



Preliminary Interim Results 2014

ANALYSTS Conference Call

Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
on Friday 25th July 2014

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 Preliminary Interim Results announcement published on 25th July 2014.

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RBS

Ross McEwan, Chief Executive

Ewen Stevenson, Chief Finance Officer

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Introduction

Ross McEwan, Chief Executive

Thanks very much and good morning everybody. Thanks for joining us a little bit earlier than expected for our Preliminary H1 Results. I appreciate everyone joining at such short notice. A special welcome to Ewen Stevenson, our CFO, it's his first results announcement and I'll get him to make a few comments very shortly.

Now we've had to release our results a week earlier because of our significantly stronger than the market was expecting, better than expected market conditions, much lower impairment costs, significant improvements in non-performing loans and the pace that we have been able to take assets from RCR, our bad bank, off the book mean that we have returned a £2.6bn operating profit and a bottom line profit of £1.4bn.

The results that we're posting today show the steady progress we are making as we take the steps to be a much simpler, smaller and fairer bank. These results show that underneath all the noise and huge restructuring of recent years, RBS is fundamentally a stronger bank that can deliver good results for shareholders and for customers.

There is progress on all our key priorities, our capital is stronger, costs are lower and customer activity is gradually improving, although we've only just started with our programme to make it easier for customers to do more business with us.

I just want to sound a note of caution, as I did in the first quarter; we are actively managing down a slate of significant legacy issues. This includes significant conduct and litigation issues that will hit our profits in the months and years to come. I'm pleased we've had two good quarters, but no one should get ahead of themselves here there are bumps in the road ahead of us.

Today's results are pleasing, but no one at this bank is complacent about the challenges ahead. I'd like to hand over to Ewen just to take you through some of the headline numbers and then we'll open up to questions.

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Ewen Stevenson, Chief Finance Officer

Thanks Ross and thanks again for joining us at short notice. Earlier today we released our Preliminary Interim Results, we will publish our full IMS under our new segmental reporting format on the 1st of August, next Friday.

I will offer some brief comments on our second quarter results before leaving plenty of time for Ross and I to answer your questions.

Key features of the second quarter were an attributable profit of £230m including an accrual of £320m for the initial repayment of the DAS. A milestone for us, this is our second consecutive quarter of reported profits this year. While we are clearly pleased with this quarter's result, we recognise that revenues have been flattered by some ones and impairments have been exceptionally low. As a result we remain cautious about a

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direct read across of these trends into the second half, and also anticipate conduct and litigation expenses to be higher in the coming quarters.

We reported a second quarter operating profit of £1.3bn, excluding restructuring and conduct costs, our adjusted operating profit was £2bn. The return on tangible equity for the first half was 7%.

Our Core Tier 1 ratio further strengthened in the quarter to 10.1%, reflecting both the quarter's bottom line profit and the further material RWA reduction, which more than offset the impact of the initial DAS payment. Since the start of the year our Core Tier 1 ratio has improved by 150 basis points.

Tangible net asset value per share was 376p at the end of the quarter.

Looking at our second quarter P&L performance in more detail, total income was £4.9bn, down just 3% on the last quarter, despite lower seasonal revenues in our CIB franchise. However, second quarter revenues were flattered by just over £200m of one off items; the largest item being £170m pre-tax gain on sale from the disposal of Citizens Illinois branch network.

There were also just over £200m of AFS disposal gains in the first quarter to take into account when analysing first half performance.

Year on year revenues were down 10% reflecting the ongoing reduction of the bank's balance sheet, over the same period funded assets were down 13% and RWAs by 17%.

The net interest margin improved 22 basis points year on year and 10 basis points quarter on quarter to 2.22%. The quarter on quarter improvement was primarily driven by deposit re-pricing initiatives, as well as the reduction of lower yielding RCR assets.

Total costs were up 9% versus the first quarter, but down 11% year on year. Excluding restructuring and conduct charges, costs improved 7% on the previous quarter. And adjusting for one offs, largely an £80m intangible write off in the first quarter, underlying costs were down 3% quarter on quarter.

We are pleased with this cost reduction, reflecting good cost discipline across all our businesses. We expect to deliver additional cost savings in the second half from the continued implementation of further cost reduction plans.

Note that we do anticipate taking a full year 2014 bank levy charge of approximately £300m in the fourth quarter, charged to the relevant businesses and not below the line.

We are on track to deliver our 2014 cost savings target of £1bn. Our restructuring spend increased by over £250m in the quarter to £385m as we start to step up the pace of our restructuring efforts. Looking forward we expect restructuring costs to be in the order of £1.5bn for this year versus our previous guidance of £2bn.

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We do still anticipate an overall restructuring spend of around £5bn across 2014 to 2017. On conduct charges we took an additional PPI provision of £150m in the quarter, as well as a further £100m provision for interest rate hedging products.

