

Interim Management Statement Q3 2015

| Contents | Page |
|---|-------------|
| Introduction | 1 |
| Highlights | 3 |
| Analysis of results | 11 |
| Segment performance | 18 |
| Selected statutory financial statements | 26 |
| Notes | 31 |
| Appendix 1 - Additional segment information | |
| Appendix 2 - Go-forward Bank profile | |
| Appendix 3 - Income statement reconciliations | |

Introduction

Presentation of information

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 2014 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.

In this document, 'RBSG plc' or the 'company' refers to The Royal Bank of Scotland Group plc, and 'RBS' or the 'Group' refers to RBSG plc and its subsidiaries. Some of the financial information contained in this document, prepared using Group accounting policies, shows the operating performance of RBS on a non-statutory basis which excludes own credit adjustments, gain on redemption of own debt, write down of goodwill and strategic disposals. RFS Holdings minority interest (RFS MI) was also excluded in the periods ended 30 September 2014. Such information is provided to give a better understanding of the results of RBS's operations.

RBS is committed to becoming a leaner, less volatile business based around its core franchises of Personal & Business Banking (PBB) and Commercial & Private Banking (CPB). To achieve this goal a number of initiatives have been announced which include, but are not limited to, the restructuring of Corporate & Institutional Banking (CIB) into CIB Go-forward and CIB Capital Resolution, the divestment of the remaining stake in Citizens, the sale of the international private banking business (the remaining Private Banking UK business is within the Go-forward Bank (Private Banking Go-forward)), the exit of Williams & Glyn (mainly within UK Personal & Business Banking (UK PBB)) and the continued run down of RBS Capital Resolution (RCR). Significant progress towards these exits is expected by the end of 2015. This document contains some information to illustrate the impact on certain key performance measures of these initiatives by showing the future profile of the bank (the 'Go-forward Bank') and the segments, businesses and portfolios which it intends to exit (the 'Exit Bank'). This information is presented to illustrate the strategy and its impact on the business and is on a non-statutory basis and should be read in conjunction with the notes attached as well as the section titled Forward-looking statements. Other than the change in treatment of Citizens described on page 2 there has been no change to the reportable segments in the period as a result of these initiatives.

Introduction

Citizens

On 31 December 2014 Citizens was classified as a disposal group and a discontinued operation: its aggregate assets were presented in Assets of disposal groups and its aggregate liabilities in Liabilities of disposal groups. Prior period results were re-presented.

From 3 August 2015, when RBS's interest fell to 20.9%, Citizens has been accounted for as an associate classified as held for sale. Citizens Financial Group is no longer a reportable segment; the non-statutory operating results and operating segment disclosures for all periods have been restated accordingly.

Statutory results

The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and related Notes presented on pages 26 to 35 inclusive are on a statutory basis. Reconciliations between income statement lines on a non-statutory basis and a statutory basis are included in Appendix 3.

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 2015. Details are as follows:

Date: Friday 30 October 2015

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 are available on www.rbs.com/results

Financial supplement

A financial supplement containing income statement and balance sheet information for the nine quarters ended 30 September 2015 is available on www.rbs.com/results

Highlights

The Royal Bank of Scotland Group (RBS) continues to deliver on its plan to build a stronger, simpler and fairer bank for both customers and shareholders; on track for 2015 targets.

- Q3 attributable profit was £952 million, up slightly from £896 million in Q3 2014. Restructuring costs remained high at £847 million as the Go-forward Bank transforms, while litigation and conduct costs were £129 million compared with £780 million in Q3 2014.
- Attributable profit included (in profit from discontinued operations) the gain on loss of control of Citizens (£1,147 million). The principal component of this gain was a reclassification of foreign exchange reserves of £962 million to profit or loss with no effect on RBS's net asset value.
- Q3 operating loss⁽¹⁾ was £134 million, down from a profit of £1,107 million in Q3 2014. Adjusted operating profit⁽²⁾ was £842 million (Q3 2014 - £2,054 million), after £126 million of losses relating to IFRS volatility, and £77 million of CIB disposal losses.
 - Income was £596 million lower than in Q3 2014, principally driven by a £394 million decline in Corporate & Institutional Banking (CIB), reflecting its planned reshaping. Income pressures were also seen in UK Personal & Business Banking (UK PBB) and Commercial Banking where good loan volume growth was offset by continued competitive pressure on asset margins.
 - Operating expenses, excluding restructuring costs and litigation and conduct costs, were £152 million lower, with headcount down and restructuring benefits feeding through to a lower cost base.
 - Credit quality remained good, with net impairment releases of £79 million, £768 million lower than the high levels of releases recorded in Q3 2014.
- Tangible net asset value per ordinary and equivalent B share increased from 380p per share at 30 June 2015 to 384p per share at 30 September 2015. This was largely driven by the attributable profit for the period (less the impact of reclassified reserves), together with underlying gains in foreign exchange reserves reflecting the strengthening of the US dollar and the euro, and gains in cash flow hedging reserves as swap rates decreased.

Good progress on 2015 targets

- RBS remains well on track to achieve substantially all its priority targets for 2015. The cost savings target for the year has already been exceeded and strong improvements were recorded in the bank's annual employee engagement survey.

| Strategy goal | 2015 target | Q3 2015 Progress |
|-----------------------------|--|---|
| Strength and sustainability | Reduce risk-weighted assets (RWAs) to <£300 billion | £316 billion, a reduction of £10 billion in the quarter |
| | RCR exit substantially completed | Funded assets down 83% since initial pool of assets identified |
| | Citizens deconsolidation | Further sale in August 2015 takes holding to 20.9%; de-consolidated for accounting purposes |
| | £2 billion AT1 issuance | Successfully priced US\$3.15 billion AT1 capital notes (£2 billion equivalent) |
| Customer experience | Improve NPS in every UK franchise | Year-on-year, significant improvement in NatWest Business Banking, RBS Business Banking and Ulster Bank Personal Banking (NI) |
| Simplifying the bank | Reduce costs by £800 million ⁽³⁾ | Target exceeded by Q3 2015, target increased to >£900 million |
| Supporting growth | Lending growth in strategic segments ≥ nominal UK GDP growth | 4.6% annualised growth in the first nine months of 2015 in UK PBB and Commercial Banking |
| Employee engagement | Raise employee engagement index to within 8% of Global Financial Services (GFS) norm | Surpassed employee engagement goal, up six points to within three points of GFS |

Highlights

Building a stronger RBS

- RBS is on track with its plan to build a stronger, simpler, fairer bank for customers and shareholders.
- Capital strength continued to build with the Common Equity Tier 1 ratio strengthening to 12.7% at 30 September 2015, up 40 basis points from 30 June 2015 and 150 basis points from 31 December 2014. RBS's leverage ratio rose from 4.6% at 30 June 2015 to 5.0% at 30 September 2015, assisted by the successful issue of US\$3.15 billion (£2 billion) of Additional Tier 1 capital notes in August 2015.
- We continue to develop our technology capabilities to make it simpler for us to serve our customers and for them to do business with us. A new automated account-opening system is being rolled out and will increase the efficiency of our onboarding processes, reducing end-to-end account opening times by 50% for business banking customers and 30% for Commercial Banking customers. Our Pay on Your Mobile (PAYM) capability has been enhanced, with customers now able to both send and receive payments. We continue to simplify our core technology platforms with 245 applications decommissioned year-to-date.
- We are seeking to build customer engagement with a market-leading current account that enables customers to receive 3% cash back on their household bills for a monthly account fee of £3. The initial launch of the Reward account to existing private and packaged account holders has attracted around one million customers with the majority of these moving additional direct debits to their RBS and NatWest accounts. We are also extending our stand against teaser rates by offering three year fixed rates on home insurance, breaking with insurance industry practice.
- RBS delivered good support for both household and business customers. UK PBB net mortgage lending totalled £3.8 billion in Q3 2015, with a strong applications pipeline and gross lending up 42% from Q3 2014 to £7.4 billion. Our flow market share in Q3 2015 was 12.1% of the UK market, compared with RBS's stock share of 8.5%. Net new lending in Commercial Banking totalled £1.5 billion in the quarter with growth across most of the customer segments. Further support was provided to small businesses with the opening of three new business accelerator hubs in Brighton, Leeds and Bristol in partnership with Entrepreneurial Spark: seven hubs are now open.
- Adjusted return on equity⁽⁴⁾ in the Go-forward Bank on an annualised basis for the first nine months of 2015 is estimated at 13%. IFRS volatility had a minimal impact on the adjusted return on equity during the first nine months of 2015.

Notes:

(1) Operating profit/(loss) before tax, own credit adjustments, gain on redemption of own debt and strategic disposals. The nine months and quarter ended 30 September 2014 are stated before RFS minority interest.

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

(3) Excluding restructuring costs and litigation and conduct costs, write off of intangible assets and operating expenses of Williams & Glyn.

(4) Calculated using operating profit after tax on a non-statutory basis excluding restructuring costs and litigation and conduct costs adjusted for preference share dividends divided by average notional equity (based on 13% of average RWA equivalent (RWAe)).

Highlights

Accelerated run-down of the Exit Bank

- RBS has maintained good momentum in the run-down of its Exit Bank, with RWAs down by approximately £31 billion since the start of 2015 to £141 billion at 30 September 2015.
- RBS Capital Resolution (RCR) funded assets have fallen to £6.5 billion at 30 September 2015, down 83% since the initial pool of assets was identified. This leaves it on track to achieve its targeted 85% reduction in funded assets by the end of 2015, a year ahead of schedule. Good progress was also recorded in CIB Capital Resolution where RWAs were reduced by £6.7 billion to £38.7 billion in Q3 2015 with the reduction since the start of 2015 totalling £25.4 billion.
- The sale of a further 109 million shares in August 2015 reduced RBS's stake in Citizens to 20.9%. Following this significant reduction in its voting interest RBS no longer controls Citizens for accounting purposes and ceased to consolidate it, classifying its remaining investment as an associate held for sale. Citizens remains fully consolidated for regulatory capital purposes. RBS continues to target a complete exit by the end of 2015, subject to market conditions.
- On a pro forma basis, assuming full deconsolidation of Citizens credit and counterparty risk RWAs at 30 September 2015, RBS's CET1 ratio would have been 16.2% and its leverage ratio 5.6%.
- Williams & Glyn submitted its banking licence application to the UK regulatory authorities in October 2015. RBS continues to work towards its separation in the summer of 2016 and an initial public offering by the end of 2016.

UK Government ownership

- On 4 August 2015, HM Treasury sold 630 million RBS ordinary shares, its first sale since its initial investment in 2008. The sale of the 5.4% stake reduced HM Treasury's economic interest in RBS to 72.9%.
- On 8 October 2015, HM Treasury gave notice of its intention to convert 51 billion B shares it held into 5.1 billion ordinary shares, a move that helps normalise the ownership structure of RBS. These new ordinary shares have now been admitted to the London Stock Exchange. HM Treasury's economic interest in RBS remains unchanged at 72.9%. The Dividend Access Share (DAS) remains outstanding and may be retired at any time following the payment of dividends amounting to £1,180 million (with interest starting to accrue on this amount from 1 January 2016).

Highlights

Customer

RBS remains committed to achieving its target of being number one bank for customer service, trust and advocacy by 2020. In recent years, RBS has launched a number of initiatives to make it simpler, fairer and easier to do business with, and it continues to deliver on the commitments that it made to its customers in 2014.

We use independent surveys to measure our customers' experience and track our progress against our goal in each of our markets.

Net promoter score (NPS)

Customers are asked how likely they would be to recommend their bank to a friend or colleague, and respond based on a 0-10 scale with 10 indicating 'extremely likely' and 0 indicating 'not at all likely'. Customers scoring 0 to 6 are termed detractors and customers scoring 9 to 10 are termed promoters. NPS is established by subtracting the proportion of detractors from the proportion of promoters.

The table below lists all of the businesses for which we have a NPS for Q3 2015. Year-on-year, NatWest Business Banking, RBS Business Banking and Ulster Bank (Northern Ireland) Personal Banking have seen significant improvements in NPS.

| | | Q3 2014 | Q2 2015 | Q3 2015 | Year end 2015 target |
|-----------------------------------|--|---------|---------|---------|----------------------|
| Personal Banking | NatWest (England & Wales) ⁽¹⁾ | 7 | 8 | 8 | 9 |
| | Royal Bank of Scotland (Scotland) ⁽¹⁾ | -4 | -10 | -9 | -10 |
| | Ulster Bank (Northern Ireland) ⁽²⁾ | -29 | -11 | -9 | -21 |
| | Ulster Bank (Republic of Ireland) ⁽²⁾ | -19 | -14 | -15 | -15 |
| Business Banking | NatWest (England & Wales) ⁽³⁾ | -13 | 4 | 6 | -7 |
| | Royal Bank of Scotland (Scotland) ⁽³⁾ | -26 | -17 | -12 | -21 |
| Commercial Banking ⁽⁴⁾ | | 10 | 10 | 9 | 15 |

Customer trust

We also use independent experts to measure our customers' trust in the bank. Each quarter we ask customers to what extent they trust or distrust their bank to do the right thing. The score is a net measure of those customers that trust their bank (a lot or somewhat) minus those that distrust their bank (a lot or somewhat).

Trust in the RBS brand in Q2 2015 was impacted by the IT incident on 17 June 2015, current quarter scores return to pre-incident levels.

| | | Q3 2014 | Q2 2015 | Q3 2015 | Year end 2015 target |
|-------------------------------|--|---------|---------|---------|----------------------|
| Customer trust ⁽⁵⁾ | NatWest (England & Wales) ⁽¹⁾ | 45% | 48% | 44% | 46% |
| | Royal Bank of Scotland (Scotland) | 8% | -2% | 11% | 11% |

Notes:

- (1) Source: GfK FRS six month rolling data. Latest base sizes: NatWest (England & Wales) (3392) Royal Bank of Scotland (Scotland) (545). Based on the 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?"
- (2) Source: Coyne Research 12 MAT data. Latest base sizes: Ulster Bank NI (305) Question: "Please indicate to what extent you would be likely to recommend (brand) to your friends or family using a scale of 0 to 10 where 0 is not at all likely and 10 is extremely likely"
- (3) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with an annual turnover up to £2 million. Quarterly rolling data. Latest base sizes: NatWest England & Wales (1289), RBS Scotland (429). Weighted by region and turnover to be representative of businesses in England & Wales/Scotland.
- (4) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with annual turnover between £2 million and £1 billion. Latest base size: RBSG Great Britain (878). Weighted by region and turnover to be representative of businesses in Great Britain.
- (5) Source: Populus. Latest quarter's data. Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest, England & Wales (925), RBS Scotland (214).

Highlights

Outlook

The credit environment is expected to remain relatively benign, with modest underlying impairment charges. Competitive pressure on asset margins is likely to continue, with limited opportunities for offsetting deposit repricing. In addition, non-interest income from fee-related products remains subdued due to modest volume growth, and specific regulatory impacts such as the change in interchange fees in the cards business.

Our estimate of overall restructuring and disposal losses guidance for 2015 to 2019 remains unchanged. In the fourth quarter of 2015, we expect restructuring costs to remain high as we continue to implement our core bank transformation and disposal losses to be elevated within the overall guidance on disposal losses, although the timing and quantum of these losses are subject to market conditions.

Whilst legacy issues continue to be addressed, material further and incremental costs and provisions in respect of conduct and litigation related matters are expected, and could be substantially greater than the aggregate provisions RBS has recognised. The timing and quantum of any future costs, provisions and settlements, however, remain uncertain.

Highlights

Summary consolidated income statement for the period ended 30 September 2015

| | Nine months ended | | Quarter ended | | |
|--|----------------------------|----------------------------|----------------------------|-----------------------|----------------------------|
| | 30 September 2015 £m | 30 September 2014 £m | 30 September 2015 £m | 30 June 2015 £m | 30 September 2014 £m |
| | | | | | |
| Net interest income | 6,605 | 6,879 | 2,187 | 2,215 | 2,370 |
| Non-interest income | 3,545 | 5,131 | 860 | 1,354 | 1,273 |
| Total income | 10,150 | 12,010 | 3,047 | 3,569 | 3,643 |
| Litigation and conduct costs | (1,444) | (1,030) | (129) | (459) | (780) |
| Restructuring costs | (2,317) | (612) | (847) | (1,023) | (167) |
| Other costs | (6,783) | (7,768) | (2,284) | (2,207) | (2,436) |
| Operating expenses | (10,544) | (9,410) | (3,260) | (3,689) | (3,383) |
| (Loss)/profit before impairment releases | (394) | 2,600 | (213) | (120) | 260 |
| Impairment releases | 400 | 682 | 79 | 192 | 847 |
| Operating profit/(loss) (1) | 6 | 3,282 | (134) | 72 | 1,107 |
| Own credit adjustments | 424 | (2) | 136 | 168 | 49 |
| Gain on redemption of own debt | - | 20 | - | - | - |
| Write down of goodwill | - | (130) | - | - | - |
| Strategic disposals | (135) | 191 | - | - | - |
| RFS Holdings minority interest | - | (35) | - | - | (56) |
| Operating profit before tax | 295 | 3,326 | 2 | 240 | 1,100 |
| Tax charge | (294) | (869) | (1) | (100) | (277) |
| Profit from continuing operations | 1 | 2,457 | 1 | 140 | 823 |
| Profit from discontinued operations, net of tax (2) | 1,451 | 437 | 1,093 | 674 | 117 |
| Profit for the period | 1,452 | 2,894 | 1,094 | 814 | 940 |
| Non-controlling interests | (389) | 11 | (45) | (428) | 53 |
| Other owners | (264) | (264) | (97) | (93) | (97) |
| Dividend access share | - | (320) | - | - | - |
| Profit attributable to ordinary and B shareholders | 799 | 2,321 | 952 | 293 | 896 |
| Memo: | | | | | |
| Operating expenses - adjusted (3) | (6,783) | (7,768) | (2,284) | (2,207) | (2,436) |
| Operating profit - adjusted (3) | 3,767 | 4,924 | 842 | 1,554 | 2,054 |
| Key metrics and ratios | | | | | |
| Net interest margin | 2.12% | 2.09% | 2.09% | 2.13% | 2.17% |
| Cost:income ratio | 104% | 78% | 107% | 103% | 93% |
| (Loss)/earnings per share from continuing operations | | | | | |
| - basic | (2.8p) | 16.9p | (0.9p) | 0.2p | 6.9p |
| - adjusted (4) | (4.5p) | 16.1p | (1.8p) | (0.9p) | 6.5p |
| Return on tangible equity (5) | 2.4% | 7.3% | 8.8% | 2.7% | 8.2% |
| Average tangible equity (5) | £43,538m | £42,231m | £43,403m | £43,062m | £43,536m |
| Average number of ordinary shares and equivalent B shares outstanding during the period (millions) | 11,503 | 11,333 | 11,546 | 11,511 | 11,384 |

Notes:

- (1) Operating profit/(loss) before tax, own credit adjustments, gain on redemption of own debt, write down of goodwill and strategic disposals. The nine months and quarter ended 30 September 2014 are stated before RFS minority interest.
- (2) Refer to Note 2 on page 31 for further details.
- (3) Excluding restructuring costs and litigation and conduct costs.
- (4) Adjusted earnings excludes own credit adjustments, gain on redemption of own debt, write down of goodwill and strategic disposals. RFS minority interest was also a reconciling item for periods ended 30 September 2014.
- (5) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

Highlights

Summary consolidated balance sheet as at 30 September 2015

| | 30 September 2015 £m | 30 June 2015 £m | 31 December 2014 £m |
|---|----------------------------|-----------------------|---------------------------|
| Cash and balances at central banks | 77,220 | 81,900 | 74,872 |
| Net loans and advances to banks (1) | 22,681 | 20,714 | 23,027 |
| Net loans and advances to customers (1) | 311,383 | 314,993 | 334,251 |
| Reverse repurchase agreements and stock borrowing | 51,800 | 67,606 | 64,695 |
| Debt securities and equity shares | 83,506 | 80,550 | 92,284 |
| Assets of disposal groups (2) | 6,300 | 89,071 | 82,011 |
| Other assets | 27,517 | 28,010 | 26,033 |
| Funded assets | 580,407 | 682,844 | 697,173 |
| Derivatives | 296,019 | 281,857 | 353,590 |
| Total assets | 876,426 | 964,701 | 1,050,763 |
| Bank deposits (3) | 30,543 | 30,978 | 35,806 |
| Customer deposits (3) | 346,267 | 342,023 | 354,288 |
| Repurchase agreements and stock lending | 43,355 | 66,362 | 62,210 |
| Debt securities in issue | 37,360 | 41,819 | 50,280 |
| Subordinated liabilities | 20,184 | 19,683 | 22,905 |
| Derivatives | 288,905 | 273,589 | 349,805 |
| Liabilities of disposal groups (2) | 6,401 | 80,388 | 71,320 |
| Other liabilities | 45,164 | 48,090 | 43,957 |
| Total liabilities | 818,179 | 902,932 | 990,571 |
| Non-controlling interests | 703 | 5,705 | 2,946 |
| Owners' equity | 57,544 | 56,064 | 57,246 |
| Total liabilities and equity | 876,426 | 964,701 | 1,050,763 |
| Contingent liabilities and commitments | 160,205 | 210,679 | 241,186 |

Notes:

- (1) Excludes reverse repurchase agreements and stock borrowing.
- (2) Primarily International Private Banking and the interest in associate in relation to Citizens at 30 September 2015, Citizens and International Private Banking at 30 June 2015 and Citizens at 31 December 2014.
- (3) Excludes repurchase agreements and stock lending.

