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FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Q3 Results announcement published on 31st October 2014.

Ross McEwan: Thanks very much, and good morning, everyone. Thanks for joining us on our Q3 results call.

We have reported an attributable profit of nearly GBP900 million; our third consecutive quarter of profit, with strong growth in our Personal Banking and Commercial businesses, demonstrating, I think, that our strategy is starting to deliver good results for our customers and shareholders.

We're also publishing, for the first time, our customer service and advocacy scores for our key U.K. customer franchises, which are also showing signs of early improvement.

We are the biggest lender to British businesses, and it was particularly encouraging to see our year-on-year increase in lending to small businesses climb 29% on the year-to-date numbers. And we are within reach of a GBP9 billion target we set for ourselves to get out to new SME lending.

We're making good progress on all of our other key business plan priorities for 2014. Our profit, cost, and capital metrics have strengthened again.

We're also delivering on our plan to make RBS a smaller, but safer bank.

And we are selling assets from RCR more quickly, and at better prices than forecast.

And Citizens were successfully offered on the New York Stock Exchange last month, in what was the largest banking IPO in U.S. history.

We've also completed our review of the Ulster Bank and decided that it will remain core within RBS. We believe this is the right decision for our customers, staff, and shareholders. It has a good strategic fit with our retail and commercial banking strategy, and is on a path to producing positive returns in an economy which is recovering very fast.

We continue to deliver on the commitment I made in February, to change our competitive positioning. We have called time on teaser rates and zero-balance transfers that eroded the trust of our customers, and we'll continue to look at ways that we can put further pressure on practices in the U.K. banking sector that confuse and penalize customers.

But, as has become customary over the last few quarters, let me sound that familiar note of caution. We are actively managing down a slate of significant legacy issues. This includes significant conduct and litigation issues that will continue to hit our profits in the quarters ahead. Today, we have announced a charge of nearly GBP800 million, and Ewen will take you through this in detail in a minute.

So while we are pleased that we've had three strong quarters of financial performance, we are not complacent about the challenge ahead. There will be plenty of bumps in the road, and we have much more work to do. But we are focused on our plan to make RBS the most trusted bank, with the best customer service in the U.K..

I'd now like to hand over to Ewen Stevenson to take you through the numbers, before we open it up for questions. Ewen, over to you.

Ewen Stevenson: Thanks, Ross. And thanks all, for joining this morning. I've got a few summary comments on our Q3 results to talk through, and then we'll leave you plenty of time for questions.

Ross has talked about some of the positive progress we're making in executing upon our customer plans, and the strategic progress we're continuing to deliver across a broad number of areas in the Bank. We're also making some very good progress against the financial targets we set out in February.

For Q3, we reported an attributable profit of GBP896 million. This was flattered by net impairment releases of just over GBP800 million that helped offset higher conduct and litigation costs. For the first three quarters, we've now earned attributable profits of GBP2.3 billion.

And the Return on Tangible Equity for the quarter was 8 percent.

As part of these results, we've had good operating performances by our PBB and CPB franchises; continued good execution by RCR in managing down the size and risk of its asset pool; but, frankly, a weak quarter from CIB.

On capital, our Core Equity Tier 1 ratio was much stronger than the start of the year, and improved further to 10.8% in this quarter. And our tangible net asset value per share was 388p at the end of the quarter. This is up 25p, or 7%, year to date.

Looking at our Q3 P&L performance in more detail, on income, our total income was GBP4.4 billion in Q3. This was down 11% on the previous quarter.

A material part of this reflects the negative delta between some positive one-offs in Q2, such as the GBP170 million gain we made on the sale of Citizens' Illinois franchise; and the negative one-offs in Q3, due to the GBP104 million of disposal losses we took on the sale of a pool of AFS securities that we mentioned in our trading statement last month; and a GBP110 million accounting loss, which was largely attributable to IFRS volatility on some long-dated hedging on our loan portfolio.

