THE ROYAL BANK OF SCOTLAND

Moderator: Ross McEwan
April 30, 2015
9:00 a.m. GMT

Operator: This is conference # 26321200.

Operator: Good morning, ladies and gentlemen. Today's conference call will be hosted by Ross McEwan, RBS Chief Executive. Please go ahead, Ross.

Ross McEwan: Thanks, Kelly, and good morning, everybody. Thanks for joining Ewen and I for our Q1 call. It's only a couple of months ago that we announced our 2014 results, and also set out the plans of how we'll move further and faster in delivering a strategy to make RBS the number one bank for customers.

Today, I think you'll see three main points. Firstly, our plan is clear, and we are on track delivering across the targets we have set for the year.

We are seeing the momentum build behind the valuable go-forward business, while creating good prospects for capital redistribution from the exit business. But we have known conduct and restructuring costs to work through in the coming period.

So, instead of a lengthy repeat of what I said in February, I'll now provide a brief update on the clear progress we have made this quarter, before handing over to Ewen, who will add more details.

Today's headline numbers, an attributable loss of GBP446 million, which includes GBP856 million in conduct and litigation charges, and GBP453 million in restructuring.

Our adjusted operating profit for the quarter is up 16 percent on 12 months ago to GBP1.6 billion.

One thing we set out in very clear terms in February was the parts of the Bank we will keep and strengthen, what we call the core go-forward Bank, as well as those that we will sell or run down, the exit bank.

On the exit bank, you know our well-established track record in this area. And we have carried through into the Q1 with the successful sale of our further tranche of Citizens, reducing our holdings to nearly 40 percent; announcing the sale of our international wealth business; the start of the disposals within CIB; and continued accelerated asset reduction in RCR.

Our capital build continues with a 30 basis point rise in core Tier 1 ratio to 11.5 percent, thanks to continued RWA reduction, and keeps us comfortably on track to reduce RWAs below our GBP300 billion target we've set ourselves for the end of this year.

With every sale and rundown, the picture of the go-forward RBS is becoming clearer. I've said, repeatedly, that we have extremely attractive market positions across our core businesses, and our attention is firmly fixed on making the most of these. In Q1, we have been taking some important steps forward.

In the personal and business banking, we continued focus on mortgage growth, have been offering customers our lowest-ever mortgage rates. Towards the end of the quarter, in particular, we've seen good year-on-year growth in applications, and have recruited another 91 mortgage advisors to increase our capacity. Mortgage balances now stand at GBP103.6 billion.

Improvements to our customer offer have also continued; one example being the introduction of our touch ID on our mobile app with 22 million logins since its launch in February.

We've also introduced real-time registration, which allows new customers to have access to mobile banking within one day of an account being opened. This gives our customer the functionality that mobile offers, get cash, pay your contacts, and more, without having to wait until your debit card arrives in the post.

We have also successfully completed a program to improve the resilience of our systems with the key services available to customers 99.9 percent of the time.

This quarter, we've begun to see more encouraging signs within business banking, as it returns to growth.

In commercial banking, we've seen very solid growth in net lending, which Ewen will take you through a bit later.

On Ulster Bank, the loan book is stabilising with good new business volumes and the Bank delivering a fourth straight quarter of profits, this time without the benefits of net impairment releases.

CIB's performance has been in line with our expectation, given the changes we're implementing. Importantly, the work we have done to explain the changes, and the consequences to staff, to our customers, and other stakeholders, has gone well. And we're pleased with the early progress being made with both the go-forward and exit parts of the business.

And finally, across the Bank, our ongoing cost reduction program is on track with adjusted costs down 15 percent year on year, and 11 percent from Q4

2014.

On all of these fronts, we are confident we can maintain momentum, and deliver the 2014 targets set out in February, just as we did in 2014. However, let me just repeat and underline our caution on conduct and litigation for the coming periods. We are anticipating some challenging outcomes, and are actively working to manage these. Clearing these hurdles and putting these impacts behind us is a vital aspect of our plan.

And one final point from February that I will repeat: our destination is a UK-focused bank capable of delivering attractive, sustainable returns from a lower risk profile. Every time I talk to you I expect to show you we are another one step closer to that destination.

I'm just going to hand over to Ewen for more detail on the results.

Ewen Stevenson: Thanks, Ross, and good morning, everyone. With these latest results, we are encouraged by the further progress we've made. And one quarter into the year, we remain on track to achieve all of our 2015 financial targets.

Key points I would highlight are, firstly, I think we've made significant progress in further reshaping RBS this quarter.

Secondly, our capital of leverage ratios continues to strengthen.

Thirdly, our UK and Irish businesses are showing solid underlying volume growth.

And finally, our cost-reduction program shows on going momentum towards our nearer and long-term objectives.

Looking at each of these themes in more detail, firstly, on the exit bank, we're making excellent progress. We're firmly on track to achieve our year-end 2015 target of less than GBP300 billion of RWAs; a 16 percent reduction from the end of 2014.

Since the start of the year, we've reduced our shareholding in Citizens by a further 30 percent.

As I said at our full-year results, in order to achieve partial deconsolidation we're working on the basis that we need to reduce our shareholding in Citizens to at or below 35 percent. This will obviously be subject to a discussion with our auditors and the PRA at the time. But at a 41 percent ownership position today, I'm very confident we'll achieve partial deconsolidation ahead of year end.

We've also announced the sale of our international private banking business to UBP. And, as part of that, we've taken a fair value adjustment of some GBP122 million in this quarter. This transaction is expected to close in various tranches from the fourth quarter, onwards.

The wind down of our CIB legacy portfolio has started well, albeit it's early days.

In the US, in two separate transactions since February, we've already agreed the sale of about two-thirds of our North American corporate loan book and associated commitments that we had identified for exit. These deals will also include the transfer of associated staff, and are expected to progressively close over the next two quarters.

