ALLIED CAPITAL CORP
Form 4
May 16, 2007

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HARPER EDWIN

(Last) (First) (Middle)

1919 PENNSYLVANIA AVENUE, NW, 3RD FLOOR

(Street)

WASHINGTON, DC 20006

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ALLIED CAPITAL CORP [ALD]

3. Date of Earliest Transaction (Month/Day/Year)
05/15/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amour Underlying Securit (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amo or Num of Share
Non-Qualified Stock Option (right to buy)	$ 29.58	05/15/2007		A		5,000		05/15/2007	05/15/2014	Common Stock	5,0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HARPER EDWIN 1919 PENNSYLVANIA AVENUE, NW 3RD FLOOR WASHINGTON, DC 20006	X			

Signatures

By: s/ Kelly A. Anderson attorney in fact For: Edwin L. Harper	05/16/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. style="margin:0cm;margin-bottom:.0001pt;">Commercial real estate

17.5

17.8

16.7

Asset and invoice finance

15.0

14.8

14.4

Private sector services (education, health etc)	
	6.9
	6.8
	6.7
Banks & financial institutions	
	8.9
	8.2
	7.1
Wholesale and retail trade repairs	
	8.2
	8.2
	7.5
Hotels and restaurants	
	3.6
	3.6
	3.3
Manufacturing	
	6.4
	7.0
	5.3
Construction	
	2.0
	2.1
	2.1
Other	
	32.3

	31.7
	28.9
Total	
	100.8
	100.2
	92.0

Private Banking

Personal advances	
	2.3
	2.5
	2.7
Mortgages	
	6.7
	6.8
	6.5
Other	
	2.8
	2.5
	2.0

Total	**11.8**	11.8	11.2

RBS International

Corporate	**6.1**	5.9	4.5
Mortgages	**2.6**	2.6	2.5
Other	**-**	-	0.4
Total	**8.7**		

8.5

7.4

Capital Resolution

17.9

21.0

25.9

Williams & Glyn (2)

Retail

12.2

12.1

11.6

Commercial

8.6

8.5

8.7

Explanation of Responses:

Total

20.8

20.6

20.3

Central items

0.1

0.5

2.0

Balance sheet

Corporate & Institutional Banking

Reverse repos

42.7

Explanation of Responses:

		43.1	38.6
Loans and advances to customer (gross)	**19.9**	21.6	16.1
Loans and advances to banks (gross) (3)	**5.9**	6.3	5.7
Securities	**26.4**	30.1	23.7
Cash and eligible bills	**6.4**	10.3	14.3
Other	**11.2**	14.2	4.9
Total funded assets	**112.5**	125.6	103.3

Notes:

(1) Excludes reverse repurchase agreements and includes disposal groups.
(2) Williams & Glyn refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses, along with certain small and medium enterprises and corporate activities across the UK.
(3) Excludes disposal groups.

28

Explanation of Responses:

Segment performance

UK Personal & Business Banking

Operating profit was £567 million compared with £549 million in Q3 2015 with 2% income growth and a 3% reduction in operating expenses partially offset by a modestly higher impairment charge. Compared with Q2 2016, operating profit improved £543 million, principally due to reduced litigation and conduct costs. Adjusted operating profit improved by £57 million to £591 million principally due to a £42 million FSCS levy charge included in the prior quarter. Return on equity of 27% was in line with Q3 2015. Adjusted return on equity of 28% compared with 29% in Q3 2015.

UK PBB continued to deliver support for both personal and business customers with net loans and advances of £129.6 billion up £13.3 billion, or 11%, compared with Q3 2015, primarily due to mortgage growth. Gross new mortgage lending in the quarter of £7.9 billion was 12% higher with market share of new mortgages at approximately 12% supporting a growth in stock share to 8.7%. The Reward proposition continues to show positive momentum and now has more than one million customer accounts with improved levels of customer engagement. In addition, we continue to make better use of digital channels, with over 4.3 million customers regularly using our mobile app.

Total income of £1,336 million was £23 million, or 2%, higher than Q3 2015. Net interest income increased by £30 million, or 3%, principally reflecting strong volume growth and savings re-pricing benefits partially offset by asset margin pressure. Net interest margin declined by 23 basis points to 2.96% reflecting the change in mix of the asset base towards mortgage lending from unsecured lending, mortgage customers switching from standard variable rate (SVR) and lower returns on current account structural hedges. SVR mortgages represented 12% of the total mortgage book (Q3 2015 - 15%). Non-interest income reduced by £7 million, or 3%, primarily due to reduced credit card interchange fees, £13 million, and higher cash back payments on the Reward account.

Operating expenses reduced by £20 million, or 3% compared with Q3 2015. Adjusted operating expenses reduced by £16 million, or 2%, compared with Q3 2015 with a £43 million, or 16%, reduction in direct costs, primarily due to an 18% reduction in FTEs driving lower staff costs, partially offset by increased technology investment in the business. Compared with Q2 2016 operating expenses reduced by £550 million, principally due to reduced litigation and conduct costs. Adjusted operating expenses reduced by £64 million compared with Q2 2016 principally reflecting a £42 million FSCS levy charge in Q2 2016 and a £12 million reduction in staff costs as FTEs reduced a further 1,300 in the quarter.

