | 435.2     |

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|   |       |       |       |       |      |       |      |       |
|---|-------|-------|-------|-------|------|-------|------|-------|
| Total assets (£bn)                        | 195.6 | 25.3  | 144.0 | 21.4  | 29.0 | 253.3 | 51.3 | 719.9 |
| Funded assets (£bn)                       | 195.6 | 25.3  | 144.0 | 21.4  | 29.0 | 120.9 | 51.1 | 587.3 |
| Net loans and advances to customers (£bn) | 163.2 | 19.2  | 90.1  | 14.2  | 13.0 | 19.7  | 0.2  | 319.6 |
| Impairment provisions (£bn) (4)           | (1.4) | (1.2) | (1.0) | (0.1) | -    | (0.2) | -    | (3.9) |
| Customer deposits (£bn)                   | 183.4 | 18.1  | 96.4  | 27.2  | 27.0 | 12.8  | 1.1  | 366.0 |
| Risk-weighted assets (RWAs) (£bn)         | 45.4  | 16.5  | 69.0  | 9.5   | 6.9  | 46.5  | 0.7  | 194.5 |
| RWA equivalent (RWAes) (£bn)              | 47.1  | 16.6  | 72.5  | 9.5   | 6.9  | 49.9  | 0.7  | 203.2 |
| Employee numbers (FTEs - thousands)       | 24.8  | 3.1   | 8.1   | 1.9   | 1.7  | 4.9   | 24.1 | 68.6  |

For the notes to this table refer to the following page. nm = not meaningful.

Condensed consolidated income statement for the period ended 30 September 2018 (unaudited)

|                                       | Nine months ended |              | Quarter ended |         |              |
|---------------------------------------|-------------------|--------------|---------------|---------|--------------|
|                                       | 30 September      | 30 September | 30 September  | 30 June | 30 September |
|                                       | 2018              | 2017         | 2018          | 2018    | 2017         |
|                                       | £m                | £m           | £m            | £m      | £m           |
| Interest receivable                   | 8,224             | 8,280        | 2,780         | 2,742   | 2,818        |
| Interest payable                      | (1,744)           | (1,504)      | (626)         | (562)   | (514)        |
| Net interest income (1)               | 6,480             | 6,776        | 2,154         | 2,180   | 2,304        |
| Fees and commissions receivable       | 2,433             | 2,492        | 787           | 833     | 826          |
| Fees and commissions payable          | (671)             | (652)        | (220)         | (244)   | (204)        |
| Income from trading activities        | 1,346             | 832          | 499           | 382     | (52)         |
| Loss on redemption of own debt        | -                 | (7)          | -             | -       | -            |
| Other operating income                | 756               | 635          | 422           | 249     | 283          |
| Non-interest income                   | 3,864             | 3,300        | 1,488         | 1,220   | 853          |
| Total income                          | 10,344            | 10,076       | 3,642         | 3,400   | 3,157        |
| Staff costs                           | (3,108)           | (3,576)      | (1,022)       | (1,031) | (1,129)      |
| Premises and equipment                | (972)             | (1,041)      | (328)         | (274)   | (363)        |
| Other administrative expenses         | (2,521)           | (1,736)      | (885)         | (1,237) | (528)        |
| Depreciation and amortisation         | (544)             | (630)        | (206)         | (175)   | (119)        |
| Write down of other intangible assets | (31)              | (12)         | -             | (7)     | (4)          |
| Operating expenses                    | (7,176)           | (6,995)      | (2,441)       | (2,724) | (2,143)      |
| Profit before impairment losses       | 3,168             | 3,081        | 1,201         | 676     | 1,014        |
| Impairment losses                     | (381)             | (259)        | (240)         | (63)    | (143)        |
| Operating profit before tax           | 2,787             | 2,822        | 961           | 613     | 871          |
| Tax charge                            | (1,139)           | (992)        | (398)         | (412)   | (265)        |

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|                                      |       |       |      |      |      |
|--------------------------------------|-------|-------|------|------|------|
| Profit for the period                | 1,648 | 1,830 | 563  | 201  | 606  |
| Attributable to:                     |       |       |      |      |      |
| Non-controlling interests            | 6     | 21    | 22   | (23) | (8)  |
| Preference share and other dividends | 306   | 478   | 93   | 128  | 222  |
| Ordinary shareholders                | 1,336 | 1,331 | 448  | 96   | 392  |
| Earnings per ordinary share (EPS)    |       |       |      |      |      |
| Earnings per ordinary share (2)      | 11.1p | 11.2p | 3.7p | 0.8p | 3.3p |

Notes:

- (1) Negative interest on loans and advances is reported as interest payable. Negative interest on customer deposits is reported as interest receivable.
- (2) There is no dilutive impact in any period.

