

ROYAL BANK OF SCOTLAND GROUP PLC

Form 6-K

October 26, 2018

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

26 October 2018

Commission file number: 001-10306

**Form 6-K**

**The Royal Bank of Scotland Group plc**

Gogarburn

PO Box 1000

Edinburgh EH12 1HQ

Scotland

United Kingdom

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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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):\_\_

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

Yes \_\_

No X

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

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

This report on Form 6-K, except for any information contained on any websites linked or documents referred to in this report, shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-222022) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

## Forward-looking statements

### **Cautionary statement regarding forward-looking statements**

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

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS's transformation programme, the satisfaction of the Group's residual EU State Aid obligations; the continuation of RBS's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAE), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; RBS's exposure to political and economic risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promoter Score (NPS); employee engagement and gender balance in leadership positions.

### **Limitations inherent to forward-looking statements**

These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group's strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**Important factors that could affect the actual outcome of the forward-looking statements**

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document, including in the risk factors and other uncertainties set out in the Group's 2017 Annual Report on Form 20-F and other materials filed with, or furnished to, the US Securities and Exchange Commission. These include the significant risks for RBS presented by RBS's ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring and transformation programme, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; economic, regulatory and political risks, including as may result from the uncertainty arising from Brexit and from the outcome of general elections in the UK and changes in government policies; the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); the dependence of the Group's operations on its IT systems; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS's ability to achieve its capital, funding, liquidity and leverage requirements or targets which will depend in part on RBS's success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS's ability to access sufficient sources of capital, liquidity and funding when required; RBS's ability to satisfy its residual EU State Aid obligations and the timing thereof; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.

Forward-looking statements

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring and transformation initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks, including risks arising out of geopolitical events and political developments; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; RBS's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny (including by competition authorities) and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS's IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the application of stabilisation or resolution powers in significant stress situations; the execution of the run-down and/or sale of certain portfolios and assets; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

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

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

## Introduction

### Presentation of information

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

Any information contained on any websites linked or report references in this report is for information only and shall not be deemed to be incorporated by reference in this report.

### Non-GAAP financial information

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 non-GAAP (or non-IFRS) financial measures. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure.

The non-GAAP financial measures used in this document generally exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management, in conjunction with IFRS financial measures, to measure performance and make decisions regarding the future direction of the business. Management believes these non-GAAP financial measures, when provided in combination with reported IFRS results, provide helpful supplementary information for investors. These adjusted measures, derived from the reported results are non-IFRS financial measures but are not a substitute to IFRS reported measures.

The main non-GAAP measures used in this document include:

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; and 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 which are presented to provide investors with a

summary of the Group's business performance.

The Commercial Banking, Private Banking, RBS International and NatWest Markets operating segment period on period comparison is impacted by a number of business transfers executed in preparation for ring-fencing. Commentary on the movements in the period for these segments has been adjusted for these item and reconciliation notes are provided.

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" on page 1 of this document.

## Introduction

### Key operating indicators

This document includes a number of operational metrics which management believes may be helpful to investors in understanding the Group's business, including the Group's position against its own targets. These metrics include 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) and 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.

### Capital and liquidity measures

Certain liquidity and capital measures and ratios are presented in this document as management believes they are helpful for investors' understanding of the liquidity and capital profile of the business and the Group's position against its own targets and applicable regulatory requirements. Some of these measures are used by management for risk management purposes and may not yet be required to be disclosed by a government, governmental authority or self-regulatory organisation. As a result, the basis of calculation of these measures may not be the same as that used by the Group's peers. These capital and liquidity measures and ratios include: the liquidity coverage ratio, stressed outflow coverage and net stable funding ratio.

**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<sup>(1)</sup> 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 of £80 million 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 <sup>(2)</sup>

We retain the outlook guidance we provided in the Group's 2017 Annual Report on Form 20-F.

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.

### Notes:

(1) Excluding NatWest Markets total income of £1,290 million (2017 - £850 million), Central items total income of £281 million (2017 - £397 million), notable items in relation to Commercial Banking fair value and disposal gains of £179 million (2017 - £52 million) and UK PBB debt sale gain of £26 million (2017 - £176 million).

(2) 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 pages 349 to 379 of the 2017 Annual Report on Form 20-F and the Summary Risk Factors on pages 55 and 56 of the 2018 Interim Results on Form 6-K. These statements constitute forward-looking statements; refer to Forward-looking statements in this document.