Highlights

| Balance sheet related key metrics and ratios | 30 September 2015 | 30 June 2015 | 31 December 2014 |
|---|----------------------|-----------------|---------------------|
| Tangible net asset value per ordinary and equivalent B share (1) | 384p | 380p | 387p |
| Loan:deposit ratio (2,3) | 89% | 92% | 95% |
| Short-term wholesale funding (3,4) | £17bn | £25bn | £28bn |
| Wholesale funding (3,4) | £66bn | £76bn | £90bn |
| Liquidity portfolio | £164bn | £161bn | £151bn |
| Liquidity coverage ratio (5) | 136% | 117% | 112% |
| Net stable funding ratio (6) | 117% | 115% | 112% |
| Tangible equity (7) | £44,442m | £43,919m | £44,368m |
| Number of ordinary shares and equivalent B shares in issue (millions) (8) | 11,574 | 11,570 | 11,466 |
| Common Equity Tier 1 ratio | 12.7% | 12.3% | 11.2% |
| Risk-weighted assets | £316.0bn | £326.4bn | £355.9bn |
| Leverage ratio (9) | 5.0% | 4.6% | 4.2% |
| Balance sheet related key metrics and ratios excluding Citizens (10) | | | |
| Liquidity portfolio | £149bn | £148bn | |
| Liquidity coverage ratio (5) | 139% | 118% | |
| Net stable funding ratio (6) | 118% | 112% | |
| Common Equity Tier 1 ratio | 16.2% | 15.3% | |
| Risk-weighted assets | £248.7bn | £261.5bn | |
| Leverage ratio (9) | 5.6% | 5.1% | |

Notes:

- (1) Tangible net asset value per ordinary and equivalent B share represents tangible equity divided by the number of ordinary shares and equivalent B shares in issue.
- (2) Includes disposal groups.
- (3) Excludes repurchase agreements and stock lending.
- (4) Excludes derivative collateral.
- (5) On 1 October 2015 the LCR became the PRA's primary regulatory liquidity standard; UK banks are required to meet a minimum standard of 80% initially, rising to 100% by 1 January 2018.
- (6) NSFR for all periods have been calculated using RBS's current interpretations of the revised BCBS guidance on NSFR issued in late 2014. 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.
- (7) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.
- (8) Includes 26 million Treasury shares (30 June 2015 - 26 million; 31 December 2014 - 28 million).
- (9) Based on end-point CRR Tier 1 capital and revised 2014 Basel III leverage ratio framework and the CRR Delegated Act.
- (10) Assuming Citizens was fully divested at the carrying value at 30 September 2015 and excluding only credit and counterparty risk RWAs.

Analysis of results

| Net interest income | Nine months ended | | Quarter ended | | |
|--|-------------------|-------------------|-------------------|--------------|-------------------|
| | 30 September 2015 | 30 September 2014 | 30 September 2015 | 30 June 2015 | 30 September 2014 |
| | £m | £m | £m | £m | £m |
| Net interest income | | | | | |
| RBS | 6,605 | 6,879 | 2,187 | 2,215 | 2,370 |
| - UK Personal & Business Banking | 3,460 | 3,474 | 1,170 | 1,147 | 1,198 |
| - Ulster Bank | 392 | 486 | 127 | 132 | 163 |
| - Commercial Banking | 1,673 | 1,520 | 565 | 562 | 521 |
| - Private Banking | 377 | 516 | 123 | 126 | 172 |
| - Corporate & Institutional Banking | 518 | 595 | 142 | 174 | 230 |
| - Central items | 227 | 312 | 77 | 88 | 109 |
| - RCR | (42) | (24) | (17) | (14) | (23) |
| Average interest-earning assets | | | | | |
| RBS | 415,463 | 436,876 | 413,778 | 417,248 | 431,863 |
| - UK Personal & Business Banking | 129,422 | 127,101 | 131,299 | 128,569 | 127,896 |
| - Ulster Bank | 27,621 | 28,033 | 27,825 | 27,404 | 27,922 |
| - Commercial Banking | 78,559 | 74,611 | 79,689 | 78,880 | 74,339 |
| - Private Banking | 15,752 | 18,669 | 15,557 | 15,729 | 18,681 |
| - Corporate & Institutional Banking | 63,634 | 83,821 | 48,612 | 69,437 | 83,903 |
| - Central items | 85,117 | 70,662 | 99,526 | 82,471 | 69,872 |
| - RCR | 15,358 | 33,979 | 11,270 | 14,758 | 29,250 |
| Gross yield on interest-earning assets of banking business | 2.92% | 3.01% | 2.84% | 2.91% | 3.04% |
| Cost of interest-bearing liabilities of banking business | (1.15%) | (1.26%) | (1.09%) | (1.14%) | (1.20%) |
| Interest spread of banking business | 1.77% | 1.75% | 1.75% | 1.77% | 1.84% |
| Benefit from interest free funds | 0.35% | 0.34% | 0.34% | 0.36% | 0.33% |
| Net interest margin (1) | | | | | |
| RBS | 2.12% | 2.09% | 2.09% | 2.13% | 2.17% |
| - UK Personal & Business Banking | 3.57% | 3.65% | 3.54% | 3.58% | 3.72% |
| - Ulster Bank | 1.90% | 2.32% | 1.81% | 1.93% | 2.32% |
| - Commercial Banking | 2.85% | 2.72% | 2.81% | 2.86% | 2.78% |
| - Private Banking | 3.20% | 3.70% | 3.14% | 3.21% | 3.65% |
| - Corporate & Institutional Banking | 1.09% | 0.95% | 1.16% | 1.00% | 1.08% |
| - Central items | 0.34% | 0.52% | 0.29% | 0.41% | 0.58% |
| - RCR | (0.37%) | (0.09%) | (0.60%) | (0.38%) | (0.31%) |
| Non-interest income | | | | | |
| Net fees and commissions | 2,280 | 2,688 | 685 | 783 | 920 |
| Income from trading activities | 747 | 1,644 | 82 | 430 | 205 |
| Other operating income | 518 | 799 | 93 | 141 | 148 |
| Total non-interest income | 3,545 | 5,131 | 860 | 1,354 | 1,273 |

Notes:

(1) For the purposes of net interest margin (NIM) calculations, a decrease of £12 million arising in Central items (nine months ended 30 September 2014 - £35 million; Q3 2015 - £4 million; Q2 2015 - £3 million; Q3 2014 - £7 million) was made in respect of interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.

(2) PBB NIM Q3 2015 was 3.23% and Q2 2015 was 3.29%. CPB NIM for Q3 2015 was 2.87% and Q2 2015 was 2.92%.

Analysis of results

Key points

- Net interest income of £2,187 million was down £183 million from Q3 2014. While there has been good volume growth in some segments during the quarter, average interest-earnings assets remain 4% lower than Q3 2014. Higher yielding assets such as credit card balances and personal unsecured loans have declined in volume, reflecting RBS's positioning in these products. Good progress in the run-down of CIB Capital Resolution assets has amplified the bank's excess liquidity position.
- NIM for RBS of 2.09% continues to compress modestly, down 4 basis points from Q2 2015 and 8 basis points from Q3 2014. RBS's previously reported NIM included Citizens, whose exclusion results in a lower bank NIM.
- In UK PBB, NIM declined by 4 basis points during Q3 2015, principally reflecting more competitive front book pricing in combination with increased switching from the standard variable rate book (15% of the overall mortgage book at 30 September 2015 compared with 23% a year earlier and 18% at the end of Q2 2015).
- Non-interest income totalled £860 million, down £413 million from Q3 2014. This was principally driven by the planned reshaping of CIB (down £306 million) and reduced trading income and disposal gains in RCR (down £144 million). Equity gains were also lower in Commercial Banking, which had recorded significant disposal gains in previous quarters. Interchange fee income in UK PBB remains under pressure.
- Compared with Q2 2015, non-interest income was £494 million lower. This included a movement of £331 million in volatile items under IFRS, which represented a charge of £126 million in the quarter compared with a credit of £205 million in Q2 2015.

Analysis of results

| | Nine months ended | | Quarter ended | | |
|--|-------------------|-------------------|-------------------|--------------|-------------------|
| | 30 September 2015 | 30 September 2014 | 30 September 2015 | 30 June 2015 | 30 September 2014 |
| | £m | £m | £m | £m | £m |
| Operating expenses | | | | | |
| Staff costs | 3,776 | 4,184 | 1,265 | 1,242 | 1,356 |
| Premises and equipment | 1,061 | 1,360 | 352 | 298 | 423 |
| Other | 1,338 | 1,418 | 477 | 481 | 396 |
| Restructuring costs* | 2,317 | 612 | 847 | 1,023 | 167 |
| Litigation and conduct costs | 1,444 | 1,030 | 129 | 459 | 780 |
| Administrative expenses | 9,936 | 8,604 | 3,070 | 3,503 | 3,122 |
| Depreciation and amortisation | 608 | 724 | 190 | 186 | 261 |
| Write down of intangible assets | - | 82 | - | - | - |
| Operating expenses | 10,544 | 9,410 | 3,260 | 3,689 | 3,383 |
| Adjusted operating expenses (1) | 6,783 | 7,768 | 2,284 | 2,207 | 2,436 |
| *Restructuring costs comprise: | | | | | |
| - staff expenses | 625 | 248 | 281 | 288 | 79 |
| - premises, equipment, depreciation and amortisation | 705 | 244 | 375 | 42 | 52 |
| - other | 987 | 120 | 191 | 693 | 36 |
| Restructuring costs | 2,317 | 612 | 847 | 1,023 | 167 |
| Staff costs as a % of total income | 37% | 35% | 42% | 35% | 37% |
| Cost:income ratio | 104% | 78% | 107% | 103% | 93% |
| Cost:income ratio - adjusted (1) | 67% | 65% | 75% | 62% | 67% |
| Employee numbers (FTE - thousands) | 92.4 | 93.3 | 92.4 | 91.6 | 93.3 |

Note:

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

Key points

- Staff costs totalled £1,265 million, down £91 million or 7%, compared with Q3 2014, principally driven by declining headcount. Premises and equipment expenses were down £71 million from Q3 2014 as RBS's property portfolio is managed down.
- Adjusted operating expenses in the nine months ended 30 September 2015 totalled £6,783 million, down £985 million or 13%, compared with the same period of 2014. RBS expects to exceed £900 million of cost savings for the full year. However, Q4 2015 will include the annual bank levy charge; in addition, £190 million of accrual reversals were recorded in Q4 2014.
- Restructuring costs totalled £847 million for Q3 2015, principally relating to CIB (£637 million, including £276 million of property related charges) and to Williams & Glyn separation (£190 million). Restructuring costs in the first nine months of 2015 were £2.3 billion, approaching half of the expected c.£5 billion of total restructuring costs from 2015 to 2019.
- Litigation and conduct costs of £129 million were lower than recorded in recent quarters and related principally to a charge in CIB in relation to certain mortgage-backed securities litigation.

Analysis of results

| | Nine months ended | | Quarter ended | | |
|--|-------------------|--------------|---------------------|----------------|--------------------|
| | 30 September | 30 September | 30 September | 30 June | 30 September |
| | 2015 | 2014 | 2015 | 2015 | 2014 |
| Impairment (releases)/losses | | | | | |
| Loan impairment (releases)/losses | | | | | |
| - individually assessed | (135) | (321) | (15) | (105) | (415) |
| - collectively assessed | (8) | 293 | (13) | (7) | 16 |
| - latent | (380) | (642) | (64) | (91) | (450) |
| Customer loans | (523) | (670) | (92) | (203) | (849) |
| Bank loans | (4) | (10) | (4) | - | - |
| Total loan impairment releases | (527) | (680) | (96) | (203) | (849) |
| Securities | 127 | (2) | 17 | 11 | 2 |
| Total impairment releases | (400) | (682) | (79) | (192) | (847) |
| Credit metrics (1) | | | 30 September | 30 June | 31 December |
| | | | 2015 | 2015 | 2014 |
| Gross customer loans | | | £322,957m | £390,781m | £412,801m |
| Loan impairment provisions | | | £9,277m | £11,303m | £18,040m |
| Risk elements in lending (REIL) | | | £14,643m | £18,714m | £28,219m |
| Provisions as a % of REIL | | | 63% | 60% | 64% |
| REIL as a % of gross customer loans | | | 4.5% | 4.8% | 6.8% |
| Credit metrics excluding Citizens | | | | | |
| Gross customer loans | | | £322,957m | £328,821m | £352,659m |
| Loan impairment provisions | | | £9,277m | £10,771m | £17,504m |
| Risk elements in lending (REIL) | | | £14,643m | £17,474m | £26,889m |
| Provisions as a % of REIL | | | 63% | 62% | 65% |
| REIL as a % of gross customer loans | | | 4.5% | 5.3% | 7.6% |

Note:

(1) Includes disposal groups. Citizens is included in disposal groups at 30 June 2015 and 31 December 2014.

Key points

- Loan impairment releases in Q3 2015 were £96 million compared with £849 million in Q3 2014.
- Excluding Citizens, provision coverage increased from 62% at 30 June 2015 to 63% at 30 September 2015, largely reflecting the £2.8 billion reduction in REIL, principally driven by RCR disposals.

Analysis of results

Selected credit risk portfolios

| | 30 September 2015 | | | 30 June 2015 (1) | | | 31 December 2014 (1) | | |
|-----------------------------|-------------------|---------------|---------------|------------------|---------------|---------------|----------------------|---------------|---------------|
| | CRA (2) £m | TCE (2) £m | EAD (2) £m | CRA (2) £m | TCE (2) £m | EAD (2) £m | CRA (2) £m | TCE (2) £m | EAD (2) £m |
| Natural resources | | | | | | | | | |
| Oil and gas | 4,632 | 9,181 | 7,224 | 6,664 | 15,499 | 11,318 | 9,421 | 22,014 | 15,877 |
| Mining and metals | 1,397 | 2,516 | 1,934 | 1,717 | 2,914 | 2,543 | 2,660 | 4,696 | 3,817 |
| Electricity | 3,323 | 9,145 | 6,282 | 4,361 | 11,935 | 7,933 | 4,927 | 16,212 | 9,984 |
| Water and waste | 4,901 | 5,955 | 5,906 | 5,006 | 6,174 | 6,041 | 5,281 | 6,718 | 6,466 |
| Natural resources | 14,253 | 26,797 | 21,346 | 17,748 | 36,522 | 27,835 | 22,289 | 49,640 | 36,144 |
| Commodity traders (3) | 884 | 1,239 | 1,355 | 1,136 | 1,835 | 1,996 | 1,968 | 2,790 | 3,063 |
| Of which: natural resources | 662 | 915 | 922 | 706 | 1,083 | 1,197 | 1,140 | 1,596 | 1,852 |
| Shipping | 7,937 | 8,568 | 8,266 | 8,258 | 8,874 | 8,616 | 10,087 | 10,710 | 10,552 |

Notes:

- (1) Prior period data excludes Citizens for comparative purposes: Citizens totals for natural resources and shipping were 30 June 2015 - TCE £4.4 billion, EAD £3.6 billion; 31 December 2014 - TCE £4.2 billion, EAD £3.4 billion.
- (2) Credit risk assets (CRA) consist of lending gross of impairment provisions, derivative exposures after netting and contingent obligations. Total committed exposure (TCE) comprises CRA, securities financing transactions after netting, banking book debt securities and committed undrawn facilities. Exposure at default (EAD) is gross of credit provisions and is after credit risk mitigation. EAD reflects an estimate of the extent to which a bank will be exposed under a specific facility on the default of a customer or counterparty. Uncommitted undrawn facilities are excluded from TCE but included within EAD; therefore EAD can exceed TCE.
- (3) Commodity traders represents customers in a number of industry sectors, predominately natural resources above.