Notes to segment performance on pages 8 and 9.

Notes:

- (1) Central items include unallocated transactions which principally comprise volatile items under IFRS and RMBS related charges.  
RBS's CET 1 target is in excess of 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 14% (Ulster Bank RoI), 11% (Commercial Banking), 13.5% (Private Banking), 16% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAs). RBS Return on equity is calculated using profit for the period attributable to ordinary shareholders.
- (2) Operating lease depreciation included in income for the nine months ended 30 September 2018 - £89 million; Q3 2018 - £32 million.
- (3) Prepared under IFRS 9. Refer to Note 2 for further details.

Condensed consolidated statement of comprehensive income for the period ended 30 September 2018 (unaudited)

|  | Nine months ended |                   | Quarter ended     |              |                   |
|--|-------------------|-------------------|-------------------|--------------|-------------------|
|  | 30 September 2018 | 30 September 2017 | 30 September 2018 | 30 June 2018 | 30 September 2017 |
|  | £m                | £m                | £m                | £m           | £m                |
| Profit for the period  | 1,648             | 1,830             | 563               | 201          | 606               |
| Items that do not qualify for reclassification   |                   |                   |                   |              |                   |
| Profit/(loss) on remeasurement of retirement benefit schemes   | 72                | (26)              | 72                | -            | -                 |
| Profit/(loss) on fair value of credit in financial liabilities DFV through profit or loss due to own credit risk | 109               | (107)             | 14                | 34           | (30)              |
| Fair value through other comprehensive income (FVOCI) (1)  | 61                | -                 | 58                | 3            | -                 |
| Funding commitment to retirement benefit schemes (2)   | (2,000)           | -                 | -                 | (2,000)      | -                 |
| Tax  | 487               | (5)               | (13)              | 513          | 3                 |
|  | (1,271)           | (138)             | 131               | (1,450)      | (27)              |

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|   |         |       |       |         |       |
|---|---------|-------|-------|---------|-------|
| Items that do qualify for reclassification            |         |       |       |         |       |
| FVOCI financial assets (1)                            | 31      | 37    | (168) | 68      | 8     |
| Cash flow hedges                                      | (822)   | (983) | (301) | 63      | (372) |
| Currency translation                                  | 120     | 82    | 102   | 91      | (21)  |
| Tax   | 224     | 237   | 127   | (29)    | 76    |
|   | (447)   | (627) | (240) | 193     | (309) |
| Other comprehensive loss after tax                    | (1,718) | (765) | (109) | (1,257) | (336) |
| <br>  |         |       |       |         |       |
| Total comprehensive (loss)/income for the period      | (70)    | 1,065 | 454   | (1,056) | 270   |
| <br>  |         |       |       |         |       |
| Total comprehensive (loss)/income is attributable to: |         |       |       |         |       |
| Non-controlling interests                             | 28      | 30    | 57    | (18)    | (19)  |
| Preference shareholders                               | 94      | 155   | 20    | 56      | 70    |
| Paid-in equity holders                                | 212     | 323   | 73    | 72      | 152   |
| Ordinary shareholders                                 | (404)   | 557   | 304   | (1,166) | 67    |
|   | (70)    | 1,065 | 454   | (1,056) | 270   |

Notes:

Refer to Note 2 for further information on the impact of IFRS 9 on classification and basis of preparation, periods (1) ended 30 September 2018 and 30 June 2018 prepared under IFRS 9 and periods ended 30 September 2017 under IAS 39.

On 17 April 2018 RBS agreed a Memorandum of Understanding (MoU) with the Trustees of the RBS Group Pension Fund in connection with the requirements of ring-fencing. NatWest Markets Plc cannot continue to be a (2) participant in the Main section and separate arrangements are required for its employees. Under the MoU, NatWest Bank Plc will make a contribution of £2 billion to strengthen funding of the Main section in recognition of the changes in covenant. The contribution was paid on 9 October 2018.

