

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

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For October 31, 2014

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X

Form 40-F ___

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

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

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

Yes ___

No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

The Royal Bank of Scotland Group plc
Q3 2014 Results

Contents

	Page
Introduction	1
Highlights	2
Analysis of results	10
Customer franchise and segment performance	18
Statutory results	34

Forward looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group’s (RBS) restructuring and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; RBS’s future financial performance; the level and extent of future impairments and write-downs; and RBS’s exposure to political risks, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global and UK economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on RBS in particular; the ability to implement strategic plans on a timely basis, or at all, including the on-going simplification of RBS’s structure, rationalisation of and investment in its IT systems and the reliability and resilience of those systems, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy

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

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

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

Introduction

Presentation of information

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

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2013 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

Contacts

For analyst enquiries:

Richard O'Connor Head of Investor Relations +44 (0) 20 7672 1758

For media enquiries:

RBS Press Office +44 (0) 131 523 4205

Analysts and investors conference call

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

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

Announcement and slides

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

Financial supplement

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

Highlights

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

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

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

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

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

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

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

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

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

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

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

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

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

Highlights

Ross McEwan, Chief Executive, said:

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

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

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

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

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

Highlights

Summary consolidated income statement for the period ended 30 September 2014

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

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

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

*Restated - see page 39.

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

Notes:

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

Details of other comprehensive income are provided on page 35.

Highlights

Summary consolidated balance sheet at 30 September 2014

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

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

Notes:

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

Highlights

Q3 2014 performance

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

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

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

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

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

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

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

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

Balance sheet and capital

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

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

Notes:

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

Highlights

Balance sheet and capital (continued)

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

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

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

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

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

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

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

Performance measures(1)

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

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

Notes:

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

Highlights

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

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

Note:

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

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

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

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

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

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

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

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

Highlights

Outlook

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

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

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

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

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

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

Analysis of results

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

Notes:

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

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

non-recurring adjustments.

Q3 2014 compared with Q2 2014

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

Note:

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

Analysis of results

Operating expenses

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

*Restructuring costs comprise:

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

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

Note:

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

Q3 2014 compared with Q2 2014

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

Analysis of results

Impairment (releases)/losses

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

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

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

Note:

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

Analysis of results

Q3 2014 compared with Q2 2014

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

Analysis of results

Risk elements in lending (REIL) and loan impairment provisions

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