Key points

- Oil and gas: total exposure has more than halved during 2015 and decreased significantly during Q3 2015. This primarily reflected continued loan sales and run-off across the CIB portfolio in Asia-Pacific and the US.
- Mining and metals: the reduction in exposure during 2015 reflected proactive management of more vulnerable sub-sectors. The majority of the exposure is to large international customers and matures within five years.
- Commodity traders: total exposure has more than halved during 2015 and is primarily to the largest physical commodity traders, the exposure is predominantly short-dated, collateralised and uncommitted facilities used for working capital.
- Shipping: exposure is in CIB Capital Resolution and RCR. The decrease in exposure in Q3 2015 principally reflected sales in RCR.

| | 30 September 2015 | | 30 June 2015 | | 31 December 2014 | |
|----------------------|------------------------|-------------------------|------------------------|-------------------------|------------------------|-------------------------|
| | Balance sheet £m | Total exposure £m | Balance sheet £m | Total exposure £m | Balance sheet £m | Total exposure £m |
| Emerging markets (1) | | | | | | |
| India | 1,952 | 2,456 | 1,680 | 2,225 | 1,989 | 2,628 |
| China | 1,588 | 1,651 | 2,358 | 2,510 | 3,548 | 4,079 |
| Russia | 953 | 1,028 | 1,618 | 1,709 | 1,830 | 1,997 |

Note:

- (1) Balance sheet and total exposures include banking and trading book debt securities and are net of impairment provisions in respect of lending - refer to the Country risk section of the 2014 Annual Report and Accounts for detailed definitions.

Key point

- Exposure to most emerging markets decreased in 2015 as RBS continues to implement its strategy to withdraw from non-strategic countries. The drop in Chinese exposure in Q3 2015 reflected corporate loan sales and reductions in cash collateral due to reduced volumes of foreign exchange trading. Total exposure to Russia has halved during 2015 and the reduction in Q3 2015 was mostly due to corporate loan sales.

Analysis of results

Capital and leverage ratios

| | End-point CRR basis (1) | | | PRA transitional basis | | |
|---|-------------------------|--------------|------------------|------------------------|--------------|------------------|
| | 30 September 2015 | 30 June 2015 | 31 December 2014 | 30 September 2015 | 30 June 2015 | 31 December 2014 |
| | % | % | % | % | % | % |
| Risk asset ratios | | | | | | |
| CET1 | 12.7 | 12.3 | 11.2 | 12.7 | 12.3 | 11.1 |
| Tier 1 | 13.3 | 12.3 | 11.2 | 15.5 | 14.3 | 13.2 |
| Total | 16.0 | 14.8 | 13.7 | 19.8 | 18.5 | 17.1 |
| Capital | | | | | | |
| Tangible equity | 44,442 | 43,919 | 44,368 | 44,442 | 43,919 | 44,368 |
| Expected loss less impairment provisions | (1,185) | (1,319) | (1,491) | (1,185) | (1,319) | (1,491) |
| Prudential valuation adjustment | (392) | (366) | (384) | (392) | (366) | (384) |
| Deferred tax assets | (1,159) | (1,206) | (1,222) | (1,159) | (1,206) | (1,222) |
| Own credit adjustments | 208 | 345 | 500 | 208 | 345 | 500 |
| Pension fund assets | (256) | (250) | (238) | (256) | (250) | (238) |
| Other deductions | (1,478) | (1,070) | (1,614) | (1,456) | (1,047) | (1,884) |
| Total deductions | (4,262) | (3,866) | (4,449) | (4,240) | (3,843) | (4,719) |
| CET1 capital | 40,180 | 40,053 | 39,919 | 40,202 | 40,076 | 39,649 |
| AT1 capital | 1,997 | - | - | 8,716 | 6,709 | 7,468 |
| Tier 1 capital | 42,177 | 40,053 | 39,919 | 48,918 | 46,785 | 47,117 |
| Tier 2 capital | 8,331 | 8,181 | 8,717 | 13,742 | 13,573 | 13,626 |
| Total regulatory capital | 50,508 | 48,234 | 48,636 | 62,660 | 60,358 | 60,743 |
| Risk-weighted assets | | | | | | |
| Credit risk | | | | | | |
| - non-counterparty | 237,800 | 245,000 | 264,700 | 237,800 | 245,000 | 264,700 |
| - counterparty | 26,900 | 27,500 | 30,400 | 26,900 | 27,500 | 30,400 |
| Market risk | 19,700 | 22,300 | 24,000 | 19,700 | 22,300 | 24,000 |
| Operational risk | 31,600 | 31,600 | 36,800 | 31,600 | 31,600 | 36,800 |
| Total RWAs | 316,000 | 326,400 | 355,900 | 316,000 | 326,400 | 355,900 |
| Leverage (2) | | | | | | |
| Derivatives | 296,500 | 282,300 | 354,000 | | | |
| Loans and advances | 402,300 | 402,800 | 419,600 | | | |
| Reverse repos | 52,100 | 67,800 | 64,700 | | | |
| Other assets | 207,700 | 211,800 | 212,500 | | | |
| Total assets | 958,600 | 964,700 | 1,050,800 | | | |
| Derivatives | | | | | | |
| - netting | (280,300) | (266,600) | (330,900) | | | |
| - potential future exposures | 82,200 | 83,500 | 98,800 | | | |
| Securities financing transactions gross up | 6,600 | 6,200 | 25,000 | | | |
| Undrawn commitments | 78,900 | 84,700 | 96,400 | | | |
| Regulatory deductions and other adjustments | 500 | 2,000 | (600) | | | |
| Leverage exposure | 846,500 | 874,500 | 939,500 | | | |
| Tier 1 capital | 42,177 | 40,053 | 39,919 | | | |
| Leverage ratio % | 5.0 | 4.6 | 4.2 | | | |

Notes:

(1) Capital Requirements Regulation (CRR) as implemented by the Prudential Regulation Authority in the UK, with effect from 1 January 2014. All regulatory adjustments and deductions to CET1 have been applied in full for the end-point CRR basis with the exception of unrealised gains on AFS securities which has been included from 2015 under the PRA transitional basis.

(2) Based on end-point CRR Tier 1 capital and leverage exposure under the revised 2014 Basel III leverage ratio framework and the CRR Delegated Act.

Key points

- RBS's CET1 ratio strengthened to 12.7% at 30 September 2015, up 40 basis points from 30 June 2015 and 150 basis points since the start of the year. The increase was principally driven by a further reduction in RWAs, which fell by £10.4 billion during Q3 2015. Excluding the impact of movements in both US dollar and euro exchange rates, the RWA reduction would have been £14.9 billion.
- CIB Capital Resolution RWAs decreased by £6.7 billion from 30 June 2015 due to portfolio reduction of £7 billion, including further sale to Mizuho of £1.3 billion and ongoing GTS exit activity of £1.5 billion, partly offset by foreign exchange movements as sterling weakened against the dollar.
- CIB Go-forward RWAs decreased by £3.3 billion from 30 June 2015 principally due to a decrease of £2.2 billion in market risk RWAs.
- RCR RWAs reduced by £2.0 billion from 30 June 2015 reflecting ongoing disposal and run-off strategy.
- The leverage ratio improved to 5.0% at 30 September 2015, up 40 basis points from 30 June 2015, assisted by the successful issue of US\$3.15 billion (£2 billion) Additional Tier 1 capital notes in August 2015 and reduced leverage exposure driven by lower reverse repos and undrawn commitments.
- On a pro-forma basis, assuming full deconsolidation of Citizens credit and counterparty risk RWAs at 30 September 2015, RBS's CET1 ratio would have been 16.2% and its leverage ratio 5.6%.

Segment performance

On 3 August 2015, RBS's interest in Citizens fell to 20.9% and Citizens Financial Group (CFG) ceased to be a reportable segment. The following segment disclosures have been restated accordingly. Refer to pages 2 and 31 for further information.

| | Nine months ended 30 September 2015 | | | | | | | | | |
|---|-------------------------------------|----------------------|----------------|-----------------------------|--------------------------|----------------|----------------|----------------------------|--------------|--------------------|
| | PBB | | | CPB | | | CIB | | | |
| | UK PBB £m | Ulster Bank £m | Total £m | Commercial Banking £m | Private Banking £m | Total £m | £m | Central items (1) £m | RCR £m | Total RBS £m |
| Income statement | | | | | | | | | | |
| Net interest income | 3,460 | 392 | 3,852 | 1,673 | 377 | 2,050 | 518 | 227 | (42) | 6,605 |
| Non-interest income | 920 | 190 | 1,110 | 871 | 248 | 1,119 | 1,243 | (114) | 187 | 3,545 |
| Total income | 4,380 | 582 | 4,962 | 2,544 | 625 | 3,169 | 1,761 | 113 | 145 | 10,150 |
| Direct expenses - staff costs | (694) | (179) | (873) | (377) | (209) | (586) | (461) | (1,778) | (78) | (3,776) |
| - other costs | (221) | (54) | (275) | (166) | (49) | (215) | (209) | (2,294) | (14) | (3,007) |
| Indirect expenses | (1,379) | (196) | (1,575) | (657) | (289) | (946) | (1,571) | 4,139 | (47) | - |
| Restructuring costs - direct | (5) | (21) | (26) | (11) | (1) | (12) | (404) | (1,875) | - | (2,317) |
| - indirect | (72) | (3) | (75) | (8) | (83) | (91) | (1,258) | 1,428 | (4) | - |
| Litigation and conduct costs | (362) | 6 | (356) | (59) | (28) | (87) | (980) | (21) | - | (1,444) |
| Operating expenses | (2,733) | (447) | (3,180) | (1,278) | (659) | (1,937) | (4,883) | (401) | (143) | (10,544) |
| Profit/(loss) before impairment losses | 1,647 | 135 | 1,782 | 1,266 | (34) | 1,232 | (3,122) | (288) | 2 | (394) |
| Impairment releases/(losses) | 6 | 110 | 116 | (42) | (1) | (43) | 35 | (47) | 339 | 400 |
| Operating profit/(loss) | 1,653 | 245 | 1,898 | 1,224 | (35) | 1,189 | (3,087) | (335) | 341 | 6 |
| Additional information | | | | | | | | | | |
| Operating expenses - adjusted (2) | (2,294) | (429) | (2,723) | (1,200) | (547) | (1,747) | (2,241) | 67 | (139) | (6,783) |
| Operating profit/(loss) - adjusted (2) | 2,092 | 263 | 2,355 | 1,302 | 77 | 1,379 | (445) | 133 | 345 | 3,767 |
| Return on equity (3) | 26.2% | 10.1% | 20.7% | 11.6% | (4.5%) | 9.6% | (26.0%) | nm | nm | 2.4% |
| Return on equity - adjusted (2,3) | 33.7% | 10.8% | 26.0% | 12.5% | 4.1% | 11.4% | (5.1%) | nm | nm | 11.7% |
| Cost:income ratio | 62% | 77% | 64% | 50% | 105% | 61% | 277% | nm | nm | 104% |
| Cost:income ratio - adjusted (2) | 52% | 74% | 55% | 47% | 88% | 55% | 127% | nm | nm | 67% |
| Total assets (£bn) | 139.1 | 28.0 | 167.1 | 95.9 | 16.8 | 112.7 | 464.1 | 119.6 | 12.9 | 876.4 |
| Funded assets (£bn) | 139.1 | 27.9 | 167.0 | 95.9 | 16.7 | 112.6 | 177.4 | 116.9 | 6.5 | 580.4 |
| Net loans and advances to customers (£bn) | 132.5 | 20.6 | 153.1 | 91.6 | 13.5 | 105.1 | 50.8 | 0.4 | 4.3 | 313.7 |
| Risk elements in lending (£bn) | 3.0 | 4.0 | 7.0 | 2.2 | 0.1 | 2.3 | 0.2 | - | 5.1 | 14.6 |
| Impairment provisions (£bn) | (2.0) | (2.3) | (4.3) | (0.8) | (0.1) | (0.9) | (0.1) | (0.1) | (3.9) | (9.3) |
| Customer deposits (£bn) | 152.9 | 19.2 | 172.1 | 98.9 | 29.1 | 128.0 | 47.8 | 3.7 | 0.9 | 352.5 |
| Risk-weighted assets (RWAs) (£bn) | 39.4 | 21.5 | 60.9 | 67.2 | 9.8 | 77.0 | 78.0 | 87.7 | 12.4 | 316.0 |
| RWA equivalent (£bn) (4) | 43.2 | 21.7 | 64.9 | 72.1 | 9.8 | 81.9 | 79.7 | 88.1 | 13.9 | 328.5 |
| Employee numbers (FTEs - thousands) | 25.6 | 4.2 | 29.8 | 6.0 | 2.7 | 8.7 | 2.8 | 50.6 | 0.5 | 92.4 |

For the notes to this table refer to page 22. nm = not meaningful

Segment performance

| | Quarter ended 30 September 2015 | | | | | | | | | |
|--|---------------------------------|----------------|--------------|-----------------------|--------------------|--------------|----------------|----------------------|-------------|----------------|
| | PBB | | | CPB | | | CIB | | | Total RBS £m |
| | UK PBB £m | Ulster Bank £m | Total £m | Commercial Banking £m | Private Banking £m | Total £m | £m | Central items (1) £m | RCR £m | |
| Income statement | | | | | | | | | | |
| Net interest income | 1,170 | 127 | 1,297 | 565 | 123 | 688 | 142 | 77 | (17) | 2,187 |
| Non-interest income | 289 | 87 | 376 | 265 | 81 | 346 | 295 | (154) | (3) | 860 |
| Total income | 1,459 | 214 | 1,673 | 830 | 204 | 1,034 | 437 | (77) | (20) | 3,047 |
| Direct expenses - staff costs | (238) | (59) | (297) | (122) | (66) | (188) | (139) | (619) | (22) | (1,265) |
| - other costs | (81) | (21) | (102) | (56) | (23) | (79) | (60) | (777) | (1) | (1,019) |
| Indirect expenses | (466) | (70) | (536) | (224) | (95) | (319) | (510) | 1,380 | (15) | - |
| Restructuring costs - direct | (5) | (3) | (8) | (1) | 2 | 1 | (193) | (647) | - | (847) |
| - indirect | (22) | (3) | (25) | - | (3) | (3) | (444) | 476 | (4) | - |
| Litigation and conduct costs | 2 | (2) | - | - | - | - | (107) | (22) | - | (129) |
| Operating expenses | (810) | (158) | (968) | (403) | (185) | (588) | (1,453) | (209) | (42) | (3,260) |
| Profit/(loss) before impairment losses | 649 | 56 | 705 | 427 | 19 | 446 | (1,016) | (286) | (62) | (213) |
| Impairment (losses)/releases | (11) | 58 | 47 | (15) | (4) | (19) | 4 | 1 | 46 | 79 |
| Operating profit/(loss) | 638 | 114 | 752 | 412 | 15 | 427 | (1,012) | (285) | (16) | (134) |
| Additional information | | | | | | | | | | |
| Operating expenses - adjusted (2) | (785) | (150) | (935) | (402) | (184) | (586) | (709) | (16) | (38) | (2,284) |
| Operating profit/(loss) - adjusted (2) | 663 | 122 | 785 | 413 | 16 | 429 | (268) | (92) | (12) | 842 |
| Return on equity (3) | 31.8% | 14.1% | 25.5% | 11.7% | 1.7% | 10.5% | (29.2%) | nm | nm | 8.8% |
| Return on equity - adjusted (2,3) | 33.1% | 15.1% | 26.7% | 11.7% | 1.9% | 10.6% | (9.1%) | nm | nm | 15.8% |
| Cost:income ratio | 56% | 74% | 58% | 49% | 91% | 57% | 332% | nm | nm | 107% |
| Cost:income ratio - adjusted (2) | 54% | 70% | 56% | 48% | 90% | 57% | 162% | nm | nm | 75% |
| Total assets (£bn) | 139.1 | 28.0 | 167.1 | 95.9 | 16.8 | 112.7 | 464.1 | 119.6 | 12.9 | 876.4 |
| Funded assets (£bn) | 139.1 | 27.9 | 167.0 | 95.9 | 16.7 | 112.6 | 177.4 | 116.9 | 6.5 | 580.4 |
| Net loans and advances to customers (£bn) | 132.5 | 20.6 | 153.1 | 91.6 | 13.5 | 105.1 | 50.8 | 0.4 | 4.3 | 313.7 |
| Risk elements in lending (£bn) | 3.0 | 4.0 | 7.0 | 2.2 | 0.1 | 2.3 | 0.2 | - | 5.1 | 14.6 |
| Impairment provisions (£bn) | (2.0) | (2.3) | (4.3) | (0.8) | (0.1) | (0.9) | (0.1) | (0.1) | (3.9) | (9.3) |
| Customer deposits (£bn) | 152.9 | 19.2 | 172.1 | 98.9 | 29.1 | 128.0 | 47.8 | 3.7 | 0.9 | 352.5 |
| Risk-weighted assets (RWAs) (£bn) | 39.4 | 21.5 | 60.9 | 67.2 | 9.8 | 77.0 | 78.0 | 87.7 | 12.4 | 316.0 |
| RWA equivalent (£bn) (4) | 43.2 | 21.7 | 64.9 | 72.1 | 9.8 | 81.9 | 79.7 | 88.1 | 13.9 | 328.5 |
| Employee numbers (FTEs - thousands) | 25.6 | 4.2 | 29.8 | 6.0 | 2.7 | 8.7 | 2.8 | 50.6 | 0.5 | 92.4 |