Condensed consolidated balance sheet as at 30 September 2018 (unaudited)

|   | 30 September<br>2018<br>£m | 31 December<br>2017<br>£m |
|---|----------------------------|---------------------------|
| Assets  |                            |                           |
| Cash and balances at central banks                | 106,503                    | 98,337                    |
| Net loans and advances to banks                   | 17,625                     | 16,254                    |
| Reverse repurchase agreements and stock borrowing | 9,468                      | 13,997                    |
| Loans and advances to banks                       | 27,093                     | 30,251                    |
| Net loans and advances to customers               | 319,577                    | 323,184                   |
| Reverse repurchase agreements and stock borrowing | 20,339                     | 26,735                    |
| Loans and advances to customers                   | 339,916                    | 349,919                   |
| Debt securities                                   | 85,662                     | 78,933                    |
| Equity shares                                     | 604                        | 450                       |
| Settlement balances                               | 11,213                     | 2,517                     |
| Derivatives                                       | 132,574                    | 160,843                   |
| Intangible assets                                 | 6,581                      | 6,543                     |
| Property, plant and equipment                     | 4,247                      | 4,602                     |
| Deferred tax                                      | 1,781                      | 1,740                     |
| Prepayments, accrued income and other assets      | 3,512                      | 3,726                     |
| Assets of disposal groups                         | 202                        | 195                       |

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|   |                |                |
|---|----------------|----------------|
| Total assets                            | 719,888        | 738,056        |
| <b>Liabilities</b>                      |                |                |
| Bank deposits                           | 39,634         | 39,479         |
| Repurchase agreements and stock lending | 7,993          | 7,419          |
| Deposits by banks                       | 47,627         | 46,898         |
| Customer deposits                       | 365,985        | 367,034        |
| Repurchase agreements and stock lending | 33,113         | 31,002         |
| Customer accounts                       | 399,098        | 398,036        |
| Debt securities in issue                | 39,067         | 30,559         |
| Settlement balances                     | 10,625         | 2,844          |
| Short positions                         | 27,676         | 28,527         |
| Derivatives                             | 125,333        | 154,506        |
| Provisions for liabilities and charges  | 3,247          | 7,757          |
| Accruals and other liabilities          | 5,602          | 6,392          |
| Retirement benefit liabilities          | 2,128          | 129            |
| Deferred tax                            | 476            | 583            |
| Subordinated liabilities                | 10,341         | 12,722         |
| Liabilities of disposal groups          | 1              | 10             |
| <b>Total liabilities</b>                | <b>671,221</b> | <b>688,963</b> |
| <b>Equity</b>                           |                |                |
| Non-controlling interests               | 791            | 763            |
| Owners' equity*                         |                |                |
| Called up share capital                 | 12,048         | 11,965         |
| Reserves                                | 35,828         | 36,365         |
| <b>Total equity</b>                     | <b>48,667</b>  | <b>49,093</b>  |
| <b>Total liabilities and equity</b>     | <b>719,888</b> | <b>738,056</b> |
| <b>*Owners' equity attributable to:</b> |                |                |
| Ordinary shareholders                   | 41,253         | 41,707         |
| Other equity owners                     | 6,623          | 6,623          |
|   | 47,876         | 48,330         |

Condensed consolidated statement of changes in equity for the period ended 30 September 2018 (unaudited)

|  | Share<br>capital and<br>statutory<br>reserves | Paid-in<br>equity | Retained<br>earnings | Other<br>reserves* | Total<br>owners'<br>equity | Non<br>controlling<br>interests | Total<br>equity |
|--|---|-------------------|----------------------|--------------------|----------------------------|---------------------------------|-----------------|
|  | £m  | £m                | £m                   | £m                 | £m                         | £m                              | £m              |
| At 1 January 2018  | 12,809  | 4,058             | 17,130               | 14,333             | 48,330                     | 763                             | 49,093          |
| Implementation of IFRS 9 on 1 January 2018 (1)                       | -   | -                 | (105)                | 34                 | (71)                       | -                               | (71)            |
| Profit attributable to ordinary shareholders and other equity owners | -   | -                 | 1,642                | -                  | 1,642                      | 6                               | 1,648           |