**Business performance summary**

| <b>Performance key metrics and ratios</b>                                  | Nine months ended        |                   | Quarter ended            |              |                   |
|--|--------------------------|-------------------|--------------------------|--------------|-------------------|
|  | <b>30 September 2018</b> | 30 September 2017 | <b>30 September 2018</b> | 30 June 2018 | 30 September 2017 |
| Operating profit before tax  | <b>£2,787m</b>           | £2,822m           | <b>£961m</b>             | £613m        | £871m             |
| Profit attributable to ordinary shareholders                               | <b>£1,336m</b>           | £1,331m           | <b>£448m</b>             | £96m         | £392m             |
| Net interest margin  | <b>1.99%</b>             | 2.16%             | <b>1.93%</b>             | 2.01%        | 2.12%             |
| Average interest earning assets  | <b>£435,218m</b>         | £419,450m         | <b>£443,092m</b>         | £434,928m    | £430,962m         |
| Cost:income ratio (1)  | <b>69.1%</b>             | 69.1%             | <b>66.7%</b>             | 80.0%        | 67.5%             |
| Earnings per share   |                          |                   |                          |              |                   |
| - basic  | <b>11.1p</b>             | 11.2p             | <b>3.7p</b>              | 0.8p         | 3.3p              |
| - basic fully diluted  | <b>11.1p</b>             | 11.2p             | <b>3.7p</b>              | 0.8p         | 3.3p              |
| Return on tangible equity  | <b>5.3%</b>              | 5.2%              | <b>5.4%</b>              | 1.1%         | 4.5%              |
| Average tangible equity  | <b>£33,699m</b>          | £33,964m          | <b>£33,492m</b>          | £33,522m     | £34,465m          |
| Average number of ordinary shares outstanding during the period (millions) |                          |                   |                          |              |                   |
| - basic  | <b>11,998</b>            | 11,840            | <b>12,034</b>            | 12,003       | 11,886            |
| - fully diluted (2)  | <b>12,053</b>            | 11,913            | <b>12,083</b>            | 12,062       | 11,943            |
| <b>Balance sheet related key metrics and ratios</b>                        |                          |                   | <b>30 September 2018</b> | 30 June 2018 | 31 December 2017  |
| Total assets   |                          |                   | <b>£719.9bn</b>          | £748.3bn     | £738.1bn          |
| Funded assets  |                          |                   | <b>£587.3bn</b>          | £597.2bn     | £577.2bn          |
| Loans and advances to customers (excludes reverse repos)                   |                          |                   | <b>£319.6bn</b>          | £320.0bn     | £323.2bn          |
| Impairment provisions (3)  |                          |                   | <b>£3.9bn</b>            | £3.9bn       | £3.8bn            |
| Customer deposits (excludes repos)   |                          |                   | <b>£366.0bn</b>          | £366.3bn     | £367.0bn          |
| Liquidity coverage ratio (LCR)   |                          |                   | <b>158%</b>              | 167%         | 152%              |
| Liquidity portfolio  |                          |                   | <b>£195bn</b>            | £198bn       | £186bn            |
| Net stable funding ratio (NSFR) (4)  |                          |                   | <b>139%</b>              | 140%         | 132%              |
| Loan:deposit ratio   |                          |                   | <b>87%</b>               | 87%          | 88%               |
| Total wholesale funding  |                          |                   | <b>£78bn</b>             | £75bn        | £70bn             |
| Short-term wholesale funding   |                          |                   | <b>£14bn</b>             | £13bn        | £18bn             |
| Common Equity Tier (CET1) ratio  |                          |                   | <b>16.7%</b>             | 16.1%        | 15.9%             |
| Total capital ratio  |                          |                   | <b>22.1%</b>             | 21.5%        | 21.3%             |
| Pro forma CET 1 ratio, pre 2018 dividend accrual (5)                       |                          |                   | <b>16.8%</b>             | 16.2%        | 15.9%             |
| Risk-weighted assets (RWAs)  |                          |                   | <b>£194.5bn</b>          | £198.8bn     | £200.9bn          |
| CRR leverage ratio   |                          |                   | <b>5.4%</b>              | 5.2%         | 5.3%              |
| UK leverage ratio  |                          |                   | <b>6.3%</b>              | 6.0%         | 6.1%              |
| Tangible net asset value (TNAV) per ordinary share                         |                          |                   | <b>288p</b>              | 287p         | 294p              |
| Tangible net asset value (TNAV) per ordinary share - fully diluted         |                          |                   | <b>287p</b>              | 286p         | 292p              |
| Tangible equity  |                          |                   | <b>£34,672m</b>          | £34,564m     | £35,164m          |
| Number of ordinary shares in issue (millions)                              |                          |                   | <b>12,048</b>            | 12,028       | 11,965            |
| Number of ordinary shares in issue (millions) - fully diluted (2,6)        |                          |                   | <b>12,091</b>            | 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).

(3) 30 September 2018 and 30 June 2018 prepared under IFRS 9, 31 December 2017 prepared under IAS 39. Refer to 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. Refer to page 3 for further details on basis of preparation.

(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      | 30 September | 30 September   | 30 June | 30 September |
|  | 2018              | 2017         | 2018           | 2018    | 2017         |
|  | £m                | £m           | £m             | £m      | £m           |
| <b>Net interest income</b>             | <b>6,480</b>      | 6,776        | <b>2,154</b>   | 2,180   | 2,304        |
| Own credit adjustments                 | <b>59</b>         | (78)         | <b>20</b>      | 18      | (5)          |
| Loss on redemption of own debt         | -                 | (7)          | -              | -       | -            |
| Strategic disposals                    | -                 | 156          | -              | -       | -            |
| Other non-interest income              | <b>3,805</b>      | 3,229        | <b>1,468</b>   | 1,202   | 858          |
| <b>Non-interest income</b>             | <b>3,864</b>      | 3,300        | <b>1,488</b>   | 1,220   | 853          |
| <b>Total income</b>                    | <b>10,344</b>     | 10,076       | <b>3,642</b>   | 3,400   | 3,157        |
| Litigation and conduct costs           | <b>(1,190)</b>    | (521)        | <b>(389)</b>   | (782)   | (125)        |
| Strategic costs                        | <b>(649)</b>      | (1,034)      | <b>(299)</b>   | (141)   | (244)        |
| Other expenses                         | <b>(5,337)</b>    | (5,440)      | <b>(1,753)</b> | (1,801) | (1,774)      |
| <b>Operating expenses</b>              | <b>(7,176)</b>    | (6,995)      | <b>(2,441)</b> | (2,724) | (2,143)      |
| <b>Profit before impairment losses</b> | <b>3,168</b>      | 3,081        | <b>1,201</b>   | 676     | 1,014        |
| Impairment losses(1)                   | <b>(381)</b>      | (259)        | <b>(240)</b>   | (63)    | (143)        |
| <b>Operating profit before tax</b>     | <b>2,787</b>      | 2,822        | <b>961</b>     | 613     | 871          |
| Tax charge                             | <b>(1,139)</b>    | (992)        | <b>(398)</b>   | (412)   | (265)        |
| <b>Profit for the period</b>           | <b>1,648</b>      | 1,830        | <b>563</b>     | 201     | 606          |
| <b>Attributable to:</b>                |                   |              |                |         |              |
| Non-controlling interests              | <b>6</b>          | 21           | <b>22</b>      | (23)    | (8)          |
| Other owners                           | <b>306</b>        | 478          | <b>93</b>      | 128     | 222          |
| Ordinary shareholders                  | <b>1,336</b>      | 1,331        | <b>448</b>     | 96      | 392          |