For the notes to this table refer to page 22. nm = not meaningful

Segment performance

| | Nine months ended 30 September 2014 | | | | | | | | | |
|---|-------------------------------------|----------------------|----------------|-----------------------------|--------------------------|----------------|----------------|----------------------------|--------------|--------------------|
| | PBB | | | CPB | | | CIB | | | |
| | UK PBB £m | Ulster Bank £m | Total £m | Commercial Banking £m | Private Banking £m | Total £m | £m | Central items (1) £m | RCR £m | Total RBS £m |
| Income statement | | | | | | | | | | |
| Net interest income | 3,474 | 486 | 3,960 | 1,520 | 516 | 2,036 | 595 | 312 | (24) | 6,879 |
| Non-interest income | 1,031 | 140 | 1,171 | 859 | 299 | 1,158 | 2,663 | (115) | 254 | 5,131 |
| Total income | 4,505 | 626 | 5,131 | 2,379 | 815 | 3,194 | 3,258 | 197 | 230 | 12,010 |
| Direct expenses - staff costs | (705) | (182) | (887) | (390) | (227) | (617) | (666) | (1,889) | (126) | (4,185) |
| - other costs | (305) | (55) | (360) | (176) | (47) | (223) | (300) | (2,644) | (56) | (3,583) |
| Indirect expenses | (1,423) | (187) | (1,610) | (598) | (326) | (924) | (1,773) | 4,386 | (79) | - |
| Restructuring costs - direct | (8) | 8 | - | (40) | (2) | (42) | (44) | (526) | - | (612) |
| - indirect | (76) | (34) | (110) | (40) | (8) | (48) | (163) | 325 | (4) | - |
| Litigation and conduct costs | (268) | - | (268) | (50) | - | (50) | (612) | (100) | - | (1,030) |
| Operating expenses | (2,785) | (450) | (3,235) | (1,294) | (610) | (1,904) | (3,558) | (448) | (265) | (9,410) |
| Profit/(loss) before impairment losses | 1,720 | 176 | 1,896 | 1,085 | 205 | 1,290 | (300) | (251) | (35) | 2,600 |
| Impairment (losses)/releases | (227) | 261 | 34 | (43) | 4 | (39) | 51 | 11 | 625 | 682 |
| Operating profit/(loss) | 1,493 | 437 | 1,930 | 1,042 | 209 | 1,251 | (249) | (240) | 590 | 3,282 |
| Additional information | | | | | | | | | | |
| Operating expenses - adjusted (2) | (2,433) | (424) | (2,857) | (1,164) | (600) | (1,764) | (2,739) | (147) | (261) | (7,768) |
| Operating profit - adjusted (2) | 1,845 | 463 | 2,308 | 1,172 | 219 | 1,391 | 570 | 61 | 594 | 4,924 |
| Return on equity (3) | 22.1% | 16.2% | 19.6% | 10.4% | 12.3% | 10.7% | (2.4%) | nm | nm | 7.3% |
| Return on equity - adjusted (2,3) | 27.6% | 17.2% | 23.6% | 11.8% | 12.9% | 12.0% | 2.2% | nm | nm | 11.9% |
| Cost:income ratio | 62% | 72% | 63% | 54% | 75% | 60% | 109% | nm | nm | 78% |
| Cost:income ratio - adjusted (2) | 54% | 68% | 56% | 49% | 74% | 55% | 84% | nm | nm | 65% |
| Total assets (£bn) | 134.2 | 26.5 | 160.7 | 89.7 | 21.1 | 110.8 | 572.9 | 170.4 | 31.3 | 1,046.1 |
| Funded assets (£bn) | 134.2 | 26.3 | 160.5 | 89.7 | 21.0 | 110.7 | 274.9 | 168.1 | 17.9 | 732.1 |
| Net loans and advances to customers (£bn) | 127.0 | 22.0 | 149.0 | 85.0 | 16.7 | 101.7 | 73.1 | 57.1 | 13.2 | 394.1 |
| Risk elements in lending (£bn) | 4.1 | 4.8 | 8.9 | 2.6 | 0.2 | 2.8 | 0.1 | 1.3 | 17.4 | 30.5 |
| Impairment provisions (£bn) | (2.7) | (2.9) | (5.6) | (1.0) | (0.1) | (1.1) | (0.2) | (0.5) | (12.6) | (20.0) |
| Customer deposits (£bn) | 146.0 | 19.7 | 165.7 | 87.0 | 36.2 | 123.2 | 57.1 | 58.4 | 1.2 | 405.6 |
| Risk-weighted assets (RWAs) (£bn) | 44.7 | 23.9 | 68.6 | 64.9 | 12.2 | 77.1 | 123.2 | 82.2 | 30.6 | 381.7 |
| RWA equivalent (£bn) (4) | 47.3 | 21.4 | 68.7 | 71.6 | 12.2 | 83.8 | 125.0 | 82.2 | 38.3 | 398.0 |
| Employee numbers (FTEs - thousands) | 25.0 | 4.5 | 29.5 | 6.8 | 3.4 | 10.2 | 4.0 | 48.8 | 0.8 | 93.3 |

For the notes to this table refer to page 22. nm = not meaningful

Segment performance

| | Quarter ended 30 June 2015 | | | | | | | | | | | |
|---|----------------------------|----------------------|--------------|-----------------------------|--------------------------|--------------|----------------|-------------|-------------|-------------------------|-----------|-----------------|
| | PBB | | | CPB | | | CIB | | | Central items (1) £m | RCR £m | Total RBS £m |
| | UK PBB £m | Ulster Bank £m | Total £m | Commercial Banking £m | Private Banking £m | Total £m | £m | | | | | |
| Income statement | | | | | | | | | | | | |
| Net interest income | 1,147 | 132 | 1,279 | 562 | 126 | 688 | 174 | 88 | (14) | 2,215 | | |
| Non-interest income | 322 | 46 | 368 | 330 | 81 | 411 | 346 | 170 | 59 | 1,354 | | |
| Total income | 1,469 | 178 | 1,647 | 892 | 207 | 1,099 | 520 | 258 | 45 | 3,569 | | |
| Direct expenses - staff costs | (231) | (60) | (291) | (126) | (67) | (193) | (142) | (585) | (31) | (1,242) | | |
| - other costs | (69) | (16) | (85) | (56) | (14) | (70) | (71) | (732) | (7) | (965) | | |
| Indirect expenses | (463) | (63) | (526) | (208) | (96) | (304) | (521) | 1,366 | (15) | - | | |
| Restructuring costs - direct | - | (18) | (18) | (10) | (3) | (13) | (195) | (797) | - | (1,023) | | |
| - indirect | (20) | (1) | (21) | (7) | (81) | (88) | (539) | 648 | - | - | | |
| Litigation and conduct costs | (10) | 8 | (2) | (59) | (26) | (85) | (373) | 1 | - | (459) | | |
| Operating expenses | (793) | (150) | (943) | (466) | (287) | (753) | (1,841) | (99) | (53) | (3,689) | | |
| Profit/(loss) before impairment losses | 676 | 28 | 704 | 426 | (80) | 346 | (1,321) | 159 | (8) | (120) | | |
| Impairment (losses)/releases | (9) | 52 | 43 | (26) | 2 | (24) | (13) | 2 | 184 | 192 | | |
| Operating profit/(loss) | 667 | 80 | 747 | 400 | (78) | 322 | (1,334) | 161 | 176 | 72 | | |
| Additional information | | | | | | | | | | | | |
| Operating expenses - adjusted (2) | (763) | (139) | (902) | (390) | (177) | (567) | (734) | 49 | (53) | (2,207) | | |
| Operating profit/(loss) - adjusted (2) | 697 | 91 | 788 | 476 | 32 | 508 | (227) | 309 | 176 | 1,554 | | |
| Return on equity (3) | 32.1% | 9.9% | 24.7% | 11.3% | (20.1%) | 7.5% | (33.0%) | nm | nm | 2.7% | | |
| Return on equity - adjusted (2,3) | 33.6% | 11.3% | 26.1% | 13.7% | 5.6% | 12.7% | (6.9%) | nm | nm | 14.1% | | |
| Cost:income ratio | 54% | 84% | 57% | 52% | 139% | 69% | 354% | nm | nm | 103% | | |
| Cost:income ratio - adjusted (2) | 52% | 78% | 55% | 44% | 86% | 52% | 141% | nm | nm | 62% | | |
| Total assets (£bn) | 135.4 | 26.5 | 161.9 | 94.5 | 17.0 | 111.5 | 482.4 | 192.4 | 16.5 | 964.7 | | |
| Funded assets (£bn) | 135.4 | 26.4 | 161.8 | 94.5 | 16.9 | 111.4 | 211.1 | 189.7 | 8.4 | 682.4 | | |
| Net loans and advances to customers (£bn) | 128.6 | 20.2 | 148.8 | 90.1 | 13.5 | 103.6 | 57.8 | 63.4 | 5.9 | 379.5 | | |
| Risk elements in lending (£bn) | 3.2 | 4.2 | 7.4 | 2.3 | 0.2 | 2.5 | 0.2 | 1.2 | 7.4 | 18.7 | | |
| Impairment provisions (£bn) | (2.1) | (2.4) | (4.5) | (0.9) | - | (0.9) | (0.1) | (0.7) | (5.1) | (11.3) | | |
| Customer deposits (£bn) | 151.0 | 18.7 | 169.7 | 97.0 | 29.8 | 126.8 | 49.2 | 65.8 | 1.0 | 412.5 | | |
| Risk-weighted assets (RWAs) (£bn) | 41.0 | 21.2 | 62.2 | 66.9 | 9.8 | 76.7 | 88.0 | 85.1 | 14.4 | 326.4 | | |
| RWA equivalent (£bn) (4) | 44.6 | 20.7 | 65.3 | 72.0 | 9.8 | 81.8 | 89.7 | 85.4 | 17.9 | 340.1 | | |
| Employee numbers (FTEs - thousands) | 25.4 | 4.2 | 29.6 | 6.2 | 2.7 | 8.9 | 3.1 | 49.5 | 0.5 | 91.6 | | |

For the notes to this table refer to page 22. nm= not meaningful

Segment performance

| | Quarter ended 30 September 2014 | | | | | | | | | |
|---|---------------------------------|----------------|----------------|-----------------------|--------------------|--------------|----------------|----------------------|-------------|----------------|
| | PBB | | | CPB | | | CIB | | | Total RBS £m |
| | UK PBB £m | Ulster Bank £m | Total £m | Commercial Banking £m | Private Banking £m | Total £m | £m | Central items (1) £m | RCR £m | |
| Income statement | | | | | | | | | | |
| Net interest income | 1,198 | 163 | 1,361 | 521 | 172 | 693 | 230 | 109 | (23) | 2,370 |
| Non-interest income | 345 | 51 | 396 | 290 | 98 | 388 | 601 | (257) | 145 | 1,273 |
| Total income | 1,543 | 214 | 1,757 | 811 | 270 | 1,081 | 831 | (148) | 122 | 3,643 |
| Direct expenses - staff costs | (236) | (57) | (293) | (124) | (76) | (200) | (179) | (647) | (37) | (1,356) |
| - other costs | (81) | (20) | (101) | (54) | (18) | (72) | (50) | (833) | (24) | (1,080) |
| Indirect expenses | (465) | (61) | (526) | (196) | (109) | (305) | (593) | 1,448 | (24) | - |
| Restructuring costs - direct | (2) | - | (2) | - | - | - | (22) | (143) | - | (167) |
| - indirect | (63) | (12) | (75) | (18) | (7) | (25) | 6 | 98 | (4) | - |
| Litigation and conduct costs | (118) | - | (118) | - | - | - | (562) | (100) | - | (780) |
| Operating expenses | (965) | (150) | (1,115) | (392) | (210) | (602) | (1,400) | (177) | (89) | (3,383) |
| Profit/(loss) before impairment losses | 578 | 64 | 642 | 419 | 60 | 479 | (569) | (325) | 33 | 260 |
| Impairment (losses)/releases | (79) | 318 | 239 | (12) | 4 | (8) | 12 | (1) | 605 | 847 |
| Operating profit/(loss) | 499 | 382 | 881 | 407 | 64 | 471 | (557) | (326) | 638 | 1,107 |
| Additional information | | | | | | | | | | |
| Operating expenses - adjusted (2) | (782) | (138) | (920) | (374) | (203) | (577) | (822) | (32) | (85) | (2,436) |
| Operating profit/(loss) - adjusted (2) | 682 | 394 | 1,076 | 425 | 71 | 496 | 21 | (181) | 642 | 2,054 |
| Return on equity (3) | 22.8% | 47.1% | 28.5% | 12.3% | 11.1% | 12.2% | (11.3%) | nm | nm | 8.2% |
| Return on equity - adjusted (2,3) | 31.5% | 48.5% | 35.0% | 12.9% | 12.5% | 12.9% | (0.8%) | nm | nm | 16.0% |
| Cost:income ratio | 63% | 70% | 63% | 48% | 78% | 56% | 168% | nm | nm | 93% |
| Cost:income ratio - adjusted (2) | 51% | 64% | 52% | 46% | 75% | 53% | 99% | nm | nm | 67% |
| Total assets (£bn) | 134.2 | 26.5 | 160.7 | 89.7 | 21.1 | 110.8 | 572.9 | 170.4 | 31.3 | 1,046.1 |
| Funded assets (£bn) | 134.2 | 26.3 | 160.5 | 89.7 | 21.0 | 110.7 | 274.9 | 168.1 | 17.9 | 732.1 |
| Net loans and advances to customers (£bn) | 127.0 | 22.0 | 149.0 | 85.0 | 16.7 | 101.7 | 73.1 | 57.1 | 13.2 | 394.1 |
| Risk elements in lending (£bn) | 4.1 | 4.8 | 8.9 | 2.6 | 0.2 | 2.8 | 0.1 | 1.3 | 17.4 | 30.5 |
| Impairment provisions (£bn) | (2.7) | (2.9) | (5.6) | (1.0) | (0.1) | (1.1) | (0.2) | (0.5) | (12.6) | (20.0) |
| Customer deposits (£bn) | 146.0 | 19.7 | 165.7 | 87.0 | 36.2 | 123.2 | 57.1 | 58.4 | 1.2 | 405.6 |
| Risk-weighted assets (RWAs) (£bn) | 44.7 | 23.9 | 68.6 | 64.9 | 12.2 | 77.1 | 123.2 | 82.2 | 30.6 | 381.7 |
| RWA equivalent (£bn) (4) | 47.3 | 21.4 | 68.7 | 71.6 | 12.2 | 83.8 | 125.0 | 82.2 | 38.3 | 398.0 |
| Employee numbers (FTEs - thousands) | 25.0 | 4.5 | 29.5 | 6.8 | 3.4 | 10.2 | 4.0 | 48.8 | 0.8 | 93.3 |

nm = not meaningful

Notes:

- (1) Central items include unallocated transactions, principally Treasury AFS portfolio sales of £67 million loss in the nine months ended 30 September 2015 (nine months ended 30 September 2014 - £143 million gain; Q3 2015 - £2 million gain; Q2 2015 - £42 million loss; Q3 2014 - £73 million loss) and profit and loss on hedges that do not qualify for hedge accounting. Balance sheet items for periods up to and including June 2015 include Citizens which was within assets of disposal groups.
- (2) Excluding restructuring costs and litigation and conduct costs.
- (3) Segmental return on equity based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average RWA equivalents (RWAE)).
- (4) RWAE is an internal metric based on target CET 1 ratio of 13%, for all segments except RCR, set at 10% at creation. RWAE converts performing and non-performing exposures into a consistent capital measure comprising RWAs and capital deductions.

Segment performance

Key points

UK Personal & Business Banking

- UK PBB operating profit of £638 million was up 28% from Q3 2014. Return on equity in the quarter was 32%, compared with 23% in the prior year principally due to lower litigation and conduct costs.
- Mortgage activity strengthened further in Q3, with applications up 66% from £6.2 billion in Q3 2014 to £10.2 billion and new business market share of approvals increasing to 15%. Total loans and advances increased by £3.8 billion during the quarter, with total mortgage balances at 30 September 2015 up 6% compared with Q3 2014.
- In Q3 our existing private and packaged current account customers were invited to receive 3% cash back on their household direct debits, for free, until the end of the year in advance of the launch of our new current account range. Around one million customers are now enrolled in this free offer. Those on the free offer can opt into the paid-for new product at the turn of the year. The fee for this product will be £3 per account per month. The new Reward current accounts launched on 12 October 2015 to non-packaged and new customers.
- Income trends were slightly weaker. Net interest margin was 4 basis points lower than Q2 2015 and 18 basis points lower than in Q3 2014, largely driven by the significantly increased proportion of lower margin secured lending in the portfolio mix. New business mortgage margins have fallen as a result of increasingly competitive pricing. Standard variable rate balances continued to transfer to lower rate products and represented 15% of the mortgage book at 30 September 2015 compared with 23% a year earlier. Non-interest income was lower, reflecting reduced interchange fees on credit and debit cards, reduced advisory income and the non-repeat of a £7 million profit on the sale of NatWest Stockbrokers in Q3 2014.
- Operating expenses were down 16% from Q3 2014, with minimal net conduct expenses in the quarter. Staff costs were 1% lower, with headcount down 2%. The cost:income ratio was 56% compared with 63% in Q3 2014.
- Credit conditions remained stable, with the charge from bad debt flows down 26% from Q3 2014. The net impairment charge of £11 million continued to benefit from provision releases, though at lower levels than seen in the first half of the year.

Ulster Bank

- Improving economic conditions across the island of Ireland have contributed to stronger new business volumes, particularly in the corporate and personal mortgage segments. However, this has been offset by continued customer deleveraging and the sale of a portfolio of buy-to-let mortgages. Balances also reflect the weakening of the euro over the last year. Excluding the impact of euro exchange rate movements, net loans and advances were down £0.2 billion from Q2 2015. The low yielding tracker mortgage book reduced by £0.3 billion to £9.4 billion with associated RWAs of £8.1 billion.
- Operating profit of £114 million was down 70% from Q3 2014, which benefited from materially larger net impairment provision releases.
- The Q3 2015 results included a £23 million profit on the sale of the buy-to-let mortgage portfolio, as well as a £24 million gain realised on the closure of a foreign exchange exposure. Return on equity was 14%.
- Income was flat against Q3 2014 as the income benefits from these one-off items were offset by exchange rate movements and a lower return on free funds. While deposit margins have improved steadily from Q3 2014, new business lending margins have begun to tighten across the market.
- Operating expenses have increased by £8 million from Q3 2014 with headcount reductions partly offsetting the impact of higher pension costs and regulatory levies. The cost:income ratio was 74%, slightly higher than Q3 2014.
- Results benefited from a further £58 million release of impairment provisions, compared with £318 million in Q3 2014. This reflects continued positive trends on collections and Irish property prices albeit the pace of improvement has slowed since Q3 2014.

Segment performance

Commercial Banking

- Commercial Banking reported an operating profit of £412 million, up 1% from Q3 2014. Return on equity was stable at 12%.
- New business volumes in Q3 were strong, with net new lending of £1.5 billion during the quarter. Further enhancements to Commercial Banking's lending capability are expected with the launch of a new lending platform in Q4 2015.
- Comparisons with prior periods are affected by a number of internal business transfers, including the transfer to Commercial Banking of RBS International (RBSI) from Private Banking on 1 January 2015 and the CIB UK corporate loan portfolio on 1 May 2015^(1,3). The transfers of the Western Europe loan portfolio and UK Transaction Services from CIB to Commercial Banking are on track for completion in Q4 2015.
- Total income was 2% higher than in Q3 2014, benefiting from increased loan and deposit volumes combined with higher deposit margins partially offset by lower asset margins. Non-interest income was lower, principally reflecting lower equity gains.
- Total expenses were up 3% from Q3 2014, reflecting higher indirect costs. Staff costs were flat, with reduced headcount offsetting normal inflation adjustments. The cost:income ratio was stable at 49%.
- Net impairment losses increased £3 million, reflecting increased individual charges and lower net provision releases.