The net impairment charge of £27 million, which continues to reflect benign credit conditions, increased by £25 million compared with Q3 2015 primarily due to reduced portfolio provision releases. Default levels remain low across all portfolios.

RWAs were £1.4 billion, or 4%, lower than Q3 2015 with lending growth more than offset by improved overall credit quality. The reduction of £5.1 billion in the quarter principally reflects the unwind of mortgage risk parameter model recalibrations taken in H1 2016 and improved credit quality.

Explanation of Responses:

Segment performance

Ulster Bank RoI

Operating profit of £54 million (€69 million) was £49 million (€74 million) lower than Q3 2015 primarily reflecting a lower net impairment release and income gains in Q3 2015. Operating profit of £54 million (€69 million) was £107 million (€138 million) higher than Q2 2016 primarily as a result of a reduction in litigation and conduct costs. Adjusted operating profit of £68 million (€81 million) was £10 million (€8 million) higher than Q2 2016 as a £25 million (€31 million) increase in net impairment releases was partially offset by £15 million (€19 million) accrual releases in Q2 2016.
Ulster Bank RoI built upon its strong H1 2016 performance in mortgage lending, adding a further £0.3 billion (€0.3 billion) of gross new lending in the quarter, up 77% (51%) compared with Q3 2015. The low yielding tracker mortgage portfolio increased £1.0 billion to £9.6 billion but in euro terms declined by a further €0.3 billion to €11.1 billion.
Total income of £146 million (€171 million) was £18 million (€57 million) lower than Q3 2015 due to reduced income on free funds and income gains in Q3 2015, including a £12 million (€17 million) profit on the sale of a buy-to-let mortgage portfolio, as well as a £24 million (€33 million) gain realised on the closure of a foreign exchange exposure. Partially offsetting, income benefits from the weakening of sterling against the Euro.
Operating expenses increased £16 million, or 14%, but reduced by €10 million in euro terms, or 6%, to £131 million (€150 million) compared with Q3 2015. Adjusted operating expenses increased by £7 million, or 6%, but reduced by €15 million in euro terms, or 10%, compared with Q3 2015 to £117 million (€138 million). Compared with Q2 2016 adjusted operating expenses increased by £26 million (€22 million) primarily due to accrual releases of £15 million (€19 million) in Q2 2016.
The Q3 2016 impairment release of £39 million (€48 million) included a net impairment write back associated with the sale of a portfolio of loans, partially offset by additional provisions in respect of mortgages.
REILs were £4.8 billion (€5.6 billion) in Q3 2016, increasing £0.5 billion (€0.4 billion) on Q2 2016 primarily driven by a widening of the definition of non-performing loans which are considered to be impaired to include multiple forbearance arrangements and probationary mortgages. The amendment to the definition does not have a material impact on provisions. It is expected that the sale of a portfolio of loans will materially reduce Ulster Bank RoI REIL when complete in Q4 2016.
RWAs increased 9% to £21.4 billion compared with Q3 2015 due to the strengthening of the euro but decreased 7% to €24.7 billion in euro terms as credit metrics continue to benefit from the improving economic environment. RWAs on the tracker mortgage portfolio increased £0.6 billion, or 8%, compared with Q3 2015 to £8.3 billion but reduced by €1.1 billion, or 10%, in euro terms compared with Q3 2015 to €9.6 billion.

Explanation of Responses:

Segment performance

Commercial Banking

Operating profit of £355 million in Q3 2016 compared with £376 million in Q3 2015. Adjusted operating profit of £382 million was £7 million higher than Q3 2015 and was £122 million higher than Q2 2016, principally reflecting a single name impairment charge taken in respect of the oil and gas portfolio in Q2 2016. Return on equity of 9.5% compared with 12.3% in Q3 2015. Adjusted return on equity of 10.4% compared with 12.3% in Q3 2015.

Total income increased by £49 million or 6% to £849 million compared with Q3 2015 largely reflecting increased asset and liability volumes and £42 million of business transfers(1) . Net interest margin fell by 17 basis points from Q3 2015 to 1.72% driven by asset margin pressure in a competitive market and low rate environment.

Operating expenses increased by £66 million compared with Q3 2015 as a result of higher restructuring costs and £25 million of business transfers(1), but reduced by £72 million compared to Q2 2016 reflecting cost efficiencies and a £25 million intangible asset write down in Q2 2016.

Net impairment losses of £20 million were £4 million higher than Q3 2015 and £69 million lower than Q2 2016 reflecting the non-repeat of a single name charge taken in respect of the oil and gas portfolio.

