ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
April 30, 2019

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

30 April 2019

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 x Form 40-F o

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):o

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):o

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 o 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Form F-3 (File No. 333-222022) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Presentation of information

Explanatory note

The company is filing this Form 6-K to restate certain disclosures in the company s annual report on Form 20-F for the year ended 31 December 2018, filed with the Securities and Exchange Commission on 28 February 2019 (the 2018 Form 20-F) in connection with the re-segmentation completed in Q1 2019 and effective from 1 January 2019 and changes in Reporting standard IAS 12 Income taxes effective from 1 January 2019. The sections restated include the Business review, Capital and risk management, and the Financial statements.

Summary of the re-segmentation

Business Banking has been transferred from UK Personal and Business Banking (UK PBB) to Commercial Banking as the nature of the business, including distribution channels, products and customers, are more closely aligned to the Commercial Banking Business. Concurrent with the transfer, UK PBB has been renamed UK Personal Banking (UK PB) and the previous franchise combining UK PBB and Ulster Bank RoI renamed Personal & Ulster. The Commercial and Private Banking franchise has also been renamed Commercial & Private Banking (CPB).

Changes in reporting standards

IAS 12 Income taxes was revised with effect from 1 January 2019. The income statement is now required to include any tax relief on the servicing cost of instruments classified as equity. Relief of £67 million was recognised in the income statement and the statement of changes in equity for the year ended 31 December 2018; this and prior periods have been restated in the Q1 2019 results and in this document.

This Form 6-K

RBS released its results for the three months ended 31 March 2019, which were filed with the Securities and Exchange Commission on a separate Form 6-K on 26 April 2019, reflecting the reclassified segmental information and the changes in Reporting standard IAS 12 Income taxes . To facilitate comparison with these interim results, the disclosures included in the 2018 Form 20-F have been restated in this Form 6-K.

Accordingly, the sections Business review , Capital and risk management and Financial statements of the 2018 Form 20-F have been represented in full and in which the undernoted pages that correspond to the 2018 Form 20-F have been restated to reflect the re-segmentation of results attributable to UK Business Banking and to reflect the changes in Reporting standard IAS 12 Income taxes . Page numbers in this Form 6-K remain unchanged to the 2018 Form 20-F to facilitate cross referencing and are therefore not necessarily consecutive.

Pages impacted by re-segmentation:

Page 40 (Business review Analysis of results Segmental summary income statements)

Pages 46 to 47 (Segmental performance UK Personal & Business Banking)

Pages 50 to 51 (Segmental performance Commercial Banking)

Page 117 (Capital and risk management Capital, liquidity and funding risk RWAs by segment)

Page 121 (Capital and risk management Capital, liquidity and funding risk Funding gap: maturity and segmental analysis)

Page 134 (Capital and risk management Credit risk Economic sensitivity analysis)

Pages 135 to 137 (Capital and risk management Credit risk banking activities Portfolio summary segment analysis (audited))

Pages 136 to 137 (Capital and risk management Credit risk banking activities Segmental loans and impairment metrics (audited))

Page 140 (Capital and risk management Credit risk banking activities REIL and provisions)

Pages 149 to 152 (Capital and risk management Credit risk banking activities Flow statements (audited))

Page 163 (Capital and risk management non-traded market risk - Net interest income - impact of product structural hedging (unaudited))

Pages 178 to 179 (Report of Independent Registered Public Accounting Firm)

Page 192 (Notes on the consolidated accounts Note 3 Operating expenses Headcount)

Page 194 to 197 (Notes on the consolidated accounts Note 4 Segmental analysis)

Pages impacted by Reporting standard IAS 12 Income taxes :

Pages 38 to 40 (Financial summary)

Page 180 (Consolidated income statement for the year ended 31 December 2018)

Page 181 (Consolidated statement of comprehensive income for the year ended 31 December 2018)

Page 183 (Consolidated statement of changes in equity for the year ended 31 December 2018)

Page 204 (Notes on the consolidated accounts Note 7 Tax)

Pages 245 to 246 (Notes on the consolidated accounts Note 36 Consolidating financial information)

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 , pla probability , risk , Value-at-Risk (VaR) , target , goal , objective , may , endeavour , outlook , optimistic , prospects and similar expressio 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; the implementation of the Alternative Remedies Package; the continuation of the Group 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; the Group s exposure to political risk, economic risk, climate change risk, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor 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 document and other risk factors and uncertainties discussed in this document. These include the significant risks for the Group presented by: operational and IT resilience risk (including in respect of: the Group being subject to cyberattacks; operational risks inherent in the Group s business; the Group s operations being highly dependent on its IT systems; the Group relying on attracting, retaining and developing senior management and skilled personnel and maintaining good employee relations; the Group s risk management framework; and reputational risk), economic and political risk (including in respect of: the uncertainties surrounding the UK s withdrawal from the European Union; increased political and economic risks and uncertainty in the UK and global markets; climate change and the transition to a low carbon economy; HM Treasury s ownership of RBSG and the possibility that it may exert a significant degree of influence over the Group; continued low interest rates and changes in foreign currency exchange rates), financial resilience risk (including in respect of: the Group s ability to meet targets and make discretionary capital distributions to shareholders; the highly competitive markets in which the Group operates; deterioration in borrower and counterparty credit quality; the ability of the Group to meet prudential regulatory requirements for capital and MREL, or to manage its capital effectively; the ability of the Group to access adequate sources of liquidity and funding; changes in the credit ratings of RBSG, any of its subsidiaries or any of its respective debt securities; the Group s ability to meet requirements of regulatory stress tests; possible losses or the requirement to maintain higher levels of capital as a result of limitations or failure of various models; sensitivity of the Group s financial statements to underlying accounting policies, judgements, assumptions and estimates; changes in applicable accounting policies or rules; the value or effectiveness of any credit protection purchased by the Group; the level and extent of future impairments and write-downs, including with respect to goodwill; and the application of UK statutory stabilisation or resolution powers) and legal, regulatory and conduct risk (including in respect of: the Group s businesses being subject to substantial regulation and oversight; legal, regulatory and governmental actions and investigations; the replacement of LIBOR, EURIBOR and other benchmark rates; heightened regulatory and governmental scrutiny (including by competition authorities); implementation of the Alternative Remedies Package and the costs related thereto; and changes in tax legislation).