Private Banking

- Operating profit of £15 million was down 77% from Q3 2014. Return on equity was 2%. Coutts remains an area of management focus.
- The disposal of Private Banking International continues to make good progress, with the sale of the European, the Middle East and Africa business, including Switzerland, scheduled to close in Q4 2015 and the sale of the business in the Far East scheduled to close next year.
- On 1 January 2015, the RBSI business in Private Banking was transferred to Commercial Banking. This transfer affects comparisons with prior periods^(2,3).
- Operating performance was adversely affected by financial market conditions and also reflected the business transfer. Adjusting for this transfer, income was £31 million lower principally as a result of hedging activities and lower investment and transactional income.
- Total expenses were 12% lower than Q3 2014 due to the transfer of the RBSI business. The cost:income ratio was 91% compared with 78% in Q3 2014.
- Assets under management were down £1.5 billion from Q2 2015 and £3.3 billion from Q3 2014, principally reflecting lower stock market valuations.

Corporate & Institutional Banking

- The reshaping of the Go-forward business is proceeding in line with plans. Funded assets fell by £23 billion during the quarter, including the £17 billion transfer⁽³⁾ of the Short Term Markets Business to Treasury. The business remains on track to achieve the previously disclosed income target of £1.3 billion in the full year.
- Adjusted operating loss for the first nine months of 2015 for CIB was £445 million compared with a profit of £570 million for the same period in 2014 and for Q3 2015 a loss of £268 million compared with a profit of £21 million for Q3 2014, reflecting CIB's planned reshaping as income declined and disposal losses were incurred.

Notes:

(1) The business transfers included: total income of £158 million (nine months ended 30 September 2014 - £153 million; Q3 2015 - £49 million; Q2 2015 - £56 million; Q3 2014 - £54 million); operating expenses of £67 million (nine months ended 30 September 2014 - £87 million; Q3 2015 - £21 million; Q2 2015 - £24 million; Q3 2014 - £29 million); net loans and advances to customers of £4.7 billion (30 June 2015 - £4.5 billion; 31 December 2014 - £4.4 billion); customer deposits of £6.3 billion (30 June 2015 - £6.4 billion; 31 December 2014 - £6.5 billion); and RWAs of £4.4 billion (30 June 2015 - £3.8 billion; 31 December 2014 - £3.5 billion).

(2) The business transfer included: total income of £111 million (nine months ended 30 September 2014 - £109 million; Q3 2015 - £35 million; Q2 2015 - £37 million; Q3 2014 - £40 million); operating expenses of £64 million (nine months ended 30 September 2014 - £80 million; Q3 2015 - £20 million; Q2 2015 - £23 million; Q3 2014 - £27 million); net loans and advances to customers of £2.6 billion (30 June 2015 - £2.4 billion; 31 December 2014 - £2.6 billion); customer deposits of £6.3 billion (30 June 2015 - £6.4 billion; 31 December 2014 - £6.5 billion); and RWAs of £1.9 billion (30 June 2015 - £1.5 billion; 31 December 2014 - £1.4 billion).

(3) Comparatives have not been restated.

Segment performance

Corporate & Institutional Banking

- Adjusted operating profit in the Go-forward business for the first nine months of 2015 was £125 million and for Q3 2015 a loss of £5 million. Adjusted profit in the Go-forward business for the first nine months of the year, excluding the Western Europe loan portfolio and the UK Transaction Services business that will transfer to Commercial Banking in Q4 2015, was broadly breakeven⁽¹⁾.
- Compared with Q2 2015, Go-forward income was flat, notwithstanding the seasonal slow-down in client activity and uncertain market conditions. Rates and Currencies were broadly in line with Q2 with some weakness in Credit, principally due to lower levels of primary issuance. In line with the reduction in risk and resources allocated to CIB, Go-forward income was down 28% compared with Q3 2014.
- The transfer to Commercial Banking of the CIB UK corporate loan portfolio on 1 May 2015⁽²⁾ and the transfer of the Short Term Markets Business to Treasury on 1 August 2015 affects comparisons with prior periods.
- Adjusted expenses for CIB were down £113 million compared with Q3 2014 to £709 million with staff costs down £40 million from Q3 2014 reflecting a reduction in headcount. Restructuring costs were £637 million, down slightly from £734 million the prior quarter as the business reshapes.
- CIB Capital Resolution made good progress in Q3 2015, with the sale of North American portfolios to Mizuho largely complete and a further APAC portfolio sale announced to China Construction Bank Corporation. Disposal losses for the quarter were £77 million.
- A charge of \$150 million (£95 million) was incurred in Q3 2015 in relation to US mortgage-backed securities litigation, but overall litigation and conduct charges were significantly lower than in Q3 2014.
- RWAs were reduced by £10 billion during Q3 2015 and have fallen by £29 billion since 31 December 2014 (£26 billion excluding the impact of the transferred businesses following the strategic changes announced in February 2015). The business has now achieved its previously announced target of a £25 billion reduction in 2015 three months ahead of schedule. In the Go-forward business RWAs of £39 billion as at 30 September 2015 include £8 billion that will transfer out during Q4 2015 to Commercial Banking. The steady state RWAs of the Go-forward business are expected to be around £30 billion.

RBS Capital Resolution

- RCR funded assets have fallen to £6.5 billion, down 83% since the initial pool of assets was identified. RCR is targeting an 85% reduction by the end of 2015, a year earlier than originally planned.
- During Q3 2015 RWA equivalents fell by £4.0 billion to £13.9 billion, driven by disposals and repayments. Disposal activity continues across the portfolio, with 101 deals completed during Q3 2015 at an average price of 104% of book value.
- An operating loss of £16 million was recorded in Q3 2015, compared with an operating profit of £638 million in Q3 2014. This reflected significantly reduced impairment releases as well as lower realisations on disposals and fair value gains.
- The net effect of the operating loss of £16 million and RWA equivalent reduction of £4.0 billion⁽³⁾ was CET1 accretion of £0.4 billion.

Central items

- Central items not allocated represented a charge of £285 million compared with a charge of £326 million in Q3 2014. This includes volatile items under IFRS, which were a charge of £126 million in the quarter, in line with Q3 2014 but a movement of £331 million compared with Q2 2015. A £190 million restructuring charge was incurred relating to Williams & Glyn.

Notes:

(1) The CIB segment is being restructured into CIB Go-forward and CIB Capital Resolution elements. The split is subject to further refinement.

(2) The business transfer from CIB to Commercial Banking was effective from 1 May 2015. Comparatives were not restated and for the whole period the financials of the UK large corporate business were: total income of £47 million for the nine months ended 30 September 2015 (nine months ended 30 September 2014 - £44 million; Q3 2015 - £14 million; Q2 2015 - £19 million; Q3 2014 - £14 million); operating expenses of £3 million for the nine months ended 30 September 2015 (nine months ended 30 September 2014 - £7 million; Q3 2015 - £1 million; Q2 2015 - £1 million; Q3 2014 - £2 million); net loans and advances to customers of £2.1 billion (30 June 2015 - £2.1 billion; 31 December 2014 - £1.8 billion); and RWAs of £2.5 billion (30 June 2015 - £2.3 billion; 31 December 2014 - £2.1 billion).

(3) Capital equivalent £400 million at an internal CET1 ratio of 10%.

Selected statutory financial statements

Condensed consolidated income statement for the period ended 30 September 2015

| | Nine months ended | | Quarter ended | | |
|--|-------------------|----------------|----------------|----------------|----------------|
| | 30 September | | 30 September | 30 September | |
| | 2015 £m | 2014 £m | | 2015 £m | 2014 £m |
| Interest receivable | 9,070 | 9,841 | 2,963 | 3,031 | 3,297 |
| Interest payable | (2,465) | (2,965) | (776) | (816) | (927) |
| Net interest income | 6,605 | 6,876 | 2,187 | 2,215 | 2,370 |
| Fees and commissions receivable | 2,838 | 3,359 | 880 | 969 | 1,116 |
| Fees and commissions payable | (558) | (671) | (195) | (186) | (196) |
| Income from trading activities | 1,045 | 1,688 | 170 | 545 | 238 |
| Gain on redemption of own debt | - | 20 | - | - | - |
| Other operating income | 509 | 913 | 141 | 194 | 108 |
| Non-interest income | 3,834 | 5,309 | 996 | 1,522 | 1,266 |
| Total income | 10,439 | 12,185 | 3,183 | 3,737 | 3,636 |
| Staff costs | (4,401) | (4,432) | (1,546) | (1,530) | (1,435) |
| Premises and equipment | (1,380) | (1,601) | (635) | (326) | (475) |
| Other administrative expenses | (3,096) | (2,569) | (730) | (1,027) | (1,212) |
| Depreciation and amortisation | (994) | (727) | (282) | (200) | (261) |
| Write down of goodwill and other intangible assets | (673) | (212) | (67) | (606) | - |
| Operating expenses | (10,544) | (9,541) | (3,260) | (3,689) | (3,383) |
| (Loss)/profit before impairment releases | (105) | 2,644 | (77) | 48 | 253 |
| Impairment releases | 400 | 682 | 79 | 192 | 847 |
| Operating profit before tax | 295 | 3,326 | 2 | 240 | 1,100 |
| Tax charge | (294) | (869) | (1) | (100) | (277) |
| Profit from continuing operations | 1 | 2,457 | 1 | 140 | 823 |
| Profit from discontinued operations, net of tax (2) | 1,451 | 437 | 1,093 | 674 | 117 |
| Profit for the period | 1,452 | 2,894 | 1,094 | 814 | 940 |
| Non-controlling interests | (389) | 11 | (45) | (428) | 53 |
| Preference shares | (223) | (231) | (80) | (73) | (91) |
| Other owners | (41) | (33) | (17) | (20) | (6) |
| Dividend access share | - | (320) | - | - | - |
| Profit attributable to ordinary and B shareholders | 799 | 2,321 | 952 | 293 | 896 |
| Earnings/(loss) per ordinary and equivalent B share (EPS) (3) | | | | | |
| Basic EPS from continuing and discontinued operations | 6.9p | 20.5p | 8.2p | 2.5p | 7.9p |
| Basic EPS from continuing operations | (2.8p) | 16.9p | (0.9p) | 0.2p | 6.9p |

Notes:

(1) A reconciliation between income statement lines in the statutory income statement above and the non-statutory income statement on page 8 is given in Appendix 3 to this announcement.

(2) Refer to Note 2 on page 31 for further details.

(3) Diluted EPS from continuing operations and from continuing and discontinued operations were less than basic EPS in the nine months ended 30 September 2014 (0.2p) and the quarter ended 30 September 2014 (0.1p). There was no dilution in any other period.

Selected statutory financial statements

Condensed consolidated statement of comprehensive income for the period ended 30 September 2015

| | Nine months ended | | Quarter ended | | | | | |
|--|-------------------|----|---------------|--------------|--------------|------|---------|-------|
| | 30 September | | 30 September | 30 September | 30 June | | | |
| | 2015 | £m | | 2014 | £m | 2015 | £m | 2014 |
| Profit for the period | 1,452 | | 2,894 | | 1,094 | | 814 | 940 |
| Items that do qualify for reclassification | | | | | | | | |
| Available-for-sale financial assets | (95) | | 608 | | (50) | | (247) | 79 |
| Cash flow hedges | (302) | | 455 | | 408 | | (834) | 207 |
| Currency translation | (1,177) | | (117) | | (604) | | (584) | 616 |
| Tax | 106 | | (191) | | (38) | | 246 | (31) |
| Other comprehensive (loss)/income after tax | (1,468) | | 755 | | (284) | | (1,419) | 871 |
| Total comprehensive (loss)/income for the period | (16) | | 3,649 | | 810 | | (605) | 1,811 |
| Total comprehensive (loss)/income is attributable to: | | | | | | | | |
| Non-controlling interests | 357 | | 42 | | 58 | | 252 | 12 |
| Preference shareholders | 223 | | 231 | | 80 | | 73 | 91 |
| Paid-in equity holders | 41 | | 33 | | 17 | | 20 | 6 |
| Dividend access share | - | | 320 | | - | | - | - |
| Ordinary and B shareholders | (637) | | 3,023 | | 655 | | (950) | 1,702 |
| | (16) | | 3,649 | | 810 | | (605) | 1,811 |

Key points

- The movement in available-for-sale financial assets in the nine months ended 30 September 2015 reflects unrealised losses on available-for-sale UK, US and Dutch securities, partially offset by realised losses on available-for-sale bonds.
- Cash flow hedging gains in the quarter largely result from decreases in sterling and euro swap rates across the maturity profile of the portfolio.
- Currency translation losses for the nine months ended 30 September 2015 are predominantly related to the reclassification of foreign exchange reserves on loss of control of Citizens and the strengthening of sterling against the euro. In the quarter, the reclassification losses were partially offset by gains from the weakening of sterling against the euro and US dollar.

Selected statutory financial statements

Condensed consolidated balance sheet at 30 September 2015

| | 30 September 2015 £m | 30 June 2015 £m | 31 December 2014 £m |
|---|----------------------------|-----------------------|---------------------------|
| Assets | | | |
| Cash and balances at central banks | 77,220 | 81,900 | 74,872 |
| Net loans and advances to banks | 22,681 | 20,714 | 23,027 |
| Reverse repurchase agreements and stock borrowing | 15,255 | 20,807 | 20,708 |
| Loans and advances to banks | 37,936 | 41,521 | 43,735 |
| Net loans and advances to customers | 311,383 | 314,993 | 334,251 |
| Reverse repurchase agreements and stock borrowing | 36,545 | 46,799 | 43,987 |
| Loans and advances to customers | 347,928 | 361,792 | 378,238 |
| Debt securities | 81,307 | 77,187 | 86,649 |
| Equity shares | 2,199 | 3,363 | 5,635 |
| Settlement balances | 9,397 | 9,630 | 4,667 |
| Derivatives | 296,019 | 281,857 | 353,590 |
| Intangible assets | 7,151 | 7,198 | 7,781 |
| Property, plant and equipment | 4,607 | 4,874 | 6,167 |
| Deferred tax | 1,434 | 1,479 | 1,540 |
| Prepayments, accrued income and other assets | 4,928 | 4,829 | 5,878 |
| Assets of disposal groups | 6,300 | 89,071 | 82,011 |
| Total assets | 876,426 | 964,701 | 1,050,763 |
| Liabilities | | | |
| Bank deposits | 30,543 | 30,978 | 35,806 |
| Repurchase agreements and stock lending | 12,800 | 21,612 | 24,859 |
| Deposits by banks | 43,343 | 52,590 | 60,665 |
| Customer deposits | 346,267 | 342,023 | 354,288 |
| Repurchase agreements and stock lending | 30,555 | 44,750 | 37,351 |
| Customer accounts | 376,822 | 386,773 | 391,639 |
| Debt securities in issue | 37,360 | 41,819 | 50,280 |
| Settlement balances | 8,401 | 7,335 | 4,503 |
| Short positions | 20,108 | 24,561 | 23,029 |
| Derivatives | 288,905 | 273,589 | 349,805 |
| Accruals, deferred income and other liabilities | 14,324 | 13,962 | 13,346 |
| Retirement benefit liabilities | 1,955 | 1,869 | 2,579 |
| Deferred tax | 376 | 363 | 500 |
| Subordinated liabilities | 20,184 | 19,683 | 22,905 |
| Liabilities of disposal groups | 6,401 | 80,388 | 71,320 |
| Total liabilities | 818,179 | 902,932 | 990,571 |
| Equity | | | |
| Non-controlling interests | 703 | 5,705 | 2,946 |
| Owners' equity* | | | |
| Called up share capital | 6,984 | 6,981 | 6,877 |
| Reserves | 50,560 | 49,083 | 50,369 |
| Total equity | 58,247 | 61,769 | 60,192 |
| Total liabilities and equity | 876,426 | 964,701 | 1,050,763 |
| * Owners' equity attributable to: | | | |
| Ordinary and B shareholders | 51,593 | 51,117 | 52,149 |
| Other equity owners | 5,951 | 4,947 | 5,097 |
| | 57,544 | 56,064 | 57,246 |

The company's distributable reserves at 30 September 2015 were £16.6 billion (31 December 2014 - £17.5 billion).

Selected statutory financial statements

Condensed consolidated statement of changes in equity for the period ended 30 September 2015

| | Nine months ended | | Quarter ended | | |
|--|-------------------|---------|-------------------|--------------|-------------------|
| | 30 September 2015 | | 30 September 2015 | 30 June 2015 | 30 September 2014 |
| | £m | £m | £m | £m | £m |
| Called-up share capital | | | | | |
| At beginning of period | 6,877 | 6,714 | 6,981 | 6,925 | 6,811 |
| Ordinary shares issued | 108 | 118 | 4 | 56 | 21 |
| Preference shares redeemed (1) | (1) | - | (1) | - | - |
| At end of period | 6,984 | 6,832 | 6,984 | 6,981 | 6,832 |
| Paid-in equity | | | | | |
| At beginning of period | 784 | 979 | 634 | 634 | 979 |
| Reclassification (2) | (150) | - | - | - | - |
| Additional Tier 1 capital notes issued | 2,012 | - | 2,012 | - | - |
| At end of period | 2,646 | 979 | 2,646 | 634 | 979 |
| Share premium account | | | | | |
| At beginning of period | 25,052 | 24,667 | 25,306 | 25,164 | 24,885 |
| Ordinary shares issued | 263 | 267 | 9 | 142 | 49 |
| At end of period (1) | 25,315 | 24,934 | 25,315 | 25,306 | 24,934 |
| Merger reserve | | | | | |
| At beginning and end of period | 13,222 | 13,222 | 13,222 | 13,222 | 13,222 |
| Available-for-sale reserve | | | | | |
| At beginning of period | 299 | (308) | 244 | 371 | 138 |
| Unrealised (losses)/gains | (108) | 807 | 6 | (153) | (37) |
| Realised losses/(gains) | 25 | (314) | (38) | (43) | 52 |
| Tax | 28 | (40) | (11) | 65 | 28 |
| Reclassified to profit or loss on disposal of businesses (3) | - | 36 | - | - | - |
| Reclassified to profit or loss on ceding control of Citizens (4) | 9 | - | 9 | - | - |
| Transfer to retained earnings | (43) | (9) | - | 4 | (9) |
| At end of period | 210 | 172 | 210 | 244 | 172 |
| Cash flow hedging reserve | | | | | |
| At beginning of period | 1,029 | (84) | 435 | 1,109 | 94 |
| Amount recognised in equity | 777 | 1,543 | 803 | (524) | 575 |
| Amount transferred from equity to earnings | (1,021) | (1,088) | (316) | (319) | (368) |
| Tax | 52 | (114) | (76) | 169 | (44) |
| Reclassified to profit or loss on ceding control of Citizens (5) | (36) | - | (36) | - | - |
| Transfer to retained earnings | 9 | 34 | - | - | 34 |
| At end of period | 810 | 291 | 810 | 435 | 291 |
| Foreign exchange reserve | | | | | |
| At beginning of period | 3,483 | 3,691 | 2,317 | 2,779 | 2,963 |
| Retranslation of net assets | (39) | (96) | 509 | (1,042) | 776 |
| Foreign currency (losses)/gains on hedges of net assets | (150) | (6) | (188) | 604 | (161) |
| Tax | (11) | (26) | 3 | - | (15) |
| Reclassified to profit or loss on ceding control of Citizens | (962) | - | (962) | - | - |
| Transfer to retained earnings | (642) | (390) | - | (24) | (390) |
| At end of period | 1,679 | 3,173 | 1,679 | 2,317 | 3,173 |
| Capital redemption reserve | | | | | |
| At beginning of period | 9,131 | 9,131 | 9,131 | 9,131 | 9,131 |
| Preference shares redeemed (1) | 1 | - | 1 | - | - |
| At end of period | 9,132 | 9,131 | 9,132 | 9,131 | 9,131 |

Notes:

- (1) Non-cumulative dollar preference shares totalling \$1.9 billion were redeemed in September 2015. Upon redemption, share premium previously attributable to preference shareholders was reclassified to ordinary shareholders.
- (2) Paid-in equity reclassified to liabilities as a result of the call of RBS Capital Trust IV in January 2015.
- (3) Net of tax - £11 million charge.
- (4) Net of tax - £6 million charge.
- (5) Net of tax - £16 million credit.
- (6) Includes £2,491 million relating to the secondary offering of Citizens in March 2015.