We expect to book approximately GBP135 million of pre-tax losses on sale from the combined disposals.

We've also exited the first of our 25 countries, Kazakhstan; sold a material part of our UAE franchise, and a number of small legacy assets and shareholdings.

With all of this activity across CIB, we feel comfortably on track at this point to achieve our GBP25 billion RWA reduction in target for 2015.

Equally, we're making good on-going progress with the accelerated rundown of RCR. We've reduced RWA equivalents by a further GBP5.6 billion during the quarter, and at prices that enabled us to produce a small operating profit.

Our forward deal pipeline in RCR remains healthy, and we're very confident of achieving our asset wind-down target by the end of this year.

As a reminder, when we set up RCR we said we'd wind it up when we got to a 15 percent of the starting funded asset pool; as at the end of Q1, funded assets were GBP11.1 billion, and we need to reduce this to at or below GBP5.7 billion. We then intend to merge the residual RCR pool into CIB legacy at the end of the year.

Turning to our capital and leverage positions, our core Tier 1 ratio improved 30 basis points over the quarter to 11.5 percent. It's now up some 290 basis points over the last five quarters. And our leverage ratio was up a further 10 basis points to 4.3 percent.

And all of this progress was achieved despite incurring litigation and restructuring charges during the quarter, totaling a combined GBP1.3 billion. And, as we said previously, these charges are expected to continue to represent a material headwind over the coming quarters.

On our core Tier 1 target of 13 percent, we remain confident in achieving this by year-end 2016; and then, we expect a shift to a position of likely significant surplus capital generation over the coming years.

Turning to our go-forward bank, customer confidence, both here in the UK and Ireland, is robust. Net lending across UK PBB and CPB was up 2.5 percent on an annualised basis. Lending growth in our commercial portfolios was particularly pleasing with strong net new lending growth of GBP1.3 billion.

Mortgage lending in UK PBB had a slow start to the year but accelerated towards the end of the quarter with application volumes in March up 10 percent year on year.

In context, March was the highest month for mortgage application numbers and volumes since the start of 2014

Overall for the quarter, our net new business flow market share was 8 percent which is in line with our 8 percent stock share. Income across the UK PBB and CPB was broadly stable versus the first quarter of last year but down 5.4 percent versus the fourth quarter.

When looking at quarterly trends, I would note that we had two less days of interest in the first quarter, relative to the fourth quarter.

You should note that, from a reporting perspective, we shifted our Channel Islands franchise, RBS International, from Private Banking to Commercial this quarter. The IMS has the detail, but you'll need to adjust for this impact when comparing quarter-on-quarter performance for these two segments.

CPB, in total, remains unchanged from a reporting perspective.

On CIB, performance was in line with our updated plan. CIB income declined 40 percent versus the first quarter last year, which reflects the impact of the planned business reshaping; most notably, the exit of our US asset-backed business, with RWAs for CIB down 27 percent year on year.

Given both the seasonality of our CIB franchise and the ongoing reduction in its scale and scope, we do expect quarterly income for CIB to fall during the remainder of 2015. And as we signaled at our full-year results, we expect revenues in CIB for the full year to fall at a faster rate than costs.

We're also likely to see certain one-off losses in sales as we progressively accelerate disposing of various CIB portfolios over the coming quarters. This was part of our overall estimate of GBP2.5 billion to GBP3.5 billion of pre-tax exit costs from the CIB legacy businesses that we announced as part of our full-year results.

On our overall CIB progress, both across go-forward and the wind down of our legacy business, we expect to give you a more substantive update alongside our second quarter results, in late July.

Turning to impairments, we had write-backs of a net GBP91 million during the quarter. We continue to see the benefit of benign credit conditions in our core franchises, together with ongoing net write-backs in RCR.

Risk elements in lending declined by 21 percent during the quarter, as we continued to reduce RCR, resulting in REILs as a percentage of growth loans 5.4 percent at quarter end.

Asset quality conditions continue to remain favorable at this point.

Finally, and importantly, we continue to deliver against our cost-reduction objectives. Excluding restructuring and conduct costs, operating expenses were down 15 percent on first quarter 2014; and pro forma, for the exclusion of the bank levy, were down 3 percent on the fourth quarter.

We're on track to deliver our targeted GBP800 million reduction over 2015.

I would note that we're now holding ourselves to a higher standard. We'll absorb the additional bank levy costs, as a result of the recent budget statement, within our cost reduction target for this year.

On restructuring costs, we expect these to remain high during this year, and into next year.

As a reminder, we've got four major programs concurrently running that's driving this; namely, our core bank transformation program; our wind down of CIB's legacy business; preparing Williams & Glyn for a post-summer 2016 IPO; and preparing for ICB. The quantum and timing of these restructuring costs will remain volatile quarter on quarter.

So, in summary, we've achieved substantial progress during the quarter with our exit bank. And our objective to reduce RWAs to below GBP300 billion by year end remains firmly on track.

Our core capital and leverage ratios were further strengthened. And we expect to meet our core capital target during 2016, and then be significantly capital generative.

To repeat our commitment, we intend to distribute excess capital above our 13 percent core Tier 1 target once we've PRA approval to do so.

Our UK franchises are seeing solid volume growth, and in line with our 2015 targets. But as we keep consistently signaling, substantive headwinds remain.

We expect some tough quarters ahead. We know we've a very heavy restructuring cost agenda ahead of us, and that we're likely to incur substantive US RMBS-related settlement costs at some juncture over the next 12 months.

So overall, and despite the attributable loss, we view this as a good start to the year, in line with our expectations at this point. And we're just getting on with it.

I'll now hand back to the operator to open up the call for your questions.