Net loans and advances increased by £10.7 billion from Q3 2015, principally reflecting increased borrowing across mid and large corporate customers and £4.2 billion of business transfers(1). Net loans and advances continued to grow in the quarter, up £0.6 billion, but at a slower rate than in H1 2016.

RWAs of £77.6 billion increased by £13.4 billion compared to Q3 2015, reflecting asset growth and £6.5 billion of business transfers(1) partially offset by reduced RWA intensity.

Private Banking

Operating profit of £50 million was £12 million higher than Q3 2015 and was £9 million higher than Q2 2016. Return on equity of 11.1% compared with 7.4% in Q3 2015. Adjusted return on equity of 11.8% compared with 7.1% in Q3 2015.

Total income of £165 million increased by £5 million, 3%, compared with Q3 2015 as the benefit of increased asset volumes has been partially offset by reduced net interest margin, down 10 basis points to 2.62% reflecting the lower interest rate environment.

Operating expenses were 5% lower than Q3 2015 at £112 million, principally reflecting management actions to reduce operational costs and a £13 million VAT recovery. Adjusted operating expenses were 8% lower than Q3 2015 at £109 million.

Net loans and advances increased 6% to £11.8 billion, due to increased mortgage lending, and customer deposits grew by 11% to £25.3 billion compared with Q3 2015. Assets under management(2) increased by £3.1 billion to £16.6 billion reflecting market and underlying growth. In addition, investment cash balances were included in assets under management for the first time in Q3 2016, excluding this, growth was £1.7 billion.

Notes:

(1) The business transfers included: total income of £42 million (Q2 2016 - £53 million; Q3 2015 - nil); operating expenses of £25 million (Q2 2016 - £22 million; Q3 2015 - nil); impairments of £7 million (Q2 2016 £7 million; Q3 2015 - nil) net loans and advances to customers of £4.2 billion (30 June 2016 - £5.2 billion; 30 September 2015 - nil); and RWAs of £6.5 billion (30 June 2016 - £8.5 billion; 30 September 2015 - nil).

(2) AUM's constitute assets under management, assets under custody and investment cash.

Segment performance

RBS International

Operating profit of £54 million was 8% higher than Q3 2015 driven by increased income. Return on equity of 15.4% compared with 18.0% in Q3 2015. Adjusted return on equity of 15.1% compared with 18.8% in Q3 2015.
Total income increased 7% compared with Q3 2015 to £93 million driven by increased asset volumes partially offset by lower asset margins.
Net loans and advances to customers increased by £1.7 billion to £8.7 billion compared with Q3 2015 principally reflecting balance draw-downs in the funds sector lending portfolio and foreign exchange movements.
Customer deposits increased by £3.2 billion to £25.5 billion reflecting the transfer in of the Luxembourg branch from Capital Resolution in Q2 2016 and foreign exchange movements.

Corporate & Institutional Banking (CIB)

An operating profit of £90 million compared with an operating loss of £109 million in Q3 2015, with the improvement principally reflecting an increase in total income. Adjusted operating profit of £184 million compared with an adjusted operating loss of £30 million in Q3 2015.
Total income, which includes own credit adjustments, increased by £65 million, or 16%, to £471 million compared with £406 million in Q3 2015. Adjusted income, excluding a £20 million movement associated with the transfer of portfolios to Commercial Banking(1), increased by £218 million to £526 million. The increase was primarily driven by an increase in Rates, reflecting sustained customer activity and favourable market conditions following the EU referendum and central bank actions.
Operating expenses reduced by £134 million, or 26%, to £381 million compared with £515 million in Q3 2015 principally reflecting lower restructuring costs. Adjusted operating expenses fell by £16 million, or 4%, to £342 million as the business reshaping and FTE reductions were partially offset by the impact of investment spend that was previously capitalised.
RWAs increased by £3.7 billion compared with Q3 2015 to £36.6 billion, adjusting for the impact of transfers to Commercial Banking(1), principally due to model updates and the impact of market volatility throughout 2016.

Note:

(1) CIB's results include the following financials for businesses subsequently transferred to Commercial Banking: total income of £98 million for nine months ended 2015 (Q3 2015 - £20 million) and RWAs of £5.9 billion as at 30 September 2015.

32

Explanation of Responses:

Segment performance

Capital Resolution

RWAs reduced by £3.7 billion in the quarter to £38.6 billion reflecting disposal activity, partially offset by an increase due to the weakening of sterling.
Total assets reduced £31.3 billion in Q3 2016 to £176.7 billion. Funded assets (which exclude derivatives) reduced by £9.8 billion in Q3 2016 to £34.9 billion with the most significant reductions across Markets and GTS.
An operating loss of £454 million in Q3 2016 compared with an operating loss of £798 million in Q3 2015 and a loss of £612 million in Q2 2016.
Total income of £103 million increased by £428 million compared with Q2 2016 primarily due to a £160 million partial reversal of the £220 million additional funding valuation adjustment made in Q2 2016 following the EU referendum.
Operating expenses increased from £220 million to £437 million in Q3 2016 due to a higher level of litigation and conduct costs. Adjusted operating expenses of £173 million were 50% lower than Q3 2015 principally reflecting a reduction in FTE and associated cost efficiencies.
A net impairment loss of £120 million in the quarter, compared with £67 million in Q2 2016, and included a charge of £190 million in respect of the shipping portfolio. An impairment release of £50 million was reported in Q3 2015.
RWAs have fallen by £21.1 billion to £38.6 billion from Q3 2015, primarily due to run-off and loan portfolio disposals. Total assets reduced £58.2 billion to £176.7 billion for the same period. Funded assets (which exclude derivatives) have reduced by £31.1 billion to £34.9 billion for the same period.