The reported second quarter cost income ratio was down one percentage point year on year to 75%. Adjusted for restructuring, conduct and litigation costs, our cost income ratio was also down one percentage point year on year to 62%. Our medium term target remains 55% and our longer term target remains at 50%.

Impairments were exceptionally low in the second quarter, with a net provision release of nearly £100m. This second quarter improvement of nearly half a billion pounds reflects a very supportive credit environment, driving both provision releases and lower new default cases across all our businesses. The positive macro environment that we now see in the UK and Ireland means that we now expect lower impairments in the order of £1bn for the full year.

Other items in the quarter included £130m goodwill write off in CIB as a result of the transfer of assets to this business as part of our divisional reorganisation.

There was also an £80m deferred tax write off relating to our US business, triggered by the further scaling down of our markets operation.

Turning to the balance sheet funded assets fell £10bn in the second quarter, to £736bn. This is down £106bn year on year. Net loans and advances were £387bn at the end of the quarter and within this gross mortgage volumes were £5bn in the quarter, representing a flow market share of more than 10%.

During the quarter RCR saw assets decline by a further £3bn and RWAs by a further £5bn. In the first six months of the rundown of RCR, it has been £2bn accretive to our Core Tier 1 capital.

On our capital position, we finished the quarter with a fully loaded Basel III Core Tier 1 ratio of 10.1%, up 70 basis points on the previous quarter. This improvement includes a 20 basis point increase from earnings and a 50 basis point gain from a reduction in RWAs. RWAs were down £22bn quarter on quarter to £392bn, with further reduction in CIB and RCR acting as the main drivers. We reaffirm our targets of a fully loaded Basel III Core Tier 1 ratio of 11% by the end of 2015 and greater than 12% by the end of 2016.

To conclude we are pleased with this set of quarterly results. We have made further progress towards simplifying our business, reducing risk, and re-growing the Go Forward Bank. While we caution against a read across into the second half we believe we have made an encouraging start over the last two quarters towards our medium term financial targets and we remain confident that we are on track to deliver them. Thank you and I'll now handover back to Ross.

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Ross McEwan, Chief Executive

Thanks very much Ewen. I think we'll just open straight up for questions and we'll leave it to the audience.

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Questions and Answers

Telephone Operator

Thank you Ross. Ladies and gentlemen if you would like to ask a question please press the * key followed by the 1 on your telephone keypad. And we will pause for a moment to give everyone an opportunity to signal for questions.

And your first question today comes from the line of Michael Helsby, from Bank of America. Please go ahead.

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Ross McEwan, Chief Executive

Hello Michael.

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Michael Helsby, Bank of America

Morning gents, just three quickies from me if I can; a small one really on Ulster Bank to start off with, I think at Q1 you warned about some technical factors in the net interest income that were going to push NII down for the rest of the year and that's clearly not happened. So I was wondering if you could just give us an update on that?

The second question would be on litigation, clearly this is a big factor for the industry and you quite rightly flagged the uncertainty around it. I was wondering if you could just give us any qualitative comments around how you think about it in terms of potential magnitude, and I know you were talking about FX last week on the radio, so just a bit more colour so we can think about that in the context of you capital base?

And then finally on RCR, it's clear that rising asset prices - the losses are a lot lower than what you provisioned for, I'm surprised actually that your guidance hasn't improved a bit more than what you've done, so it's a clarification, have you effectively marked to market the asset prices as at the end of June and that's your new guidance? And can you give us any rule of thumb about the impact of rising asset prices from here which feels probable, is there any baseline sensitivity you can give us on CRE prices in the UK and Ireland, that would be helpful? Thank you.

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Ross McEwan, Chief Executive

Ewen do you want to start and I can chip in.

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Ewen Stevenson, Chief Finance Officer

Yes, Michael hi. Look on Ulster Bank I think what you're missing is a £15m interest in suspense, which came into the interest income in the second quarter, which offset the

additional liquidity that we had to put with the CIB. And I think when you factor that in that's probably a significant part of why the net interest margin went up in Ulster.

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Michael Helsby, Bank of America

Right.

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Ewen Stevenson, Chief Finance Officer

On RCR, look we haven't marked to market and I mean as you've seen today we've taken the guidance for the remaining cost to exit down from £4bn to £4.5bn down by £1.5bn. I think about a third of that really relates to the fact that we think that as we set the business up we've looked at the trajectory of the business, we think operating costs will be lower and about two thirds relates to the fact that we think that realisation proceeds will be about £1bn lower. And I would caution on the fact that we've still got about £21bn at the end of the quarter. So our ability to be 5% smart in terms of ultimate asset realisations out of it - I mean there is still I think quite a bit of variability, hence the caution.

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Ross McEwan, Chief Executive

Just on the litigation one, we haven't got any further guidance than what we gave in the first quarter. I think you covered off on all the issues that are in front of us as they are in front of most of the industry.