The forward-looking statements contained in this document speak only as at the date hereof, and the Group 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.

Presentation of information

In this document, and unless specified otherwise, the term company or RBSG means The Royal Bank of Scotland Group plc, RBS , RBS Group or the Group means the company and its subsidiaries, the Royal Bank or RBS plc means The Royal Bank of Scotland plc; NWH Ltd means NatWest Holdings Limited; and NatWest means National Westminster Bank Plc.

The company publishes its financial statements in pounds sterling (£ or sterling). The abbreviations £m and £bn represent millions and thousands o millions of pounds sterling, respectively, and references to pence represent pence in the United Kingdom (UK). Reference to dollars or $ are to United States of America (US) dollars. The abbreviations $m and $bn represent millions and thousands of millions of dollars, respectively, and references to cents represent cents in the US. The abbreviation represents the euro , and the abbreviations m and bn represent millions and thousands of millions of euros, respectively.

Any information contained on websites linked or reports referenced in this report on Form 6-K are for information only and shall not be deemed to be incorporated by reference herein.

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 non-GAAP financial measures are not a substitute for, and should be read in conjunction with, reported IFRS financial 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 (RWAes), 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 & Ulster franchise results, combining the reportable segments of UK Personal Banking (UK PB) and Ulster Bank RoI and Commercial & Private (CPB) franchise results, combining the reportable segments of Commercial Banking and Private Banking, which is 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 items 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.

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 (RWAes), 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 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.

Recent developments

For recent developments, refer to the results for the quarter ended 31 March 2019, which were filed with the Securities and Exchange Commission on a separate Form 6-K on 26 April 2019.

Presentation of information

In the Report and Accounts, unless specified otherwise, the terms company and RBSG mean The Royal Bank of Scotland Group plc, RBS , RBS Group and the Group mean the company and its subsidiaries; the Royal Bank and RBS plc mean The Royal Bank of Scotland plc; NWH Ltd mean NatWest Holdings Limited; NatWest means National Westminster Bank Plc and NWM Plc means NatWest Markets Plc.

The company publishes its financial statements in pounds sterling (£ or sterling). The abbreviations £m and £bn represent millions and thousands o millions of pounds sterling, respectively, and references to pence represent pence in the United Kingdom (UK). Reference to dollars or $ are to United States of America (US) dollars. The abbreviations $m and $bn represent millions and thousands of millions of dollars, respectively, and references to cents represent cents in the US. The abbreviation represents the euro , and the abbreviations m and bn represent millions and thousands of millions of euros, respectively.

Segmental reporting

RBS continues to deliver on its plan to build a strong, simple and fair bank for both customers and shareholders.

Reportable operating segments

The reportable operating segments are as follows. For full business descriptions see Note 4 on page 195.

Franchise	Reportable operating segment
Personal & Ulster	UK Personal Banking (UK PB)
	Ulster Bank RoI
Commercial & Private (CPB)	Commercial Banking
	Private Banking
Other reportable segments	RBS International (RBSI)
	NatWest Markets
	Central items & other

Allocation of central items

RBS allocates all central costs relating to Services and Functions to the business using appropriate drivers, these are reported as indirect costs in the segmental income statements. Assets (and risk-weighted assets) held centrally, mainly relating to RBS Treasury, are allocated to the business using appropriate drivers.

Key operating indicators

RBS prepares its financial statements in accordance with IFRS as issued by the IASB and as adopted by the European Union, which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP financial measures. These measures exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures include:

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

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

36

Business review

Financial summary

RBS s financial statements are prepared in accordance with IFRS. Selected data under IFRS for each of the last five years is presented below.