Chintan Joshi: My question is around growth. When I think about that slide 12, and thank you for publishing that, even within the GBP183 billion there is a legacy book. I calculate growth RBS to be a much smaller number. If I look at just UK PBB, Commercial Banking, it's about GBP106 billion that can actually grow.

And on that you comment that there's about 2.5 percent annualised growth rate in Q1. But UK PBB has just done 20 bps, whereas Commercial Banking, after a number of quarters, has done 4 percent growth for the very first time. So I'm just trying to understand how we should think about these trends. What is your, for example, what is your gross mortgage lending share in 2014? Should we expect a pick up there? Is that the reason why UK PBB can do better than 20 bps?

And Commercial Banking, is there a one-off here, because it hasn't grown at 4 percent for a very long time?

And then, I've got one on litigation.

Ewen Stevenson: On your question on growth, on mortgage lending, we, frankly, were a little bit disappointed to have only achieved stock share growth this quarter. Flow share was 8 percent, which is equivalent to our stock share. We invest heavily in our mortgage origination capacity. We've added about 30 percent more mortgage advisers since the start of 2014. We believe that we should be able to grow comfortably ahead of the market. Last year, for example, we grew 4 percent; the market grew at 2 percent.

As I said, March was our best month in – well you may have missed it but March was our best month for 15 months for new mortgage applications. So we're pretty confident that we will continue to see decent growth out of our residential mortgage book in the UK.

Ross McEwan: Just following up there, as Ewan said we were disappointed in our first couple of months of mortgage sales for the year. It has certainly lifted in the latter part, and continued through, so we expect to see some growth in that market share coming through.

The issue for the Personal and Business Banking team is there is a slight contraction going on in the margin there, purely because of the movement from standard variable rate across on defects which is an industry phenomenon happening at the moment, because customers are locking in. But we would expect to see better growth in this following quarter, and some market uplift.

Commercial, actually, it's going quite nicely. We've seen some growth in that book. Alison and her team, Alison Rose, who runs that business, very focused on getting some growth, even though she is still taking off some commercial real estate assets out of the book. And it was nice to see some growth in the book despite that, at a net level, this time round, it's the first time in a long time. So we would expect to see some modest growth continue in that book over the 2015 year.

Chintan Joshi: Can I just come back on the market share point on mortgages? What flow share are you targeting, if you have a target? You said 4 percent growth versus 2 percent in the market last year, is that something -- is that the kind of market share that you are targeting, i.e., double your stock share?

Ross McEwan: I would think that I'd be comfortable if we got to the 10 percent to 12 percent versus the 8 percent stock. I do not expect to see explosive growth from us in this market. I would expect to see continual growth.

We want to write very good quality business, and what we're doing is building our capacity, i.e., more mortgage advisers, to deal with our own customers here. And that's the way I see it. So, about 10 percent to 12 percent versus stock of 8 percent is my expectation.

Ewen Stevenson: We were doing 10 percent share last year.

Ross McEwan: We were, yes.

Chintan Joshi: OK, thank you for that discussion. Quickly, on FX, you've provided GBP700 million. A couple of your peers are closer to the GBP2 billion mark in Europe. I'm just wondering if you are behind the curve relative to other banks out here. Is this an ongoing issue? Or do you have a decent visibility on what settlement might look like? So, wondering just that are you kind of that FHFA provision build mode that you were in 2014 on FX this year?

Ewen Stevenson: No, we don't think so. A couple of observations on that. Firstly, at least relative to one UK peer, we have settled with the UK authorities and CFTC. I think it's important to make that difference.

I think another important difference is that we are not regulated in New York, like some others. So we do think that, that $1 billion that we now have as a reserve with the 500 we took in Q4, the 500 we've taken this quarter, does cover us for everything that we can see at the moment in relation to potential to US settlements.

I would note that there is likely to be a longer-dated settlement required with the European Competition Authorities that's not currently provided for. I can't comment on what others have done in that respect.

Chintan Joshi: OK, thank you very much.

Operator: We will take our next question from the line of Chira Barua from Sanford Bernstein. Please go ahead

Ross McEwan: Hi Chira.

Ewen Stevenson: Hi Chira.

Chirantan Barua: Hi, just two quick questions. One, Ewen, you mentioned something on mortgage restructuring in terms of litigation charges, which could be significant, and they could come in this year is what I heard. I just wanted to understand that, clarify that again. That's number one.

And then second, on your CIB book, you said two-thirds of the North American book is done. It would be great if you could just help us understand where the CIB legacy book actually is in terms of the geographical split right now.

Ross McEwan: It’s – if I can just general comment on the RMBS, because we've been quite clear, over the last year or so, that we have a court date set down later this year, early next year to settle a number of the RMBS claims in the US. We can't be clear about how much that will be, though, until we get into those conversations and see the case, but we've just kept saying it is likely to be substantial. So there's no real change on that.

And I think all our documentation and our last annual report probably clearly showed each of the RMBS positions that we'll be battling into this year. And we would like to see those this year, but some may spill into 2016. But ideally, we'd like to get those out and gone in 2015. But it's really related to court dates and when the authorities start talking to us.

Ewen Stevenson: And we did take a small incremental litigation provision for one specific, one of the smaller, litigation claims we've got at the moment in the US on RMBS. But that incremental provision doesn't relate to the major FHFA claims we have, or the Department of Justice. But, Chira, I think we've been pretty upfront, as Ross said, that we do expect substantive RMBS settlements required at some point.

I think if you went back to the full -- on your question on where does the -- what's the geographic split, if you go back to slide 29 in the full-year result pack, what you'll see there, you'll see a geographic breakdown of go-forward and strategic.

So, just to go back on the US, what we've sold we think is about two-thirds of the corporate loan book and associated loan commitments relating to the assets that we -- corporate assets we wanted to sell in the US.

In Asia, I think you'll start to see some rapid progress there. We've already kicked-off one sales process in Asia.