We've still got quite a bit of work to be done on the FX as we said at the end of the first quarter; I just warn that our view is that it is feeling more and more like a Libor type activity, but look lots of water to do under the bridge on that one.

And the other one, sorry I just can't give you any update, we just don't have it. We are watching every case that comes through and you know as I've said we've got 12 to 18 months of these things still coming at us, probably up to 24 months.

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Michael Helsby, Bank of America

Can I just - on the US mortgage side because I think that's clearly a big area for you guys, is there any merit in looking at the more recent settlements from the US banks and trying to read across to you guys? Is that something that you've done or think is just completely inappropriate?

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Ross McEwan, Chief Executive

Look each time there is a case that gets settled over there we do do a read across on it, and as I say we haven't changed any of our views at this point in time. You know we do keep an eye on every one of them and you know we are involved in some smaller ones over there. But no there's no change to our guidance from the first quarter.

Michael Helsby, Bank of America

Okay, thank you. Cheers guys.

Telephone Operator

Thank you and we will take our next question from the line of Raul Sinha, JPMorgan. Please go ahead.

Raul Sinha, JPMorgan

Morning gentlemen, can I also have two please and then a quick follow up.

Ross McEwan, Chief Executive

That's three then if there's two and a follow up.

Raul Sinha, JPMorgan

Okay, well I'll try and stick to two and then I'll come back if you've got more time for me later. Firstly Ross, if I can just stay on litigation, it's pretty clear from what you're staying that you expect a pretty challenging environment for RBS, you know, over the remaining part of this year and next year on this issue. I'm just surprised to see that your provisions in this quarter are so low on litigation relative to what you have done previously. And I just wanted to get your thoughts on why you haven't actually taken more litigation provisions while you're clearly seeing write backs in other areas that might actually position you slightly better when it comes to the volatility that you will see in this area going forward? So that's the first one.

And then the second one obviously on RCR you said you're £2bn accretive to capital, can you actually tell us what assets you've sold in the first half that have generated the capital, or maybe give us some description of those assets and then maybe a little bit on what's actually remaining within the portfolio and how we should think about that going forward?

Ross McEwan, Chief Executive

Maybe if I take the first one then Ewen can take the second, just on the first around litigation. Look we just haven't seen any change in the facts, so therefore we can't change any of our provisions. If we saw anything that changed the fact base and, as I say, we read across all the cases and the like, so if it changed our views well we would have to - well not have to, we would change our provisioning, but we just haven't seen anything that says that we should, or could, or can.

So that's why we've made no change to our litigation, other than the PPI and a bit on the swaps, which were - the PPI one was we did a write out to clients around a single

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premium product in the second quarter, of course we saw a spike up in those and that's now come back to a normality so we took an additional piece there to cover that. So unfortunately I just don't have any other facts that I can do any more provisioning on.

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Raul Sinha, JPMorgan

How many months of cover do you have remaining on PPI? That was my follow up.

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Ross McEwan, Chief Executive

About five or six months, but we can get you the exact - but I think it's five or six months.

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Raul Sinha, JPMorgan

Okay, thanks.

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Ross McEwan, Chief Executive

And on that one there, we seeing - and you've seen the ombudsmen's stats come off 50%, now I'm not saying that's happening in our book, but we are seeing the numbers starting to trend down as we predicted on there. But we do review it on a quarterly basis.

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Ewen Stevenson, Chief Finance Officer

The provision at the end of the second quarter will be just under £600m.

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Raul Sinha, JPMorgan

Right, okay. And on RCR?

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Ewen Stevenson, Chief Finance Officer

On the question on RCR we sold about just under £4bn of assets in the quarter, 300 asset pools really across the board. Ireland I think has surprised us, there was a small disposal gain of about £150m. I think when we produce our segmental reporting next week we'll have more colour on RCR there for you to look at.

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Raul Sinha, JPMorgan

But is that mainly commercial real estate in Ireland that seems to be driving the gains?

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Ewen Stevenson, Chief Finance Officer

Yes.

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Ross McEwan, Chief Executive

Yes it is. Across the board UK and Ireland is commercial real estate.

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Ewen Stevenson, Chief Finance Officer

And some properties in Continental Europe as well.

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Ross McEwan, Chief Executive

So you are seeing an uptick, you know the economy is picking up, people are after these assets and that is certainly helping us. We saw that trend in the first quarter which we called out and we've revised upwards after our second quarter of experience. And as you know we've got a very, very experienced team there that have got really good skills and we've got a good market now.

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Raul Sinha, JPMorgan

Great, thanks very much.

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Telephone Operator

Thank you and we will take our next question from the line of Chirantan Barua, from Sanford Bernstein. Please go ahead.

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Chirantan Barua, Sanford Bernstein

Good morning everyone, I've just had - if you could just give me an update on Citizens on one side and the strategy in Ulster on the other side, what's the latest thinking on both?