Summary consolidated income statement	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Net interest income	8,656	8,987	8,708	8,767	9,258
Non-interest income	4,746	4,146	3,882	4,156	5,892
Total income	13,402	13,133	12,590	12,923	15,150
Operating expenses	(9,645)	(10,401)	(16,194)	(16,353)	(13,859)
Profit/(loss) before impairment (losses)/releases	3,757	2,732	(3,604)	(3,430)	1,291
Impairment (losses)/releases	(398)	(493)	(478)	727	1,352
Operating profit/(loss) before tax	3,359	2,239	(4,082)	(2,703)	2,643
Tax charge	(1,208)	(731)	(1,107)	(3)	(1,901)
Profit/(loss) from continuing operations	2,151	1,508	(5,189)	(2,706)	742
Profit/(loss) from discontinued operations, net of tax				1,541	(3,445)
Profit/(loss) for the year	2,151	1,508	(5,189)	(1,165)	(2,703)
Attributable to:					
Ordinary shareholders	1,622	752	(6,955)	(1,979)	(3,470)
Preference shareholders	182	234	260	297	330
Dividend access share			1,193		320
Paid-in equity holders	355	487	303	108	57
Non-controlling interests	(8)	35	10	409	60
	2,151	1,508	(5,189)	(1,165)	(2,703)

Notable items within total income	2018 £m	2017 £m
IFRS volatility in Central items & other	(59)	2
Insurance indemnity	357	
Of which:		
NatWest Markets	165	
Central items & other	192	
UK PB debt sale gain	61	185
FX losses in Central items & other	(46)	(183)
Commercial Banking fair value and disposal gain	169	6
NatWest Markets legacy business disposal losses	(86)	(712)
Own credit adjustment	92	(69)
Loss on redemption of own debt		(7)
Strategic disposals		347
	488	(431)

Performance key metrics and ratios	2018	2017
Return on tangible equity (%)	5.0	2.5
Net interest margin (%) (1)	1.98	2.13
Average interest earning assets (£m)	436,957	422,337

Cost:income ratio (%)	71.7	79.0
Earning per share (pence) - basic	13.5p	6.3p

Note:

(1) Net interest margin is net interest income of the banking business as a percentage of interest earning assets (IEA) of the banking business.

Business review

Financial summary continued	2018	2017	2016	2015	2014
Summary consolidated balance sheet	£m	£m	£m	£m	£m
Cash and balances at central banks	88,897	98,337	74,250	79,404	74,872
Trading assets	75,119	85,991	86,660	103,972	150,005
Derivatives	133,349	160,843	246,981	262,514	353,590
Settlement balances	2,928	2,517	5,526	4,116	4,667
Loans to banks and customers - amortised cost	318,036	321,633	320,016	297,020	325,954
Other financial assets	59,485	51,929	48,637	47,004	38,298
Other assets	16,421	16,806	16,586	21,378	103,633
Total assets	694,235	738,056	798,656	815,408	1,051,019
Deposits	384,211	391,712	357,173	338,326	346,172
Trading liabilities	72,350	81,982	84,536	92,299	130,920
Settlement balances, derivatives, and other financial liabilities	182,230	200,398	267,257	288,023	402,829
Other liabilities	8,954	14,871	40,286	42,613	112,389
Owners equity	45,736	48,330	48,609	53,431	55,763
Non-controlling interests	754	763	795	716	2,946
Total liabilities and equity	694,235	738,056	798,656	815,408	1,051,019

Other financial data

Share information	2018	2017	2016	2015	2014
Dividend payout ratio (%)	14.9				
Basic and diluted earnings/(loss) per ordinary share from continuing operations - pence (1)	13.5	6.3	(59.5)	(27.7)	0.5
Share price per ordinary share at year end - £	2.17	2.78	2.25	3.02	3.94
Market capitalisation at year end - £bn	26.1	33.3	26.6	35.1	45.2
Net asset value per ordinary share - £	3.86	4.10	4.18	4.66	5.12
Capital ratios					
Return on average total assets (2)	0.2%	0.1%	(0.8%)	(0.2%)	(0.3%)
Return on average total equity (3)	3.7%	2.0%	(10.2%)	(2.9%)	(4.6%)
Return on average ordinary shareholders equity (4)	4.0%	1.9%	(15.3%)	(4.0%)	(6.5%)
Average total equity as a percentage of average total assets	7.2%	7.0%	6.2%	6.0%	5.8%
Risk asset ratio - Tier 1 (5)	19.2%	19.7%	17.7%	19.1%	13.2%
Risk asset ratio - Total (5)	23.4%	23.9%	22.9%	24.7%	17.1%

Notes:

(1) Basic fully diluted earnings per ordinary share in 2018 is 13.5p. There was no diluted impact in any other year.

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

(3) Return on average total equity represents profit/(loss) attributable to equity owners expressed as a percentage of average shareholder funds.

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

(5) 2018, 2017, 2016, 2015 and 2014 are calculated on a PRA transitional basis.