But the weak performance also reflects the impact of a weaker quarter by our CIB franchise. CIB's revenues were down a disappointing 23% on the previous quarter. This is due to a combination of further de-risking and downsizing, including the ongoing wind-down of our U.S. asset-backed business; also due to subdued client activity in a number of our core franchises, such as rates; and the non-repeat of deleveraging gains that we saw in Q2.

I think it's also relative to (peers). Our business mix in CIB did not benefit from some of the better-performing fixed segments in Q3, such as leverage finance and commodities.

We are pleased, though, with the good progress our CIB team is continuing to make in reshaping that franchise towards a smaller, more focused, and less volatile business. This includes a rapid reduction in RWAs.

RWAs in CIB are now down by over 16% year to date; a GBP24 billion reduction. And this is in the context of a continuing challenging market backdrop, and a dynamic regulatory and capital environment.

Looking into the revenue performance of our other businesses, there are some very encouraging trends. Personal and Business Banking saw income up a further 3% this quarter; and CPB had more modest income growth of 1% versus Q2.

Our net interest margin improved by 4 basis points to 2.26% in Q3; that's some 25 basis points higher than a year ago. Further deposit re-pricing in PBB and Commercial Banking were the main drivers this quarter of the improvement in NIM.

On costs, total costs were up 5% quarter on quarter at GBP3.9 billion. But if you exclude restructuring, litigation and conduct costs, operating costs were down almost 5% on Q2.

We had very good expense control in CIB; and we're also benefiting from lower headcount in the Bank overall. FTEs were down by a further 2,800, or more than 2%, in the quarter.

We said in February that we would deliver GBP1 billion of cost savings this year, and we're well on track to do this.

On conduct and litigation costs, we took a total charge of GBP780 million in the quarter. This includes an additional GBP100 million for PPI, and early provisioning of GBP400 million for certain pending FX-related charges.

Restructuring costs were GBP180 million in the quarter and now total almost GBP700 million, year to date. We recognize restructuring costs will continue to be volatile, and we expect that restructuring costs will be higher in Q4.

We continue to maintain our previous guidance of GBP5 billion of restructuring costs for the four years to 2017. Within this, this reflects the significant restructuring programme we can foresee over the coming years, as we continue to execute upon our current strategic plan; as we prepare for the

2016 separation of Williams & Glyn; and as we prepare for ring-fencing that, as you know will be required from 2019.

On impairment provisions, we saw a net release of just over GBP800 million in the quarter; this compares to a GBP93 million release in Q2.

RCR saw around GBP600 million of provision releases, as it continues to benefit from favorable market conditions.

Ulster Bank also saw significant provision releases, supported by rising Irish real estate prices.

And across the rest of our businesses, underlying default rates and new NPL formation continue to be very low.

Turning to the balance sheet, we saw good growth across a number of core loan portfolios, with customer loans and advances up 2% in the quarter.

Our Personal and Business Bank in the U.K. had net mortgage growth of GBP800 million, and continues to see its new business market share in mortgages ahead of our stock share.

Commercial and Private Banking had net lending growth of GBP1.3 billion, with the strongest growth in the mid and large corporate segments.

As we've signaled in our trading statement at the end of September, RCR is outperforming previous expectations, both in terms of cost to exit and the speed of run-off. RCR saw assets decline by a further GBP3 billion in the quarter, and RWAes were down by a further GBP5 billion. Since inception at the beginning of the year, RCR's assets are now down 38%; and RWAes by 41%.

On asset quality, it continues to rapidly improve. Our risk elements and lending to gross loans improved from 8.3% at the start of the quarter to 7.4%; and ex-the RCR portfolio, from 3.6% of gross lending to 3.4%. However, we remain very sensitive to the overall macro outlook in the U.K. and Ireland, with some GBP20 billion of balance sheet loan-loss provisions at the end of Q3.

On deposits, we continue to see decent deposit growth with GBP4 billion of additional deposits, or 1% in growth in the quarter.