*Notable items within total income*

|   |             |       |             |      |       |
|---|-------------|-------|-------------|------|-------|
| IFRS volatility in Central items (2)                    | <b>(34)</b> | 175   | <b>77</b>   | 17   | 21    |
| Insurance indemnity                                     | <b>272</b>  | -     | <b>272</b>  | -    | -     |
| <i>of which:</i>  |             |       |             |      |       |
| NatWest Markets   | <b>165</b>  | -     | <b>165</b>  | -    | -     |
| Central items & other                                   | <b>107</b>  | -     | <b>107</b>  | -    | -     |
| UK PBB debt sale gain                                   | <b>26</b>   | 176   | -           | -    | 168   |
| FX gains/losses in Central items & other                | <b>(7)</b>  | (175) | <b>(11)</b> | 19   | (67)  |
| Commercial Banking fair value and disposal gain/(loss)  | <b>179</b>  | 52    | <b>(13)</b> | 115  | 52    |
| NatWest Markets legacy business disposal (losses)/gains | <b>(43)</b> | (549) | <b>14</b>   | (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 prepared (1) 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               |         |             |
|---------------------|---------------------|---------|--------------|----------------------|---------------------|---------|-------------|
|                     | <b>30 September</b> | 30 June | 30 September |                      | <b>30 September</b> | 30 June | 31 December |
|                     | <b>2018</b>         | 2018    | 2017         |                      | <b>2018</b>         | 2018    | 2017        |
|                     | <b>£m</b>           | £m      | £m           |                      | <b>£bn</b>          | £bn     | £bn         |
| Total income        | <b>1,564</b>        | 1,570   | 1,757        | Net loans & advances |                     |         |             |
| Operating expenses  | <b>(959)</b>        | (746)   | (819)        | to customers         | <b>163.2</b>        | 161.9   | 161.7       |
| Impairment losses   | <b>(70)</b>         | (90)    | (78)         | Customer deposits    | <b>183.4</b>        | 182.2   | 180.6       |
| Operating profit    | <b>535</b>          | 734     | 860          | RWAs                 | <b>45.4</b>         | 43.4    | 43.0        |
| Return on equity    | <b>20.9%</b>        | 30.0%   | 34.2%        |                      |                     |         |             |
| Net interest margin | <b>2.76%</b>        | 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 & Business Banking – Ulster Bank RoI**

|  | Quarter ended       |         |              |  | As at               |         |             |
|--|---------------------|---------|--------------|--|---------------------|---------|-------------|
|  | <b>30 September</b> | 30 June | 30 September |  | <b>30 September</b> | 30 June | 31 December |

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|                              | <b>2018</b>    | 2018  | 2017  |                                   | <b>2018</b> | 2018 | 2017 |
|------------------------------|----------------|-------|-------|-----------------------------------|-------------|------|------|
|                              | <b>£m</b>      | £m    | £m    |                                   | <b>£bn</b>  | £bn  | £bn  |
| Total income                 | <b>151</b>     | 166   | 150   | Net loans & advances to customers | <b>19.2</b> | 19.1 | 19.5 |
| Operating expenses           | <b>(167)</b>   | (124) | (129) | Customer deposits                 | <b>18.1</b> | 17.6 | 17.5 |
| Impairment (losses)/releases | <b>(60)</b>    | 34    | 10    | RWAs                              | <b>16.5</b> | 16.8 | 18.0 |
| Operating (loss)/profit      | <b>(76)</b>    | 76    | 31    |                                   |             |      |      |
| Return on equity             | <b>(12.7%)</b> | 12.5% | 4.6%  |                                   |             |      |      |
| Net interest margin          | <b>1.72%</b>   | 1.91% | 1.58% |                                   |             |      |      |

Q3 2018 performance

Total income increased by £1 million, or 0.7% (£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 £11 million (€13 million) one-off funding benefit in the prior quarter.

Operating expenses increased by £38 million, or 29.5% (€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.