|   |        |       |         |        |         |     |           |
|---|--------|-------|---------|--------|---------|-----|-----------|
| Other comprehensive income  |        |       |         |        |         |     |           |
| - Realised gains in period on FVOCI equity shares   | -      | -     | 8       | (8)    | -       | -   | -         |
| - Funding commitment to retirement benefit schemes (2)  | -      | -     | (2,000) | -      | (2,000) | -   | (2,000)   |
| - Changes in fair value of credit in financial liabilities at fair value through profit or loss | -      | -     | 109     | -      | 109     | -   | 109       |
| - Other amounts recognised in equity  | -      | -     | 72      | (177)  | (105)   | 22  | (83)      |
| - Amount transferred from equity to earnings  | -      | -     | -       | (545)  | (545)   | -   | (545)     |
| - Recycled to profit or loss on disposal of businesses (3)                                      | -      | -     | -       | 90     | 90      | -   | 90        |
| - Tax   | -      | -     | 493     | 218    | 711     | -   | 711       |
| Ordinary share dividends paid   | -      | -     | (241)   | -      | (241)   | -   | (241)     |
| Preference share and other dividends paid-  | -      | -     | (306)   | -      | (306)   | -   | (306)     |
| Shares and securities issued during the period  | 222    | -     | (2)     | -      | 220     | -   | 220       |
| Share-based payments - gross  | -      | -     | 23      | -      | 23      | -   | 23        |
| Movement in own shares held   | 19     | -     | -       | -      | 19      | -   | 19        |
| At 30 September 2018  | 13,050 | 4,058 | 16,823  | 13,945 | 47,876  | 791 | 48,667    |
|   |        |       |         |        |         |     | 30        |
|   |        |       |         |        |         |     | September |
|   |        |       |         |        |         |     | 2018      |
| Total equity is attributable to:  |        |       |         |        |         |     | £m        |
| Non-controlling interests   |        |       |         |        |         |     | 791       |
| Preference shareholders   |        |       |         |        |         |     | 2,565     |
| Paid-in equity holders  |        |       |         |        |         |     | 4,058     |
| Ordinary shareholders   |        |       |         |        |         |     | 41,253    |
|   |        |       |         |        |         |     | 48,667    |
| *Other reserves consist of:   |        |       |         |        |         |     |           |
| Merger reserve  |        |       |         |        |         |     | 10,881    |
| Fair value through other comprehensive income reserve   |        |       |         |        |         |     | 361       |
| Cash flow hedging reserve   |        |       |         |        |         |     | (370)     |
| Foreign exchange reserve  |        |       |         |        |         |     | 3,073     |
|   |        |       |         |        |         |     | 13,945    |

## Notes:

(1) Refer to Note 2 for further information.

On 17 April 2018 RBS agreed a Memorandum of Understanding (MoU) with the Trustees of the RBS Group Pension Fund in connection with the requirements of ring-fencing. NatWest Markets Plc cannot continue to be a

(2) participant in the Main section and separate arrangements are required for its employees. Under the MoU, NatWest Bank Plc will make a contribution of £2 billion to strengthen funding of the Main section in recognition of the changes in covenant. The contribution was paid on 9 October 2018.

(3) No tax impact.

## Notes

## 1. Basis of preparation

The condensed consolidated financial statements should be read in conjunction with RBS's 2017 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).

## 2. Accounting policies

In July 2014, the IASB published IFRS 9 'Financial instruments' with an effective date of 1 January 2018. For further details see pages 261 and 262 of the Group's 2017 Annual Report and Accounts, the RBS Group February 2018 IFRS 9 Transition report and Appendix 1 of the Group's 2018 Interim Results. There has been no restatement of accounts prior to 2018. The impact on the Group's balance sheet at 1 January 2018 is as follows:

|                                     | 31 December<br>2017<br>£m | Impact of IFRS 9                      |  | Expected<br>credit<br>losses<br>£m | Tax<br>£m   | 1 January<br>2018<br>£m |
|-------------------------------------|---------------------------|---------------------------------------|--|------------------------------------|-------------|-------------------------|
|                                     |                           | Classification &<br>measurement<br>£m |  |                                    |             |                         |
| Cash and balances at central banks  | 98,337                    | -                                     |  | (1)                                | -           | 98,336                  |
| Net loans and advances to banks     | 30,251                    | -                                     |  | (3)                                | -           | 30,248                  |
| Net loans and advances to customers | 349,919                   | 517                                   |  | (524)                              | -           | 349,912                 |
| Debt securities and equity shares   | 79,383                    | 44                                    |  | (3)                                | -           | 79,424                  |
| Other assets                        | 19,323                    | -                                     |  | -                                  | 25          | 19,348                  |
| <b>Total assets</b>                 | <b>738,056</b>            | <b>561</b>                            |  | <b>(531)</b>                       | <b>25</b>   | <b>738,111</b>          |
| <b>Total liabilities</b>            | <b>688,963</b>            | <b>-</b>                              |  | <b>85</b>                          | <b>41</b>   | <b>689,089</b>          |
| <b>Total equity</b>                 | <b>49,093</b>             | <b>561</b>                            |  | <b>(616)</b>                       | <b>(16)</b> | <b>49,022</b>           |
| <b>Total liabilities and equity</b> | <b>738,056</b>            | <b>561</b>                            |  | <b>(531)</b>                       | <b>25</b>   | <b>738,111</b>          |