Business review

Financial summary continued

Segmental summary income statements

	Personal & Ulster		CPB					
	UK PB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Central items & other	Total RBS
2018	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	4,283	444	2,855	518	466	112	(22)	8,656
Non-interest income	771	166	1,747	257	128	1,330	347	4,746
Total income	5,054	610	4,602	775	594	1,442	325	13,402
Other expenses	(2,428)	(490)	(2,288)	(456)	(260)	(1,213)	(224)	(7,359)
Strategic costs	(226)	(22)	(155)	(21)	(9)	(238)	(333)	(1,004)
Litigation and conduct costs	(213)	(71)	(44)	(1)	9	(153)	(809)	(1,282)
Operating expenses	(2,867)	(583)	(2,487)	(478)	(260)	(1,604)	(1,366)	(9,645)
Impairment (losses)/releases	(339)	(15)	(147)	6	2	92	3	(398)
Operating profit/(loss)	1,848	12	1,968	303	336	(70)	(1,038)	3,359
Return on equity (1)	24.7%	0.5%	12.1%	15.4%	24.4%	(2.0%)	nm	5.0%
Cost:income ratio (2)	56.7%	95.6%	52.8%	61.7%	43.8%	111.2%	nm	71.7%
Third party customer asset rate (3)	3.36%	2.41%	3.02%	2.89%	2.15%	nm	nm	nm
Third party customer funding rate	(0.31%)	(0.20%)	(0.32%)	(0.25%)	(0.09%)	nm	nm	nm
Average interest earning assets	160,641	24,834	145,318	20,547	27,266	27,851	30,500	436,957
2017								
Net interest income	4,342	421	3,074	464	325	203	158	8,987
Non-interest income	940	183	1,605	214	64	847	293	4,146
Total income	5,282	604	4,679	678	389	1,050	451	13,133
Other expenses	(2,618)	(451)	(2,354)	(445)	(202)	(1,528)	47	(7,551)
Strategic costs	(433)	(56)	(195)	(45)	(9)	(436)	(391)	(1,565)
Litigation and conduct costs	(190)	(169)	(53)	(39)	(8)	(237)	(589)	(1,285)
Operating expenses	(3,241)	(676)	(2,602)	(529)	(219)	(2,201)	(933)	(10,401)
Impairment (losses)/releases	(207)	(60)	(390)	(6)	(3)	174	(1)	(493)
Operating profit/(loss)	1,834	(132)	1,687	143	167	(977)	(483)	2,239
Return on equity (1)	20.4%	(5.0%)	9.6%	6.4%	11.2%	(9.0%)	nm	2.5%
Cost:income ratio (2)	61.4%	111.9%	54.2%	78.0%	56.3%	209.6%	nm	79.0%
Third party customer asset rate (3)	3.46%	2.38%	2.85%	2.71%	2.71%	nm	nm	nm
Third party customer funding rate	(0.16%)	(0.31%)	(0.15%)	(0.09%)	(0.02%)	nm	nm	nm
Average interest earning assets	156,077	25,214	154,553	18,799	23,930	31,231	12,533	422,337
2016								
Net interest income	4,185	409	2,903	449	303	343	116	8,708
Non-interest income	795	167	1,659	208	71	869	113	3,882
Total income	4,980	576	4,562	657	374	1,212	229	12,590
Other expenses	(2,819)	(457)	(2,515)	(511)	(169)	(2,084)	335	(8,220)
Strategic costs	(232)	(40)	(120)	(37)	(5)	(190)	(1,482)	(2,106)
Litigation and conduct costs	(622)	(172)	(435)	(1)		(550)	(4,088)	(5,868)
Operating expenses	(3,673)	(669)	(3,070)	(549)	(174)	(2,824)	(5,235)	(16,194)

Impairment (losses)/releases	(119)	113	(212)	3	(10)	(253)		(478)
Operating profit/(loss)	1,188	20	1,280	111	190	(1,865)	(5,006)	(4,082)
Return on equity (1)	11.8%	0.7%	7.3%	5.6%	13.8%	(12.5%)	nm	(20.1%)
Cost:income ratio (2)	73.8%	116.1%	66.2%	83.6%	46.5%	nm	nm	129.0%
Third party customer asset rate (3)						nm	nm	nm
Third party customer funding rate						nm	nm	nm
Average interest earning assets	144,329	25,193	144,126	16,887	22,254	37,856	8,953	399,598

Notes:

(1) RBS s CET 1 target is approximately 14% 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 share dividends is divided by average notional equity allocated at different rates of 14% (Ulster Bank RoI), 12% (Commercial Banking), 13.5% (Private Banking - 14% prior to Q1 2018), 16% (RBS International - 12% prior to November 2017) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). Return on equity is calculated using profit for the period attributable to ordinary shareholders.

(2) Operating lease depreciation included in income £121 million (2017 - £142 million; 2016 - £141 million).

(3) Ulster Bank Ireland DAC manages its funding and liquidity requirements locally. Its liquid asset portfolios and non-customer related funding sources are included within its net interest margin, but excluded from its third party asset and liability rates.

Business review

Income	2018 £m	2017 £m	2016 £m
Interest receivable (1,2)	11,049	11,034	11,258
Interest payable (1,2)	(2,393)	(2,047)	(2,550)
Net interest income	8,656	8,987	8,708
Net fees and commissions	2,357	2,455	2,535
Income from trading activities	1,507	634	974
of which: Own credit adjustments	*92*	*(69)*	*154*
Other non-interest income	882	1,057	373
Non interest income	4,746	4,146	3,882
Total income	13,402	13,133	12,590

Notes:

(1) Negative interest on net loans to customers is classed as interest payable and on customer deposits is classed as interest receivable.

(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

2018 compared with 2017

- Total income increased by £269 million, or 2.0%. Excluding notable items, income decreased by £650 million, or 4.8%, primarily reflecting lower NatWest Markets income and reduced net interest income. Excluding notable items, NatWest Markets and Central items, income was stable. Notable items are detailed on page 38.

- Net interest income decreased by £331 million, or 3.7%, driven by margin pressure, active capital management in Commercial Banking, a reduction in the NatWest Markets legacy business and one-off Central items(1) in 2017.