And with a loan-to-deposit ratio of 97%, we continue to be very well positioned to support loan growth in our core markets.

On our capital and leverage positions, we finished the quarter with a Core Equity Tier 1 of 10.8%; up 70 basis points on the last quarter. This improvement was primarily driven by a 30 basis point increase from Q3 earnings, and a 30 basis point improvement from the GBP10 billion reduction in RWAes achieved in the quarter.

Our Core Equity Tier 1 has now strengthened by 220 basis points year to date. And we continue to remain on track to meet our core equity Tier 1 targets of 11% by the end of 2015, and greater than 12% by the end of 2016.

Our leverage ratio improved 20 basis points to 3.9% in the quarter; and this is before the benefit of any new-style AT1 that we expect to begin issuing in 2015.

On the recent ECB stress tests, you will have seen that we passed the tests across all three of our banks, subject to the stress testing. This is despite the test being run off substantially weaker year-end 2013 core capital and balance sheet risk positions than where we stand today.

So, in conclusion on our Q3 results, Ross and I are pleased with the continuing progress against our financial targets. Q3 was our third quarter in a row of profits, and our Return on Equity was 8%. We're on track to deliver the GBP1 billion of cost savings this year that we committed to in February.

And we're achieving all of this while continuing to both substantially strengthen our core capital and leverage ratios, and undertaking a material de-risking of our asset mix across a number of legacy businesses and asset portfolios.

Turning to our Q4 outlook, we expect it to be a tougher quarter for us, relative to Q3. We do not foresee the same benefit from loan-loss impairment releases that we saw this quarter. But we do expect to continue to see modest levels of new impairment provisions in Q4, and into the start of 2015, based upon current impairment trends.

We're likely to see a continued weak trading performance by CIB in Q4, given both market conditions and CIB's ongoing de-risking. And we expect restructuring charges to be higher in Q4, relative to year-to-date trends.

As a quick reminder, we expect to take a bank levy charge in Q4 of a little under GBP300 million, split approximately 40 percent CPB; 35 percent CIB; and 25 percent PBB.

As we said in our Q2 results, we remain very cautious on the potential significant costs associated with ongoing conduct and regulatory investigations, principally relating to the FX markets and U.S. mortgage-backed securities.

Settlement or redress on these are likely to act as a material drag on earnings and core capital generation over the coming quarters, and both the timing and quantum of any further settlements or redress remain uncertain and could be significant.

So, after bringing the conversation back to a slightly more somber tone, I'll now hand back over to Ross for a few remarks.

Ross McEwan: Thanks, Ewan. I think we just might open up for questions now. It was a good summary of the financials, and let's open up for questions.

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

And we take our first question from Michael Helsby from Bank of America. Please go ahead.

Michael Helsby: Just two questions from me, if that's alright. Firstly, just on CIB, I think there's 32% of your risk-weighted assets making zero profit in the third quarter, once we clean it up for restructuring and litigation. So I think RCR is increasingly in the rear view mirror, leaving CIB very much as the elephant left in the room.

I was just wondering if you could maybe go through what incremental things you can do, over and above what you've already set out to improve the profitability of that division, because it looks increasingly – looking like you need to do something.

Secondly, just on Centre, there's a lot of volatility there on the revenue line. I've got a reasonable amount of revenue, GBP450 million in the model for next year. So I was wondering if you could give us an idea of what the natural revenue is in that division please, Ewen? Thank you.

Ross McEwan: Do you want me to just do a quick one on CIB? We did outline our plans, early on this year, to re-shape this business towards a smaller and more focused business. That's certainly under way, Michael.

As you know as you bring – make these businesses smaller, you always lose the revenue first and the costs have to come out. I think Donald and the team in there have done a very good job of reducing costs, but, as you said, it's not performing to the level we want it at.