|  | Total<br>£m |
|--|-------------|
| Key differences in moving from IAS 39 to IFRS 9 on impairment loss |             |
| 31 December 2017 - IAS 39 impairment provision (1)                 | 3,832       |
| Removal of IAS 39 latent provision                                 | (390)       |
| IFRS 9 12 month expected credit loss (ECL) on Stage 1 and 2        | 513         |
| Increase in Stage 2 ECL to lifetime (discounted)                   | 356         |
| Stage 3 loss estimation (EAD, LGD)                                 | 73          |
| Impact of multiple economic scenarios                              | 64          |
| 1 January 2018 - IFRS 9 ECL  | 4,448       |

### Note:

(1) IAS 39 includes £28 million relating to AFS and LAR debt securities and £3,814 million relating to loans less £10 million on loans that are now carried at fair value.

The Group's principal accounting policies are as set out on pages 251 to 263 of the Group's 2017 Annual Report and Accounts. From 1 January 2018 the accounting policies have been updated to reflect the adoption of IFRS 9 as mentioned above. Other than in relation to IFRS 9 other amendments to IFRS effective for 2018, including IFRS 15 'Revenue from contracts with customers', IFRS 2 'Share-based payments' and IAS 40 'Investment Property' have not had a material effect on the Group's 2018 Interim Results.

## Notes

## 2. Accounting policies continued

## 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 the Group's financial condition are those relating to goodwill, provisions for liabilities, deferred tax, loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgements are described on pages 259 to 261 of the Group's 2017 Annual Report and Accounts. From 1 January 2018, the previous critical accounting policy relating to loan impairment provisions has been superseded on the adoption of IFRS 9 for which details are included in the RBS Group February 2018 IFRS 9 Transition report and Appendix 1 of the Group's 2018 Interim Results.

## 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 results for the period ended 30 September 2018 have been prepared on a going concern basis.

## 3. Provisions for liabilities and charges

|  | Payment<br>protection<br>insurance<br>£m | Other<br>customer<br>redress<br>£m | DoJ (1)<br>£m | Litigation<br>and other<br>regulatory<br>(incl. RMBS)<br>£m | Other<br>£m | Total<br>£m |
|--|--|------------------------------------|---------------|---|-------------|-------------|
| At 1 January 2018                              | 1,053                                    | 870                                | 3,243         | 641   | 1,950       | 7,757       |
| Implementation of IFRS 9 on 1 January 2018 (2) | -  | -                                  | -             | -   | 85          | 85          |
| Currency translation and other movements       | -  | (5)                                | (119)         | (4)   | (1)         | (129)       |
| Charge to income statement                     | -  | 19                                 | -             | 3   | 111         | 133         |
| Releases to income statement                   | -  | (10)                               | (1)           | (5)   | (15)        | (31)        |
| Provisions utilised                            | (152)                                    | (115)                              | (90)          | (52)  | (100)       | (509)       |
| At 31 March 2018                               | 901                                      | 759                                | 3,033         | 583   | 2,030       | 7,306       |
| RMBS transfers (1)                             | -  | -                                  | (567)         | 567   | -           | -           |
| Currency translation and other movements       | -  | -                                  | 209           | 32  | (24)        | 217         |
| Charge to income statement                     | -  | 46                                 | 1,040         | 23  | 93          | 1,202       |
| Releases to income statement                   | -  | (51)                               | -             | (305)   | (119)       | (475)       |
| Provisions utilised                            | (156)                                    | (104)                              | -             | (189)   | (806)       | (1,255)     |
| At 30 June 2018                                | 745                                      | 650                                | 3,715         | 711   | 1,174       | 6,995       |
| Transfer from accruals and other liabilities   | -  | 3                                  | -             | -   | -           | 3           |
| Currency translation and other movements       | -  | 1                                  | 46            | 12  | 11          | 70          |
| Charge to income statement                     | 200                                      | 55                                 | -             | 133   | 33          | 421         |
| Releases to income statement                   | -  | (6)                                | -             | (10)  | (48)        | (64)        |
| Provisions utilised                            | (142)                                    | (112)                              | (3,761)       | (35)  | (128)       | (4,178)     |
| At 30 September 2018                           | 803                                      | 591                                | -             | 811   | 1,042       | 3,247       |