- Net interest margin was 15 basis points lower than 2017, or 13 basis points lower excluding one-off items(1) reflecting an 8 basis points reduction relating to increased liquidity, 3 basis points from competitive pressures and 2 basis points from mix impacts.

- Structural hedges of £159 billion generated £0.9 billion of incremental net interest income for the year, compared with £1.5 billion of incremental net interest income on a balance of £149 billion in 2017.

- Non-interest income increased by £600 million, or 14.5%. Excluding notable items, non-interest income decreased by £381 million principally due to lower core NatWest Markets income driven by challenging fixed income, currencies and commodities (FICC) market conditions in Q4 2018, together with turbulence in European bond markets earlier in the year.

2017 compared with 2016

- Net interest income of £8,987 million increased by £279 million compared with 2016. The movement was principally driven by higher mortgage volumes in UK PB, up £185 million or 3.7%, and deposit re-pricing benefits in Commercial Banking, up £143 million or 6.7%, partially offset by planned balance sheet reductions in NatWest Markets.

- The net interest margin (NIM) was 2.13% for 2017, 5 basis points lower than 2016 reflecting increased liquidity, mix impacts and competitive pressures on margin.

- Structural hedges of £129 billion generated a benefit of £1.3 billion through net interest income for the year.

- Non-interest income of £4,146 million increased by £264 million, or 6.8%, compared with 2016, primarily reflecting a £185 million debt sale gain in UK PB and a £183 million increase in strategic disposals gains, partially offset by an own credit adjustment loss of £69 million compared with a gain of £180 million in 2016.

- Net fees and commissions decreased by £80 million, or 3.2%, compared with 2016 reflecting a £48 million reduction in UK PB, driven by increased cash back payments as the Reward proposition continued to grow with customer accounts 26% higher than 2016, and lower income in NatWest Markets.

- Income from trading activities, excluding own credit adjustments, decreased by £117 million, or 14.3%, compared with 2016 primarily reflecting lower income in NatWest Markets, down £247 million, or 29.8%, driven by increased losses in the legacy business. A gain of £2 million for volatile items under IFRS in 2017 compared with a charge of £510 million in 2016. This movement was broadly offset by FX losses of £183 million in 2017, compared with FX gains of £446 million in 2016, following the strengthening of sterling against the US dollar.

Note:

(1) One-off items in 2017 include central interest releases of £30 million and £44 million relating to Capital resolution.

Business review

Financial summary continued	Statutory analysis (1,2)			Non-statutory analysis		
	2018	2017	2016	2018	2017	2016
Operating expenses	£m	£m	£m	£m	£m	£m
Staff expenses	4,122	4,676	5,124	3,649	3,923	4,482
Premises and equipment	1,383	1,565	1,388	1,241	1,218	1,297
Other administrative expenses	3,372	3,323	8,745	1,787	1,710	1,619
Strategic costs (1)				1,004	1,565	2,106
Litigation and conduct costs (2)				1,282	1,285	5,868
Administrative expenses	8,877	9,564	15,257	8,963	9,701	15,372
Depreciation and amortisation	731	808	778	645	684	705
Write down of other intangible assets	37	29	159	37	16	117
Operating expenses	9,645	10,401	16,194	9,645	10,401	16,194

Notes:

(1) On a statutory, or GAAP, basis, strategic costs are included within staff, premises and equipment, and other administrative expenses.

(2) On a statutory, or GAAP, basis, litigation and conduct costs are included within other administrative expenses.

2018 compared with 2017

- Operating expenses decreased by £756 million, or 7.3%, primarily reflecting £561 million lower strategic costs and a £192 million reduction in other expenses, with litigation and conduct costs remaining broadly stable despite the US Department of Justice charge in the year. Excluding £86 million of one-off VAT releases in 2017, other expenses decreased by £278 million, or 3.6%, and FTEs reduced by 5.8%.

- Strategic costs of £1,004 million included: a £195 million direct charge in NatWest Markets relating to both the wind-down of the legacy business and ongoing development of the core business infrastructure; £177 million in respect of implementing ring-fencing requirements; £171 million of technology costs; a £133 million charge relating to the reduction in our property portfolio; a £76 million net settlement relating to the International Private Bank pension scheme; with the remaining charge largely relating to restructuring costs to achieve cost efficiencies across front and back office operations.

- Litigation and conduct costs of £1,282 million largely comprises the £1,040 million charge relating to the settlement with the Department of Justice and a £200 million charge relating to Payment Protection Insurance, partially offset by a £241 million provision release relating to a RMBS litigation indemnity.

- The cost:income ratio of 71.7% is elevated due to the inclusion of the net RMBS related conduct charge. Excluding this item the cost:income ratio, including strategic costs, would be 65.7%.

2017 compared with 2016

- Total operating expenses of £10,401 million were £5,793 million, or 35.8%, lower than 2016 reflecting a £4,583 million reduction in litigation and conduct costs, a £541 million reduction in restructuring costs, and a £669 million, or 8.1%, reduction in other operating expenses. Excluding VAT recoveries of £86 million (2016 - £227 million), other operating expenses have reduced by £810 million for the year, ahead of our £750 million targeted reduction, with approximately 45% of the total cost reduction delivered across UK PB, Ulster Bank RoI, CPB (comprising the reportable segments Commercial Banking and Private Banking, RBSI and the NatWest Markets core business, adjusting for transfers (1).