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Ross McEwan, Chief Executive

First off on Citizens we put the S1 out recently. There's not anything more I can say on that process other than it is staying on timetable because we're obviously in a period of quiet time now with Citizens. You've seen the results that Bruce and the team have put out there, progress is being made on the business and the IPO is as per our original timetable.

Just on Ulster Bank itself, can I just make a few comments on that one. Look, we've supported this business through some pretty tough times, it is a fully-fledged bank in Ireland, being both a retail and a commercial bank, we've got about 15% market share. Our position on this is we believe we want to create a really strong franchise. The issue we're trying to solve here, and this is why we're doing the review on this business, is

how do we get it like every other business that I operate, getting over its cost of capital. And that's the thing we're solving for this business.

Our full executive team were over in Ireland two weeks ago, we were, I think buoyed by a very good economy over there, our management team I think are doing a very good job, but the issue that we've asked them to solve for us and with us - is how do we get you as shareholders a return that I expect out of every part of our business and that's what we're looking at at the moment. But we want to be there, we want a strong franchise, the question is how do we do that?

This business, you know both Ewen and I come out of an economy with the same population as Ireland, dear ole little ole New Zealand where I ran a bank with the same percentage of the market. We should be able to turn this into a profitable bank the question is getting a plan that will do that and that's what we're solving for.

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Chirantan Barua, Sanford Bernstein

Ross, I really appreciate that. Going back to your earlier comments, so if you had 15% market share in Australia your return on equity would be higher than the cost of capital, right. So which line is working to your disadvantage in Ireland?

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Ross McEwan, Chief Executive

Yes, remembering we've taken out the assets that have gone into RCR, so we're running those down and remembering that we've got a big tracker book, it's about £10bn that is producing a return - well it's got a NIM of about 1%, I think I'm looking at Ewen now, it's about 1%.

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Ewen Stevenson, Chief Finance Officer

And I think by the time you throw in all of the arrears and management costs associated with that too it's effectively and unprofitable book for us. So even when you look at the core franchise in Ulster I think you have to be careful about drawing the wrong conclusion on sustainable returns, because if that book continues to track down I think what you'll see is fundamentally the go forward core businesses probably will be able to produce returns above the cost of capital over time. But that's what we're trying to prove out at the moment.

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Ross McEwan, Chief Executive

And obviously as we've brought this business to a much smaller size, you know we've got to address the cost issues. So these are the things that we're examining at the moment with the team and with the support of that team. I want to create a really good bank, but every part of our business needs to get itself over the hurdle rates and that's what we're pushing every part of our business to do.

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Chirantan Barua, Sanford Bernstein

Thank you.

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Telephone Operator

Thank you. We will take our next question from the line of Andrew Coombs from Citigroup. Please go ahead.

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Andrew Coombs, Citigroup

Good morning, two questions from me please. Just firstly on your loan loss ratio, your guidance for £1bn for the full year would imply £730m for the second half, which is approximately about a 37 basis points loan loss ratio, so slightly below your long term target of 40 to 60 basis points. So I guess my question would be, do you think the second half is more reflective of a normalised period, or do you still think you will see an increase as UK base rates rise towards that 40 to 60 basis points range? That's the first question.

The second question is just a technical question, you've obviously printed a very good statutory profit, but your tangible NAV is flat, so presumably there are some offsetting charges there direct to equity, so perhaps you could elaborate on that? Thank you.

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Ross McEwan, Chief Executive

Ewen do you want to take that?

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Ewen Stevenson, Chief Finance Officer

Just to take the second one very quickly, I think - again we'll provide more disclosure in our IMS next week, but it's largely due to a negative FX reserve movement of just under £600m, which offsets the attributable profit. You know the way that we manage RWAs, you will see there is a benefit in our RWAs this quarter because of FX moves, so I think that's principally the missing item that means that the tangible net asset value per share has stayed flat at 376p.

On the loan loss reserve we, as you've calculated, we are below the range that we've guided to. I think for the time being we are seeing relatively low levels of new NPLs coming into the book across the board, it's difficult to read into that, you know where that takes us into 2015. But certainly for the remainder of 2014 I think we are guiding to be below the range that we've previously indicated.

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Andrew Coombs, Citigroup

Great thank you very much.

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Telephone Operator

We'll take our next question from the line of Rohith Chandra-Rajan, from Barclays. Please go ahead.

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Rohith Chandra-Rajan, Barclays

Hi, good morning, thank you very much. I've got a couple as well please if that's okay. The first one is just following up on one of Andrew's questions actually, just on the provision charge. So the £700m for the second half suggests something pretty much similar I guess to the Q1 run rate. I'm just wondering if you could talk a little bit more about that given your - you know the positive comments that you've made on improving credit conditions in the UK and Ireland generally and sort of falling default levels. What leads you to not expect an improvement on the Q1 level? So that was my first question.