A net impairment loss of £60 million (€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 £0.3 billion (€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                    |              |                  |
|---------------------|--------------------------|--------------|-------------------|--------------------------|--------------|------------------|
|                     | <b>30 September 2018</b> | 30 June 2018 | 30 September 2017 | <b>30 September 2018</b> | 30 June 2018 | 31 December 2017 |
|                     | <b>£m</b>                | £m           | £m                | <b>£bn</b>               | £bn          | £bn              |
| Total income        | <b>789</b>               | 915          | 928               | Net loans & advances     |              |                  |
| Operating expenses  | <b>(443)</b>             | (404)        | (443)             | to customers             | <b>90.1</b>  | 90.7             |
| Impairment          |                          |              |                   | Customer deposits        | <b>96.4</b>  | 96.4             |
| (losses)/releases   | <b>(103)</b>             | 4            | (151)             | RWAs                     | <b>69.0</b>  | 71.7             |
| Operating profit    | <b>243</b>               | 515          | 334               |                          |              | 71.8             |
| Return on equity    | <b>6.6%</b>              | 15.9%        | 8.6%              |                          |              |                  |
| Net interest margin | <b>1.71%</b>             | 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                             |              |                  |      |
|------------------------------|--------------------------|--------------|-------------------|-----------------------------------|--------------|------------------|------|
|                              | <b>30 September 2018</b> | 30 June 2018 | 30 September 2017 | <b>30 September 2018</b>          | 30 June 2018 | 31 December 2017 |      |
|                              | <b>£m</b>                | £m           | £m                | <b>£bn</b>                        | £bn          | £bn              |      |
| Total income                 | <b>195</b>               | 198          | 166               | Net loans & advances to customers | <b>14.2</b>  | 13.8             | 13.5 |
| Operating expenses (110)     |                          | (104)        | (103)             | Customer deposits                 | <b>27.2</b>  | 26.4             | 26.9 |
| Impairment (losses)/releases | <b>(1)</b>               | --           | 3                 | RWAs                              | <b>9.5</b>   | 9.4              | 9.1  |
| Operating profit             | <b>84</b>                | 94           | 66                | AUM                               | <b>21.8</b>  | 21.3             | 21.5 |
| Return on equity             | <b>17.3%</b>             | 19.3%        | 13.2%             |                                   |              |                  |      |
| Net interest margin          | <b>2.54%</b>             | 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               |         |             |
|---------------------|---------------------|---------|--------------|----------------------|---------------------|---------|-------------|
|                     | <b>30 September</b> | 30 June | 30 September |                      | <b>30 September</b> | 30 June | 31 December |
|                     | <b>2018</b>         | 2018    | 2017         |                      | <b>2018</b>         | 2018    | 2017        |
|                     | <b>£m</b>           | £m      | £m           |                      | <b>£bn</b>          | £bn     | £bn         |
| Total income        | <b>155</b>          | 147     | 97           | Net loans & advances |                     |         |             |
| Operating expenses  | <b>(60)</b>         | (55)    | (59)         | to customers         | <b>13.0</b>         | 13.0    | 8.7         |
| Impairment          |                     |         |              | Customer deposits    | <b>27.0</b>         | 28.5    | 29.0        |
| (losses)/releases   | <b>(3)</b>          | 3       | 2            | RWAs                 | <b>6.9</b>          | 6.8     | 5.1         |
| Operating profit    | <b>92</b>           | 95      | 40           |                      |                     |         |             |
| Return on equity    | <b>26.9%</b>        | 27.9%   | 10.4%        |                      |                     |         |             |
| Net interest margin | <b>1.73%</b>        | 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               |         |             |
|--------------------|---------------------|---------|--------------|---------------|---------------------|---------|-------------|
|                    | <b>30 September</b> | 30 June | 30 September |               | <b>30 September</b> | 30 June | 31 December |
|                    | <b>2018</b>         | 2018    | 2017         |               | <b>2018</b>         | 2018    | 2017        |
|                    | <b>£m</b>           | £m      | £m           |               | <b>£bn</b>          | £bn     | £bn         |
| Total income       | <b>569</b>          | 284     | 20           | Funded assets | <b>120.9</b>        | 134.5   | 118.7       |
| Operating expenses | <b>(478)</b>        | (322)   | (526)        | RWAs          | <b>46.5</b>         | 50.1    | 52.9        |
| Impairment         |                     |         |              |               |                     |         |             |

|                         |             |        |         |
|-------------------------|-------------|--------|---------|
| (losses)/releases       | <b>(4)</b>  | (13)   | 71      |
| Operating profit/(loss) | <b>87</b>   | (51)   | (435)   |
| Return on equity        | <b>1.8%</b> | (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 & 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          |                 |                     |
|---|------------------------------|-----------------|---------------------|
|   | <b>30 September<br/>2018</b> | 30 June<br>2018 | 31 December<br>2017 |
| <b>Risk asset ratios</b>                  | %                            | %               | %                   |
| CET1                                      | <b>16.7</b>                  | 16.1            | 15.9                |
| Tier 1                                    | <b>18.8</b>                  | 18.1            | 17.9                |
| Total                                     | <b>22.1</b>                  | 21.5            | 21.3                |
| <b>Capital</b>                            | £m                           | £m              | £m                  |
| Tangible equity                           | <b>34,672</b>                | 34,564          | 35,164              |
| Expected loss less impairment provisions  | <b>(606)</b>                 | (636)           | (1,286)             |
| Prudential valuation adjustment           | <b>(574)</b>                 | (608)           | (496)               |
| Deferred tax assets                       | <b>(731)</b>                 | (746)           | (849)               |
| Own credit adjustments                    | <b>(264)</b>                 | (224)           | (90)                |
| Pension fund assets                       | <b>(283)</b>                 | (316)           | (287)               |
| Cash flow hedging reserve                 | <b>370</b>                   | 151             | (227)               |
| Other adjustments for regulatory purposes | <b>(129)</b>                 | (235)           | 28                  |
| Total deductions                          | <b>(2,217)</b>               | (2,614)         | (3,207)             |
| CET1 capital                              | <b>32,455</b>                | 31,950          | 31,957              |
| AT1 capital                               | <b>4,051</b>                 | 4,051           | 4,041               |
| Tier 1 capital                            | <b>36,506</b>                | 36,001          | 35,998              |
| Tier 2 capital                            | <b>6,455</b>                 | 6,659           | 6,765               |
| Total regulatory capital                  | <b>42,961</b>                | 42,660          | 42,763              |
| <b>Risk-weighted assets</b>               |                              |                 |                     |
| Credit risk                               |                              |                 |                     |
| - non-counterparty                        | <b>142,500</b>               | 144,000         | 144,700             |
| - counterparty                            | <b>14,100</b>                | 15,100          | 15,400              |
| Market risk                               | <b>15,500</b>                | 17,300          | 17,000              |
| Operational risk                          | <b>22,400</b>                | 22,400          | 23,800              |
| Total RWAs                                | <b>194,500</b>               | 198,800         | 200,900             |
| <b>Leverage (1)</b>                       |                              |                 |                     |
| Cash and balances at central banks        | <b>106,500</b>               | 102,600         | 98,300              |
| Derivatives                               | <b>132,600</b>               | 151,100         | 160,800             |
| Loans and advances                        | <b>337,200</b>               | 338,100         | 339,400             |
| Reverse repos                             | <b>29,800</b>                | 38,900          | 40,700              |
| Other assets                              | <b>113,800</b>               | 117,600         | 98,900              |

