Annual Results 2013

ANALYSTS PRESENTATION

Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
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FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Annual Results announcement published on 27th February 2014.

Corporate Participants

Nathan Bostock
RBS - Group Finance Director

Richard O'Connor
RBS - Head of Investor Relations

Presentation

Operator

Good morning ladies and gentlemen. Today's conference call will be hosted by Nathan Bostock, Group Finance Director. Please go ahead, Nathan.

Nathan Bostock - *RBS - Group Finance Director*

Good morning everyone. I would like to offer some brief comments on our full year 2013 financial performance before leaving plenty of time to answer your questions. Joining me today are Richard O'Connor, our Head of Investor Relations, and Rajan Kapoor, our Group Chief Accountant. Just a quick housekeeping point – you will have seen that we've also released details of our strategic review this morning. Ross and I will present our strategic update and answer questions on it at two o'clock today so we would like to limit questions this morning please solely to our full year 2013 financial results.

The key features of the year were we reported a full year 2013 operating loss of £2.3 billion. This loss includes the charges for establishing RBS Capital Resolution or RCR. Operating profit pre-RCR charges was £2.5 billion. Non-core completed and exceeded its asset reduction task ahead of plan. RCR is up and running and our outperformance in non-core means we're off to a very good start on our RCR execution plan. The safety and soundness agenda is firmly embedded across the bank, our funding and liquidity metrics are strong and we have made excellent progress again this year in reducing RWAs and funded assets.

Turning to our full year 2013 financial performance in the key lines of the P&L, total income, excluding a 333 million RCR related valuation adjustment, was down 10% on last year. This largely reflects a £1.2 billion income decline in markets as the balance sheet is scaled back. The retail and commercial businesses saw income down 4% or nearly £700 million from lower activity levels in UK Corporate, US R&C and International Banking. Deposit re-pricing and reduction of lower yielding assets drove Group NIM up 9 basis points to 2.01% for the full year. Q4 NIM was 2.08%. Costs improved 4% year over year reflecting a 19% reduction in Markets staff costs while Non-Core saw total expenses down 36% year over year as headcount declined by 55%. The Group's cost/ income ratio for the full year increased 5 percentage points to 68% reflecting lower income.

Excluding the £4.5 billion RCR impairment charge, underlying impairments fell £1.3 billion year on year to £3.9 billion and now represents circa 1% of total loans and advances. The main positive drivers of impairments were Non-Core and core Ulster, partially offset by small increases from International Banking and US R&C. Group coverage of non-performing loans was 64% at the year-end, up 12 percentage points in the last 12 months, reflecting RCR related charges. Full year operating profit, excluding RCR charges, was £2.5 billion, down £400 million on the previous year. The improvement in both Ulster and Non-Core operating losses was outweighed by the decline in Markets. We recorded a full year attributable loss of £9 billion. This loss reflects the £4.8 billion total charge to establish RCR, £2.4 billion provisions for litigation and related conduct matters, £1.5 billion of PPI and interest rate hedging product top-ups and DTA and goodwill write-downs totalling £1.8 billion. Tangible net asset value per share was 363 pence at the year-end.

Looking at our businesses, Retail and Commercial's full year 2013 operating profit, excluding RCR charges, was down 4% year on year. A positive performance from UK Retail and a circa £500 million improvement in Ulster's operating loss was outweighed by lower profits in UK Corporate, International Banking and US R7C. R&C's RoE in the fourth quarter was 9%. Markets operating profit, excluding RCR charges, was down 58% on last year as income declined by 26% and costs were down 11% as we reduced the balance sheet by £72 billion. Non-Core has now completed and exceeded its five year objective to run off over £200 billion of funded assets. At the year-end assets had declined to £28 billion ahead of the recently revised target of £35 billion. Operating losses, excluding the RCR charge, were down 27% year over year.