Williams & Glyn

Operating profit reduced by £31 million to £84 million compared with Q3 2015, whilst adjusted operating profit reduced by £19 million to £96 million. Operating profit increased £13 million compared with Q2 2016 reflecting lowering restructuring costs. Adjusted operating profit was in line with Q2 2016.
Total income was broadly stable compared with Q3 2015 at £209 million as the growth in the balance sheet has been more than offset by net interest margin reduction. Net interest margin of 2.65% was 23 basis points lower than Q3 2015 and was 5 basis points lower than Q2 2016.
Operating expenses increased by £20 million, or 22%, to £111 million compared with Q3 2015. Adjusted operating expenses increased by £8 million, or 9%, to £99 million compared with Q3 2015, reflecting previous activity undertaken to create a standalone entity. Compared with Q2 2016, operating expenses decreased £13 million reflecting lowering restructuring costs, adjusted operating expenses were flat.
A net impairment loss of £14 million was reported in Q3 2016 compared with a loss of £5 million in Q3 2015.
Net loans and advances increased by £0.6 billion, or 3%, to £20.6 billion compared with Q3 2015. Gross mortgage lending increased by £0.7 billion, or 7%, to £10.9 billion and commercial lending was £0.3 billion, or 3%, lower at £8.6 billion.

Central items & other

Central items not allocated represented a charge of £545 million in Q3 2016, an increase of £207 million compared with Q3 2015. Treasury funding costs were a charge of £177 million (compared with a charge of £117 million in Q3 2015) driven by a £150 million IFRS volatility charge. Restructuring costs in the quarter included £289 million relating to Williams & Glyn (Q3 2015 - £190 million). Partially offsetting this a gain of £97 million was recognised arising from a partial recycling of the accumulated foreign exchange reserve triggered by a capital reduction in a foreign subsidiary.

Selected statutory financial statements

Condensed consolidated income statement for the period ended 30 September 2016 (unaudited)

	Nine months ended			Quarter ended		
	30 September 2016	30 September 2015*		**30 September 2016**	30 June 2016	30 September 2015*
	£m	£m		**£m**	£m	£m
Interest receivable	**8,432**	9,070		**2,776**	2,827	2,963
Interest payable	**(1,932)**	(2,465)		**(609)**	(650)	(776)
Net interest income	**6,500**	6,605		**2,167**	2,177	2,187
Fees and commissions receivable	**2,519**	2,838		**843**	810	880
Fees and commissions payable	**(592)**	(558)		**(200)**	(180)	(195)
Income from trading activities	**384**	1,045		**401**	(55)	170
(Loss)/gain on redemption of own debt	**(127)**	-		**3**	(130)	-
Other operating income	**690**	509		**96**	378	141
Non-interest income	**2,874**	3,834		**1,143**	823	996
Total income	**9,374**	10,439		**3,310**	3,000	3,183
Staff costs	**(3,982)**	(4,449)		**(1,287)**	(1,372)	(1,562)
Premises and equipment	**(1,006)**	(1,380)		**(354)**	(328)	(635)
Other administrative expenses	**(3,234)**	(3,096)		**(1,095)**	(1,564)	(730)
Depreciation and amortisation	**(529)**	(994)		**(175)**	(176)	(282)
Write down of other intangible assets	**(89)**	(673)		**-**	(69)	(67)
Operating expenses	**(8,840)**	(10,592)		**(2,911)**	(3,509)	(3,276)
Profit/(loss) before impairment (losses)/releases	**534**	(153)		**399**	(509)	(93)
Impairment (losses)/releases	**(553)**	400		**(144)**	(186)	79
Operating (loss)/profit before tax	**(19)**	247		**255**	(695)	(14)
Tax (charge)/credit	**(922)**	(284)		**(582)**	(260)	3

Loss from continuing operations	**(941)**	(37)		**(327)**	(955)	(11)
Profit from discontinued operations, net of tax	**-**	1,451		**-**	-	1,093
(Loss)/profit for the period	**(941)**	1,414		**(327)**	(955)	1,082
						.
Attributable to:						
Non-controlling interests	**37**	389		**7**	8	45
Preference share and other dividends	**343**	264		**135**	114	97
Dividend access share	**1,193**	-		**-**	-	-
Ordinary shareholders	**(2,514)**	761		**(469)**	(1,077)	940
(Loss)/earnings per ordinary share (EPS) (1)						
Basic EPS from continuing and discontinued operations	**(21.5p)**	6.6p		**(3.9p)**	(9.3p)	8.1p
Basic EPS from continuing operations	**(21.5p)**	(3.2p)		**(3.9p)**	(9.3p)	(1.0p)

*Restated - refer to page 38 for further details

Note:

(1) There was no dilutive impact in any period.