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|   |                  |           |           |
|---|------------------|-----------|-----------|
| Total assets                                | <b>719,900</b>   | 748,300   | 738,100   |
| Derivatives                                 |                  |           |           |
| - netting and variation margin              | <b>(136,900)</b> | (153,400) | (161,700) |
| - potential future exposures                | <b>42,700</b>    | 46,200    | 49,400    |
| Securities financing transactions gross up  | <b>1,700</b>     | 2,700     | 2,300     |
| Undrawn commitments                         | <b>49,500</b>    | 50,700    | 53,100    |
| Regulatory deductions and other adjustments | <b>(700)</b>     | (1,200)   | (2,100)   |
| <br>  |                  |           |           |
| CRR Leverage exposure                       | <b>676,200</b>   | 693,300   | 679,100   |
| <br>  |                  |           |           |
| CRR leverage ratio%                         | <b>5.4</b>       | 5.2       | 5.3       |
| <br>  |                  |           |           |
| UK leverage exposure (2)                    | <b>580,300</b>   | 597,700   | 587,100   |
| <br>  |                  |           |           |
| UK leverage ratio% (2)                      | <b>6.3</b>       | 6.0       | 6.1       |

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 |                 |                    |                 |                   |                 |       | Central items & other (1) | Total RBS |
|---|---------------------------------|-----------------|--------------------|-----------------|-------------------|-----------------|-------|---------------------------|-----------|
|   | PBB                             |                 | CPB                |                 |                   | NatWest Markets |       |                           |           |
|   | UK PBB                          | Ulster Bank RoI | Commercial Banking | Private Banking | RBS International |                 |       |                           |           |
| £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                     |           |
| 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 14.

nm = not meaningful



## Segment performance

|   | Nine months ended 30 September 2018 |         |            |         |               |         |               |         |
|---|-------------------------------------|---------|------------|---------|---------------|---------|---------------|---------|
|   | PBB                                 |         | CPB        |         |               | Central |               |         |
|   | UK                                  | Ulster  | Commercial | Private | RBS           | NatWest | items & Total |         |
|   | PBB                                 | Bank    | Banking    | Banking | International | Markets | other         | RBS     |
| £m  | £m                                  | £m      | £m         | £m      | £m            | (1)     | £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   |
| 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   |
|   | 24.8                                | 3.1     | 8.1        | 1.9     | 1.7           | 4.9     | 24.1          | 68.6    |

Employee numbers (FTEs -  
thousands)

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

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

|  | Nine months ended   |              | Quarter ended       |         |              |
|--|---------------------|--------------|---------------------|---------|--------------|
|  | <b>30 September</b> | 30 September | <b>30 September</b> | 30 June | 30 September |
|  | <b>2018</b>         | 2017         | <b>2018</b>         | 2018    | 2017         |
|  | <b>£m</b>           | £m           | <b>£m</b>           | £m      | £m           |
| Interest receivable                      | <b>8,224</b>        | 8,280        | <b>2,780</b>        | 2,742   | 2,818        |
| Interest payable                         | <b>(1,744)</b>      | (1,504)      | <b>(626)</b>        | (562)   | (514)        |
| <b>Net interest income (1)</b>           | <b>6,480</b>        | 6,776        | <b>2,154</b>        | 2,180   | 2,304        |
| Fees and commissions receivable          | <b>2,433</b>        | 2,492        | <b>787</b>          | 833     | 826          |
| Fees and commissions payable             | <b>(671)</b>        | (652)        | <b>(220)</b>        | (244)   | (204)        |
| Income from trading activities           | <b>1,346</b>        | 832          | <b>499</b>          | 382     | (52)         |
| Loss on redemption of own debt           | -                   | (7)          | -                   | -       | -            |
| Other operating income                   | <b>756</b>          | 635          | <b>422</b>          | 249     | 283          |
| <b>Non-interest income</b>               | <b>3,864</b>        | 3,300        | <b>1,488</b>        | 1,220   | 853          |
| <b>Total income</b>                      | <b>10,344</b>       | 10,076       | <b>3,642</b>        | 3,400   | 3,157        |
| Staff costs                              | <b>(3,108)</b>      | (3,576)      | <b>(1,022)</b>      | (1,031) | (1,129)      |
| Premises and equipment                   | <b>(972)</b>        | (1,041)      | <b>(328)</b>        | (274)   | (363)        |
| Other administrative expenses            | <b>(2,521)</b>      | (1,736)      | <b>(885)</b>        | (1,237) | (528)        |
| Depreciation and amortisation            | <b>(544)</b>        | (630)        | <b>(206)</b>        | (175)   | (119)        |
| Write down of other intangible assets    | <b>(31)</b>         | (12)         | -                   | (7)     | (4)          |
| <b>Operating expenses</b>                | <b>(7,176)</b>      | (6,995)      | <b>(2,441)</b>      | (2,724) | (2,143)      |
| <b>Profit before impairment losses</b>   | <b>3,168</b>        | 3,081        | <b>1,201</b>        | 676     | 1,014        |
| Impairment losses                        | <b>(381)</b>        | (259)        | <b>(240)</b>        | (63)    | (143)        |
| <b>Operating profit before tax</b>       | <b>2,787</b>        | 2,822        | <b>961</b>          | 613     | 871          |
| Tax charge                               | <b>(1,139)</b>      | (992)        | <b>(398)</b>        | (412)   | (265)        |
| <b>Profit for the period</b>             | <b>1,648</b>        | 1,830        | <b>563</b>          | 201     | 606          |
| <b>Attributable to:</b>                  |                     |              |                     |         |              |
| Non-controlling interests                | <b>6</b>            | 21           | <b>22</b>           | (23)    | (8)          |
| Preference share and other dividends     | <b>306</b>          | 478          | <b>93</b>           | 128     | 222          |
| Ordinary shareholders                    | <b>1,336</b>        | 1,331        | <b>448</b>          | 96      | 392          |
| <b>Earnings per ordinary share (EPS)</b> |                     |              |                     |         |              |
| Earnings per ordinary share (2)          | <b>11.1p</b>        | 11.2p        | <b>3.7p</b>         | 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 12 and 13.**