Turning to capital, we reiterate our target of a fully loaded Basel III core equity tier one ratio of circa 11% by 2015 and 12% or greater by 2016. In January we announced that we would provide £2.9 billion of conduct and litigation charges that were allowed for in our future capital planning scenarios. As a result, RBS's fully loaded Basel III core tier one ratio was 8.6% at the year-end, very slightly ahead of our recent guidance. In 2013 we generated circa 2% of underlying fully loaded Basel III core tier one capital, reflecting strong Non-Core and Markets deleveraging. Our future path to the 12% or greater core tier one target remains clear. The successful IPO of Citizens, the successful rundown of RCR as well as further targeted risk weighted asset reduction will be the main drivers. Our leverage ratio continues to improve, up 40 basis points in the full year 2013 to 3.5%. Our long term leverage ratio target is greater than 4%.

Turning to RCR, RCR's starting point is assets of £29 billion, better than originally envisaged as a result of Non-Core asset reduction. Consequently, in H2 RCR related funded assets were reduced by £18 billion. This reduction includes £6 billion of disposals and £5 billion of runoff. The rundown process to date has reduced RWAes by £72 billion. Today we have firmed up on our future targets for RCR. We now target reducing assets to £23 billion by the end of 2014, to £11 billion to £15 billion by the end of 2015 and less than £6 billion by the end of 2016. We are confident that we can achieve these new targets and we will update you on our progress throughout the coming periods.

Before I hand over to the operator for questions, just two further items. First, we will provide a full restatement of RCR and the new reporting structure in Q2 of this year and second, I want to remind you all that we will be holding an analyst and investor presentation on the RBS strategy update here at 280 Bishopsgate this afternoon at 2pm to walk you through the detail. There will also be a live webcast. Thank you and operator, we're now ready to take questions.

Questions and Answers

Operator

Thank you. Ladies and gentlemen, if would like to ask a question, please press the star key followed by the digit one on your telephone keypad. We'll pause for a moment to give everyone an opportunity to signal for questions.

Our first question comes from the line of Chirantan Barua from Sanford Bernstein. Please go ahead.

Chirantan Barua - *Sanford Bernstein*

Are you taking questions on the cost plan or is that something for the afternoon?

Nathan Bostock - *RBS - Group Finance Director*

No, I'm sorry, that needs to really be this afternoon, so I think we have to put all of these things into the complete context and therefore be able to answer across the full range of the different aspects. So I appreciate it may be frustrating for people for the call this morning but we tried to break the two between results this morning and the strategy presentation this afternoon.

Chirantan Barua - *Sanford Bernstein*

Okay. Nathan, just a quick question on NPLs and impairments; I've gone through your slides, your NPLs are falling, asset prices are increasing across most of the collateral coverage that you have. Your coverage is at 64%. In Q3 you said the bank should run at about 30 basis points of impairments given that you've already taken the hit in, what do you call it, IBB. So right now why are you saying that impairment should be 40 to 60 basis points in the next two to three years? It would be great if you could just walk me through, kind of, the risk profile right now. Where do you see the risk, where are NPL and coverage risk across your asset classes?

Nathan Bostock - *RBS - Group Finance Director*

I think over the 2014-2016 period you still have to be thinking in the sort of 40 to 60 basis point territory. We still do have, you know, within the likes of, say, something like a UK Corporate for instance, we still got our concentrations around the likes of CRE which we're bringing down, making good progress on those fronts. But at the moment those types of things for me would still lead us to be running at, you know, slightly higher than what I would think is the longer run.

Richard O'Connor - *RBS - Head of Investor Relations*

Just to add to that, 2014 to 2016 we've still got RCR and we're flagging a billion of impairments across those years in RCR so that distorts the Group ratio. We're still looking for the number you see at around 30 basis points once RCR has gone. On NPLs you saw a good Q4 trend underlying, as you can see on the slide, and clearly where we're targeting, going down to £2.5 to £3.5 billion as RCR runs off over the next two, three years, so no change in guidance there. And in terms of the market, we flagged that clearly, the RCR team are pretty active and taking advantage of good market activity at the moment. So that's how we would sort of see that side of the equation.

Chirantan Barua - *Sanford Bernstein*

Thanks. Is there any revision to disposal guidance as well for the remaining book?

Nathan Bostock - *RBS - Group Finance Director*

No, no change to the disposal guidance.

Chirantan Barua - *Sanford Bernstein*

Okay, cool. Thank you.

Chintan Joshi - *Nomura*

Good morning. I'll try and focus on Q4. The first question is on risk weighted assets. If you look across your book, where do you see the risk from PRA increasing risk weights across your portfolio? Because this seems to be something that's on their minds and I just wanted to understand where you see risk for RBS for higher risk weights.