Selected statutory financial statements

Condensed consolidated statement of comprehensive income for the period ended 30 September 2016 (unaudited)

	Nine months ended			Quarter ended		
	30 September	30 September		**30 September**	30 June	30 September
	2016	2015*		**2016**	2016	2015*
	£m	£m		**£m**	£m	£m
(Loss)/profit for the period	**(941)**	1,414		**(327)**	(955)	1,082
Items that do not qualify for reclassification						
(Loss)/gain on remeasurement of retirement benefit schemes	**(1,047)**	20		**(52)**	(466)	3
Tax	**285**	(4)		**12**	130	(1)
	(762)	16		**(40)**	(336)	2
Items that do qualify for reclassification						
Available-for-sale financial assets	**(162)**	(95)		**(67)**	(87)	(50)
Cash flow hedges	**1,515**	(302)		**(66)**	635	408
Currency translation	**1,276**	(1,177)		**205**	489	(604)
Tax	**(297)**	106		**63**	(122)	(38)
	2,332	(1,468)		**135**	915	(284)
Other comprehensive income/(loss) after tax	**1,570**	(1,452)		**95**	579	(282)
Total comprehensive income/(loss) for the period	**629**	(38)		**(232)**	(376)	800
Total comprehensive income/(loss) is attributable to:						
Non-controlling interests	**157**	357		**32**	53	58
Preference shareholders	**192**	223		**79**	57	80
Paid-in equity holders	**151**	41		**56**	57	17
Dividend access share	**1,193**	-		**-**	-	-
Ordinary shareholders	**(1,064)**	(659)		**(399)**	(543)	645
	629	(38)		**(232)**	(376)	800

*Restated - refer to page 38 for further details

Explanation of Responses:

Selected statutory financial statements

Condensed consolidated balance sheet as at 30 September 2016 (unaudited)

	30 September 2016	30 June 2016	31 December 2015
	£m	£m	£m
Assets			
Cash and balances at central banks	**69,254**	65,307	79,404
Net loans and advances to banks	**19,741**	21,763	18,361
Reverse repurchase agreements and stock borrowing	**12,251**	14,458	12,285
Loans and advances to banks	**31,992**	36,221	30,646
Net loans and advances to customers	**326,736**	326,503	306,334
Reverse repurchase agreements and stock borrowing	**33,704**	31,320	27,558
Loans and advances to customers	**360,440**	357,823	333,892
Debt securities	**79,784**	84,058	82,097
Equity shares	**728**	749	1,361
Settlement balances	**10,298**	13,405	4,116
Derivatives	**283,049**	326,023	262,514
Intangible assets	**6,506**	6,525	6,537
Property, plant and equipment	**4,490**	4,589	4,482
Deferred tax	**1,684**	2,217	2,631
Prepayments, accrued income and other assets	**4,140**	4,311	4,242
Assets of disposal groups	**13**	396	3,486
Total assets	**852,378**	901,624	815,408
Liabilities			
Bank deposits	**32,172**	31,377	28,030
Repurchase agreements and stock lending	**6,557**	11,611	10,266
Deposits by banks	**38,729**	42,988	38,296
Customer deposits	**358,844**	355,719	343,186
Repurchase agreements and stock lending	**29,851**	29,270	27,112
Customer accounts	**388,695**	384,989	370,298
Debt securities in issue	**28,357**	27,148	31,150
Settlement balances	**10,719**	11,262	3,390
Short positions	**19,882**	21,793	20,809
Derivatives	**275,364**	322,390	254,705

Provisions, accruals and other liabilities	**15,954**	15,627	15,115
Retirement benefit liabilities	**526**	511	3,789
Deferred tax	**647**	824	882
Subordinated liabilities	**19,162**	20,113	19,847
Liabilities of disposal groups	**15**	252	2,980
Total liabilities	**798,050**	847,897	761,261
Equity			
Non-controlling interests	**853**	820	716
Owners' equity*			
Called up share capital	**11,792**	11,756	11,625
Reserves	**41,683**	41,151	41,806
Total equity	**54,328**	53,727	54,147
Total liabilities and equity	**852,378**	901,624	815,408
*Owners' equity attributable to:			
Ordinary shareholders	**46,328**	47,066	47,480
Other equity owners	**7,147**	5,841	5,951
	53,475	52,907	53,431

36

Selected statutory financial statements

Condensed consolidated statement of changes in equity for the period ended 30 September 2016 (unaudited)