Selected statutory financial statements

Condensed consolidated statement of changes in equity for the period ended 30 September 2015

| | Nine months ended | | Quarter ended | | |
|---|----------------------------|----------------------------|----------------------------|-----------------------|----------------------------|
| | 30 September 2015 £m | 30 September 2014 £m | 30 September 2015 £m | 30 June 2015 £m | 30 September 2014 £m |
| | | | | | |
| Retained earnings | | | | | |
| At beginning of period | (2,518) | 867 | (2,098) | (2,416) | 2,258 |
| (Loss)/profit attributable to ordinary and B shareholders and other equity owners | | | | | |
| - continuing operations | (54) | 2,497 | (4) | 111 | 887 |
| - discontinued operations | 1,117 | 408 | 1,053 | 275 | 106 |
| Equity preference dividends paid | (223) | (231) | (80) | (73) | (91) |
| Paid-in equity dividends paid, net of tax | (41) | (33) | (17) | (20) | (6) |
| Dividend access share dividend | - | (320) | - | - | - |
| Transfer from available-for-sale reserve | 43 | 9 | - | (4) | 9 |
| Transfer from cash flow hedging reserve | (9) | (34) | - | - | (34) |
| Transfer from foreign exchange reserve | 642 | 390 | - | 24 | 390 |
| Costs of placing Citizens equity | (29) | (45) | - | - | (45) |
| Redemption of equity preference shares (1) | (1,214) | - | (1,214) | - | - |
| Shares issued under employee share schemes | (57) | (41) | - | (1) | - |
| Share-based payments | | | | | |
| - gross | 24 | 26 | 14 | 6 | 18 |
| - tax | - | - | - | - | 1 |
| Reclassification of paid in equity | (27) | - | - | - | - |
| At end of period | (2,346) | 3,493 | (2,346) | (2,098) | 3,493 |
| Own shares held | | | | | |
| At beginning of period | (113) | (137) | (108) | (111) | (136) |
| Disposal of own shares | 5 | 1 | - | 3 | - |
| At end of period | (108) | (136) | (108) | (108) | (136) |
| Owners' equity at end of period | 57,544 | 62,091 | 57,544 | 56,064 | 62,091 |
| Non-controlling interests | | | | | |
| At beginning of period | 2,946 | 473 | 5,705 | 5,473 | 618 |
| Currency translation adjustments and other movements | 2 | (15) | 65 | (146) | 1 |
| Profit/(loss) attributable to non-controlling interests | | | | | |
| - continuing operations | 55 | (40) | 5 | 29 | (64) |
| - discontinued operations | 334 | 29 | 40 | 399 | 11 |
| Dividends paid | (31) | - | - | (20) | - |
| Movements in available-for-sale securities | | | | | |
| - unrealised gains/(losses) | 24 | (6) | 12 | (45) | (4) |
| - realised (gains)/losses | (6) | 74 | - | (6) | 68 |
| - tax | (5) | - | - | 16 | - |
| Movements in cash flow hedging reserve | | | | | |
| - amount recognised in equity | 32 | - | 11 | 9 | - |
| - tax | (4) | - | - | (4) | - |
| - amounts transferred from equity to earnings | | | | | |
| Equity raised (6) | 2,537 | 2,232 | 46 | - | 2,117 |
| Equity withdrawn and disposals | (24) | - | (24) | - | - |
| Loss of control of Citizens | (5,157) | - | (5,157) | - | - |
| At end of period | 703 | 2,747 | 703 | 5,705 | 2,747 |
| Total equity at end of period | 58,247 | 64,838 | 58,247 | 61,769 | 64,838 |
| Total equity is attributable to: | | | | | |
| Non-controlling interests | 703 | 2,747 | 703 | 5,705 | 2,747 |
| Preference shareholders | 3,305 | 4,313 | 3,305 | 4,313 | 4,313 |
| Paid-in equity holders | 2,646 | 979 | 2,646 | 634 | 979 |
| Ordinary and B shareholders | 51,593 | 56,799 | 51,593 | 51,117 | 56,799 |
| | 58,247 | 64,838 | 58,247 | 61,769 | 64,838 |

For the notes to this table refer to the previous page.

1. Basis of preparation

The condensed consolidated financial statements should be read in conjunction with RBS's 2014 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

Accounting policies

There have been no significant changes to RBS's principal accounting policies as set out on pages 349 to 357 of the 2014 Annual Report and Accounts. Amendments to IFRSs effective for 2015 have not had a material effect on RBS's 2015 results.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of RBS's financial condition are those relating to pensions, goodwill, provisions for liabilities, deferred tax, loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgments are described on pages 357 to 359 of RBS's 2014 Annual Report and Accounts.

Going concern

Having reviewed RBS's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that RBS will continue in operational existence for the foreseeable future. Accordingly, the results for the period ended 30 September 2015 have been prepared on a going concern basis.

2. Citizens Financial Group

Citizens was classified as a disposal group on 31 December 2014 and its assets and liabilities from that date to 3 August 2015 have been aggregated and presented as separate lines in accordance with IFRS 5. Citizens was also reclassified as a discontinued operation in 2014 and comparatives for all periods re-presented accordingly.

In March 2015, RBS sold 155.25 million shares in Citizens and in April 2015, Citizens purchased 10.5 million of its shares from RBS.

In July 2015, RBS sold 86 million shares in Citizens to underwriters and sold an additional 12.9 million shares on 3 August 2015 through an over-allotment option in the underwriting agreement. Concurrently, Citizens repurchased 9.6 million shares from RBS. RBS now owns 110.5 million shares - 20.9% of Citizens' common stock.

Following these share sales, RBS no longer controls Citizens and has ceased to consolidate it for accounting purposes. On loss of control, RBS derecognised Citizens' net assets and recognised its retained interest in Citizens at fair value recording a gain (in discontinued operations) of £1.1 billion. Included in the gain is the reclassification of £1.0 billion previously recognised in other comprehensive income in relation to Citizens; principally foreign exchange translation differences. RBS's retained interest in Citizens qualifies as an associate and is classified as held for sale. Its fair value less costs to sell at 30 September 2015 was £1.6 billion.

Notes

3. Provisions for liabilities and charges

| | Regulatory and legal actions | | | | | | | | Property and other £m | Total £m | | |
|--|------------------------------|------------|------------------------------------|---|---|------------------|--------------|--------------|--------------------------|-------------|--|--|
| | PPI £m | IRHP £m | Other customer redress £m | FX investigations/ litigation £m | Other regulatory provisions £m | Litigation £m | | | | | | |
| | | | | | | £m | £m | | | | | |
| At 1 January 2015 | 799 | 424 | 580 | 320 | 183 | 1,805 | 663 | 4,774 | | | | |
| Transfer | - | - | - | 50 | (50) | - | - | - | | | | |
| Currency translation and other movements | - | - | - | (12) | 1 | (34) | 94 | 49 | | | | |
| Charge to income statement (2) | 100 | 81 | 279 | 334 | 27 | 517 | 390 | 1,728 | | | | |
| Releases to income statement (2) | - | (12) | (14) | - | - | (6) | (138) | (170) | | | | |
| Provisions utilised | (202) | (210) | (146) | (178) | (1) | (41) | (181) | (959) | | | | |
| At 30 June 2015 | 697 | 283 | 699 | 514 | 160 | 2,241 | 828 | 5,422 | | | | |
| Transfer | - | - | - | (65) | - | 65 | - | - | | | | |
| Currency translation and other movements | - | - | - | 20 | 1 | 91 | 46 | 158 | | | | |
| Charge to income statement (2) | - | - | 13 | - | - | 125 | 511 | 649 | | | | |
| Releases to income statement (2) | - | - | (4) | - | - | (5) | (77) | (86) | | | | |
| Provisions utilised | (84) | (86) | (70) | - | - | (111) | (131) | (482) | | | | |
| At 30 September 2015 | 613 | 197 | 638 | 469 | 161 | 2,406 | 1,177 | 5,661 | | | | |

Notes:

(1) Closing provision primarily relates to investment advice and packaged accounts.
 (2) Relates to continuing operations.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided. RBS will continue to monitor the position closely and refresh the underlying assumptions.

4. Litigation, investigations and reviews

RBS's 2015 interim results issued on 30 July 2015 included comprehensive disclosures about RBS's litigation, investigations and reviews in Note 16. There have been no material developments in these matters since the 2015 interim results were published other than those set out below.

Litigation

The charge in respect of mortgage-backed securities (MBS) related litigation was £0.1 billion (see Note 3) during Q3 2015, bringing the total charge for MBS related litigation claims and investigations for the nine months ended 30 September 2015 to £0.6 billion. Although RBS has established provisions with respect to MBS litigation, the final outcomes of such litigation and MBS related governmental investigations could result in the future outflow of resources in respect of such matters ultimately proving to be substantially greater than the aggregate provisions RBS has recognised.

Other securitisation and securities related litigation in the United States

The National Credit Union Administration Board (NCUA) is litigating two MBS cases against RBS companies (on behalf of US Central Federal Credit Union and Western Corporate Federal Credit Union). The original principal balance of the MBS at issue in these two NCUA cases is US\$3.25 billion. In September 2015, in a third case brought by NCUA (on behalf of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union), the NCUA accepted RBS's offer of judgment for US\$129.6 million, plus attorney's fees, to resolve the matter, which concerned US\$312 million in MBS. RBS has paid to the plaintiff the agreed US\$129.6 million.

4. Litigation, investigations and reviews (continued)***Credit default swap antitrust litigation***

As previously disclosed, certain members of the Group, as well as a number of other financial institutions, are defendants in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York. The plaintiffs allege that defendants violated the US antitrust laws by restraining competition in the market for credit default swaps through various means and thereby causing inflated bid-ask spreads for credit default swaps. The RBS defendants have reached an agreement to settle this matter for US\$33 million, subject to approval of the court. The settlement amount is covered by an existing provision.

FX antitrust litigation

As previously disclosed, RBS and RBS Securities Inc., as well as a number of other financial institutions, are defendants in class actions on behalf of US based plaintiffs that are pending in the United States District Court for the Southern District of New York. In August 2015, the original complaint asserting antitrust claims on behalf of plaintiffs who entered into Foreign Exchange (FX) transactions with RBS or other defendant banks was consolidated with several additional class action complaints filed on behalf of plaintiffs who transacted in exchange-traded foreign exchange futures contracts and/or options on foreign exchange futures contracts, which asserted both antitrust and Commodities Exchange Act claims. RBS and RBS Securities Inc. have settled all claims that are or could be asserted on behalf of the classes in the consolidated action, subject to approval of the Court. The total settlement amount (US\$255 million) is covered by an existing provision. Other class action complaints purporting to be on behalf of US-based plaintiffs who engaged in FX transactions, including a complaint asserting Employee Retirement Income Security Act claims on behalf of employee benefit plans that engaged in FX transactions, name certain members of the Group as defendants.

In September 2015, certain members of the Group, as well as a number of other financial institutions, were named as defendants in two purported class actions filed in Ontario and Quebec on behalf of persons in Canada who entered into foreign exchange transactions or who invested in funds that entered into foreign exchange transactions. The plaintiffs allege that the defendants violated the Canadian Competition Act by conspiring to manipulate the prices of currency trades.

Investigations and reviews***Payment Protection Insurance***

As previously disclosed, RBS is monitoring developments following the UK Supreme Court's decision in the case of *Plevin v Paragon* in November 2014. That decision was that the sale of a single premium PPI policy could create an 'unfair relationship' under s.140A of the Consumer Credit Act 1974 (the 'Consumer Credit Act') because the premium contained a particularly high level of undisclosed commission. The Financial Ombudsman Service (FOS) has confirmed on its website that unfair relationship provisions in the Consumer Credit Act and the *Plevin* judgment are 'potentially relevant considerations' in some of the PPI complaints referred to FOS. On 27 May 2015, the FCA announced that it was considering whether additional rules and/or guidance are required to deal with the impact of the *Plevin* decision on complaints about PPI generally. RBS is in active dialogue with FOS and the FCA on this issue.

On 2 October 2015, the FCA announced that it would issue a consultation paper by the end of 2015 on proposed rules and guidance about how firms should handle PPI complaints fairly in light of the *Plevin* decision and how the FOS should consider relevant PPI complaints. The FCA also intends to consult on the introduction of a time bar for handling PPI complaints.

4. Litigation, investigations and reviews (continued)

At this stage, as there remains considerable uncertainty regarding the application of the *Plevin* decision and the impact of any time bar, it is not practicable reliably to estimate the potential impact on RBS, which may be material.

UK personal current accounts/retail banking

As previously disclosed, on 11 March 2014, the Competition & Markets Authority (CMA) announced that it would be undertaking an update of the OFT's 2013 personal current account (PCA) review, in parallel with its market study into small and medium-sized enterprise (SME) banking. In July 2014 the CMA published its preliminary findings in respect of both the PCA and SME market studies. The CMA provisionally decided to make a market investigation reference (MIR) for both the PCA and SME market studies. On 6 November 2014, the CMA made its final decision to proceed with a MIR. On 22 October 2015 the CMA published a summary of its provisional findings and notice of possible remedies. The CMA has provisionally concluded there are a number of competition concerns in the provision of PCAs, business current accounts and SME lending, particularly around low levels of customer switching, resulting in banks not being put under enough competitive pressure, and new products and new banks not attracting customers quickly enough. The notice of possible remedies sets out 15 potential measures to address these concerns, including measures to make it easier for consumers and businesses to compare bank products, and requiring banks to help raise public awareness of, and confidence in, switching bank accounts. The MIR is a wide-ranging 18-24 month Phase 2 inquiry with the final report expected to be published in April 2016.

At this stage as there remains uncertainty around the outcome of this matter, it is not practicable reliably to estimate the potential impact on RBS, which may be material.

Notes

5. Recent developments

Conversion of B shares

On 8 October 2015, the company received a valid notice from HM Treasury to convert 51 billion Series 1 B shares of 1p each into 5.1 billion new RBSG plc ordinary shares of £1 each. The new ordinary shares were admitted to the Official List and to trading on the London Stock Exchange on 14 October 2015. HM Treasury's holding in the company's ordinary shares is currently 72.9%.

Finance Bill 2015 - 2016

The Finance Bill 2015 - 2016 was substantively enacted on 26 October 2015 and introduced a number of previously announced changes to the UK corporate tax system. In accordance with IFRS these changes will be accounted for in Q4 2015.

The most relevant measures include:

- Cuts in the rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Existing temporary differences on which deferred tax has been provided may reverse at these reduced rates;
- A corporation tax surcharge of 8% on UK banking entities from 1 January 2016. This is expected to increase RBS's corporation tax liabilities and vary the carrying value of its deferred tax balances;
- A reduction in the bank levy rate from 0.21% to 0.18% from 1 January 2016 and subsequent annual reductions to 0.1% from 1 January 2021; and
- Making compensation in relation to misconduct non-deductible for corporation tax.

As outlined in our 2015 Interim results, it is expected that these measures will increase the normalised tax rate to around 27% in the medium term and trending lower thereafter and the annual bank levy charge for 2015 is expected to be £280 million, projected to fall progressively to £150 million by 2019.

6. Exchange rates

The following table shows the principal exchange rates:

| £1 = € | Nine month average | Quarter average | Period end |
|-------------------|--------------------|-----------------|------------|
| 30 September 2015 | 1.374 | 1.392 | 1.355 |
| 30 June 2015 | | 1.385 | 1.411 |
| 31 December 2014 | | 1.268 | 1.285 |
| 30 September 2014 | 1.232 | 1.260 | 1.285 |

| £1 = US\$ | Nine month average | Quarter average | Period end |
|-------------------|--------------------|-----------------|------------|
| 30 September 2015 | 1.532 | 1.549 | 1.514 |
| 30 June 2015 | | 1.532 | 1.572 |
| 31 December 2014 | | 1.582 | 1.562 |
| 30 September 2014 | 1.669 | 1.669 | 1.622 |

7. Post balance sheet events

There have been no significant events between 30 September 2015 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group plc's (RBS) transformation plan (which includes RBS's 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of CFG and Williams & Glyn, RBS's information technology and operational investment plan, the proposed restructuring of RBS's CIB business and the restructuring of RBS as a result of the implementation of the regulatory ring-fencing regime, together the "Transformation Plan"), as well as restructuring, capital 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, AT1 and other capital raising plans, 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; investigations relating to business conduct and the costs of resulting customers redress and legal proceedings; 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, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk and other disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in the 2014 Annual Report and Accounts and this document. These include the significant risks for RBS presented by the execution of the Transformation Plan; RBS's ability to successfully implement the various initiatives that are comprised in the Transformation Plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by RBS as a result of the implementation of the ring fence; whether RBS will emerge from implementing the Transformation Plan as a viable, competitive, customer focused and profitable bank; RBS's ability to achieve its capital targets which depend on RBS's success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the Transformation Plan, the risks of lower revenues resulting from lower customer retention and revenue generation as RBS refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; uncertainty relating to the referendum on the UK's membership of the EU and the consequences arising from it; operational risks that are inherent in RBS's business and that could increase as RBS implements its Transformation Plan; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default or exit by certain countries in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain 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 regulatory requirements relating to capital adequacy and liquidity; 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; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; 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; regulatory or legal changes (including those requiring any restructuring of RBS's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies and continued prolonged periods of low interest rates; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of RBS's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS's operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; 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.