And the second question I have is on restructuring charges. If you could give us some kind of timeline of the cost to achieve, how do we spread it across the coming years? Thank you.

Nathan Bostock - *RBS - Group Finance Director*

So on risk weighted assets, I actually believe that we've taken into account all of the major changes that I was expecting to come through. I mean, as you know, there's been multiple different ones that the PRA have been interested in over the past periods, so that includes things like the large corporate model type elements etc, but for those things, those are done and so I'm not expecting anything, you know, particularly major there. In terms of restructuring costs, we'll be talking through those this afternoon and indeed giving you the ability to have the guidance for each of the coming years.

Richard O'Connor - *RBS - Head of Investor Relations*

There's a restructuring costs slide which sets it out which you can look at ahead of the meeting this afternoon.

Chintan Joshi - *Nomura*

Sure. Then if I could just ask one more; in terms of net interest margin guidance for 2014, clearly we seem to be improving at 2.01% currently. Could you give us a sense of what kind of improvements we should expect for 2014?

Nathan Bostock - *RBS - Group Finance Director*

Yes, I would expect it to be marginally up. I would expect it probably to range somewhere between 2.10-2.15%, something like that.

Chintan Joshi - *Nomura*

That's great. Thanks.

Christopher Wheeler – *Mediobanca*

Yes, good morning gentlemen. Just a couple of quick questions; first of all, slide 15, the £429 billion of fully loaded RWA, can you give us an indication as to how much of that is now Markets including any of the securitisation uplift which I seem to remember was always separate from the famous £80 billion target that you set yourself? That's the first question. And the second question is just to give us whatever update you can on litigation and where you are in terms of progress on obviously things like foreign exchange, tidying up LIBOR but also in terms of the Swiss issues around cross-border wealth management activity which obviously got a lot of press yesterday. Thanks very much.

Nathan Bostock - *RBS - Group Finance Director*

Okay, in terms of the £429 billion fully loaded, that includes circa £100 billion for Markets RWAs and that includes the various uplifts vis-a-vis securitisation etc. And I think we actually do give the number for that on slide 17. So the actual number is about £19 billion. Sorry, the second question again was...?

Christopher Wheeler – *Mediobanca*

It was where you are on the litigation issues and so what... I know you're not going to give me the numbers, but just give me some kind of timeline on where you think you are on these issues. Are they 2014 issues, 2015 issues?

Nathan Bostock - *RBS - Group Finance Director*

Well, like all these things, as you know litigation and indeed regulatory type investigations, it's very hard to predict how long those types of things will take, so you know, things like FX, I mean you read all of the various things as well in the press and you'll know that these things have started but I'm sure it will take some time to actually pan out. In terms of other items, we've dealt with a lot of those at the year-end. So again, you know, we covered our US type RMBS. So I think most of those types of things are already on the blocks. There are a few things clearly that we all know that may come to sort of gestate over time but that's sort of where I would see us at the moment.

Richard O'Connor - *RBS - Head of Investor Relations*

Chris, there's been no developments over the last two or three months of note. These things are trundling along but they generally take quite a long time.

Christopher Wheeler – *Mediabanca*

Yes, I realise that. Thanks very much guys, thank you.

Manus Costello – *Autonomous*

Good morning. I had a couple of questions on the balance sheet please. I notice, Nathan, that you are deciding to issue equity again to pay hybrid coupons. I just wondered why you're asking equity shareholders to pay up for those coupons yet again and why you wouldn't just suspend those coupons going forward. It seems to be an ongoing feature that happens every year for you now.

And secondly, your LCR you've given now is 102%. I think you've just said over 100% previously. One of the arguments that have always been put forward for you guys is that you have a great deal of excess liquidity and there's a lot you could do there. In the light of that LCR ratio, should we assume that actually the liquid asset balance that you've got at the moment is about right and we shouldn't necessarily expect any reduction in your liquid asset buffer?

Nathan Bostock - *RBS - Group Finance Director*

Actually Richard, do you want to pick up the first one?