The second was just on asset and RWA reduction in the second half of the year. For RCR you've guided to sort of £15 to £18bn assets at the end of the year, I'm assuming that the RWA reduction would be proportional to the asset reduction; I just want to check that's the case? And also we saw quite a step down in CIB RWAs in Q2, so I'm wondering just what your expectations are for the second half there please? Thank you.

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Ewen Stevenson, Chief Finance Officer

Thanks. So look on the provisioning charge I think what makes us cautious, I guess, going into the second half is just that we really had no large single name write offs in the first quarter. So I think if you adjust for that, you know, we are assuming probably on a like for like basis a slightly improved picture into the second half relative to first quarter. It was quite an unusual first six months for us to have no single large write offs in the book.

On RWA reductions, in RCR I think your assumption on balance sheet declines equating to RWA declines on a proportional basis is a reasonable basis. On CIB I think - remember that in the second quarter there were some FX benefits in the decline. I think we do though continue to expect that the RWAs in that business are going to run down. We are running down our asset backed business in the US. I think when we look at the returns on the business, you know, management are doing a very, very good job I think in managing down RWAs, 9% down on the quarter. But do we expect to see the same pace of run off in the second half? I don't think so, but we would certainly expect RWAs to be materially lower by the end of the year.

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Rohith Chandra-Rajan, Barclays

Okay thank you. Can you quantify the FX impact on the CIB RWAs, so how much of the £12bn was FX?

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Ewen Stevenson, Chief Finance Officer

Yeah, I would say you know potentially about a third of that is FX related.

Rohith Chandra-Rajan, Barclays

Okay, thanks very much.

Telephone Operator

Thank you. And we'll take our next question from the line of Joseph Dickerson, from Jefferies. Please go ahead.

Ross McEwan, Chief Executive

Hi Joseph.

Joseph Dickerson, Jefferies

Hi good morning guys. You've had fairly strong capital generation and earnings year to date and you'll get a deconsolidation benefit from Citizens in terms of capital, now that you've paid the Dividend Access Share, or that process has started, when can we expect an update vis-à-vis your appetite for both dividends and potentially share repurchase, in other words your capital return aspirations? Thank you.

Ewen Stevenson, Chief Finance Officer

Yes, well ...

Ross McEwan, Chief Executive

I'd like to hear you answer this one Ewen.

Ewen Stevenson, Chief Finance Officer

A question I didn't think I'd have to be answering on my first call. But you're right - look the capital position has improved 150 basis points Core Tier 1 this year, which we're very pleased with. I don't think, given the caution that we've been expressing around litigation and conduct costs - I don't think we're relooking to re-guide people to anywhere other than where we have guided to, 11% at the end of 2015 and 12 or greater than 12 by the end of 2016.

You know we've obviously made very clear commitments; we obviously are in discussions with the PRA around those commitments. I think it would be a very optimistic - you'd have to get very optimistic before I think you would see us paying dividends. You know that still feels like that is a discussion for several calls away in terms of our core analyst calls.

Ross McEwan, Chief Executive

Yeah, I'd stick with where we've got Joseph as far as the 11 and 12% capital position over the next two years and we'll take it as it comes from there.

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Ewen Stevenson, Chief Finance Officer

I think Joseph it is fair to say that over the sort of very medium to longer term we will obviously be active capital managers as and when we find ourselves in that privileged position.

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Joseph Dickerson, Jefferies

Thanks.

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Telephone Operator

Thank you. We will take our next question from the line of Tom Rayner, from Exane. Please go ahead.

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Tom Rayner, Exane BNP Paribas

Good morning everybody. The Q1 results were I think generally better, Nathan Bostock insisted that we not read across into the rest of the year, the second quarter is even better still and I guess a positive profit warning is a good thing, but it is still a profit warning. And I just wonder - you know how much confidence do you have in your ability to give guidance on some of these issues with the sort of variability and volatility such as in the non-core? So that's my sort of first question, I mean how much confidence can we really have in the guidance that you're sort of giving out today?

And the second question really is just to get a better feel for the sustainability of some of the trends. I mean the improvement in the core impairments, I'd like to understand maybe how much of that is about the low rate environment, how much is about sort of tighter underwriting post the financial crisis or any other sort of driver there might be. And the same with sort of revenue, the revenue underlying seems a little bit better as well and I'm just wondering, you're guiding for fairly flat margins, whether there's any other issues on the revenue side that you could maybe point us to? Thanks.

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Ross McEwan, Chief Executive

Maybe if I pick up a few of these as I was there on the first quarter with Nathan, so it's a much me as Nathan and I do recall saying at that time that RCR was going very, very well. And on any analyst sessions I had after that first quarter when people asked me about that I said - no RCR is going very well and you've seen that in the second quarter.