	Share capital and statutory reserves	Paid-in equity	Retained earnings	Other reserves*	Total owners' equity	Non controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2016	41,485	2,646	(4,020)	13,320	53,431	716	54,147
(Loss)/profit attributable to ordinary			(978)		(978)	37	(941)
shareholders and other equity owners							
Other comprehensive income							
- amount recognised in equity			(1,047)	3,748	2,701	120	2,821
- amount transferred from equity to profit or loss				(1,198)	(1,198)		(1,198)
- recycled to profit or loss on							
disposal of businesses (1)				(41)	(41)		(41)
- tax			285	(297)	(12)		(12)
Dividend access share dividend			(1,193)		(1,193)		(1,193)
Preference share and other dividends paid			(343)		(343)		(343)
Shares and securities issued during the period (2)	405	2,046	(10)		2,441		2,441
Redemption of preference shares (3)			(1,160)		(1,160)		(1,160)
Redemption of paid-in equity (4)		(110)	(21)		(131)		(131)
Share-based payments - gross			(13)		(13)		(13)
	(29)				(29)		(29)

Explanation of Responses:

Movement in own shares held							
Equity withdrawn						(20)	(20)
At 30 September 2016	**41,861**	**4,582**	**(8,500)**	**15,532**	**53,475**	**853**	**54,328**
							30 September
							2016
Total equity is attributable to:							**£m**
Non-controlling interests							**853**
Preference shareholders							**2,565**
Paid-in equity holders							**4,582**
Ordinary shareholders							**46,328**
							54,328
***Other reserves consist of:**							
Merger reserve							**10,881**
Available-for-sale reserve							**188**
Cash flow hedging reserve							**1,565**
Foreign exchange reserve							**2,898**
							15,532

Notes:

(1) No tax impact.

(2) AT1 capital notes totalling £2.0 billion issued in August 2016.

(3) In September 2016, non-cumulative US dollar preference shares were redeemed at their original issue price of US$1.5 billon. The nominal value of £0.3 million was transferred from share capital to capital redemption reserve and ordinary owners' equity was reduced by £0.4 billion in respect of the movement in exchange rates since issue.

(4) Paid-in equity reclassified to liabilities as a result of the call of RBS Capital Trust C in May 2016 (redeemed in July 2016).

Notes

1. Basis of preparation

The consolidated financial statements should be read in conjunction with RBS's 2015 Annual Report on Form 20-F which was prepared in accordance with International Financial Reporting Standards (IFRS) 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

RBS's principal accounting policies are set out on pages 270 to 279 of the 2015 Annual Report on Form 20-F. Amendments to IFRSs effective for 2016 have not had a material effect on RBS's Q3 2016 results.

Pensions

In Q4 2015, RBS changed its accounting policy for the recognition of surpluses in its defined benefit pension schemes: in particular, the policy for determining whether or not it has an unconditional right to a refund of surpluses in its employee pension funds. Where RBS has a right to a refund, this is not deemed unconditional if pension fund trustees can unilaterally enhance benefits for plan members. The amended policy was applied retrospectively and prior periods restated. For further details, refer to pages 270 to 271 of RBS's 2015 Annual Report on Form 20-F.

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 judgements are described on pages 279 to 282 of RBS's 2015 Annual Report on Form 20-F.

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 2016 have been prepared on a going concern basis.

2. Pensions

In June 2016, the triennial funding valuation of the Main Scheme of The Royal Bank of Scotland Group Pension Fund was agreed which showed that at 31 December 2015 the value of liabilities exceeded the value of assets. In March 2016, to mitigate this anticipated deficit, RBS made a cash payment of £4.2 billion. The next triennial valuation is due to occur at the end of 2018 with agreement on any additional contributions by the end of March 2020.

As at 30 September 2016, the Main Scheme had an unrecognised surplus under IAS19 valuation principles. The surplus is unrecognised because the trustee's power to enhance member benefits could consume that surplus meaning that RBS does not control its ability to realise an asset. The existence of the asset, albeit unrecognised, limits RBS's exposure to changes in actuarial assumptions and investment performance.

38

Notes

3. Provisions for liabilities and charges

			Regulatory and legal actions				
	Payment protection insurance	Interest rate hedging products	Other customer redress (1)	Foreign exchange investigations	Litigation and other regulatory	Property and other	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2016	996	149	672	306	3,985	1,258	7,366
Transfer from accruals and other liabilities	-	-	-	-	-	19	19
Transfer	-	-	21	(35)	85	(71)	-
Currency translation and other movements	-	-	-	10	126	28	164
Charge to income statement	-	-	11	-	34	79	124
Releases to income statement	-	-	(8)	-	(1)	(19)	(28)
Provisions utilised	(85)	(41)	(63)	-	(24)	(69)	(282)
At 31 March 2016	911	108	633	281	4,205	1,225	7,363
Transfer from accruals and other liabilities	-	-	35	-	5	14	54
Transfer	50	-	(50)	-	-	-	-
Currency translation and other movements	-	-	8	23	336	20	387
Charge to income statement	400	-	117	-	779	233	1,529
Releases to income statement	-	-	(5)	-	(12)	(95)	(112)
Provisions utilised	(114)	(30)	(50)	-	(141)	(146)	(481)
At 30 June 2016	1,247	78	688	304	5,172	1,251	8,740
Transfer from accruals and other liabilities	-	-	-	-	17	-	17
Currency translation and other movements	-	-	-	5	94	19	118
Charge to income statement	-	-	16	-	469	191	676
Releases to income statement	-	-	(12)	-	(48)	(8)	(68)