Richard O'Connor - *RBS - Head of Investor Relations*

I'll do the first one because as you say, it's been an ongoing thing. Look, this is something the board considers very carefully. It's certainly not ideal issuing equity, as we all know. However, we are active in the debt markets and, as you saw last year, we issued tier two securities and we'll look to carry on doing that this year. And it would be very, very difficult for us to do that and continue with our capital management program if we were paying preferenced dividends. So it's a cost rebalance debate and it's something which we weigh very, very carefully. Net-net we think the benefits of paying the preference dividends in the round, given our overall capital management program and our debt market status, outweighs the cost. But obviously it is a cost to shareholders and it's not one we treat lightly. In an ideal world we would move into attributable profit and therefore we would just pay this out as cash but obviously this is something that we have to balance and the board balances and we discuss with the PRA each year.

Manus Costello – *Autonomous*

Would that be the trigger, Richard, that you 'd have to actually, you've obviously got quite big charges coming through in 2014 as well; If you have an attributable profit you'll be able to pay these in cash?

Richard O'Connor - *RBS - Head of Investor Relations*

I think if you look at another institution, then you'll clearly look at how you move into attributable profit and when you would discuss with the PRA and then when you award, when you would be able to turn off the equity program and that's something we would clearly look to do. We normally discuss this with the board and the PRA in December-January so those discussions will start again next December and January no doubt.

And on the liquidity portfolio, look, as you can see the balance sheet will continue to come down. So our guidance on the liquidity portfolio is it's still somewhat elevated by around £20 billion and if we can lend that money out productively into our core businesses then that will be good for the margin and would be good overall. But in the meantime the balance sheet continues to shrink so we'd expect to still have a very credible LCR ratio in the medium term.

Manus Costello – *Autonomous*

That £20 billion of excess would, if you used that now, that would take you below the 100% LCR, right?

Richard O'Connor - *RBS - Head of Investor Relations*

It would if we did it immediately but clearly we're talking about £20 billion over a couple of years and, you know, RCR itself is coming down by that number. So things tend to balance each other off.

Manus Costello – *Autonomous*

Understood. Thank you.

Fahed Kunwar - *Redburn*

Hi, morning. I have a couple of questions around the Markets business. I was looking at the compensation and the costs projected in the markets business, so the comp/income ratio went from I think 14% in Q4 12 to 31% in Q4 13 but it doesn't seem to have stopped the kind of losses in market share that we're seeing. So your revenue quarter on quarter is down 25% versus peers around 5% versus FICC peers. So what is the trajectory for that business? And obviously it's very important in terms of you guys getting to a reasonable RoTE. But if you are starting to pay staff but you're still losing market share, how do you arrest those market share declines, or is there something else driving the 25% fall Q on Q?

Richard O'Connor - *RBS - Head of Investor Relations*

I'm afraid I'll be the bad cop here again because clearly this will be addressed in the meeting this afternoon by Ross and Nathan. The compensation rates you quote, Q4 12 was distorted by, quite frankly, the LIBOR situation and claw backs and so the ongoing compensation ratio you would expect to be in the mid-30s. But clearly that business has a very high overhead and infrastructure cost so if your income is not covering that overall cost base, and that's something which we have to address and as I say, we'll look to address that starting this afternoon.

Fahed Kunwar - *Redburn*

Okay. And the second question was just a clarification point. The £1.9 billion you took on RMBSs, how much of that was related to FHFA redress and how much was related to, kind of, provision for potential civil litigation?

Nathan Bostock - *RBS - Group Finance Director*

We haven't broken that out, so it covers RMBS litigation more broadly.

Fahed Kunwar - *Redburn*

All right, but within there is FHFA but there could be more to come?

Nathan Bostock - *RBS - Group Finance Director*

As I say, it covers RMBS litigation more broadly.

Fahed Kunwar - *Redburn*

Okay, thanks a lot. Cheers.

Rohith Chandra-Rajan – *Barclays*

Morning, a few if I could please. The first one just on the RCR; you've given some detailed guidance in terms of where you expect the assets to be. I was wondering if you could add any colour on RWAs.

Nathan Bostock - *RBS - Group Finance Director*

Very much proportional to the current.

Rohith Chandra-Rajan – *Barclays*

Okay, so just assume the same risk weighting?