I am always cautionary on assets such as those because they are some of our more difficult assets. So I'm sorry we've given you as much guidance as we think we can of

what we're seeing, it may prove to be either you know too volatile, 5% one way or t'other.

The other thing that I did say in the first quarter as well was around impairments. We traditionally have a really good quarter, first quarter of impairments. And I said I would rather call that in the second quarter than first quarter when we've seen a trend in that. And that's what you're seeing in the second quarter.

It has been a lot better with a lot of write backs coming into it and that's why we're guiding you towards the full - a billion for the year with 700 odd million in the second half. Again, we are seeing a lot of change in this environment. We've got a lot of assets in here that we're bringing off; you're finally seeing some growth coming into the marketplace which is helping, so there's a lot of change going on at the moment.

And having lost money for the last five years I've got to tell you this is quite a cautious organisation. So we are examining each of the loans that are coming through and questioning those so that we can get our forecasting better. But you know there's a lot of change still going on in this business.

The revenue piece can I just pick up, we are - I did again in the first quarter say to you that we were starting to see growth coming through for the first time in five years in our Retail bank. You're seeing those at around the 3 odd percent, which is much better than what we've seen. In the first quarter I called out there was the stabilising of the assets within our corporate bank at that time. You're seeing those more stable now than they've been for five years. I still think we've got a bit of run off in the book between now and the end of the year before we start seeing the assets growing again. So you know I give you that piece. But I do expect to start seeing next year it start to grow, but ever so slightly because we've still got some run off in the book.

So look that's where I'd give you guidance to and then I'll probably hand over to Ewen just on some of the other charges.

Ewen Stevenson, Chief Finance Officer

Just to finish on first half revenues I think it's important to remember firstly that fixed income franchise is obviously seasonal. So we disclosed today that the Rates, Currency and Credit business had 25% lower revenues in quarter two versus quarter one. And we think quarter two and - you know we would expect that to continue to sort of trend downwards as we're managing down the balance sheet in CIB.

We also had around £425m of one offs in the first half, over £200m of AFS gains, £170m pre-tax gain from selling the Illinois branches out of Compass and a £40m gain on sale from selling half our stake in the Markit IPO. So I would be cautious about reading first half revenues as a trend for second half.

Sorry and your question on impairments Tom?

Tom Rayner, Exane BNP Paribas

Yeah, just to sort of get a sense about this improvement not in the non-core, but across the core businesses, how much is sort of interest rate driven, how much is possibly tighter underwriting standards post the crisis. So we're now seeing some seasoning effects coming through. I mean I'm just trying to get a feel for what you think is driving this better sort of core impairment performance?

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Ewen Stevenson, Chief Finance Officer

Look I think a number of factors, I mean you know the underwriting quality in the last few years I guess has been very, very good, you know that's translating into very low new debt flow. Interest rates continue to be low, which means that people can continue to easily service their loans and economic growth is starting to come true. As I say we are seeing very limited new impairments across our businesses at the moment, but reading that into the future I guess we continue to be cautious on the back of a potential rising rate environment in the UK.

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Tom Rayner, Exane BNP Paribas

Are you also - just finally from me are you also seeing lower sort of loss expectations on the new NPLs, because possibly these have been written with higher deposits or higher levels of collateral backing. Is there an element of that or is it really that the NPL trends are sort of slowing? Can I get a feel for that one?

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Ewen Stevenson, Chief Finance Officer

Well we've definitely seen that impact in relation to RCR for example. But also I think it's important that people remember that we're still sitting on a pool of REILs of £34bn, against which we've got balance sheet provisions of £22bn. So our ability to be pinpoint accurate on some of this forecasting, you know we just do advise an element of caution.

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Ross McEwan, Chief Executive

We're also seeing a change in the mix of our business as well so you are seeing more mortgages, i.e. secured business is up and you're seeing the unsecured type of book coming down. So you are seeing a bit of switch around in the mix which will give you a different outcome as well.

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Tom Rayner, Exane BNP Paribas

Sure. Okay, thanks very much.

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Telephone Operator

Thank you. We will take our next question from the like of Mike Trippett, from Numis. Please go ahead.

Ross McEwan, Chief Executive

Hi Mike.

Mike Trippett, Numis Securities

Good morning. Two quick questions, I mean I sort of get the general drift of what you're saying on guidance around impairments, but just specifically within the Commercial Banking business which was a sort of positive in terms of the quarter for impairments. Is there anything - how much of the write backs were in Commercial?

And the second question, just a sort of picky point on capital which I know you'll cover next week. What's the movement in the deferred tax asset, how much of a benefit has that been to your fully loaded CET1?

Ewen Stevenson, Chief Finance Officer

Just in terms of the provision releases in the second quarter, I think firstly about half of it was related to RCR and half across the other businesses. And then for Corporate I want to say about half of the half, so 25% of it related to the Corporate franchise.

Mike Trippett, Numis Securities

Corporate within the CIB business, or in Commercial Banking?