Appendix 1

Additional segment information

Appendix 1 UK Personal & Business Banking

| | Nine months ended | | Quarter ended | | |
|---|-------------------|-------------------|-------------------|------------------|-------------------|
| | 30 September 2015 | 30 September 2014 | 30 September 2015 | 30 June 2015 | 30 September 2014 |
| | £m | £m | £m | £m | £m |
| Income statement | | | | | |
| Net interest income | 3,460 | 3,474 | 1,170 | 1,147 | 1,198 |
| Non-interest income | 920 | 1,031 | 289 | 322 | 345 |
| Total income | 4,380 | 4,505 | 1,459 | 1,469 | 1,543 |
| Operating expenses | (2,733) | (2,785) | (810) | (793) | (965) |
| Profit before impairment losses | 1,647 | 1,720 | 649 | 676 | 578 |
| Impairment releases/(losses) | 6 | (227) | (11) | (9) | (79) |
| Operating profit | 1,653 | 1,493 | 638 | 667 | 499 |
| Operating profit - adjusted (1) | 2,092 | 1,845 | 663 | 697 | 682 |
| Analysis of income by product | | | | | |
| Personal advances | 652 | 698 | 219 | 217 | 231 |
| Personal deposits | 601 | 496 | 201 | 210 | 194 |
| Mortgages | 1,871 | 1,944 | 637 | 617 | 657 |
| Cards | 504 | 561 | 167 | 162 | 187 |
| Business banking | 816 | 751 | 269 | 278 | 261 |
| Other | (64) | 55 | (34) | (15) | 13 |
| Total income | 4,380 | 4,505 | 1,459 | 1,469 | 1,543 |
| Analysis of impairments by sector | | | | | |
| Personal advances | 67 | 125 | 14 | 18 | 46 |
| Mortgages | (12) | (3) | (10) | - | (8) |
| Business banking | (74) | 50 | 5 | (13) | 20 |
| Cards | 13 | 55 | 2 | 4 | 21 |
| Total impairment (releases)/losses | (6) | 227 | 11 | 9 | 79 |
| Williams & Glyn (3) | | | | | |
| Total income | 625 | 637 | 211 | 211 | 214 |
| Operating expenses | (261) | (256) | (93) | (90) | (87) |
| Impairment releases/(losses) | 5 | (46) | (5) | (11) | (15) |
| Operating profit | 369 | 335 | 113 | 110 | 112 |
| Capital and balance sheet | | | | | |
| | | 30 September 2015 | 30 June 2015 | 31 December 2014 | |
| | | £bn | £bn | £bn | |
| Loans and advances to customers (gross) | | | | | |
| - personal advances | | 6.9 | 7.2 | 7.4 | |
| - mortgages | | 109.2 | 105.4 | 103.2 | |
| - business banking | | 14.1 | 13.7 | 14.3 | |
| - cards | | 4.3 | 4.4 | 4.9 | |
| Total loans and advances to customers (gross) | | 134.5 | 130.7 | 129.8 | |
| Williams & Glyn (3) | | | | | |
| Total assets | | 20.1 | 19.5 | 19.6 | |
| Net loans and advances to customers | | 20.0 | 19.5 | 19.5 | |
| Customer deposits | | 23.6 | 23.4 | 22.0 | |
| Risk-weighted assets (2) | | 10.1 | 10.3 | 10.1 | |

Notes:

- (1) Excluding restructuring costs and litigation and conduct costs.
- (2) RWAs on an end-point CRR basis.
- (3) Williams & Glyn has not operated as a separate legal entity therefore these figures are not necessarily indicative of results that would have occurred if Williams & Glyn had been standalone.
- (4) International private banking business reclassified to disposal groups.
- (5) Transfers to other areas comprises the UK Portfolio which was transferred to Commercial Banking on 1 May 2015, the Western European Portfolio which is expected to transfer to Commercial Banking during Q4 2015 and UK Transaction services which is expected to transfer to Commercial Banking in Q4 2015.
- (6) The CIB segment is being restructured into CIB Go-forward and CIB Capital Resolution elements. The split is subject to further refinement.

Appendix 1 Ulster Bank

| | Nine months ended | | Quarter ended | | | |
|---|-------------------|--------------|---------------|--------------|--------------|-------------|
| | 30 September | 30 September | 30 September | 30 June | 30 September | |
| | 2015 | £m | 2014 | 2015 | £m | 2014 |
| Income statement | | | | | | |
| Net interest income | 392 | | 486 | 127 | 132 | 163 |
| Non-interest income | 190 | | 140 | 87 | 46 | 51 |
| Total income | 582 | | 626 | 214 | 178 | 214 |
| Operating expenses | (447) | | (450) | (158) | (150) | (150) |
| Profit before impairment releases | 135 | | 176 | 56 | 28 | 64 |
| Impairment releases | 110 | | 261 | 58 | 52 | 318 |
| Operating profit | 245 | | 437 | 114 | 80 | 382 |
| Operating profit - adjusted (1) | 263 | | 463 | 122 | 91 | 394 |
| Average exchange rate | 1.374 | | 1.232 | 1.392 | 1.385 | 1.260 |
| Analysis of income by business | | | | | | |
| Corporate | 147 | | 199 | 52 | 45 | 65 |
| Retail | 346 | | 301 | 125 | 112 | 111 |
| Other | 89 | | 126 | 37 | 21 | 38 |
| Total income | 582 | | 626 | 214 | 178 | 214 |
| Analysis of impairments by sector | | | | | | |
| Mortgages | (86) | | (133) | (35) | (38) | (168) |
| Commercial real estate | | | | | | |
| - investment | 9 | | (9) | (3) | 11 | (18) |
| - development | 13 | | (15) | (5) | 18 | (9) |
| Other corporate | (43) | | (122) | (18) | (37) | (130) |
| Other lending | (3) | | 18 | 3 | (6) | 7 |
| Total impairment (releases)/losses | (110) | | (261) | (58) | (52) | (318) |
| Balance sheet | | | | | | |
| Loans and advances to customers (gross) | | | | 30 September | 30 June | 31 December |
| Mortgages | | | | 2015 | 2015 | 2014 |
| Commercial real estate | | | | £bn | £bn | £bn |
| - investment | | | | 16.1 | 15.9 | 17.5 |
| - development | | | | 0.9 | 0.8 | 1.0 |
| Other corporate | | | | 0.3 | 0.3 | 0.3 |
| Other lending | | | | 4.7 | 4.7 | 4.9 |
| Total loans and advances to customers (gross) | | | | 22.9 | 22.6 | 24.7 |
| Spot exchange rate | | | | 1.355 | 1.411 | 1.285 |

For the notes to this table refer to page 1.

Appendix 1 Commercial Banking

| | Nine months ended | | Quarter ended | | |
|---|-------------------|-------------------|-----------------------|------------------|----------------------|
| | 30 September 2015 | 30 September 2014 | 30 September 2015 | 30 June 2015 | 30 September 2014 |
| | £m | £m | £m | £m | £m |
| Income statement | | | | | |
| Net interest income | 1,673 | 1,520 | 565 | 562 | 521 |
| Non-interest income | 871 | 859 | 265 | 330 | 290 |
| Total income | 2,544 | 2,379 | 830 | 892 | 811 |
| Operating expenses | (1,278) | (1,294) | (403) | (466) | (392) |
| Of which: operating lease costs | (105) | (103) | (34) | (35) | (35) |
| Profit before impairment losses | 1,266 | 1,085 | 427 | 426 | 419 |
| Impairment losses | (42) | (43) | (15) | (26) | (12) |
| Operating profit | 1,224 | 1,042 | 412 | 400 | 407 |
| Operating profit - adjusted (1) | 1,302 | 1,172 | 413 | 476 | 425 |
| Analysis of income by business | | | | | |
| Commercial lending | 1,378 | 1,353 | 430 | 499 | 459 |
| Deposits | 367 | 248 | 127 | 124 | 95 |
| Asset and invoice finance | 542 | 554 | 184 | 180 | 188 |
| Other | 257 | 224 | 89 | 89 | 69 |
| Total income | 2,544 | 2,379 | 830 | 892 | 811 |
| Analysis of impairments by sector | | | | | |
| Commercial real estate | 13 | (7) | 5 | 10 | (1) |
| Asset and invoice finance | 1 | 4 | (2) | 2 | 2 |
| Private sector services (education, health, etc) | 5 | (8) | 2 | - | 2 |
| Banks & financial institutions | 1 | - | - | 1 | (1) |
| Wholesale and retail trade repairs | 3 | 16 | 3 | 2 | 2 |
| Hotels and restaurants | - | 1 | 1 | 2 | 2 |
| Manufacturing | 1 | 9 | 1 | (1) | 2 |
| Construction | 5 | 8 | 3 | 2 | 4 |
| Other | 13 | 20 | 2 | 8 | - |
| Total impairment losses | 42 | 43 | 15 | 26 | 12 |
| Balance sheet | | | | | |
| Loans and advances to customers (gross) | | | 30 September 2015 £bn | 30 June 2015 £bn | 31 December 2014 £bn |
| - Commercial real estate | | | 18.2 | 17.9 | 18.3 |
| - Asset and invoice finance | | | 14.3 | 14.1 | 14.2 |
| - Private sector services (education, health etc) | | | 7.1 | 7.0 | 6.9 |
| - Banks & financial institutions | | | 7.8 | 7.2 | 7.0 |
| - Wholesale and retail trade repairs | | | 6.7 | 6.6 | 6.0 |
| - Hotels and restaurants | | | 3.2 | 3.2 | 3.4 |
| - Manufacturing | | | 4.4 | 4.6 | 3.7 |
| - Construction | | | 1.8 | 1.8 | 1.9 |
| - Other | | | 28.9 | 28.6 | 24.7 |
| Total loans and advances to customers (gross) | | | 92.4 | 91.0 | 86.1 |

For the notes to this table refer to page 1.

Appendix 1 Private Banking

| Income statement | Nine months ended | | Quarter ended | | |
|---|----------------------|----------------------|-----------------------|------------------|----------------------|
| | 30 September 2015 £m | 30 September 2014 £m | 30 September 2015 £m | 30 June 2015 £m | 30 September 2014 £m |
| | Net interest income | 377 | 516 | 123 | 126 |
| Non-interest income | 248 | 299 | 81 | 81 | 98 |
| Total income | 625 | 815 | 204 | 207 | 270 |
| Operating expenses | (659) | (610) | (185) | (287) | (210) |
| (Loss)/profit before impairment losses | (34) | 205 | 19 | (80) | 60 |
| Impairment (losses)/releases | (1) | 4 | (4) | 2 | 4 |
| Operating (loss)/profit | (35) | 209 | 15 | (78) | 64 |
| Operating profit - adjusted (1) | 77 | 219 | 16 | 32 | 71 |
| Analysis of income by business | | | | | |
| Investments | 108 | 134 | 34 | 35 | 44 |
| Banking | 517 | 681 | 170 | 172 | 226 |
| Total income | 625 | 815 | 204 | 207 | 270 |
| International private banking activities (4) | | | | | |
| Total income | 147 | 171 | 47 | 48 | 53 |
| Operating expenses | (226) | (197) | (69) | (89) | (68) |
| Operating loss | (79) | (26) | (22) | (41) | (15) |
| Capital and balance sheet | | | 30 September 2015 £bn | 30 June 2015 £bn | 31 December 2014 £bn |
| Loans and advances to customers (gross) | | | | | |
| - Personal | | | 4.7 | 4.8 | 5.4 |
| - Mortgages | | | 6.7 | 6.6 | 8.9 |
| - Other | | | 2.2 | 2.1 | 2.3 |
| Total loans and advances to customers (gross) | | | 13.6 | 13.5 | 16.6 |
| International private banking activities (4) | | | £bn | £bn | £bn |
| Total assets | | | 7.9 | 8.2 | 8.9 |
| Net loans and advances to customers | | | 2.5 | 2.7 | 3.1 |
| Assets under management | | | 12.2 | 13.6 | 14.6 |
| Customer deposits | | | 6.5 | 6.8 | 7.4 |
| Risk-weighted assets (2) | | | 1.7 | 1.9 | 2.1 |

For the notes to this table refer to page 1.

Appendix 1 Corporate & Institutional Banking

| | Nine months ended | | Quarter ended | | |
|---|-------------------|--------------------------|---------------------|-------------------------|-------------------|
| | 30 September 2015 | 30 September 2014 | 30 September 2015 | 30 June 2015 | 30 September 2014 |
| | £m | £m | £m | £m | £m |
| Income statement | | | | | |
| Net interest income from banking activities | 518 | 595 | 142 | 174 | 230 |
| Non-interest income | 1,243 | 2,663 | 295 | 346 | 601 |
| Total income | 1,761 | 3,258 | 437 | 520 | 831 |
| <u>Operating expenses</u> | (4,883) | (3,558) | (1,453) | (1,841) | (1,400) |
| Loss before impairment losses | (3,122) | (300) | (1,016) | (1,321) | (569) |
| Impairment releases/(losses) | 35 | 51 | 4 | (13) | 12 |
| Operating loss | (3,087) | (249) | (1,012) | (1,334) | (557) |
| Operating (loss)/profit - adjusted (1) | (445) | 570 | (268) | (227) | 21 |
| Analysis of income by product | | | | | |
| Rates | 544 | 723 | 172 | 164 | 200 |
| Currencies | 291 | 385 | 96 | 107 | 138 |
| Credit | 277 | 494 | 35 | 86 | 110 |
| Banking/Other | (72) | (111) | 3 | (48) | (25) |
| Total CIB (Go-forward) | 1,040 | 1,491 | 306 | 309 | 423 |
| Transfers to other areas (5) | 316 | 401 | 88 | 103 | 127 |
| CIB Capital Resolution excluding disposal losses | 623 | 1,366 | 120 | 221 | 281 |
| Disposal losses | (218) | - | (77) | (113) | - |
| Total CIB Capital Resolution (6) | 405 | 1,366 | 43 | 108 | 281 |
| Total income | 1,761 | 3,258 | 437 | 520 | 831 |
| | | | | | |
| | | 30 September 2015 £bn | 30 June 2015 £bn | 31 December 2014 £bn | |
| Capital and balance sheet | | | | | |
| Loans and advances to customer (gross, excluding reverse repos) | | 50.9 | 57.9 | 73.0 | |
| Loan impairment provisions | | (0.1) | (0.1) | (0.2) | |
| Net loans and advances to customers (excluding reverse repos) | | 50.8 | 57.8 | 72.8 | |
| Loans and advances to banks (excluding reverse repos) | | 14.8 | 13.6 | 16.9 | |
| Reverse repos | | 49.7 | 63.0 | 61.6 | |
| Securities | | 33.8 | 40.8 | 57.0 | |
| Cash and eligible bills | | 15.2 | 22.4 | 23.2 | |
| Other | | 13.1 | 13.5 | 9.6 | |
| Funded assets | | 177.4 | 211.1 | 241.1 | |
| CIB Capital Resolution (6) | | | | | |
| Funded assets | | 50.5 | 60.7 | 92.9 | |
| Risk-weighted assets (2) | | 38.7 | 45.4 | 64.1 | |

For the notes to this table refer to page 1.

Appendix 1 RBS Capital Resolution

RCR is managed and analysed in four asset management groups - Ulster Bank (RCR Ireland), Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

| | Nine months ended | | Quarter ended | | | |
|--|-------------------|----|---------------|--------------|---------|---------|
| | 30 September | | 30 September | 30 September | 30 June | |
| | 2015 | £m | 2014 | 2015 | £m | 2014 |
| Income statement | | | | | | |
| Net interest income | (36) | | (7) | (16) | (12) | (18) |
| Non-interest income (1) | 181 | | 237 | (4) | 57 | 140 |
| Total income | 145 | | 230 | (20) | 45 | 122 |
| Operating expenses | (143) | | (265) | (42) | (53) | (89) |
| Profit/(loss) before impairment losses | 2 | | (35) | (62) | (8) | 33 |
| Impairment releases (1) | 339 | | 625 | 46 | 184 | 605 |
| Operating profit/(loss) | 341 | | 590 | (16) | 176 | 638 |
| Operating profit/(loss) - adjusted (2) | 345 | | 594 | (12) | 176 | 642 |
| Total income | | | | | | |
| Ulster Bank | (15) | | (28) | 17 | (15) | (29) |
| Real Estate Finance | 102 | | 163 | 42 | 35 | 67 |
| Corporate | (26) | | 58 | (101) | (16) | 72 |
| Markets | 84 | | 37 | 22 | 41 | 12 |
| Total income | 145 | | 230 | (20) | 45 | 122 |
| Impairment (releases)/losses | | | | | | |
| Ulster Bank | (271) | | (394) | (99) | (33) | (379) |
| Real Estate Finance | (91) | | (193) | (19) | (44) | (159) |
| Corporate | (56) | | (31) | 51 | (117) | (70) |
| Markets | 79 | | (7) | 21 | 10 | 3 |
| Total impairment releases | (339) | | (625) | (46) | (184) | (605) |
| Loan impairment charge as % of gross loans and advances (3) | | | | | | |
| Ulster Bank | (11.0%) | | (4.2%) | (12.0%) | (2.8%) | (12.0%) |
| Real Estate Finance | (6.1%) | | (4.7%) | (3.8%) | (6.8%) | (11.6%) |
| Corporate | (3.1%) | | (0.6%) | 8.5% | (15.1%) | (4.0%) |
| Markets | (1.1%) | | (1.9%) | - | (0.7%) | (0.6%) |
| Total | (6.9%) | | (3.3%) | (3.3%) | (7.1%) | (9.5%) |

Notes:

(1) Asset disposals contributed £349 million in the nine months ended 30 September 2015 and £66 million in Q3 2015 (nine months ended 30 September 2014 - £614 million; Q2 2015 - £164 million; Q3 2014 - £332 million) to RCR's operating profit: impairment provision releases of £306 million in the nine months ended 30 September 2015 and £75 million in Q3 2015 (nine months ended 30 September 2014 - £552 million; Q2 2015 - £167 million; Q3 2014 - £232 million); loss in income from trading activities of £36 million in the nine months ended 30 September 2015 and £11 million loss in Q3 2015 (nine months ended 30 September 2014 - £99 million gain; Q2 2015 - £6 million loss; Q3 2014 - £97 million gain) and gain in other operating income of £79 million in the nine months ended 30 September 2015 and £2 million gain in Q3 2015 (nine months ended 30 September 2014 - £37 million loss; Q2 2015 - £3 million gain; Q3 2014 - £3 million gain).

(2) Excluding restructuring costs.

(3) Includes disposal groups.