Nathan Bostock - *RBS - Group Finance Director*

Within reason, yes.

Richard O'Connor - *RBS - Head of Investor Relations*

Just like Non-Core, they will follow each other down.

Rohith Chandra-Rajan – *Barclays*

And then just briefly on costs, looking across most of the divisions it was the, sort of, other directs which seems to step up in the fourth quarter. Is there anything in particular behind that? Was it something unusual that happened in the fourth quarter? Because it doesn't necessarily look like normal seasonality?

Nathan Bostock - *RBS - Group Finance Director*

I think in the fourth quarter there were some smaller conduct charges that would have gone into that particular line.

Richard O'Connor - *RBS - Head of Investor Relations*

Yes, we split it out – it's £179 million in Q4 and of that £60 is in Retail and about £70 is in Corporate, so that distorts some of those lines.

Rohith Chandra-Rajan – *Barclays*

Okay, thank you. And then the last thing, I don't know if you're willing to address this now; it's just on the dividend access share, there's no progress reported on that and I just wondered if you could provide any colour on what the expectation is there.

Nathan Bostock - *RBS - Group Finance Director*

Yes, sorry, that's going to be another frustrating one; we can cover that this afternoon I think.

Rohith Chandra-Rajan – *Barclays*

All right, thank you.

Jason Napier – *Deutsche Bank*

Good morning. Thank you for taking questions. Sort of two groups if I may; the first just on conduct provisions, your slide 14 this morning says that the charges taken were broadly in line with future capital plans. Can I just sort of understand what a capital plan is supposed to denote, and given that this relates to historic conduct, why these weren't provided for in the past if they're already in your outlook for capital. And then... Do you want to do that or shall I carry on?

Nathan Bostock - *RBS - Group Finance Director*

Yes, let's just cover that. So I think, you know, the way I would look at these things is that if you're going to produce a capital plan and you're going to go to the market with targets that you absolutely intend to deliver, then it's important that in that capital plan you run through a variety of different scenarios with potentially different outcomes and you make sure that the plan is suitably robust. So the way I think of it is, you know, what sort of confidence level do you have around that delivery? That's exactly what we did and we included in that a variety of different scenarios. With regard to the specific, the specific is we actually reached a point where, from an accounting perspective, it was indeed right to recognise the potential, so it becomes, you know, into the estimatable etc.

Jason Napier – *Deutsche Bank*

Right. So you're not meaning to intimate the provisions now or in excess of what's required; it's still your base case that provisions are adequate in this regard?

Nathan Bostock - *RBS - Group Finance Director*

Yes, best estimate. Yes.

Jason Napier – *Deutsche Bank*

Okay. Secondly, just around sort of capital, and apologies if I've missed it, I clearly haven't read all of the pages that you put out today. But in terms of conversations that the press has reported that you've been having with the regulator on the adequacy of capital, are you able to give us a sense as to whether you're clear that there will be no further discreet business disposals? You know, things like Coutts, I guess, have been discussed, and are you going to be able to disclose a sort of sense as to what level of capital you think the regulator requires? Two of your peers have sort of done that? And then lastly on this topic, you mentioned Citizens as one of the clear building blocks in your plan to accrete capital going forward. Two questions, one is assuming you got it listed at TNAV, just as a what-if, what would that add to CT1? And then secondly, from an accounting standpoint, does that happen at the point where you are below 50% or at what point does that actually happen in the books of RBS? Thanks.

Nathan Bostock - *RBS - Group Finance Director*

So, thinking about the latter one, in terms of Citizens, our view is that it's between 200 and 300 basis points that contributes towards our capital journey. Again, we'll cover that later today. In terms of the overall capital plan, again this has been part and parcel of our conversations with our regulators, as you would normally expect, and indeed again, you know, we wouldn't be coming out if we weren't comfortable that they were suitably onboard with it.

Richard O'Connor - *RBS - Head of Investor Relations*

And on Citizens you get the kicker when you go below 50% so you're right.

Jason Napier – *Deutsche Bank*

Okay, and on your plan that happens in 2015; that's correct isn't it?

Nathan Bostock - *RBS - Group Finance Director*

That's correct, yes.