We then -- the GTS platform, we're in the middle of reviewing options to reduce that.

And then, there's a bunch of assets in Europe. Kazakhstan, for example. We've already sold UAE; we've sold off a decent chunk of that. We started another process in one of the other European countries.

What we've done, from an organisational point of view, is we've taken -- because of the rapid progress that we've made with our RCR we've been able to shift much of that team, led by Mark Bailie, who was the co-head of RCR, over to run the CIB legacy business. In context, it's an industrial scaled machine. I think they did over 400 portfolio sales last year.

So I'm spending a lot of time with Mark at the moment, and I think you'll see substantial progress over the next few quarters in running down the legacy books.

Chirantan Barua: And, Ewen, just a quick follow up … down later in the year in…

Ewen Stevenson: I think we recognise that we owe you a more -- obviously, a much more complete picture of what we’re doing. I think the current plan is to have a much more fulsome discussion at the half-year results. And I think we are looking at potentially holding a seminar on CIB later in the year, post summer.

Ross McEwan: Just on that, I'd like to get through the second quarter, let the team settle and get some rhythm, both on go-forward and on the assets coming out, so we can then give you a fuller picture.

There's a lot of heavy planning work going on, on the sales processes. Ewen has outlined, it's going very well. And we've got interested parties. But I think early in the third quarter, on our half-yearly results, is probably the best time to do it.

Chirantan Barua: Thank you. Thanks

Operator: We will take our next question from Peter Toeman from HSBC. Please go ahead.

Ross McEwan: Hi Peter.

Peter Toeman: Thank you.

In the appendix, on the Personal and Commercial Bank, you very kindly give us some details about revenues from mortgages and deposits. I think you can see, looking at those numbers, that an improvement in the personal deposit spreads, or deposit income, compensated for reduction on the mortgages spreads on a year-on-year basis, but not if you compare Q1 this year against Q4 last year.

I was wondering if you could explain what -- if there were particular movements going on here in terms of the mortgage margin which has caused the revenue to drop precipitously in Q1 relative to Q4; and again, why personal deposit income has dropped in Q1 relative to Q4.

Ewen Stevenson: Yes, look there's a few factors going on. Firstly, just relative to Q4, you've had less days of interest because of February. So you've got two days less of interest, which for the total Bank's about GBP60 million, and I think for UK PBB is about GBP25 million.

In terms of the net interest margin, which has come off 13 basis points, I think, in PBB UK, there's two main factors in that. Firstly, about half of it relates to a shift in the mortgage side from standard variable rate to fixed rate.

Ross McEwan: About 7 basis points.

Ewen Stevenson: And secondly, the other half of it approximately relates to effectively a methodology change that we've had in terms of central treasury, both in terms of the pricing of surplus liquidity that we take from businesses that have surplus liquidity, UK PBB being one, so they're getting paid less for their deposits.

And secondly, on the offsetting side of that, trying to get a better match of how we price funding out to the businesses that are deposit short.

So CIB was actually a beneficiary. But half of that net interest margin decline, there's effectively a zero sum gain across the franchises.

Peter Toeman: Right, so one shouldn't infer that the Q1 against Q4 trend is indicative?

Ewen Stevenson: No. What I would say, though, is do we expect some gradual, but modest NIM compression over the year? Yes, I think we'll see that.

Ross McEwan: I think we do. Particularly, as customers are going more for fixed rate mortgages from standard variable you do see a contraction there. Just for us, I think was around 7 basis points on mortgage margins we lost there; not on volume, but on just the switch across to fixed. And that, I suspect, being seen as exactly the same in every other bank at the moment.

Ewen Stevenson: And you also know that we've got a five-year hedging program that progressively rolls off. And the longer that interest rates stay where they are, that becomes more of an issue for us.

But overall, I think we're pretty comfortable that we're not going to see undue margin pressure this year.

Ross McEwan: And can I just add to that, Ewen, you see we've move RBSI across into Commercial; and you're seeing the wealth business, or Coutts business, laid more bare at the moment.

The margin change in there on the changes Ewen's just talked about on our central treasury changes is probably hardest hit by the Private business, because it has so many deposits in comparison to its asset book. So, it took about a 20 basis point hit on its NIM on that area because of it.

Ewen Stevenson: And the other thing, just to complicate your lives further with us, we are a complex organisation, is just we'll obviously deconsolidate Citizens at some point. So I think when you are forecasting NIM, make sure you're doing it on a divisional basis because when Citizens comes out again that will move the NIM in the quarter that it comes up.

Operator: We will take our next question from Michael Helsby from Bank of America. Please go ahead

Michael Helsby: Yes, morning gents. Just a quick clarification on CIB, and then just a broader question. You mentioned that the US credit business dropped out in Q1, but was there any contribution at all from that in the first quarter? So, that's question one.

And then, just more generally, I think you're clearly making progress on all the reductions, and that, and that's very evident, and you're doing a very good job. But the revenue in the go-forward business, it actually went backwards quite notably versus what looks like the run rate in 2014, and not just in CIB. When do you expect that go-forward revenue to start moving ahead? Is that something we should expect in future quarters from here, or is that more of a 2016 view?

And can you tell us what of the UK bank levy was allocated to that go-forward business on slide 28 that you gave us in 2014? Thank you.

Ewen Stevenson: On your question on CIB, there was relatively modest revenues from the US ABP in that Q1, so most of the reduction was due to the runoff of the US business.

I think the other fact that you should bear in mind, too, there was a bit of volatility in our currencies business in Q1 as well around the Swiss de-pegging; and you'll see the currency comparison year on year also is well over …

(Multiple speakers).

Michael Helsby: Can you quantify that loss you took on the Swiss de-pegging?

Ewen Stevenson: You'll see that currency revenues are down GBP50 million on Q1 of last year.