Ewen Stevenson, Chief Finance Officer

Commercial.

Mike Trippett, Numis Securities

Okay thanks.

Ross McEwan, Chief Executive

And just around the DTA?

Ewen Stevenson, Chief Finance Officer

DTA is about £100m.

Mike Trippett, Numis Securities

Further reduction in the quarter?

Ewen Stevenson, Chief Finance Officer

Yeah.

Mike Trippett, Numis Securities

Okay great, thanks.

Telephone Operator

Thank you. And we'll take our next question from the line of Christopher Wheeler, from Mediobanca. Please go ahead.

Christopher Wheeler, Mediobanca

Yes, good morning gentlemen, again of course two questions as per instructions. The first one is on the CIB RWA which we've talked about already, can you perhaps give us a clue as to where you've got to in terms of the old target that you gave us back in the spring in terms of Markets. You were going to push it down to around £50bn and I wondered whether or not you could give us a clue where we were, I think they were on £73.8bn at the end of the last quarter if I remember rightly?

And the second question really is around the RCR 33% decline in equivalent RWA, I just wondered if you can give us any colour the nature of the assets in terms of the fact that you took that big £4.5bn I think it was, write down in the fourth quarter to facilitate the acceleration of the reduction in the book, not just getting it smaller, but the ability to sell down at a gain. Can you give us a clue as to what proportion of that if you want has been used up in the first half of the year, because obviously that will give us a clue as to how much you can get away perhaps in the rest of the year? Thank you.

Ross McEwan, Chief Executive

I'm just checking on the first question about CIB and the old Markets business, what the reduction ...

Ewen Stevenson, Chief Finance Officer

Look I don't think at this stage we're planning to sort of re-forecast on the £50bn target, that's still where we're trending towards, we're probably trending towards it faster than would have been the case six months ago. Currency benefits are obviously helping us a bit in relation to that.

The question on RCR ...

Ross McEwan, Chief Executive

RBS - Preliminary Interim Results July 2014

We'll probably give you the detail of that next week when we bring the full IMS out, you'll get all of that - we'll give you the update on that next week I think.

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Christopher Wheeler, Mediobanco

Okay, well Ewen can you just say in terms of this CIB would it be fair to say that the greatest element of acceleration is in the old markets business rather than the International Banking business which I think is a big part of the rest of the RWA?

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Ross McEwan, Chief Executive

Generally I'd say yes but we are examining some of the parts of the old International Banking business as well. I think again at the first quarter I might have said to you I was examining every part of the business where we weren't getting a good return on the equity we had invested and there were parts of that the I suspected and the team suspected are just not getting us the return, so we are examining that part of the business. So it's a full CIB review on RWAs that we are doing. And Donald and Peter are well over it.

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Christopher Wheeler, Mediobanco

Okay, thank you very much gentlemen, thank you.

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Telephone Operator

Thank you and we'll take our next question from the line of Peter Toeman, from HSBC. Please go ahead.

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Peter Toeman, HSBC

Morning, I wanted just to - page 9 of your release gives the movements in margins and there's a sort of ten basis point improvement over the first quarter at the Group level, but the margin movements in the individual divisions are much more restrained. And I just wondered what one could infer from that and also it seems to relate to your comment about the RCR rundown and a number of small recoveries impacting the NIM, I wondered if you could give us some colour on that?

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Ewen Stevenson, Chief Finance Officer

Sure, look in relation to the NIM over the first half you had a whole bunch of offsetting factors in place. I mean firstly there was some deposit re-pricing, secondly I think you are seeing some sort of gentle pressure I'd describe it on new business margin. And thirdly there's a change of mix going on, particularly in the mortgage business for example; we're shifting very heavily from what was a sort of evenly matched fixed floating book in terms of stock, 80% of the new business we're now writing is fixed, which is being done on lower spreads than the floating book.

And offsetting that is the benefit of the continued run down on RCR and other very low yielding legacy asset pools. That's why I think as we sort of look out into the second half; again we're cautious of predicting that there would be a similar improvement in NIM; largely because the deposit re-pricing has largely been now captured.

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Peter Toeman, HSBC

Thank you.

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Telephone Operator

Thank you. We'll take our next question from the line of Alastair Ryan, from Bank of America. Please go ahead.

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Alastair Ryan, Bank of America

Thanks, briefly you mentioned £150m write back before from RCR, is that a revenue item or is it net off in provisions somewhere?

And second, I suspect I know the answer to this, but I may as well ask it anyway, do you still have to sell Citizens if your capital keeps building this quickly?

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Ross McEwan, Chief Executive

Can I answer the last one, yes - and then we'll work on the next one which was the 150, we haven't changed our plans.

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Ewen Stevenson, Chief Finance Officer

Look I think the 150 is both in the revenue line and also in the impairment line, but again we'll try to give more colour next week in the IMS.