Jason Napier – *Deutsche Bank*

Okay, thank you. Just to be clear though, the 200 to 300 basis points, that's not a TNAV number, that assumes you get better than TNAV over the entire disposal period, right?

Nathan Bostock - *RBS - Group Finance Director*

No, it doesn't. No, I think the thing that, again I will cover it this afternoon but it's relevant for this morning; the reality is as well you have to think of the denominator and the size of the actual denominator changes over the life of the period 2013 through 2016 and that can make a significant difference to the contribution to the ratio.

Richard O'Connor - *RBS - Head of Investor Relations*

With RWAs coming down, obviously it becomes a bigger proportionate of benefit.

Jason Napier – *Deutsche Bank*

Okay great. Thank you.

Alistair Rowan – *Bank of America*

Thanks, good morning. Just on, with Citizens, a bit of loan growth in the fourth quarter, whether that's forward looking. There's a comment in the report about you've started buying in loans again which, I guess, hopefully is different to buying in the loans last time round, but just whether there's some sustainable loan growth picking up? And secondly, obviously one of the Citizens' issues has been it's had a higher cost/income than its peers. Whether that's, you know, you're basically expecting to amortise that away through growing the revenues or whether there's more to come on the cost?

Nathan Bostock - *RBS - Group Finance Director*

Well on the loans, again to the extent that we do buy in any loans, we have a very strong risk discipline that we've put in place but you can expect loan growth to continue in the Citizens book. In terms of the cost/income, I think in reality for Citizens they're going to be very focused on both the income and the cost.

Richard O'Connor - *RBS - Head of Investor Relations*

Alistair, it's Richard. Just to say the commercial business has performed pretty well over there at the moment and we expect that to continue this year. And as you know, for Citizens it's much a revenue problem as a cost problem so I would say that, you know, clearly to get to a cost/income ratio nearer to 60, about 60 to 70% will come from revenues and the balance from costs.

Alistair Rowan – *Bank of America*

Thank you.

Chris Manners – *Morgan Stanley*

Good morning everyone. I just had a question on maybe a little bit more about what's going on in the UK Retail business. I saw quarter on quarter the net interest margin, it looked like it went down a couple of basis points and you've seen some of the peers actually reporting NIMs in UK Retail picking up. I just wondered maybe if you could talk a little bit about the outlook for that business just in terms of the loan growth you're expecting and potential for maybe a little bit better margin trajectory because I was just a little bit surprised by that.

Nathan Bostock - *RBS - Group Finance Director*

Well I think the margin in the Q4 is really noise so I wouldn't consider that to be an issue. And I think, again, we're optimistic with regard to UK Retail. In reality, you know, our mortgage business is now doing better and we would expect that to continue. There's a little bit of a drag around the unsecured side relative to that but we would expect it to be net positive.

Richard O'Connor - *RBS - Head of Investor Relations*

Chris, look, the margin is broadly flat. By doing more mortgage business you have a bit of a negative mix impact because obviously mortgages are lower margin than the unsecured book but on the other hand, you know, deposit pricing is still pretty benign, so broadly it's a flat outlook for margin but we would expect some reasonable loan growth this year, primarily on the mortgage side.

Chris Manners – *Morgan Stanley*

Thanks.

Jonathan Pierce - *Exane*

Morning. Questions about EU Resolution Fund, I know it's perhaps not so important in the context of your big cost moves over the coming years but it's clearly important in terms of ongoing costs and particularly for other banks. So my question is the £400 million uplift that you've identified, part of that is bringing the UK bank levy above the line I think; how much have you allocated towards the EU Resolution Fund charge and how are you calculating that? Is it a, I don't know, 5 to 10 basis points of your entire deposit base? Can you just give a bit more colour on that please?

Nathan Bostock - *RBS - Group Finance Director*

Well we've allocated around about £200 million to it and to the bank levy. And, you know, I think at the moment, sort of, let's call more of an art view than a science but we feel that it's appropriate.

Richard O'Connor - *RBS - Head of Investor Relations*

Based on all the published documents, we're reading the same documents as you, Jonathan, and interpreting them, again, the same as you would.

Jonathan Pierce - *Exane*

Okay, so about 5 basis points of your entire deposit base?

Richard O'Connor - *RBS - Head of Investor Relations*

Yes.