Michael Helsby: Yes.

Ross McEwan: That's a fairly clear indicator.

Michael Helsby: Right, good. Thank you.

Ewen Stevenson: On the go-forward revenues, I think on CIB we have been pretty transparent. We told you what our long-term objective is, the CIB go-forward business, of GBP35 billion to GBP40 billion of RWAs.

You'll also know that the first quarter is always going to be our best quarter for revenues. So do we expect CIB go-forward revenues to decline from here? Yes.

On PBB and CPB, look there were fairly sizeable AFS gains in summer of last year which we don't expect to see going forward, so the year-on-year comparison, period-to-period comparison is always going to be a bit weaker. In fact, we took some AFS losses this quarter.

So, do we expect to see growth of those numbers in PBB and CPB from here? I would think so.

Ross McEwan: I think you'll see, just my view on the Personal and Business Banking, they've got a few alterations coming through. For example, interchange on credit card business hits them this year. That has a negative impact, I think, of about GBP50 million to GBP60 million, so that will flow through this year.

You're seeing the changes on the standard variable flowing through, going across to fixed. So there's a few headwinds this year. I see the growth will come later on this year, and into 2016, from the Personal Business Banking.

On the Commercial and Private Banking Business, I think you're starting to see that business finding its feet with modest growth. And I'd see that continuing this year, as the assets under management start to grow not contract, and margin reasonably stable, looks like.

Ewen Stevenson: Yes, the last thing I'd note is, obviously, that table has been rounded, so be careful on reading too much to the final single decimal point on the numbers.

On your question on bank levy, bank levy for us was GBP250 million last year; approximately half of that was in go-forward, and half of it was in legacy.

And in terms of what we think the recent budget change has done to us would add about another GBP55 million of additional bank levy cost to what we thought it was going to be this year. But what we thought it was going to be was less than last year, given the ongoing balance sheet reduction.

Michael Helsby: Right. OK, thank you.

Operator: We will take our next question from Raul Sinha from JPMorgan. Please go ahead

Raul Sinha: Maybe two from my side. The first one is, again, on UK Personal Business Banking. You're the second bank to talk about weaker fee income; and the packaged accounts, as well as unsecured shrinkage, seems to be a couple of the drivers of the weakness.

Could you talk about how much more wash through there might be of this lower packaged account income going through the fee line? And is it something we should also start to improve later on in the year, as you pick up your mortgage growth?

The second one that I have is on the write-backs. It looks like RCR was the sole driver of write-backs in this quarter, which, I guess, as a division that can be lumpy. But leaving RCR aside, should we start to expect more normalised provisions in your go-forward bank from here, given Ulster is now looking like it's topped out? Thanks.

Ewen Stevenson: Yes, look taking the last question first, on the write-backs, you're right, I think there was a small write-back in CIB as well. But overall, RCR, I think, is -- has been the main driver this quarter.

I'd be cautious on predicting, therefore, that, that's going to continue later quarters. I think it doesn't tend -- it does continue to be quite volatile. And remember, that they are continuing to do -- I think their plan is to do about 400 portfolio sales this year, so --

Ross McEwan: Do you want me to pick up on the PBB?

Ewen Stevenson: But just on impairment trends generally, I guess, what is normal, beginning of last year we were guiding to 40 to 60 basis points. I think we gave up on that guidance when we realised that impairment trends were nothing like that in this interest rate environment.

So, we do expect to see impairment levels probably continuing around where they're currently continuing. But it's very difficult to predict, because one of the other things we're not seeing at the moment is any large single-name write-offs. And obviously, in any given quarter, one or two of those could have a material impact on our impairment line. We're not seeing them today, but we're cautious about taking current trends and rolling them into the future.

Ross McEwan: Just on the first question. Raul, just on the unsecured personal loans, they are now -- we're seeing modest growth in there, so I wouldn't see any major contraction in that part of the business this year. And the same with packaged accounts.

The only major fee-line pressure is coming out of interchange, as I said. It actually might be higher than GBP50 million, I think it's probably GBP60 million to GBP70 million, so it's a bit of a drag on the business, as it will be on anybody who runs a card business this year.

And the area that Les and his team are working on is a new current account offer that he hopes to get out into the marketplace later this year. So those are the sort of things that he's working on.

So I think we're seeing stable, unsecured pressure on the fee line because of interchange, and we need to do a lot more work on our current account offering.

Raul Sinha: That's helpful. Thanks, guys.

Operator: We will take our next question from Mike Trippitt from Numis. Please go ahead.

Mike Trippitt: Good morning. Can I just come back to the point on mortgages and margins? Just to be clear, it's really -- it sounds like it's internal churn from -- on PBB from SVR over to fixed rate. I just wondered if you could just help us with, out of that (GBP103 billion) mortgage balances, how much is SVR, how much that has moved. And do you suspect that this will now continue throughout this year?

Secondly, also on the margin point, Ulster Bank's obviously stepped down quite a bit. Forgive me, it's probably in the detail, I know the headline commentary talks about increased liquidity. Could you just maybe comment on that a little more, and whether that steps down further, as we go through 2015? Thanks.

Ross McEwan: I'll do the first one. 90 percent of new business is now being done on fixed, and about 20 percent of our current business, or stock of our business, is on standard variable rate.

I think you'll probably find that we've got a slightly lower, if not lower, standard variable stock than other firms, but we're at 20 percent standard variable. Others, we understand, could be as high as 50 percent. So you guys are seeing a major trend towards 90 percent of business going into fixed rate.

Ewen Stevenson: Yes, in relation to Ulster, I think you will continue to see some pressure. There is some capacity to continue to re-press liabilities there; but equally, the return that we're getting on free funds as hedges roll off is deteriorating.

I think the other thing you just need to be -- I'm sure you're doing this, is just make sure you adjust for the currency impact, because there's quite significant currency moves first quarter on first quarter versus the euro.