Appendix 1 RBS Capital Resolution

| | 30 September 2015 £bn | 30 June 2015 £bn | 31 December 2014 £bn |
|--|-----------------------------|------------------------|----------------------------|
| Capital and balance sheet | | | |
| Loans and advances to customers (gross) (1) | 8.2 | 11.0 | 21.9 |
| Loan impairment provisions | (3.9) | (5.1) | (10.9) |
| Net loans and advances to customers | 4.3 | 5.9 | 11.0 |
| Debt securities | 0.6 | 0.6 | 1.0 |
| Total assets | 12.9 | 16.5 | 29.0 |
| Funded assets | 6.5 | 8.4 | 14.9 |
| Risk elements in lending (1) | 5.1 | 7.4 | 15.4 |
| Provision coverage (2) | 76% | 69% | 71% |
| Risk-weighted assets | | | |
| - Credit risk | | | |
| - non-counterparty | 6.0 | 7.8 | 13.6 |
| - counterparty | 2.8 | 3.0 | 4.0 |
| - Market risk | 4.0 | 4.0 | 4.4 |
| - Operational risk | (0.4) | (0.4) | - |
| Total risk-weighted assets | 12.4 | 14.4 | 22.0 |
| Total RWA equivalent (3) | 13.9 | 17.9 | 27.3 |
| Gross loans and advances to customers (1) | | | |
| Ulster Bank | 3.3 | 4.7 | 11.0 |
| Real Estate Finance | 2.0 | 2.6 | 4.1 |
| Corporate | 2.4 | 3.1 | 6.2 |
| Markets | 0.5 | 0.6 | 0.6 |
| | 8.2 | 11.0 | 21.9 |
| Funded assets - Ulster Bank | | | |
| Commercial real estate - investment | 0.2 | 0.6 | 1.2 |
| Commercial real estate - development | 0.1 | 0.2 | 0.7 |
| Other corporate | 0.2 | 0.2 | 0.7 |
| | 0.5 | 1.0 | 2.6 |
| Funded assets - Real Estate Finance (4) | | | |
| UK | 1.2 | 1.7 | 2.5 |
| Germany | 0.1 | 0.2 | 0.4 |
| Spain | 0.3 | 0.3 | 0.5 |
| Other | 0.2 | 0.3 | 0.8 |
| | 1.8 | 2.5 | 4.2 |
| Funded assets - Corporate | | | |
| Structured finance | 0.5 | 0.6 | 1.7 |
| Shipping | 0.8 | 1.1 | 1.8 |
| Other | 1.2 | 1.5 | 2.3 |
| | 2.5 | 3.2 | 5.8 |
| Funded assets - Markets | | | |
| Securitised products | 1.3 | 1.3 | 1.8 |
| Emerging markets | 0.4 | 0.4 | 0.5 |
| | 1.7 | 1.7 | 2.3 |

Notes:

- (1) Includes disposal groups.
- (2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
- (3) RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in segments. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. RBS applies a CET1 ratio of 10% for RCR; this results in an end point CRR RWAe conversion multiplier of 10.
- (4) Includes investment properties.

Appendix 1 - RBS Capital Resolution

Funded assets

| Life to date | 1 January | | 30 September | | |
|---------------------|-------------|-------------------|----------------------|--------------------|--------------|
| | 2014 £bn | Repayments £bn | Disposals (1) £bn | Impairments £bn | Other £bn |
| Ulster Bank | 4.8 | (0.2) | (5.2) | 1.4 | (0.3) |
| Real Estate Finance | 9.5 | (2.9) | (4.7) | 0.1 | (0.2) |
| Corporate | 9.8 | (3.4) | (4.2) | - | 0.3 |
| Markets | 4.8 | (1.4) | (1.8) | - | 0.1 |
| Total | 28.9 | (7.9) | (15.9) | 1.5 | (0.1) |
| | | | | | 6.5 |

Risk-weighted assets

| Life to date | 1 January | | Risk | | | 30 September | |
|---------------------|-------------|-------------------|----------------------|-----------------------|--------------------|------------------|-------------|
| | 2014 £bn | Repayments £bn | Disposals (1) £bn | parameters (2) £bn | Impairments £bn | Other (3) £bn | 2015 £bn |
| Ulster Bank | 3.3 | (0.5) | (1.0) | (1.3) | - | (0.1) | 0.4 |
| Real Estate Finance | 13.5 | (2.8) | (2.5) | (6.5) | - | (0.1) | 1.6 |
| Corporate | 16.4 | (2.9) | (5.3) | (4.9) | (0.4) | 0.6 | 3.5 |
| Markets | 13.5 | (3.5) | (3.2) | - | (0.2) | 0.3 | 6.9 |
| Total | 46.7 | (9.7) | (12.0) | (12.7) | (0.6) | 0.7 | 12.4 |

Capital deductions

| Life to date | 1 January | | Risk | | | 30 September | |
|---------------------|--------------|------------------|---------------------|----------------------|-------------------|-----------------|------------|
| | 2014 £m | Repayments £m | Disposals (1) £m | parameters (2) £m | Impairments £m | Other (3) £m | 2015 £m |
| Ulster Bank | 559 | (31) | (439) | (154) | 183 | (29) | 89 |
| Real Estate Finance | 505 | (446) | (872) | 776 | 68 | (31) | - |
| Corporate | 477 | (250) | (179) | 110 | (138) | 16 | 36 |
| Markets | 291 | (30) | (86) | (146) | 1 | (6) | 24 |
| Total | 1,832 | (757) | (1,576) | 586 | 114 | (50) | 149 |

RWA equivalent ⁽⁴⁾

| Life to date | 1 January | | Risk | | | 30 September | |
|---------------------|-------------|-------------------|----------------------|-----------------------|--------------------|------------------|-------------|
| | 2014 £bn | Repayments £bn | Disposals (1) £bn | parameters (2) £bn | Impairments £bn | Other (3) £bn | 2015 £bn |
| Ulster Bank | 8.9 | (0.8) | (5.4) | (2.8) | 1.8 | (0.4) | 1.3 |
| Real Estate Finance | 18.6 | (7.3) | (11.3) | 1.3 | 0.7 | (0.4) | 1.6 |
| Corporate | 21.1 | (5.4) | (7.1) | (3.8) | (1.8) | 0.8 | 3.8 |
| Markets | 16.4 | (3.7) | (4.1) | (1.4) | (0.2) | 0.2 | 7.2 |
| Total | 65.0 | (17.2) | (27.9) | (6.7) | 0.5 | 0.2 | 13.9 |

Notes:

- (1) Includes all effects relating to disposals, including associated removal of deductions from regulatory capital.
- (2) Principally reflects credit migration and other technical adjustments.
- (3) Includes fair value adjustments and foreign exchange movements.
- (4) RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in segments. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. RBS applies a CET1 ratio of 10% for RCR; this results in an end point CRR RWAe conversion multiplier of 10.

Appendix 1 RBS Capital Resolution

Gross loans and advances, REIL and impairments

| | 30 September 2015 (1) | Gross loans £bn | REIL £bn | Provisions £bn | Credit metrics | | | Year-to-date | |
|---------------------------------------|-----------------------|-----------------|------------|----------------|----------------------------|---------------------------|----------------------------------|-------------------------------------|------------------------|
| | | | | | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | Impairment (releases)/losses (2) £m | Amounts written-off £m |
| By sector: | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| - investment | 2.4 | 1.7 | 1.1 | 71 | 65 | 46 | (152) | 1,649 | |
| - development | 2.2 | 2.1 | 1.9 | 95 | 90 | 86 | (69) | 2,959 | |
| Asset finance | 0.9 | 0.3 | 0.1 | 33 | 33 | 11 | 8 | 273 | |
| Other corporate | 2.7 | 1.0 | 0.8 | 37 | 80 | 30 | (123) | 1,265 | |
| Total | 8.2 | 5.1 | 3.9 | 62 | 76 | 48 | (336) | 6,146 | |
| By donating segment and sector | | | | | | | | | |
| Ulster Bank | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| - investment | 0.7 | 0.7 | 0.6 | 100 | 86 | 86 | (35) | 1,320 | |
| - development | 2.0 | 2.0 | 1.9 | 100 | 95 | 95 | (121) | 2,847 | |
| Other corporate | 0.6 | 0.5 | 0.4 | 83 | 80 | 67 | (115) | 861 | |
| Total Ulster Bank | 3.3 | 3.2 | 2.9 | 97 | 91 | 88 | (271) | 5,028 | |
| Commercial Banking | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| - investment | 0.6 | 0.3 | 0.1 | 50 | 33 | 17 | (26) | 164 | |
| - development | 0.1 | 0.1 | - | 100 | - | - | (7) | 79 | |
| Other corporate | 0.4 | 0.2 | 0.1 | 50 | 50 | 25 | (60) | 114 | |
| Total Commercial Banking | 1.1 | 0.6 | 0.2 | 55 | 33 | 18 | (93) | 357 | |
| CIB | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| - investment | 1.1 | 0.7 | 0.4 | 64 | 57 | 36 | (91) | 165 | |
| - development | 0.1 | - | - | - | - | - | 59 | 33 | |
| Asset finance | 0.9 | 0.3 | 0.1 | 33 | 33 | 11 | 8 | 273 | |
| Other corporate | 1.7 | 0.3 | 0.3 | 18 | 100 | 18 | 52 | 290 | |
| Total CIB | 3.8 | 1.3 | 0.8 | 34 | 62 | 21 | 28 | 761 | |
| Total | 8.2 | 5.1 | 3.9 | 62 | 76 | 48 | (336) | 6,146 | |
| Of which: | | | | | | | | | |
| UK | 4.5 | 2.4 | 1.4 | 53 | 58 | 31 | (71) | 2,605 | |
| Europe | 3.5 | 2.6 | 2.4 | 74 | 92 | 69 | (323) | 3,431 | |
| US | 0.1 | - | - | - | - | - | 68 | 1 | |
| RoW | 0.1 | 0.1 | 0.1 | 100 | 100 | 100 | (10) | 109 | |
| Customers | 8.2 | 5.1 | 3.9 | 62 | 76 | 48 | (336) | 6,146 | |
| Banks | 0.5 | - | - | - | - | - | (3) | 33 | |
| Total | 8.7 | 5.1 | 3.9 | 59 | 76 | 45 | (339) | 6,179 | |

Notes:

(1) Includes disposal groups.

(2) Impairment (releases)/losses include those relating to AFS securities; sector analyses above include allocation of latent impairment charges.



Appendix 2

Go-forward Bank profile

Appendix 2 Go-forward Bank profile

RBS is committed to becoming a leaner, less volatile business based around its core franchises of PBB and CPB. To achieve this goal a number of initiatives have been announced which include, but are not limited to, the restructuring of CIB into CIB Go-forward and CIB Capital Resolution, the divestment of the remaining stake in Citizens, the sale of the international private banking business, the exit of Williams & Glyn and the continued run down of RCR. Significant progress towards these exits is expected by the end of 2015. The following table illustrates the impact on certain key performance measures of these initiatives by showing the 'Go-forward' profile of the bank and the segments, businesses and portfolios which it intends to exit. This information is presented to illustrate the strategy and its impact on the business and is on a non-statutory basis and should be read in conjunction with the notes below as well as the section titled Forward-looking statements.

| Quarter ended 30 September 2015 | Go-forward Bank profile | | | | | | | Exit Bank | | | | | | | |
|--|-------------------------|-----------------------|------------------------------|-------------------------------|-------------------------------|---------------------------------|-----------------------------|---|-------------------------------|--|------------|---------------------------------|---------------------|---------------------|------|
| | UK PBB (1) £bn | Ulster Bank £bn | Commercial Banking £bn | Private Banking (2) £bn | CIB Go- forward (3) £bn | Other Go- forward (4) £bn | Total Go- forward £bn | CIB Capital Resolution (3) £bn | Williams & Glyn (5) £bn | International private banking £bn | RCR £bn | Other investments (6) £bn | Exit Bank £bn | Total RBS £bn | |
| Total income | 1.2 | 0.2 | 0.8 | 0.2 | 0.4 | (0.1) | 2.7 | - | 0.3 | - | - | 0.1 | 0.4 | 3.1 | |
| Operating expenses - adjusted (7) | (0.7) | (0.1) | (0.4) | (0.2) | (0.4) | - | (1.8) | (0.3) | (0.1) | - | (0.1) | - | (0.5) | (2.3) | |
| Impairment (losses)/releases | - | 0.1 | - | - | - | (0.1) | - | - | - | - | - | 0.1 | - | 0.1 | |
| Operating profit/(loss) - adjusted (7) | 0.5 | 0.2 | 0.4 | - | - | (0.2) | 0.9 | (0.3) | 0.2 | - | - | 0.1 | - | 0.9 | |
| Return on equity - adjusted (7,8,9) | 36% | 15% | 12% | 8% | nm | nm | 10% | nm | nm | nm | nm | nm | nm | 5% | |
| Nine months ended 30 September 2015 | | | | | | | | | | | | | | | |
| Total income | 3.7 | 0.6 | 2.5 | 0.5 | 1.4 | - | 8.7 | 0.4 | 0.7 | 0.1 | 0.2 | - | 0.1 | 1.5 | 10.2 |
| Operating expenses - adjusted (7) | (2.0) | (0.4) | (1.2) | (0.4) | (1.2) | 0.1 | (5.1) | (1.0) | (0.3) | (0.2) | (0.2) | - | (1.7) | (6.8) | |
| Impairment (losses)/releases | - | 0.1 | - | - | - | (0.1) | - | - | - | - | - | 0.4 | - | 0.4 | |
| Operating profit/(loss) - adjusted (7) | 1.7 | 0.3 | 1.3 | 0.1 | 0.2 | - | 3.6 | (0.6) | 0.4 | (0.1) | 0.4 | - | 0.1 | 0.2 | 3.8 |
| Return on equity - adjusted (7,8,9) | 36% | 11% | 12% | 10% | nm | nm | 13% | nm | nm | nm | nm | nm | nm | 8% | |
| As at 30 September 2015 | | | | | | | | | | | | | | | |
| Funded assets | 119 | 28 | 96 | 12 | 127 | 114 | 496 | 50 | 20 | 5 | 7 | - | 2 | 84 | 580 |
| Net loans and advances to customers | 112 | 21 | 92 | 11 | 24 | - | 260 | 27 | 20 | 3 | 4 | - | 54 | 314 | |
| Customer deposits | 129 | 19 | 99 | 23 | 19 | 4 | 293 | 29 | 24 | 6 | 1 | - | 60 | 353 | |
| Risk-weighted assets (10) | 29 | 22 | 67 | 8 | 39 | 10 | 175 | 39 | 10 | 2 | 12 | - | 78 | 141 | 316 |

Appendix 2 Go-forward Bank profile

Notes:

- (1) Excluding Williams & Glyn.
- (2) Excluding international private banking business reclassified to disposal groups.
- (3) The CIB segment is being restructured into CIB Go-forward and CIB Capital Resolution elements. The split is subject to further refinement. In Q4 2015 the Western European loan portfolio and the UK Transaction Services business will transfer to Commercial Banking.
- (4) Other Go-forward is primarily Centre, which includes the liquidity portfolio.
- (5) Does not reflect the cost base, funding and capital profile of a standalone bank. Operating expenses include charges based on an attribution of support provided by RBS to Williams & Glyn. Expenses incurred by Williams & Glyn were £96 million in Q3 2015 (nine months ended 30 September 2015 - £267 million).
- (6) Includes Citizens RWAs of £72 billion which remain consolidated for regulatory reporting purposes and the interest in associate in relation to Citizens funded assets.
- (7) Excluding restructuring costs and litigation and conduct costs.
- (8) ROE is based on operating profit after tax on a non-statutory basis adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average of segmental RWAs).
- (9) PBB adjusted ROE Q3 2015 - 27% (nine months ended 30 September 2015 - 26%). CPB adjusted ROE Q3 2015 - 11% (nine months ended 30 September 2015 - 12%). Excluding IFRS volatility loss of Q3 2015 - £126 million (nine months ended 30 September 2015 - loss £44 million), the Go-forward Bank's adjusted return on equity was Q3 2015 - 13% (nine months ended 30 September 2015 - 13%).
- (10) CIB RWAs of £39 billion includes £8 billion of RWAs related to businesses that will transfer out of CIB in Q4 2015, comprising the Western European loan portfolio and the UK Transaction Services business.

| CIB Capital Resolution by product | 30 September 2015 | | 31 December 2014 | |
|-----------------------------------|----------------------|-------------|----------------------|-------------|
| | Funded assets £bn | RWAs £bn | Funded assets £bn | RWAs £bn |
| APAC portfolio (1) | 3.2 | 2.0 | 7.7 | 4.2 |
| Americas portfolio | 1.5 | 2.4 | 4.7 | 7.8 |
| EMEA portfolio (2) | 4.4 | 2.9 | 9.9 | 6.8 |
| Shipping | 5.3 | 4.4 | 5.7 | 4.4 |
| Markets | 30.5 | 19.8 | 52.1 | 28.9 |
| GTS | 4.4 | 6.6 | 11.3 | 11.1 |
| Other | 1.2 | 0.6 | 1.5 | 0.9 |
| Total | 50.5 | 38.7 | 92.9 | 64.1 |

Notes:

- (1) Asia-Pacific portfolio.
- (2) European, the Middle East and Africa portfolio.

Appendix 3

Income statement reconciliations

Appendix 3 Income statement reconciliations

Operating profit on a non-statutory basis is presented before certain items, namely own credit adjustments, gain on redemption of own debt, write-down of goodwill and strategic disposals. RFS Holdings minority interest was also a reconciling item for the periods ended 30 September 2014.

In addition, restructuring costs and litigation and conduct costs are presented separately within operating expenses on a non-statutory basis.

The following table shows how these items are presented in the statutory income statement.

| | Nine months ended | | Quarter ended | | |
|---|----------------------------|----------------------------|----------------------------|-----------------------|----------------------------|
| | 30 September 2015 £m | 30 September 2014 £m | 30 September 2015 £m | 30 June 2015 £m | 30 September 2014 £m |
| Reallocation of one-off items | | | | | |
| Net interest income | | | | | |
| RFS Holdings minority interest | - | (3) | - | - | - |
| Non-interest income | | | | | |
| Own credit adjustments | 424 | (2) | 136 | 168 | 49 |
| Gain on redemption of own debt | - | 20 | - | - | - |
| Strategic disposals | (135) | 191 | - | - | - |
| RFS Holdings minority interest | - | (31) | - | - | (56) |
| Operating expenses | | | | | |
| Write down of goodwill | - | (130) | - | - | - |
| RFS Holdings minority interest | - | (1) | - | - | - |
| Presentational adjustments | | | | | |
| Staff costs | | | | | |
| Restructuring costs | (625) | (248) | (281) | (288) | (79) |
| Premises and equipment | | | | | |
| Restructuring costs | (319) | (241) | (283) | (28) | (52) |
| Other administrative expenses | | | | | |
| Restructuring costs | (314) | (120) | (124) | (87) | (36) |
| Litigation and conduct costs | (1,444) | (1,030) | (129) | (459) | (780) |
| Depreciation and amortisation | | | | | |
| Restructuring costs | (386) | (3) | (92) | (14) | - |
| Write down of goodwill and other intangible assets | | | | | |
| Restructuring costs | (673) | - | (67) | (606) | - |