## Notes:

- (1) RMBS provision has been redesignated 'DoJ' and the remaining RMBS litigation matters transferred to Litigation and other regulatory as of 1 April 2018 to reflect progress on resolution.
- (2) Refer to Note 2 for further details.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

#### 4. Litigation, investigations and reviews

RBS's 2018 Interim Results, issued on 3 August 2018, included comprehensive disclosures about RBS's litigation, investigations and reviews in Note 11. Set out below are the material developments in these matters since the 2018 Interim Results were published. RBS generally does not disclose information about the establishment or existence of a provision for a particular matter where disclosure of the information can be expected to prejudice seriously RBS's position in the matter.

##### Litigation

###### London Interbank Offered Rate (LIBOR) and other rates litigation

Certain members of the Group were named as defendants in a class action relating to alleged manipulation of the Singapore Interbank Offered Rate (SGD SIBOR) and Singapore Swap Offer Rate (SOR), which is pending in the United States District Court for the Southern District of New York.

##### Notes

#### 4. Litigation, investigations and reviews continued

On 5 October 2018, the court issued its decision on defendants' motion to dismiss the amended complaint in this matter. The court permitted certain antitrust claims to proceed against NatWest Markets Plc and certain other non-RBS defendants, but dismissed all other claims.

##### TeraExchange antitrust litigation

RBS companies, including RBSG, are among the defendants in an antitrust case filed by TeraExchange in which TeraExchange alleges that the defendants conspired to boycott its credit default swap trading platform. On 1 October 2018, the United States District Court for the Southern District of New York dismissed all claims against RBS companies.

##### Total Value Annuity litigation

A class action lawsuit was filed in May 2018 in the United States District Court for Kansas alleging that NatWest Markets Plc conspired with Security Benefit Life Insurance Company and others to defraud purchasers of the Total Value Annuity issued by Security Benefit Life Insurance Company. On 24 October 2018, the plaintiff voluntarily dismissed all claims against NatWest Markets Plc.

##### Thornburg adversary proceeding

Certain RBS companies, including NatWest Markets Plc and NatWest Markets Securities Inc., as well as several other financial institutions, are defendants in an adversary proceeding filed in the US bankruptcy court in Maryland by the trustee for TMST, Inc. (formerly known as Thornburg Mortgage, Inc.). The trustee seeks recovery of transfers made under certain restructuring agreements as, among other things, avoidable fraudulent and preferential conveyances and transfers. On 27 September 2018, the RBS defendants reached an agreement to settle all claims against them for US\$23.5 million. The settlement is subject to approval by the bankruptcy court, and the amount is covered by a provision existing as of 30 September 2018.

##### Investigations and reviews

###### Residential mortgage-backed securities (RMBS) and other securitised products investigations

On 14 August 2018, RBSG (together with its subsidiaries) announced that it had reached a final settlement with the US Department of Justice (DOJ) to resolve its investigation into the issuance and underwriting of RMBS, involving a civil monetary penalty of US\$4.9 billion. The settlement amount, which was paid in September, was covered by existing provisions.

In October 2017, NatWest Markets Securities Inc. entered into a non-prosecution agreement (NPA) with the United States Attorney for the District of Connecticut (USAO) in connection with alleged misrepresentations to counterparties relating to secondary trading in various form of asset-backed securities. In the NPA, the USAO agreed not to file criminal charges relating to certain conduct and information described in the NPA if NatWest Markets Securities Inc. complies with the NPA during its term. In October 2018, NatWest Markets Securities Inc. agreed to a six-month extension of the NPA while the USAO reviews the circumstances of an unrelated matter reported during the course of the NPA.

#### Payment Protection Insurance (PPI)

An additional provision of £200 million was taken at Q3 2018, reflecting greater than predicted complaints volumes. RBS has made provisions totalling £5.3 billion to date for PPI claims, of which £4.5 billion had been utilised by 30 September 2018.