Provisions utilised	**(102)**	**(10)**	**(69)**	**-**	**(105)**	**(176)**	**(462)**
At 30 September 2016	**1,145**	**68**	**623**	**309**	**5,599**	**1,277**	**9,021**

Note:

(1) Closing provision predominantly relates to investment advice, packaged accounts (including costs) and tracker mortgages.

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 2016 interim results on Form 6-K issued on 8 August 2016 included comprehensive disclosures about RBS's litigation, investigations and reviews in Note 15. Set out below are the material developments in these matters since the 2016 interim results were published. RBS generally does not disclose information about the establishment or existence of a provision for a particular matter where disclosure of the information can be expected to prejudice seriously RBS's position in the matter.

Litigation

Other securitisation and securities related litigation in the US

On 27 September 2016, RBS Securities Inc. (RBSSI) settled the two mortgage-backed securities (MBS) litigations that the National Credit Union Administration Board has been litigating on behalf of US Central Federal Credit Union and Western Corporate Federal Credit Union. The settlement amount of US$1.1 billion was substantially covered by provisions existing at 30 June 2016.

Notes

4. Litigation, investigations and reviews (continued)

RBS continues to litigate various other MBS-related civil claims identified in its 2016 interim results, including those of the Federal Housing Finance Agency, and to respond to investigations by the civil and criminal divisions of the U.S. Department of Justice and various other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force (including several state attorneys general). MBS litigation and investigations may require provisions in future periods that in aggregate could be materially in excess of existing provisions.

London Interbank Offered Rate (LIBOR)

As previously disclosed, certain members of the Group have been named as defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR and certain other benchmark interest rates. On 16 August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York against certain Group companies (including RBSG plc and The Royal Bank of Scotland N.V.) and a number of other financial institutions. The complaint alleges that the defendants conspired to manipulate the Australian Bank Bill Swap Reference Rate (BBSW) and asserts claims under the U.S. antitrust laws, the Commodity Exchange Act, RICO (Racketeer Influenced and Corrupt Organizations Act), and the common law. RBS anticipates making a motion to dismiss the complaint.

FX antitrust litigation

On 26 September 2016, a class action complaint was filed in the United States District Court for the Southern District of New York asserting claims on behalf of “indirect purchasers” of FX instruments. The complaint defines “indirect purchasers” as persons who were indirectly affected by FX instruments that others entered into directly with defendant banks or on exchanges. It is alleged that certain RBS companies and other defendant banks caused damages to the “indirect purchasers” by conspiring to restrain trade in the FX spot market. The complaint seeks damages and other relief under federal, California, and New York antitrust laws. RBS anticipates making a motion to dismiss the complaint.

Investigations and reviews

Connecticut Department of Banking

As previously disclosed, in June 2016, RBSSI, a U.S. broker-dealer, reached an agreement in principle to resolve investigations by the office of the Attorney General of Connecticut on behalf of the Connecticut Department of Banking, concerning RBSSI's underwriting and issuance of mortgage-backed securities and the potential consequences to RBSSI of The Royal Bank of Scotland plc's (RBS plc's) May 2015 FX-related guilty plea. The agreement became final on 3 October 2016 through the publication by the Department of Banking of two agreed consent orders without RBSSI admitting or denying the Department of Banking's allegations. As required by the RMBS consent order, in addition to making certain undertakings, RBSSI has paid US$120 million to the State of Connecticut to resolve the investigation. The amount was covered by a provision that had previously been established. Pursuant to the FX consent order, RBSSI agreed, among other things, to certify to the Department of Banking its compliance with various obligations undertaken in connection with RBS plc's FX-related guilty plea and FX-related resolutions with the Commodity Futures Trading Commission and Board of Governors of the Federal Reserve System.

FCA review of RBS's treatment of SMEs

The FCA published an update on 4 October 2016 confirming that it had received the final Skilled Person's report and that there were a number of steps for the FCA to complete before being in a position to share its final findings. RBS has been given the opportunity to review that report.

Notes

4. Litigation, investigations and reviews (continued)

UK retail banking

On 9 August 2016, the Competition & Markets Authority (CMA) published its final report on retail banking. The CMA concluded that there are a number of competition concerns in the provision of personal current accounts (PCAs), business current accounts and SME lending, particularly around low levels of customers searching and switching, resulting in banks not being put under enough competitive pressure, and new products and new banks not attracting customers quickly enough.