Mike Trippitt: Right, OK. Does that impact the margin, or not? I'm just wondering if it does.

Ewen Stevenson: All right. I wasn't sure what you were talking about. No, it doesn't impact the margin.

Mike Trippitt: No, OK. OK, that's great. Thank you very much.

Operator: We will take our next question from Rohith Chandra-Rajan from Barclays. Please go ahead

Rohith Chandra-Rajan: Hi good morning. Just three quick ones, really, just clarification, please. Just on the comment that you just made, Ross, on the SVR stock, you mentioned 20 percent, just wondered if you could give us some detail on how that's changed quarter on quarter, and year on year. So, what -- was that 20 percent Q4 and Q1 last year?

And then secondly, corporate institutional, you've given us an indication of both revenue and RWA impacts this year. Just wondered if you can provide some clarification just on your cost expectations. So, costs down 18 percent year on year in the first quarter, what's your expectation for the full year?

And then finally, just on the US RMBS provision, am I right in thinking that's just over GBP2 billion? Thanks.

Ross McEwan: Yes, I'll start with the first one. The SVR, probably a year ago, I think, was about 25 percent, now down to 20 percent. So that has been a decline, and we're seeing that continue.

Just on costs for CIB, we had them at GBP3.5 billion in 2014, we're looking at GBP3 billion in 2015. To be absolutely clear with you, revenue will come down much faster than costs, and will do so for the next couple of years. But our focus is on the costs in that business.

And RMBS, yes, we do have just over $2 billion, I think that's $2 billion -- GBP2 billion, sorry, provisioned.

Ewen Stevenson: Yes, on CIB costs, I think it's our expectation that we'll only start to see a material reduction in headcount coming through and starting around the fourth quarter of this year. But you won't see the benefit of that in 2015.

Rohith Chandra-Rajan: OK, that's great. Thank you very much.

Operator: We will take our next question from Martin Leitgeb from Goldman Sachs. Please go ahead

Martin Leitgeb: Yeah, just two questions from my end, please. The first one is, is there any update you could give us with regards to Williams & Glyn, and also in light of recent news flow there?

And the second question on litigation, I think you gave an outlook with regards to timing with regards to settlement costs on the mortgage side. I was wondering whether you could add a little bit more color on the FX side. In particular, I see a provisioning has increased there quite substantially over the last two quarters. Is that -- can we read that in a way that this might be even more imminent than a settlement on the mortgage side? Thank you.

Ross McEwan: I'll just pick up on Williams & Glyn. We are still targeting end of 2016 for an IPO, the start of an IPO on that business.

I think we're making now good progress on the systems extraction out of our business across. We've got major testing going on. It is a huge piece of work, so I'm not -- this is always going to be a difficult task for us, but good progress is being made.

We are strengthening the team that has been built up at Williams & Glyn to take over the go-forward business, and you'll see that being strengthened over the next six months. And it's one of our major priorities as an organisation to get this business out of here over the next 18 months.

So no more than that as an update. At this stage, difficult, but on task.

Ewen Stevenson: And we have, again, provided you with some separated disclosure on Williams & Glyn on one of the slides, slide 12.

On litigation outlook, on FX, we do expect – hope for some news flows this quarter; obviously, we're now in late April, so some time in the next couple of months.

There's obviously -- it's a complex discussion, involving a number of banks, with the Department of Justice, but we do think we'll see some additional news flow this quarter, and, hence, the additional provisioning that we've taken.

On RMBS, as you know, there were 18, or so, banks seeking to settle with FHFA claims. There's us and Nomura to go. We've got the very last court date. Nomura seems to be now starting to engage in discussions, but our court date is in 2016.

On the Department of Justice, Morgan Stanley has now settled in the last quarter. We understand another US bank is now in discussions.

So we're just getting prosecuted in order, and we're at the back of the queue, so it's not because we're sort of sitting on our hands. But we would hope to be able to settle a substantial part of the US RMBS settlements this year, if we could.

Martin Leitgeb: OK, thanks.

Operator: We will take our next question from Joseph Dickerson from Jefferies. Please go ahead

Joseph Dickerson: Hi good morning gentlemen, I have a couple of quick questions. First of all, could you -- it seems like the funded assets in the CIB go-forward business have gone up about 9 percent quarter on quarter, while the RWAs are slightly down. I was wondering if you could explain that.

And then second of all, do you think that as you run down the various exit groups and generate effectively more cash and more liquidity that the liquidity book increases, and, therefore, the drag, if you will, from the treasury book that's allocated out of these segments will have kind of an ongoing negative impact on the margin in the business unit, such as UK PBB? Thanks.

Ewen Stevenson: Yes, on funded assets in CIB, a couple of comments. Firstly, I think it's important to recognise that we only made the CIB announcement at the end of February, so it was still very much business as usual for the team through the first couple of months of this year.

As you and others will know, typically, what happens is counterparties close their positions down a few weeks before Christmas, so there is a natural shrinkage in -- on the asset side ahead of that, which is now -- and then, there's significant growth that gets put back on, on the first couple of weeks of the year. There's also some currency effect, because of the strengthening of the dollar against sterling, in the quarter.

But there was nothing in that increase in funded assets that surprised us. I think what you will see during the course of this year is that number start to come down materially as we start to make more material progress on the CIB restructuring.

Sorry, and the second question was?

Joseph Dickerson: Just under liquidity book. Because if I look at the liquidity book, it was up about GBP6 billion quarter on quarter to GBP157 billion, and it seems that part of the margin pressure in the segments is because you've allocated some of these treasury costs out to the various business units.

And as this liquidity book grows through your various de-leveragings and you have this dynamic between the liquidity book growing, and then how fast you can redeploy that in the interest-earning assets, do you expect the drag, if you will, from treasury allocation to, for example, UK PBB, to have ongoing pressure on the margin? Or do you think that we felt the bulk of that in the first quarter?