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Alastair Ryan, Bank of America

Okay, thank you.

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Telephone Operator

Thank you and we'll take our next question from the line if David Lock, from Deutsche Bank. Please go ahead.

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David Lock, Deutsche Bank

Morning everyone, two quick questions from me; the first one just on Ulster Bank. In terms of the peak to trough assumptions that you're using in the Ulster Bank business,

what are you using for mortgages and CRE? Because clearly we've had quite a rally off the bottom for mortgages in particular. And I'm aware that some of the domestic banks are using a 55% peak to trough assumption and we're currently at about 45%. So I'm just trying to understand where you are on your assumptions in that book?

And then secondly when we think about the future pipeline of sales, clearly the first half you've had a large volume of assets which have been sold across, particularly the Irish market, and you mentioned it was a buoyant market, I mean do you see that trend - do you anticipate that trend continuing for the rest of this year, or do you think it's more just an acceleration of the second half into the first half? Thank you.

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Ross McEwan, Chief Executive

Just on the second question I mean we've got the team - there are only so many deals that one can do in a week. So I think the trend will continue on its current run rate. But we are getting into tougher assets, let's be quite honest about it, you always sell the easier ones that you can get the capital out first. But you know I think we're still getting a very good market out there. So we've given the indication of what we think the book will look like at the end of the year from an asset and from an RWA perspective. So that will give you a fairly good idea of what we think the trend is.

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Ewen Stevenson, Chief Finance Officer

And look I think we're certainly incentivised to try and move as quickly as possible given what we see in the markets at the moment and we will move as quickly as we can and as long as the realisation proceeds are sensible, relative to what we think the valuation of those assets are.

Look, I wasn't quite sure where you were going with your question on peak to trough falls in commercial real estate, whether that was a question around stress testing or ...?

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David Lock, Deutsche Bank

It's more around the fact that I think you know on the mortgages in particular the market overall in Ireland, they have been using a provision assumption around 55% peak to trough, and clearly there's been a rally in the asset prices. So I'm just wondering if some of the releases that we're seeing are because you've reanalysed your assumptions, or whether actually you're still using a 55% peak to trough assumption? Thank you.

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Ewen Stevenson, Chief Finance Officer

Yeah look I think approximately we are, I don't think we have significantly changed any of our assumptions. We're obviously benefiting there I think from recovering collateral values. Ireland is a good market at the moment.

Telephone Operator

We'll take our final question from the line of Chintan Joshi, from Nomura. Please go ahead.

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Chintan Joshi, Nomura

Hi, good morning. Two questions from me please, I wanted to ask your view on the Leverage Ratio Consultation, if you were indeed heading towards a leverage ratio of 6% and by no means that is clear as yet, what does that mean for the mortgage market and mortgage margins down the line? And also if you have formed a view around where you think minimum requirements are going on that?

The second question is there's a material improvement in Citizens' revenues driven by the OOI line, could you tell us what that is driven by? Thank you.

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Ewen Stevenson, Chief Finance Officer

Look on the second point I think because of the nature of the fact that we were not selling a business, we were selling a set of branches, what you'll see in the non-interest line of Citizens is the \$283m gain or about £170m from the sale of those branches. So I think that probably explains the outperformance in that line.

On leverage ratio, well 6%, I think, is a new high - that I've heard.

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Ross McEwan, Chief Executive

I haven't heard 6%.

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Ewen Stevenson, Chief Finance Officer

So I'd be intrigued to see that calculations, but look, I mean, we obviously are studying the FPC consultation paper. You know when we look at the mix of our business, because we do have much greater RWA density than I think some of the more mortgage focused franchises here in the UK, I think that we don't see the leverage ratio as being a particular challenge for our business here.

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Ross McEwan, Chief Executive

Thanks.

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Chintan Joshi, Nomura

All right, thank you.

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Ross McEwan, Chief Executive

Thank you.

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Telephone Operator

Thank you I'll hand the call back to you for closing comments. Thank you.

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Ross McEwan, Chief Executive

Thank you very much. Thanks for joining us this morning and again apologies for having to bring it forward a week, we just thought it was important given the numbers that were emerging. We are pleased that we've had two good quarters, Andrew and the comms team have had to get the thesaurus out and work out what names for pleasing are as opposed to what we've had for five years which has been more around the disappointing. It's nice to get two good quarters out. We are becoming a much stronger bank that can deliver good for customers - I think for customers and shareholders.

No one in this bank is complacent about the challenges ahead, there will be bumps in the road that we've described to you today and these bumps will be as we actively manage down the legacy issues. We are very focused on the plan that we put out earlier on this year to make RBS a much better bank for customers, trusted by customers, but also a much better bank for shareholders as well.

Thank you very much for joining us on the call, you'll get the full pack out next week and I'm sure the team will be quite happy to take some questions around that when it comes out. Thanks for your time this morning.

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