And each of the businesses we operate needs to get to its cost of capital. You've seen us answering for the Coutts business, you've seen us answering for the Irish business, and we've still got a lot of work to do on our CIB.

Still, risk-weighted assets to take out of this business, we said we'd target around the GBP100 billion. We think we'll be better than our 2014 target this year, and well on our way to the GBP100 billion. But, look, as you say, still a lot of work to go on this business.

And the other thing that we are answering for is around ring-fencing or ICB, which will have an impact on this business.

So I think you're going to see a lot of work still to do on CIB as we make it a smaller business, and a lesser percentage of our risk-weighted assets.

Ewen Stevenson: Yes, perhaps just add a couple of comments, Michael, to what Ross has said and sort of reacting to your comment that we're not doing anything. We certainly are doing …

Michael Helsby: No. Clearly, you're doing something.

Ewen Stevenson: We've taken GBP24 billion of RWAs out of that business this year, or 16%. We are running down our asset-backed business in the U.S.. I think we've talked in the results about having taken GBP12 billion of RWAs, or about half of that business, down. We do expect to be out of our asset-backed business by the end of Q1 next year.

I would echo what Ross says, we're solving for returns. So if we can't get the returns we need, we will continue to actively manage the business down, take costs out, to get the returns up.

On your question on Centre income, look, I think for modeling purposes, rather than assume GBP450 million I'd assume zero. I don't think you'll see ongoing securities gains or losses, or we don't anticipate those, next year.

There'll obviously be some volatility, I think, quarter on quarter. As you're aware, we had these long-dated hedges associated with some of our loan positions, which does produce, as it did produce this quarter, some high IFRS volatility, but I think that's going to fluctuate bottom line as zero.

Michael Helsby: Thanks. Can I just come back on the CIB, Ewen? Clearly, I appreciate that you're doing a lot already. So it just feels like, incrementally, you're going to have to do more, and I think Ross seems to agree with that.

Is there a base level of RWA that you absolutely need to just maintain a footprint in that business? I'm just trying to get a sense of what you could – what incremental things you could do from a capital perspective? Thank you.

Ewen Stevenson: Yes. Look, we set out a target of GBP100 billion; it's becoming clear that it will be below that. Really, what it needs to solve for is our – as our U.K. franchise and our European franchise, at this point in time, is what we need to make sure that we're looking after, and any services from CIB need to support that. That was our original strategy that I put out in February.

I'd just say, this is a tough market; that the team there are working very hard. They understand the challenge, and they also understand that we are solving for ring-fencing all at the same time.

So, I think work in progress at this point, Michael, and watch the quarterly spaces. We do get this is a smaller business that does need to get to its cost to capital.

Michael Helsby: OK, good. Thank you.

Operator: Our next question comes from Chintan Joshi from Nomura.

Chintan Joshi: Actually, I just wanted to follow up on Michael's discussion there. When you gave us the strategic update, you had planned about GBP300 billion of RWAs. Now, I take your comments on the CIB. I suspect it probably needs to be smaller, but I just want to think about – is that GBP300 billion still relevant? Because I really struggle to get there; I just can't see that kind of growth from the U.K. offsetting the reductions in CIB and Ulster.

And then, second question, just a clarification. Within your capital calculation, I see expected losses have gone up. Is this a result of releasing reserves? And how should we think about that line, going forward? Thank you.

Ross McEwan: I'll just pick on the CIB piece. It's becoming clearer that – the target we set for ourselves is around GBP300 billion. Look, we may be below – we're likely to be below that number. I can't give you any guidance on that at this point in time.

We also said that CIB needed – I think I said it was about 35% of our total. So as the numbers come down, I wouldn't see it being any more than 30% of our total RWAs.

I just think you are seeing a business trying to find a platform. And I think you'll find every markets, international businesses, doing exactly the same as the regulatory framework changes and the capital loads on these businesses change as well. So that's what we're solving for.

Still work to be done. And the team are working very hard at it, and, as I said, still work to be done on this.