- Excluding staff restructuring costs in 2017 and 2016 of £753 million and £642 million respectively, staff costs of £3,923 million were £559 million, or 12.5%, lower than 2016 underpinned by a 6,600, or 8.5%, reduction in FTEs.

- Restructuring costs of £1,565 million included: a £303 million charge relating to the reduction in the property portfolio; a £319 million charge in NatWest Markets principally relating to the run-down and closure of the legacy business; £221 million relating to the business previously described as Williams & Glyn; £194 million in respect of implementing ring-fencing requirements; and a £73 million net settlement relating to the RBS Netherlands pension scheme.

- Litigation and conduct costs of £1,285 million included: additional charges in respect of settlement with Federal Housing Finance Agency (FHFA) and the California State Attorney General and additional RMBS related provisions in the US; a further provision in relation to settling the 2008 rights issue shareholder litigation; an additional £175 million PPI provision; and a £169 million provision in Ulster Bank RoI for customer remediation and project costs relating to tracker mortgages and other legacy business issues.

Note:

(1) Refer to footnotes on pages 27 and 28.

Business review

Financial summary continued **Impairments**	2018 £m	2017 £m
Loans - amortised cost (1)	319,800	321,633
ECL provisions (2)	3,368	3,814
Impairment losses		
ECL charge (3,4)	398	493
ECL loss rate - annualised (basis points)	12.45	15.33
Amounts written off	1,494	1,210

Notes:

(1) The table above summarises loans and related credit impairment measures on an IFRS 9 basis at 31 December 2018 and on an IAS 39 basis at 31 December 2017.

(2) 2018 ECL provisions in the above table are provisions on loan assets only. Other ECL provisions not included, relate to cash, debt securities and contingent liabilities, and amount to £28 million, of which £5 million was FVOCI.

(3) 2018 ECL charge balance in the above table included a £3 million charge relating to other financial assets, of which a £1 million charge related to assets at FVOCI; and a £31 million release related to contingent liabilities.

(4) 2017 comprises loan impairment losses of £530 million and releases on securities of £37 million.

2018 compared with 2017

- A net impairment loss of £398 million, 13 basis points of gross customer loans, decreased by £95 million, or 19.3%, compared with 2017 primarily reflecting lower single name charges in Commercial Banking, partially offset by fewer provision releases in UK PB and NatWest Markets.

- In addition, we took an additional £101 million charge in Q3 2018 reflecting the more uncertain economic outlook and a net £60 million impairment charge in Ulster Bank RoI principally in relation to ongoing sales from our loan book to further reduce the level of non performing loans. Underlying credit conditions remained benign during 2018.

Business review

Tax

	2018	2017	2016
	£m	£m	£m
Tax charge	(1,208)	(731)	(1,107)
UK corporation tax rate	19.00%	19.25%	20.00%

2018 compared with 2017

- The tax charge for the year ended 31 December 2018 is higher than the UK statutory tax rate reflecting the impact of the banking surcharge, non-deductible bank levy and conduct charges for which no tax relief has been recognised. These factors have been offset partially by adjustments in respect of prior years.

2017 compared with 2016

- The tax charge for the year ended 31 December 2017 is higher than the UK statutory tax rate reflecting the impact of the banking surcharge, non-deductible bank levy and conduct charges for which no tax relief has been recognised, a reduction in the carrying value and impact of UK tax rate changes on deferred tax balances. These factors have been offset partially by the release of tax provisions that reflect the reduction of exposures in countries where RBS is ceasing operations.

Business review

Financial summary continued

Summary consolidated balance sheet as at 31 December 2018

	2018 £m	2017 £m	2016 £m
Assets			
Cash and balances at central banks	88,897	98,337	74,250
Trading assets	75,119	85,991	86,660
Derivatives	133,349	160,843	246,981
Loans to banks - amortised cost	12,947	11,517	12,238
Loans to customers - amortised cost	305,089	310,116	307,778
Settlement balances	2,928	2,517	5,526
Other financial assets	59,485	51,929	48,637
Other assets	16,421	16,806	16,586
Total assets	694,235	738,056	798,656
Liabilities			
Bank deposits	23,297	30,396	13,675
Customer deposits	360,914	361,316	343,498
Trading liabilities	72,350	81,982	84,536
Derivatives	128,897	154,506	236,475
Other financial liabilities	42,798	33,170	30,782
Subordinated liabilities	10,535	12,722	19,419
Other liabilities	8,954	14,871	20,867
Total liabilities	647,745	688,963	749,252
Total equity	46,490	49,093	49,404
Total liabilities and equity	694,235	738,056	798,656
Tangible net asset value per ordinary share (1)	287p	288p	294p

Note:

(1) Tangible net asset value per ordinary share represents tangible equity divided by the number of ordinary shares in issue

From 1 January 2018, the Group adopted IFRS 9 Financial Instruments . IFRS 9 changed the balance sheet classification categories from IAS 39. Refer to Note 33 for full details of the impact of IFRS 9 on the Group s balance sheet.

- Total assets of £694.2 billion as at 31 December 2018 were down £43.8 billion, 5.9%, compared with 31 December 2017. This was primarily driven by reductions in trading assets and derivatives reflecting the wind-down of the legacy business and management of the leverage exposure.