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.

- (3) Operating lease depreciation included in income for the nine months ended 30 September 2018 - £89 million; Q3 2018 - £32 million.

(4) 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    |         |           |
|--|-------------------|-----------|------------------|---------|-----------|
|  | <b>30</b>         | 30        | <b>30</b>        | 30 June | 30        |
|  | <b>September</b>  | September | <b>September</b> | 2018    | September |
|  | <b>2018</b>       | 2017      | <b>2018</b>      | 2018    | 2017      |
|  | <b>£m</b>         | £m        | <b>£m</b>        | £m      | £m        |
| Profit for the period  | <b>1,648</b>      | 1,830     | <b>563</b>       | 201     | 606       |
| <b>Items that do not qualify for reclassification</b>  |                   |           |                  |         |           |
| Profit/(loss) on remeasurement of retirement benefit schemes   | <b>72</b>         | (26)      | <b>72</b>        | -       | -         |
| Profit/(loss) on fair value of credit in financial liabilities DFV through profit or loss due to own credit risk | <b>109</b>        | (107)     | <b>14</b>        | 34      | (30)      |
| Fair value through other comprehensive income (FVOCI) (1)  | <b>61</b>         | -         | <b>58</b>        | 3       | -         |
| Funding commitment to retirement benefit schemes (2)   | <b>(2,000)</b>    | -         | <b>-</b>         | (2,000) | -         |
| Tax  | <b>487</b>        | (5)       | <b>(13)</b>      | 513     | 3         |
|  | <b>(1,271)</b>    | (138)     | <b>131</b>       | (1,450) | (27)      |
| <b>Items that do qualify for reclassification</b>  |                   |           |                  |         |           |
| FVOCI financial assets (1)   | <b>31</b>         | 37        | <b>(168)</b>     | 68      | 8         |
| Cash flow hedges   | <b>(822)</b>      | (983)     | <b>(301)</b>     | 63      | (372)     |
| Currency translation   | <b>120</b>        | 82        | <b>102</b>       | 91      | (21)      |
| Tax  | <b>224</b>        | 237       | <b>127</b>       | (29)    | 76        |
|  | <b>(447)</b>      | (627)     | <b>(240)</b>     | 193     | (309)     |
| <b>Other comprehensive loss after tax</b>  | <b>(1,718)</b>    | (765)     | <b>(109)</b>     | (1,257) | (336)     |
| <b>Total comprehensive (loss)/income for the period</b>  | <b>(70)</b>       | 1,065     | <b>454</b>       | (1,056) | 270       |
| <b>Total comprehensive (loss)/income is attributable to:</b>   |                   |           |                  |         |           |
| Non-controlling interests  | <b>28</b>         | 30        | <b>57</b>        | (18)    | (19)      |
| Preference shareholders  | <b>94</b>         | 155       | <b>20</b>        | 56      | 70        |
| Paid-in equity holders   | <b>212</b>        | 323       | <b>73</b>        | 72      | 152       |
| Ordinary shareholders  | <b>(404)</b>      | 557       | <b>304</b>       | (1,166) | 67        |
|  | <b>(70)</b>       | 1,065     | <b>454</b>       | (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.

(2) 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 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.