The final report set out remedies to address these concerns. These include remedies to make it easier for customers to compare products, ensure customers benefit from technological advantages around open banking, improve the current account switching service and provide PCA overdraft customers with greater control over their charges, along with additional measures targeted at SME customers.

The CMA has also been reviewing the undertakings given by certain banks following the Competition Commission's 2002 investigation into SME banking (SME Undertakings). On 9 August 2016, the CMA announced its final decision, which is that the SME Undertakings should be revoked, with the exception of the prohibition on the ability of certain named banks, including RBS, to bundle (i.e. sell together) business current accounts and SME lending.

At this stage there remains uncertainty around the financial impact of the proposed remedies and it is not practicable to estimate the potential impact on RBS, which may be material.

FCA wholesale sector competition review

On 18 October 2016, the FCA published its final report following its market study into investment and corporate banking. It found that whilst many clients feel well served by primary capital market services there were some areas where improvements could be made to encourage competition, particularly for smaller clients. It set out a package of remedies, including prohibiting the use of restrictive contractual clauses and ending league table misrepresentation by asking league table providers to review their recognition criteria. The FCA is to undertake further consultation with regards to the prohibition on restrictive contractual clauses. Subject to this consultation, the FCA expects to publish the final rules regarding these restrictive contractual clauses in early 2017.

Enforcement proceedings and investigations in relation to Coutts & Co Ltd

As previously disclosed, the Swiss Financial Market Supervisory Authority (FINMA) is taking enforcement proceedings against Coutts & Co Ltd (Coutts), a member of RBS incorporated in Switzerland, with regard to certain client accounts held with Coutts relating to allegations in connection with the Malaysian sovereign wealth fund 1MDB. The proceedings are at an advanced stage. Coutts is also cooperating with investigations, one of which is at an advanced stage and may conclude in the near term, and enquiries from authorities in other jurisdictions in relation to the same subject matter. The outcomes of such proceedings, investigations and enquiries are uncertain but may include financial penalties and/or regulatory sanctions.

5. Post balance sheet events

Other than matters disclosed, there have been no further significant events between 30 September 2016 and the date of approval of this announcement.

Additional information

Other financial data

The following table shows RBS's issued and fully paid share capital, owners' equity and indebtedness on a consolidated basis in accordance with IFRS as at 30 September 2016.

	As at 30 September 2016 £m
Share capital - allotted, called up and fully paid: Ordinary shares of £1	**11,792**
Retained income and other reserves	**41,683**
Owners' equity	**53,475**
RBS indebtedness	
Subordinated liabilities	**19,162**
Debt securities in issue	**28,357**
Total indebtedness	**47,519**
Total capitalisation and indebtedness	**100,994**

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

The information contained in the table above has not changed materially since 30 September 2016.

Additional information

Other financial data (continued)

	Nine months ended 30 September	Year ended 31 December				
	2016 (1)	2015	2014	2013	2012	2011
Return on average total assets (2)	**(0.4%)**	(0.2%)	(0.3%)	(0.7%)	(0.4%)	(0.1%)
Return on average ordinary shareholders' equity(3)	**(7.3%)**	(4.0%)	(6.5%)	(14.7%)	(8.9%)	(3.1%)
Average owners' equity as a percentage of average total assets	**6.2%**	6.0%	5.8%	5.5%	5.2%	4.9%
Ratio of earnings to combined fixed charges and preference share dividends (4,5)						
- including interest on deposits	**0.85**	0.17	1.52	(0.51)	0.13	0.78
- excluding interest on deposits	**0.66**	(1.17)	2.61	(5.12)	(3.73)	(0.86)
Ratio of earnings to fixed charges only (4,5)						
- including interest on deposits	**0.99**	0.19	1.67	(0.55)	0.13	0.78
- excluding interest on deposits	**0.97**	(1.60)	3.58	(6.95)	(4.80)	(0.86)

Notes:

(1) Based on unaudited numbers.
(2) Represents loss attributable to ordinary shareholders as a percentage of average total assets.
(3) Represents loss attributable to equity owners expressed as a percentage of average ordinary shareholders' equity.
(4) For this purpose, earnings consist of income before tax and non-controlling interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).
(5) The earnings for the nine months ended 30 September 2016 and years ended 31 December 2015, 2013, 2012, and 2011, were inadequate to cover total fixed charges and preference share dividends.

The coverage deficiency for total fixed charges and preference share dividends for the nine months ended 30 September 2016 and for the years ended 31 December 2015, 2013, 2012 and 2011 was £362 million, £3,088 million, £9,247 million, £6,353 million and £1,860 million, respectively. The coverage deficiency for fixed charges for the nine month ended 30 September 2016 and years ended 31 December 2015, 2013, 2012 and 2011 was £19 million, £2,703 million, £8,849 million, £6,052 million and £1,860 million, respectively.

SIGNATURE

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

The Royal Bank of Scotland Group plc

Registrant

/s/ Katie Murray

Katie Murray

Director of Finance

9 November 2016