- Cash and balances at central banks decreased by £9.4 billion, 9.6%, to £88.9 billion representing liquidity management, the payment of the settlement with the US Department of Justice and the pension contribution in the year.

- Trading assets decreased by £10.9 billion, 12.6%, to £75.1 billion and trading liabilities decreased by £9.6 billion, 11.7%, to £72.4 billion mainly due to the wind-down of the legacy business in NatWest Markets.

- Movements in the value of derivative assets, down £27.5 billion, 17.1%, to £133.3 billion, and liabilities, down £25.6 billion, 16.6% to £128.9 billion, due to trading volumes and valuations in NatWest Markets.

- Loans to customers - amortised cost, decreased by £5.0 billion, 1.6%, to £305.1 billion including £3.5 billion in Commercial Banking due to active capital management, activity and approximately £0.7 billion, in Ulster Bank RoI, primarily in relation to the sale of a portfolio of non-performing loans.

- Other financial assets includes debt securities, equity shares and other loans and increased by £7.6 billion, 14.6%, to £59.5 billion, primarily reflecting increases in the liquidity portfolio driven by increased customer surplus within in the ring-fenced banks, reduced funding requirement and net term issuance in NatWest Markets.

- Other assets includes property, plant & equipment, deferred tax, assets of disposal groups, accruals, deferred income and pension scheme surpluses and decreased by £0.4 billion, 2.3% to £16.4 billion.

- Bank deposits decreased by £7.1 billion, 23.4%, to £23.3 billion, with decreases relating to funding management including a £5 billion payment in relation to the Bank of England Term Funding Scheme participation.

- Customer deposits decreased by £0.4 billion, 0.1% to £360.9 billion with increases in UK PB, Ulster Bank RoI and Private Banking offset by decreases in Commercial Banking and RBS International.

- Other financial liabilities included customer deposits at fair value through profit and loss and debt securities and increased by £9.6 billion, 29.0%, to £42.8 billion primarily including issuances in the year of covered bonds and MREL in the year.

- Subordinated liabilities decreased by £2.2 billion, 17.2% to £10.5 billion, primarily as a result of redemptions of £2.0 billion reflecting on-going liability management activities.

- Other liabilities included deferred awards, deferred income, notes in circulation and accruals and decreased by £5.9 billion, 39.8% to £9.0 billion mainly due to the reduction in provisions in the year, primarily in relation to the settlement with the US Department of Justice.

- Owners equity decreased by £2.6 billion, 5.4%, to £45.7 billion, primarily driven by preference share redemptions and the pension contribution in the year offset by the £2.1 billion profit for the year.

Cash flow

Refer to page 185 for the consolidated cash flow statement.

Business review

Segment performance

UK Personal Banking

Income statement	2018 £m	2017 £m	2016 £m
Net interest income	4,283	4,342	4,185
Non-interest income	771	940	795
Total income	5,054	5,282	4,980
Other costs	(2,428)	(2,618)	(2,819)
Strategic costs	(226)	(433)	(232)
Litigation and conduct costs	(213)	(190)	(622)
Operating expenses	(2,867)	(3,241)	(3,673)
Impairment losses	(339)	(207)	(119)
Operating profit	1,848	1,834	1,188
Performance ratios			
Return on equity (1)	24.7%	20.4%	11.8%
Net interest margin	2.67%	2.78%	2.90%
Cost:income ratio	56.7%	61.4%	73.8%

Note:

(1) Return on equity is based on segmental operating profit after tax adjusted for preference dividends divided by average notional equity based on 15% of the monthly average of segmental RWAes, assuming 28% tax rate.

Capital and balance sheet	2018 £bn	2017 £bn	2016 £bn
Loans to customers (amortised cost)			
- personal advances	7.6	7.1	6.9
- mortgages	138.4	136.9	128.0
- cards	4.0	4.0	4.2
Total loans to customers (amortised cost)	150.0	148.0	139.1
Loan impairment provisions	(1.1)	(1.0)	(1.1)
Net loans to customers	148.9	147.0	138.0
Total assets	171.0	166.6	157.3
Customer deposits	145.3	142.2	133.4
Risk-weighted assets	34.3	31.5	37.6

Business review

Segment performance continued

2018 compared with 2017

- UK PB now has 5.9 million regular mobile app users, 17% higher than 2017, with 71% of our active current account customers being regular digital users. Total digital sales increased by 19% representing 44% of all sales. 61% of mortgage switching is now done digitally, compared with 51% in 2017. 57% of personal unsecured loans sales are via the digital channel, with digital volumes 31% higher.

- Total income was £228 million, or 4.3%, lower reflecting £124 million lower debt sale gains and a £33 million transfer of the Collective Investment Funds business to Private Banking in Q4 2017(2). Excluding these items, income was £71 million, or 1.4%, lower, including a £28 million reduction in overdraft fees following changes implemented in H2 2017, which included increasing the number of customer alerts. Net interest income of £4,283 million decreased by 1.4% as balance growth and deposit margin benefits were offset by lower mortgage new business margins, with net interest margin down by 11 basis points to 2.67%.

- Operating expenses decreased by £374 million, or 11.5%. Excluding strategic, litigation and conduct costs, operating expenses were £190 million, or 7.3%, lower driven by reduced back-office operations costs and lower headcount reflecting continued operating efficiencies, partially offset by increased technology investment spend as we continue to build our digital capability.