Jonathan Pierce - *Exane*

Thank you.

Michael Helsby – *Bank of America*

Morning. I'm done. I'll see you this afternoon. Thank you.

Sandy Chen – *Cenkos*

Morning guys. Just two quick questions. One on slide 17; just could you talk me through some of the expected loss items, particularly the CVA, PVA and offset restrictions? And then I had a partly related question on FVA as well.

Richard O'Connor - *RBS - Head of Investor Relations*

Sandy, it's Richard here. The expected loss came down as a result of the creation of RCR but there are other moving parts. We hit what we call an EL minus P floor, ie you can't go below zero in certain legal entities – think Ireland – and that's an offset of about £600 million. And then what you heard about and read about in terms of the interaction between CVA and PVA, we no longer get the CVA offset on EL but then you get a PVA positive offset back. So this is all set out on the table relatively clearly as best as we can.

Sandy Chen – *Cenkos*

Yes, so the CVA and the PVA effectively net themselves off; cause the offset is really Irish related in terms of the ELP floor?

Richard O'Connor - *RBS - Head of Investor Relations*

The CVA doesn't completely net off but absolutely, directionally you're right, yes.

Sandy Chen – *Cenkos*

Okay, and then the other question I had was on page 74 of the results - just related to the Q4 versus Q3, lower income in treasury and other funding costs. Is that FVA related or is that something else? Or is the FVA to ensure net interest income?

Richard O'Connor - *RBS - Head of Investor Relations*

No, these are just the normal, it's a debit this quarter and it was a credit previously. If you look at year on year it just happens to be a debit this quarter. It's normal noise within treasury funding costs and volatile IFRS items.

Sandy Chen – *Cenkos*

Thanks very much.

Joseph Dickerson – *Jefferies*

Hi, good morning, thank you for taking my call. I just have two quick questions please. In terms of the excess liquidity amount that you mentioned, what is the appetite to do things like liability management at this point and clean up the capital stack a bit firstly. And then secondly, when I look at the tax cost, there was a £700 million charge under the UK DTA that I wasn't expecting. I was just wondering what drove that? If you could give me some colour on both of those, that would be great. Thank you.

Richard O'Connor - *RBS - Head of Investor Relations*

I'll do the first one and Nathan will cover the more important one. Look, on liability management, as you know we've been active in the markets over the last few years. We'll continue to look to do that to clearly optimise net interest income but clearly some of these prices in terms of day one losses are not attractive to us. So we'll look at it tactically but there's nothing out there at the moment, anything more than tactical. And if you're looking for more detail there's a debt call tomorrow afternoon and the debt specialists can talk about it then. But that will be our guidance at the moment.

Nathan Bostock - *RBS - Group Finance Director*

And the DTA write-off relates to RBS Plc, obviously tax related to specific entities. What we've done there is we've clearly calculated sort of our forward profits. It's the entity in which we book our Markets and basically our wholesale related business. As you know, overall Markets revenues etc have been coming down. But also if you look forward on restructuring type costs and that and things to come, it was our view that the extended period that our DTAs would run out over, which was beyond the period we felt was reasonable and prudent, so we have written down our DTAs to a sort of circa eight year usage period.

Claire Kane - *RBC*

Hi there. Maybe one quick follow up to Joe's question first on the DTA; the deduction on slide 17 is unchanged. Has the total DTA not come down so would not the reduction come down as well?

Nathan Bostock - *RBS - Group Finance Director*

I think this is probably related to the fact that we would have increased DTAs as a result of the provisions and that for the year-end and basically it just happens to be a sort of rough offset in the actual amount.

Richard O'Connor - *RBS - Head of Investor Relations*

If we hadn't written them down, it would have been three billion.

Claire Kane - *RBC*

Oh, okay. And then also just on your Pillar 2B, I guess the RCRs come down faster than you'd expected; could you tell us perhaps if there's any reduction today versus your 1% impact for the Pillar 2B requirement and also would you disclose what your Pillar 2A requirement is today?

Nathan Bostock - *RBS - Group Finance Director*

No, we don’t disclose those particular aspects of our sort of relationship with the regulator. Obviously RCR and the reduction of the exposures in RCR remains, as we said previously, a critical part of us managing our forward capital stress position and again, you know, we’ve started in a very good position there off the back of the Non-Core. But it’s too early to really work that through.