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

|   | <b>30 September</b> | 31 December |
|---|---------------------|-------------|
|   | <b>2018</b>         | 2017        |
|   | <b>£m</b>           | £m          |
| <b>Assets</b>                                     |                     |             |
| Cash and balances at central banks                | <b>106,503</b>      | 98,337      |
| Net loans and advances to banks                   | <b>17,625</b>       | 16,254      |
| Reverse repurchase agreements and stock borrowing | <b>9,468</b>        | 13,997      |
| Loans and advances to banks                       | <b>27,093</b>       | 30,251      |
| Net loans and advances to customers               | <b>319,577</b>      | 323,184     |
| Reverse repurchase agreements and stock borrowing | <b>20,339</b>       | 26,735      |
| Loans and advances to customers                   | <b>339,916</b>      | 349,919     |
| Debt securities                                   | <b>85,662</b>       | 78,933      |
| Equity shares                                     | <b>604</b>          | 450         |
| Settlement balances                               | <b>11,213</b>       | 2,517       |
| Derivatives                                       | <b>132,574</b>      | 160,843     |
| Intangible assets                                 | <b>6,581</b>        | 6,543       |
| Property, plant and equipment                     | <b>4,247</b>        | 4,602       |
| Deferred tax                                      | <b>1,781</b>        | 1,740       |
| Prepayments, accrued income and other assets      | <b>3,512</b>        | 3,726       |
| Assets of disposal groups                         | <b>202</b>          | 195         |
| <b>Total assets</b>                               | <b>719,888</b>      | 738,056     |
| <b>Liabilities</b>                                |                     |             |
| Bank deposits                                     | <b>39,634</b>       | 39,479      |
| Repurchase agreements and stock lending           | <b>7,993</b>        | 7,419       |
| Deposits by banks                                 | <b>47,627</b>       | 46,898      |
| Customer deposits                                 | <b>365,985</b>      | 367,034     |
| Repurchase agreements and stock lending           | <b>33,113</b>       | 31,002      |
| Customer accounts                                 | <b>399,098</b>      | 398,036     |
| Debt securities in issue                          | <b>39,067</b>       | 30,559      |
| Settlement balances                               | <b>10,625</b>       | 2,844       |
| Short positions                                   | <b>27,676</b>       | 28,527      |
| Derivatives                                       | <b>125,333</b>      | 154,506     |
| Provisions for liabilities and charges            | <b>3,247</b>        | 7,757       |
| Accruals and other liabilities                    | <b>5,602</b>        | 6,392       |
| Retirement benefit liabilities                    | <b>2,128</b>        | 129         |
| Deferred tax                                      | <b>476</b>          | 583         |
| Subordinated liabilities                          | <b>10,341</b>       | 12,722      |
| Liabilities of disposal groups                    | <b>1</b>            | 10          |
| <b>Total liabilities</b>                          | <b>671,221</b>      | 688,963     |
| <b>Equity</b>                                     |                     |             |
| Non-controlling interests                         | <b>791</b>          | 763         |
| Owners' equity*                                   |                     |             |

|                                     |                |         |
|-------------------------------------|----------------|---------|
| Called up share capital             | <b>12,048</b>  | 11,965  |
| Reserves                            | <b>35,828</b>  | 36,365  |
| Total equity                        | <b>48,667</b>  | 49,093  |
| <b>Total liabilities and equity</b> | <b>719,888</b> | 738,056 |
| *Owners' equity attributable to:    |                |         |
| Ordinary shareholders               | <b>41,253</b>  | 41,707  |
| Other equity owners                 | <b>6,623</b>   | 6,623   |
|                                     | <b>47,876</b>  | 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<br>£m | Paid-in<br>equity<br>£m | Retained<br>earnings<br>£m | Other<br>reserves*<br>£m | Total<br>owners'<br>equity<br>£m | Non<br>controlling<br>interests<br>£m | Total<br>equity<br>£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                               |
| <b>At 30 September 2018</b>   | <b>13,050</b>                                       | <b>4,058</b>            | <b>16,823</b>              | <b>13,945</b>            | <b>47,876</b>                    | <b>791</b>                            | <b>48,667</b>                    |
|   |   |                         |                            |                          |                                  |                                       | <b>30<br/>September<br/>2018</b> |
| <b>Total equity is attributable to:</b>   |   |                         |                            |                          |                                  |                                       | <b>£m</b>                        |
| Non-controlling interests   |   |                         |                            |                          |                                  |                                       | 791                              |
| Preference shareholders   |   |                         |                            |                          |                                  |                                       | 2,565                            |
| Paid-in equity holders  |   |                         |                            |                          |                                  |                                       | 4,058                            |
| Ordinary shareholders   |   |                         |                            |                          |                                  |                                       | 41,253                           |
|   |   |                         |                            |                          |                                  |                                       | <b>48,667</b>                    |
| <b>*Other reserves consist of:</b>  |   |                         |                            |                          |                                  |                                       |                                  |
| Merger reserve  |   |                         |                            |                          |                                  |                                       | 10,881                           |
| Fair value through other comprehensive income reserve   |   |                         |                            |                          |                                  |                                       | 361                              |
| Cash flow hedging reserve   |   |                         |                            |                          |                                  |                                       | (370)                            |
| Foreign exchange reserve  |   |                         |                            |                          |                                  |                                       | 3,073                            |

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 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 on Form 20-F 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 252 and 253 of the Group's 2017 Annual Report on Form 20-F, 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:

|                                     | Impact of IFRS 9          |                                       |                                    |             | 1 January<br>Tax 2018<br>£m |
|-------------------------------------|---------------------------|---------------------------------------|------------------------------------|-------------|-----------------------------|
|                                     | 31 December<br>2017<br>£m | Classification &<br>measurement<br>£m | Expected<br>credit<br>losses<br>£m | £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>              |

| <b>Key differences in moving from IAS 39 to IFRS 9 on impairment loss</b> | <b>Total<br/>£m</b> |
|---|---------------------|
| 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 242 to 254 of the Group's 2017 Annual Report on Form 20-F. 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 250 to 252 of the Group's 2017 Annual Report on Form 20-F. 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**

|  | <b>Payment<br/>protection<br/>insurance<br/>£m</b> | <b>Other<br/>customer<br/>redress<br/>£m</b> | <b>DoJ (1)<br/>£m</b> | <b>Litigation<br/>and other<br/>regulatory<br/>(incl. RMBS)<br/>£m</b> | <b>Other<br/>£m</b> | <b>Total<br/>£m</b> |
|--|--|--|-----------------------|--|---------------------|---------------------|
| 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                 |