Ewen Stevenson: On your second question, on the expected loss, expected loss provision balance, I think, has fallen more quickly than expected loss. We still expect this to be around the GBP1 billion in the medium term.

Chintan Joshi: OK. Should it continue to trend down not go up, like it has gone this quarter?

Ewen Stevenson: Yes.

Chintan Joshi: Thank you.

Operator: Our next question comes from Chira Barua from Sanford Bernstein.

Chira Barua: I've two quick questions. One is on Ulster. Good to see that you have kept the franchise, but it would be great if you could just lay out your strategy there, both in terms of the asset side of the balance sheet, or if you're looking at M&A or acquisition of assets as well?

The second's on the AT1s, Ewen. You mentioned that 2015 you'll be in the market. We've been expecting that. It would be great if you could give some guidance around what the quantum you're looking at, and what kind of marks and pricing do you expect?

Ross McEwan: Yes, I'll pick up the Ulster one, and then pass on AT1s to Ewen. We've done an extensive review on the Ulster business. We did look at all sorts of options, including any likely M&A activity; purchasing of assets to bulk up; sale of the business; the whole – we looked at every option.

Our view, at the end of the day, that the best strategy was to hold onto that business. Because we believe – the question we're answering for, can it get to its return on capital in a reasonable period of time for shareholders, and the answer to that in our minds is yes; helped a little bit by a growing market in Ireland.

But also our – the way we'll structure that business is that the Northern Ireland portion will become more attached to our England and Wales business, and we'll run the Republic off our core systems with the same model, from a functional support model, as we'll do for every part of this business. But it will become more of a challenger bank.

It has the same issue that the overall Bank does; it's too expensive. So it does need to reduce its cost, and the team in Ulster are well aware of that coming out of this review. But that's the same issue across the entire RBS banking operation; it's just a small part of it that has the same issue.

We utilise services across the entire Bank as we operate as one bank, but it needs to have its own regulatory framework, and CEO, CFO, Chief Risk Officer. So the strategy is quite clear: it's very similar to the rest of the Bank, it will follow the same strategy.

You are seeing some improvements in the growth in that business. We have been, I think, reasonably conservative in our assumptions around that business as we've modelled it for the next four to five years, and still we believe we can get it to a reasonable return on capital, and worthwhile keeping for shareholders.

Ewen Stevenson: Yes, on your question on AT1 issuance, we're still working through it. I would think our best case is to try and issue GBP1 billion to GBP2 billion next year.

We've obviously got old-style AT1 on issue, some of which we could convert over time. We're obviously waiting for guidance on TLAC and leverage. And in terms of issuance price, as cheap as possible.

And it obviously – as we think about that, the more we progress into next year, the more our capital ratios continue to accrete, and I think the more that we get through some of the ongoing uncertainty around our litigation and conduct costs, particularly around FX and U.S. RMBS, we would think that the clarity around those, plus capital strengthening, will help push the costs down for us. But there's obviously a number of benchmarks out in the market to look at.

Chira Barua: Thanks.

Operator: Our next question comes from Rohith Chandra-Rajan from Barclays.

Rohith Chandra-Rajan: I just wonder if I could follow up on the Ulster question actually. And thanks for the detail that you have already given. Just wondering, in terms of your expectations then of Ulster making its cost of equity, is that the four- to five-year timeframe that you just talked about, Ross?

Ross McEwan: It is. We have planned it out for that period of time. We thought – there is a lot – quite a bit of work to be done in that business. As you're aware, there's also a big tracker book that sits there and is quite punitive on our return on equity, so it does need some time to work through, but worthwhile. But four to five years was our timeframe we gave it.

Ewen Stevenson: Within that, obviously, we've still got quite a bit of work that we recognise to do on the costs structure. We're trying to get the costs structure down to a 60 percent, or below cost-income ratio over time. And I think we do expect that we'll continue to see relatively low levels of impairment for the time being.