Claire Kane - *RBC*

Okay, thanks.

Edward Firth - *Macquarie*

Yes, good morning. Could I just ask you about capital management, and I guess the turn of my question is you’ve given us some pretty good targets for 2015 and 2016 but if I look in your statement, what, four weeks ago you were giving us quite a chunky range for core tier one and in the event you’ve actually come out a little bit even above that. So I guess my question is, was there something particularly peculiar about the first quarter which made that uncertain or is it actually a quite indistinct science and should we read into that that you might have to carry some reasonably chunky buffers as you forecast your capital position going forward?

Nathan Bostock - *RBS - Group Finance Director*

I wouldn’t read into it that we need to carry any particular chunky buffers. I think it’s like anything, you know, a lot of the things that you’re doing in your calculations, you have to run through all of the various different aspects in order to be able to close these things off at the year-end. And at the point that we went out with the other information, we still had a lot of moving parts and so I wanted to try and make sure that that I was giving people as reasonable a position as anything. But if you think about it, you know, even if you thought you were in the sort of 8.3 and a 20 basis points either way is not actually that much relative to the size of some of the individual items.

Edward Firth - *Macquarie*

But I guess if we're looking out three years that must be, those uncertainties must be magnified many times over.

Nathan Bostock - *RBS - Group Finance Director*

No, I don't think so in reality. I mean as we've said in the plan, you know, there are key elements to our overall transition and again we'll touch on them this afternoon. But those clearly do relate to the Citizens and the RCR in our overall risk weighted asset reductions. But I don't think the individual items that related to the range at the year-end are relevant to that longer term picture.

Richard O'Connor - *RBS - Head of Investor Relations*

This was the first time we had actual CRD4 so clearly there are more moving parts as normal and that will land more going forward.

Edward Firth - *Macquarie*

Okay, thanks very much.

Andrew Coombs – *Citi*

Good morning, a couple of questions please. Just firstly looking at your customer deposits, they've declined by 4% quarter on quarter to £418 billion and digging into provisions, it appears mainly to be due to Markets and International Banking. And you talk about re-pricing deposit products suit. Perhaps you could elaborate on that. My second question, just with regards to the movement in the shareholders equity quarter on quarter you outline on page 88 to page 89, obviously the majority of the move is due to retained earnings, to some extent you had previously flagged that, but also I was interested in the FX reserve; you have another £400 million charge on retranslation of net assets. I'm just trying to get a feel for exactly what's driving that within the shareholders equity movement. Thank you.

Nathan Bostock - *RBS - Group Finance Director*

I'll pick up the first one and Richard will cover the second. The thing on the deposit side, you know, what we've said is that we're focused on driving and maintaining a sort of loan to deposit ratio of circa 100%. We're actually below that at the moment and therefore in a very strong position. However, it doesn't enable us to optimise our earnings as much as we would like. We have been very focused and proactive in ensuring that we're not overpaying for deposits that we don't need and in fact what you're seeing in that balance sheet reduction is precisely that activity and precisely the activity that therefore also helped to drive NIM.

Richard O'Connor - *RBS - Head of Investor Relations*

Andrew, just on... you mentioned the page number and I would refer everybody to page 83 where we go through the statement of comprehensive income. That sets out pretty clearly the movements between AFS reserves, cash flow hedges and currency translation. Obviously we are a sterling reporter. Our US dollar assets are substantial, sterling strengthened versus the dollar so therefore you have a translation loss. You also had a currency translation loss relating to movement in interest rates on interest rate hedges. Clearly that can move up and down depending on the interest rates and you guys can see the movement in interest rates on a daily basis. So that will move around quarter on quarter and on the offset side it will impact NIM as we all know. So that tends to be offset by interest income and translation will just move around based on the primary sterling/dollar rate.

Andrew Coombs – *Citi*

Thank you.

Operator

Thank you. Nathan, I will now hand the call back to you for closing comments.

Nathan Bostock - *RBS - Group Finance Director*

Okay, well thank you all very much for joining us this morning. It’s appreciated and for those of you who are going to join us this afternoon, I look forward to catching up then. Thank you very much indeed.