Ewen Stevenson: Yes, just to go back in terms of when you say drag from -- it wasn't because of incremental treasury costs; it was because of a change in methodology that effectively resulted in us paying less for surplus liquidity. So that impacted people like UK PBB; it impacted Private Banking, as Ross said earlier, and benefited certain businesses on the asset side, such as CIB.

I think when you look at that liquidity book, too, it's important to remember a significant part of it -- well, secondly, liquidity, the cost of it is negligible. But I don't think the liquidity book has any -- from here, will have any material effect on our outlook for NIM.

Joseph Dickerson: Thanks.

Operator: We will take our next question from the line of Fahed Kunwar.

Fahed Kunwar: Hi morning, I just wanted to dig, I know there's been a lot of questions on this already, but into PBB and the income trajectory. I guess, a couple of points.

On the SVR book, I guess, we see it coming down, which will be a margin drag. And you talk about modest margin pressure as a whole through the course of this year, and the indication seems to be that margins will be, at best, flat next year as well. How are you so confident that the revenues in that, considering right now they look to be below last year's level, will pick up in the second half of the year? What mechanism are you seeing for that to happen?

And on the SVR book, just the second bit of this question, I've always been surprised by how little the SVR book has come down over the last few years. But a few of your peers have talked about the SVR book coming down this year quite quickly. What's changed to bring that SVR book down? Is it FCA pressure? Or is it LVE?

What's been the driver of that SVR book and people on that SVR book finally remortgaging onto fixed rates, when they haven't done really for the past few years? Thank you.

Ross McEwan: Well, just on the – when I think the public have realised that interest rates have got so low, are they going to go any lower? And the talk last year of an interest rate rise I think did push a lot of people to start thinking about fixing, where they'd been happy sitting on a standard variable rate. So I think psychologically there has been quite a bit change there, people think they're at the bottom of the interest rate cycle.

There is an impact on the business of about 7 basis points for us, is related to that SVR switch. And you're seeing some very attractive fixed rate offers now in the marketplace, so I think it has tempted people away from a standard variable of around 4 percent. I think we were one of the lower in the market at 4 percent. If you've got good equity (in the hind) you, you were down and around sub-2 percent. So that has attracted a lot of people across.

Ewen Stevenson: Yes, and first question, well, you can do the math. If margins are down, what do you need? You need growth. So we do think -- and we are looking for growth in UK PBB. And as Ross said, as you move into 2016, that's what gives us confidence that we are going to be able to grow the top line of PBB.

Ross McEwan: It's challenging, though. I mean, it’s just challenging. We are now focusing the business more and more on the go-forward business and less and less on the exit business, so the resources of the Bank and their thoughts need to get into these businesses and help them grow.

Ewen Stevenson: But I also think, when you look at -- also important, we're literally not sitting on our hands on this. So income, I think, quarter -- Q1 on Q1 was down 1 percent; costs were down 15 percent. So we did have a 14 percent operating jaws in our UK PBB business.

Fahed Kunwar: I see. Can I just have one quick follow up? Just on the SVR book, the 7 basis points drag, for the reasons you mention, mortgage rates keep coming down, LTVs keep coming down as house prices go up. So why doesn't that 7 bps drag continue, or maybe increase going forward? Is there a reason that potentially could stabilise? Or do you think that drag is the case now for the next couple of years, really? Thanks.

Ross McEwan: I think you're right, you could see a slow reduction in the NIM on the mortgage book as more and more people get there and it becomes more competitive. I don't think the market, though, is going to get out of control on pricing here.

Ewen Stevenson: I think the other thing is we've already seen significant migration, and at some point you're not going to continue to see significant migration because those people who wanted to take advantage of fixed rates have done it.

Ross McEwan: And, as I said, we've gone from 25 percent down to 20 percent of our book on SVR over the last year, so that's the sort of movement we've seen.

Fahed Kunwar: Great. Thank you very much.

Operator: We will take our next question from Manus Costello from Autonomous. Please go ahead

Ross McEwan: Hi Manus.

Manus Costello: Morning. You saw a big step down this quarter in NPLs, or REILs, sorry, and, correspondingly, a very big step down in your impairment provisions, as well, without any huge release this quarter. So that makes two questions for me.

Firstly, do you think the prospects for very material impairment release are now reduced, as you're getting rid of those NPLs? It would appear to be broadly the levels that you had them marked.

Secondly, you used to guide to a go-forward RBS having, I think, a 2.5 percent to 3.5 percent NPL ratio, and you're making progress down towards that. Do you think that might be lower? Is that target now something you might be able to beat?

Ewen Stevenson: If you look at where the big reduction was on NPLs on the first quarter, it was out of RCR; and, in particular, it was out of some very heavily provided books in Ireland.

I think, yes, as we continue to run that RCR you'll continue to see, I think, during the year quite a substantive reduction in REILs, and the balance sheet provision we have against it.

We're now down to 3 percent. On the core books, we're now down to 3 percent. It feels like it's going to continue to trend down for the time being. I'd note, other banks are comfortably below us. So that previous guidance, I think, was a through-the-cycle view. And given the cycle, and given the current interest rate environment, I think, both on impairments and in REILs, they're likely to be at the low end of anything we might have said in the past.

Manus Costello: Thank you. Do you think the scope for impairment releases is improving as the economy gets better? Or is it diminishing as your balance comes down?

Ewen Stevenson: Well, look I think we're appropriately provided on our core books. There continues to be -- if Irish house prices or Irish real estate values continue to accrete, I think, we've said in the past that each 1 percent increase in the Irish house price index results in a release of about GBP15 million. There actually wasn't any increase in the Irish house price index in the first quarter, hence, why you didn't see any write-backs out of Ireland.