- Impairments were £132 million higher driven by fewer provision releases and lower recoveries following debt sales in prior years, as well as increased provisioning requirements under IFRS 9. The underlying default rate remained broadly stable with asset growth also accounting for an element of the uplift.

- Net loans to customers increased by 1.3% to £148.9 billion. The business has maintained a prudent approach to risk and pricing in a very competitive market, with gross new mortgage lending in 2018 at £30.4 billion, 1.9% lower than 2017. Mortgage market share was maintained at 11.3% supporting a stock share of around 10%. Momentum continued in personal advances, increasing by 7.0%.

- Customer deposits increased by £3.1 billion, or 2.2%, as growth continued across current accounts and savings.

- RWAs increased by £2.8 billion, or 8.9%, principally due to modelling changes on mortgages and unsecured loans.

2017 compared with 2016

- Operating profit was £1,834 million compared with £1,188 million in 2016. The increase was driven by higher income, lower litigation and conduct charges and lower other operating expenses, partially offset by higher restructuring costs, largely relating to the reduction in our property portfolio and costs associated with the business previously described as Williams & Glyn(1), and higher impairments. Return on equity increased to 20.4% from 11.8% in 2016.

- Total income of £5,282 million was £302 million, or 6.1%, higher than 2016, principally reflecting strong balance growth, savings re-pricing benefits and a £185 million debt sale gain. Net interest margin declined by 12 basis points to 2.78% driven by lower mortgage margins, asset mix and reduced current account hedge yield, partially offset by savings re-pricing benefits from actions taken in 2016 and following the Q4 2017 base rate increase.

- Operating expenses decreased £432 million, or 11.8%, to £3,241 million. Excluding litigation and conduct costs, and restructuring costs, other operating expenses decreased by £201 million, or 7.1%, to £2,618 million compared with 2016 driven by a £42 million, or 6.8%, reduction in staff costs, with headcount down 8.4%, and a £53 million reduction in operational costs following process and productivity improvements in service operations and re-integration benefits in respect of the business previously described as Williams & Glyn(1). Cost:income ratio improved to 61.4% in 2017 compared with 73.8% in 2016.

- The net impairment charge of £207 million, or 14 basis points of gross customer loans, reflected continued benign credit conditions. 2017 had lower recoveries partly as a result of the debt sales undertaken, compared with 2016. Defaults remained at very low levels across all portfolios compared to historic trends, although slightly higher than in 2016.

- Net loans and advances increased by £9.0 billion, or 6.5%, to £147.0 billion as UK PB continued to deliver support for personal banking customers. Gross new mortgage lending in 2017 was £31.0 billion with market share of new mortgages at approximately 12%, resulting in stock share of approximately 10% at 31 December 2017 compared with 9.7% at 31 December 2016.

- Customer deposits increased by £8.8 billion, or 6.6%, to £142.2 billion, driven by strong personal current account growth.

Notes:

(1) The business previously described as Williams & Glyn was integrated in to the reportable operating segment UK PB in Q4 2017 and prior year comparatives re-presented.

(2) UK PB Collective Investment Funds (CIFL) business was transferred to Private Banking on 1 October 2017. CIFL Business transfer included total income of £33 million and total expenses of £9 million. Comparatives were not re-presented.

Business review

Ulster Bank RoI

Income statement	2018 m	2017 m	2016 m	2018 £m	2017 £m	2016 £m
Net interest income	502	480	501	444	421	409
Non-interest income	187	209	100	166	183	167
Total income	689	689	704	610	604	576
Other costs	(553)	(516)	(559)	(490)	(451)	(457)
Strategic costs	(25)	(64)	(48)	(22)	(56)	(40)
Litigation and conduct costs	(79)	(192)	(211)	(71)	(169)	(172)
Operating expenses	(657)	(772)	(818)	(583)	(676)	(669)
Impairment losses	(17)	(68)	138	(15)	(60)	113
Operating profit/(loss)	15	(151)	24	12	(132)	20
Average exchange rate - /£				1.130	1.142	1.224
Performance ratios						
Return on equity (1)	0.5%	(5.0%)	0.7%	0.5%	(5.0%)	0.7%
Net interest margin	1.79%	1.67%	1.62%	1.79%	1.67%	1.62%
Cost:income ratio	95.6%	111.9%	116.1%	95.6%	111.9%	116.1%

Note:

(1) Return on equity is based on segmental operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 14% of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes)), assuming a nil tax rate.

Capital and balance sheet	2018 bn	2017 bn	2016 bn	2018 £bn	2017 £bn	2016 £bn
Loans to customers (amortised cost)						
- mortgages	16.0	17.3	17.9	14.4	15.4	15.3
- other lending	5.9	6.0	5.6	5.2	5.2	4.8
Total loans to customers (amortised cost)	21.9	23.3	23.5	19.6	20.6	20.1
Loan impairment provisions	(0.9)	(1.3)	(1.4)	(0.8)	(1.1)	(1.2)
Net loans to customers	21.0	22.0	22.1	18.8	19.5	18.9
Total assets	28.1	27.7	28.2	25.2	24.6	24.1
Funded assets	28.1	27.6	28.0	25.2	24.5	24.0