#### US dollar processing consent order

In December 2013, RBS and NatWest Markets Plc entered into a consent Cease and Desist Order (US Dollar Processing Order) with the Board of Governors of the Federal Reserve System (Federal Reserve) with respect to compliance with OFAC regulations by RBS's global business lines outside the US. RBS made investments in technology, hired and trained personnel, and revised compliance, risk management and other policies and procedures. On 16 October 2018, the Federal Reserve announced the termination of the US Dollar Processing Order.

#### 5. Post balance sheet events

Alawwal Bank announced in 2017 that it was entering into merger discussions with Saudi British Bank. On 4 October 2018, they announced that terms had been agreed and that they anticipated being able to complete the transaction in H1 2019.

On 9 October 2018 NatWest Bank Plc contributed £2 billion to the Main section of the RBS pension fund. This was a consequence of implementing ring fencing requirements envisaged by the Memorandum of Understanding with the Trustee dated 14 April 2018.

Other than mentioned, there have been no further significant events between 30 September 2018 and the date of approval of this announcement.

#### Additional information

##### 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.

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 2017 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.

##### Key operating indicators

As described in Note 1 on page 14, RBS prepares its financial statements in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP financial measures. These measures 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 include:

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Performance, funding and credit metrics such as ‘return on tangible equity’, and related RWA equivalents incorporating the effect of capital deductions (RWAs), total assets excluding derivatives (funded assets), net interest margin (NIM) adjusted for items designated at fair value through profit or loss (non-statutory NIM), cost:income ratio and loan:deposit ratio. These are internal metrics used to measure business performance;

Personal & Business Banking (PBB) franchise results, combining the reportable segments of UK Personal & Business Banking (UK PBB) and Ulster Bank RoI, Commercial & Private Banking (CPB) franchise results, combining the reportable segments of Commercial Banking and Private Banking.

The Group also presents a pro forma CET1 ratio which is on an adjusted basis, this has not been prepared in accordance with Regulation S-X and should be read in conjunction with the notes provided as well as the section “Forward-looking statements” below.

### Contacts

Analyst enquiries: Matt Waymark Investor Relations +44 (0) 207 672 1758

Media enquiries: RBS Press Office +44 (0) 131 523 4205

|                |                           |  |
|----------------|---------------------------|--|
|                | Analyst and investor call | Web cast and dial in details                                 |
| Date:          | Friday 26 October 2018    | <a href="http://www.rbs.com/results">www.rbs.com/results</a> |
| Time:          | 9:00 am UK time           | International – +44 (0) 20 3009 5755                         |
|                |                           | UK Free Call – 0800 279 6637                                 |
| Conference ID: | 3892346                   | US Local Dial-In, New York - 1 646 517 5063                  |

Available on [www.rbs.com/results](http://www.rbs.com/results)

Q3 2018 Interim Management Statement and background slides.

A financial supplement containing income statement, balance sheet and segment performance for the nine quarters ended 30 September 2018.

Pillar 3 supplement at 30 September 2018.

### Forward looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, including (but not limited to) those related to RBS and its subsidiaries' regulatory capital position and funding requirements, financial position, ongoing litigation and regulatory investigations, profitability and financial performance (including financial performance targets and expectations), structural reform and the implementation of the UK ring-fencing regime, the implementation of RBS's restructuring and transformation programme, impairment losses and credit exposures under certain specified scenarios, increasing competition from new incumbents and disruptive technologies and RBS's exposure to political and economic risks (including with respect to Brexit), operational risk, conduct risk, cyber and IT risk and credit rating risk. In addition, forward-looking statements may include, without limitation, the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘commit’, ‘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. These statements concern or may affect future matters, such as RBS's future economic results, business plans and current strategies. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions. These and other factors, risks and uncertainties that may impact any forward-looking statement or RBS's actual results are discussed in RBS's UK 2017 Annual Report and Accounts (ARA) and materials filed with, or furnished to, the US Securities and Exchange Commission, including, but not limited to, RBS's most recent Annual Report on Form 20-F and Reports on Form 6-K. The forward-looking statements contained in this document speak only as of the date of this document and RBS does not assume or undertake any obligation or responsibility to update any of the forward-looking statements

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contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

Legal Entity Identifier: 2138005O9XJJN4JPN90

Date: 26 October 2018

THE ROYAL BANK OF SCOTLAND GROUP plc (Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill

Title: Deputy Secretary