I think with RCR, I think we are now getting, plus and minus, to a position where in the next few quarters that debate is going to diminish and the capacity for write-backs. We would just caution against viewing 2014 as a guide to 2015.

So I don't think it's going to be a big theme in our numbers going forward. But I think what you are going to continue to see, for the time being at least, is relatively low levels of events.

Manus Costello: That's very clear. Thank you.

Operator: We will take our next question from the line of Jonathan Pierce from Exane. Please go ahead

Jonathan Pierce: Morning. I've got two quick questions. The first one is coming back to UK PBB margins. You mentioned, somewhere in the commentary, that some of the pressure, as well as from mortgage margins, was from lower recognition of income on non-performing assets, certainly versus the fourth quarter. Can you talk a little bit more about that?

Is that, basically, where you were previously on winding the discounts on those impaired loans through net interest income and that's just disappeared as impaired loans have disappeared? And is there more drag from that to come? That's point one.

Point two is just to help us with the models in terms of center, because central non-interest income is obviously all over the place, for understandable reasons. Should we just plug that in as zero as an ongoing number?

And final part of that question, then I'll finish, is in your ongoing earnings slide do you strip out the IFRS volatility from the ongoing side of the business and put it into the exit businesses? Or is the IFRS volatility within that ongoing earnings number? Thank you.

Ewen Stevenson: Yes, on the question on center, I think zero is as good an estimate as any as what we think the future is going to be on income through the center, and some volatility obviously around that quarter on quarter.

On IFRS volatility, the IFRS volatility relates to a portfolio of loans that are sitting in ommercial, so it is in the go-forward business. That portfolio relates to a -- as you're probably familiar with, Jonathan, some very long-dated Housing Association and local authority loans that were put on several years ago and some associated interest rate hedges around them, so that does sit in the core bank.

Ross McEwan: The last one, just on your first question was in PBB. There was a one-off recovery in the fourth quarter. I'm pretty sure it was related to written-off interest on our mortgage book that was recovered, so I think there was one-off (covered). I'm not too sure the size of that -- about GBP15 million. There might be a recur.

Operator: We will take our final question from Andrew Coombs from Citigroup, please go ahead

Andrew Coombs: Hi good morning, two questions, please. The first is on the litigation and conduct provision table you provide on page 33. I think we've discussed FX, and US, and RBS at length already. But perhaps you could just elaborate on why you felt the need to increase the provision for other customer redress relating to investment advice and packaged accounts. That would be the first question.

Second question was on your go-forward slide. When we look at the biggest delta in the go-forward business, it appears to be predominantly related to CPB. You've seen a decline there in the adjusted ROE from 15 percent to 11 percent. Taking that one step further, it seems to be mainly due to a decline in income, and mainly due to non-net interest income, so perhaps you could just elaborate there on what's driving the decline in that revenue base? Thank you.

Ross McEwan: I'll take the first one just on the other areas of regulatory and legal action. The two items in there are around our investment advice on remediation of past books.

And on packaged account, just make -- we have seen an uptick in the complaints coming through on it and just wanted to make a prudent provision in there; and that's what we've done. So it's really related to investment remediation on back book and packaged account complaints that had risen in the quarter.

Ewen Stevenson: Yes, on your question on slide 12, there's also a slightly more detailed version of slide 12 in appendix 2. But the main impact on Commercial was because we have shifted in this quarter, as I said we would at our full-year results, to analysing the franchise ROEs on the basis of 13 percent of RWAs, rather than 12 percent RWAs. So, for commercial in particular, it has about a 3 percentage point impact on returns. So that, by far and away, is the biggest impact.

You'll also see, in appendix 2, a very low return out of private, 4 percent. Effectively, shifting RBS International from Private into Commercial has halved the return -- or more than halved the return in Private Banking, as we've shown in the go-forward business. It has very limited impact because of the relative scale on Commercial.

But it also does show you, I think, for the Private Bank here in the UK both the scale of the opportunity, and the work that we have to do in terms of getting those returns up. But that business should be comfortably earning far more than a 4 percent return, given its franchise position.

Ross McEwan: It will also, Ewen, I think, be wearing some of the leftover costs as we take the international Coutts business out. So we need to seriously address the cost position of that business, which we are in the process of starting.

Ewen Stevenson: I guess the last part of that was just around your question on the top line of Commercial. Actually, we're very happy with the way that Commercial is going at the moment. It's showing good growth. And remember, that about 20 percent of the book is still effectively run-off or wind down, and we grew the combined book of GBP1.3 billion. We're actually very, very happy with the momentum that's now coming through that business.

Ross McEwan: Yes, across many fronts, actually; not just in the Commercial lending, but also across (and invoice) financing through Lombard, and the likes. It's starting to show up as a very good business.

Andrew Coombs: Very helpful. Thank you.

Operator: Thank you, Ross. I'll now hand the call back to you for closing comments.

Ross McEwan: Thanks very much for your time. I just hope you see that these results show the progress we're making on our plan. We set out to be a much simpler, stronger, and fairer bank, focused on our customers centered in the UK and the Republic of Ireland.

I think we've made a good start to the year, and a good underlying performance in our core business.

Yes, we take on board that we would like to see more growth; we're starting to see it in certain parts of that business that we're focusing on. And we're certainly making good progress on the exit bank with further sell-down on Citizens shares; sale agreed on the international private bank; and scaling back on CIB. All the things we said we would do, we're getting on and doing.

This is going to be another tough, and I'd say noisy, year as we get through as much of the restructuring and conduct charges as timescales and court dates allow. But this is a bank that's on track, delivering on the plans of what we said we would do, and determined to get this back as a trusted bank for customers. And we want to reward our shareholders.

So, thank you for your support, and thanks for your interest this morning.

END