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|  |              |              |                |             |              |                |
|--|--------------|--------------|----------------|-------------|--------------|----------------|
| 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 | -            | <b>3</b>     | -              | -           | -            | <b>3</b>       |
| Currency translation and other movements     | -            | <b>1</b>     | <b>46</b>      | <b>12</b>   | <b>11</b>    | <b>70</b>      |
| Charge to income statement                   | <b>200</b>   | <b>55</b>    | -              | <b>133</b>  | <b>33</b>    | <b>421</b>     |
| Releases to income statement                 | -            | <b>(6)</b>   | -              | <b>(10)</b> | <b>(48)</b>  | <b>(64)</b>    |
| Provisions utilised                          | <b>(142)</b> | <b>(112)</b> | <b>(3,761)</b> | <b>(35)</b> | <b>(128)</b> | <b>(4,178)</b> |
| <b>At 30 September 2018</b>                  | <b>803</b>   | <b>591</b>   | -              | <b>811</b>  | <b>1,042</b> | <b>3,247</b>   |

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 on Form 6-K, 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.

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**Additional information****Other financial data**

The following table shows RBS's issued and fully paid share capital, owners' equity and indebtedness on a consolidated basis in accordance with IFRS as at 30 September 2018.

|   | <b>As at<br/>30 September<br/>2018<br/>£m</b> |
|---|---|
| <b>Share capital - allotted, called up and fully paid</b> |   |
| Ordinary shares of £1                                     | <b>12,048</b>                                 |
| Retained income and other reserves                        | <b>35,828</b>                                 |
| Owners' equity  | <b>47,876</b>                                 |
| <b>RBS indebtedness</b>                                   |   |
| Subordinated liabilities                                  | <b>10,341</b>                                 |
| Debt securities in issue                                  | <b>39,067</b>                                 |
| Total indebtedness  | <b>49,408</b>                                 |
| Total capitalisation and indebtedness                     | <b>97,284</b>                                 |

Under IFRS, certain preference shares are classified as debt and are included in subordinated liabilities in the table above.

The information contained in the table above has not changed materially since 30 September 2018.

**Additional information****Other financial data** (continued)

|   | <b>Nine months<br/>ended</b> | <b>Year ended 31 December</b> |             |             |             |             |
|---|------------------------------|-------------------------------|-------------|-------------|-------------|-------------|
|   |                              | <b>2017</b>                   | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|   | <b>30 September</b>          |                               |             |             |             |             |
|   | <b>2018 (1)</b>              |                               |             |             |             |             |
| Return on average total assets (2)                  | <b>0.3%</b>                  | 0.1%                          | (0.8%)      | (0.2%)      | (0.3%)      | (0.7%)      |
| Return on average ordinary shareholders' equity (3) | <b>4.4%</b>                  | 1.9%                          | (15.3%)     | (4.0%)      | (6.5%)      | (14.7%)     |
| Average total equity as a percentage                |                              |                               |             |             |             |             |
|   | <b>7.2%</b>                  | 7.0%                          | 6.2%        | 6.0%        | 5.8%        | 5.5%        |
| of average total assets                             |                              |                               |             |             |             |             |
| Ratio of earnings to combined fixed                 |                              |                               |             |             |             |             |
| charges and preference share dividends (4,5)        |                              |                               |             |             |             |             |
| - including interest on deposits                    | <b>2.18</b>                  | 1.58                          | (0.45)      | 0.17        | 1.52        | (0.51)      |
| - excluding interest on deposits                    | <b>4.52</b>                  | 2.25                          | (2.13)      | (1.17)      | 2.61        | (5.12)      |
| Ratio of earnings to fixed charges only (4,5)       |                              |                               |             |             |             |             |
| - including interest on deposits                    | <b>2.55</b>                  | 2.05                          | (0.53)      | 0.19        | 1.67        | (0.55)      |
| - excluding interest on deposits                    | <b>7.97</b>                  | 4.37                          | (3.25)      | (1.60)      | 3.58        | (6.95)      |

## Notes:

(1) Based on unaudited numbers.

(2) Return on average total assets represents profit/(loss) attributable to ordinary shareholders as a percentage of average total assets.

(3) Return on average ordinary shareholders' equity represents profit/(loss) attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity.

(4) For this purpose, earnings consist of income before tax and non-controlling interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).

The earnings for the years ended 31 December 2016, 2015 and 2013 were inadequate to cover total fixed charges and preference share dividends. The coverage deficiency for total fixed charges and preference share dividends for the years ended December 31, 2016, 2015 and 2013 was £4,586 million (\$6,165 million), £3,088 million (\$4,709 million) and £9,247 million (\$14,493 million), respectively. The coverage deficiency for fixed charges for the (5) years ended December 31, 2016, 2015 and 2013 was £4,082 million (\$5,488 million), £2,703 million (\$4,122 million) and £8,849 million (\$13,869 million), respectively. Dollar amounts have been converted from sterling at the following rates which are the average of the Noon Buying Rates on the last US business day of each month during the relevant year: (i) \$1.3444 for the year ended December 31, 2016; (ii) \$1.5250 for the year ended December 31, 2015; and (iii) \$1.5673 for the year ended December 31, 2013.

**SIGNATURE**

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

**The Royal Bank of Scotland Group plc**

**Registrant**

/s/ Andrew Wells

Andrew Wells

Financial Controller

26 October 2018