We had a GBP300 million write-back this quarter. And as we look – so, again, the P&L, or the returns, will benefit from the non-normalisation of provisions for some period of time, we think.

Rohith Chandra-Rajan: OK, thanks. And then, if I could just put some of the pieces together in terms of the positives and negatives in terms of your medium-term ROE expectations.

So Ulster better than previously expected; CIB sounds like it's more challenging; but then you've had much better than expected progression on RCR. But the 9% to 11% medium-term ROE doesn't look like it's changed. How do you think about that? And should we expect any update on that, maybe, with the full-year results?

Ross McEwan: That's on the CIB piece?

Rohith Chandra-Rajan: So putting those three things together; better Ulster, worse CIB, better RCR, but there's no change to 9% to 11%. Should we expect some change?

Ross McEwan: No. I think on our medium-term we gave the 9% to 11%, and the long-term 12%. We would stick to the guidance.

Rohith Chandra-Rajan: OK. Thanks very much.

Operator: Our next question comes from Andrew Coombs from Citi Group.

Andrew Coombs: Two questions; the first, just a clarification on litigation. Of the GBP562 million investment bank, GBP400 million you've said is the FX. Can you just clarify what the remaining GBP162 million is? Is that a top up on FHFA, or a combination of things? Perhaps you could elaborate there.

Also, on the GBP400 million for FX, the provision you've taken, is that based on just the U.K. settlement? Or is that your thoughts towards cross-border?

Ewen Stevenson: On the additional numbers in CIB, you'll see, in our document, page 42, we refer to a case, referred to as Complex Systems. Part of it relates to that, although we haven't disclosed numbers on that. And there was a small U.S. RMBS provision in there, too. But nothing – no material or incremental amount – or no amount, frankly, in relation to FHFA.

Just to remind people, we have about $2.5 billion provision against FHFA.

Sorry, and the second question, Andrew?

Andrew Coombs: Just a clarification on the FX provision as well, whether that's based on your thoughts in the U.K. …

Ewen Stevenson: On FX, it's – well, what we can say is, in relation to the authority that we're currently in discussions with, we don't think it represents a likely complete set or number we're going to need to provide against FX. So people should assume, as we talk to more authorities, we will see more provisioning coming through in coming quarters.

Andrew Coombs: And then my follow-up question was more of a strategic one. Within the investment bank, once again, you've seen revenues dip by a larger amount than the cost reduction QonQ. I know it's obviously a very different business to your retail and commercial franchise, but given that you're seeing subdued industry growth in the U.K., you're guiding to interest margin stabilising, ongoing asset margin pressure.

And unlike the investment bank, you're really only at the start of the cost restructuring plan there, so perhaps you could just outline any concerns you might have on revenue attrition, or why you think that will be different to the experience you've had with the investment bank?

Ross McEwan: In U.K.?

Andrew Coombs: In the U.K. specifically, yes, please.

Ross McEwan: And specifically related to the CIB business?

Andrew Coombs: No. No, sorry, I was thinking more the retail and commercial. I know they're very different, but given that you're further along the cost take-out trajectory in the investment bank and less far along in retail, just what your thoughts are on the revenue implications.

Ross McEwan: Yes, OK. Well, first off, we're positive on the U.K. franchises. They're starting to grow again both in their loans and cost take-out, so we are positive about those.

The personal and business banking, as you see, has grown 3% to 4% this year, which has been good, off a base that we've been contracting for the last five years.

You're seeing the corporate and private bank this year flat-lining. Starting to flat-line on assets, which is, I think, a very good sign for that business, because we've still got assets coming off there in the commercial real estate. And I would think you'll see very small growth in that business next year, and reasonable good growth in it the year after.

But you are seeing already, as we concentrate on that business and its return, its return on equity starting to improve quarter on quarter. And I think you should expect to see that improve next year.

So the two core U.K. franchises, I think you can expect to see some growth, I think modest, but that's something that we haven't seen for some time. And you will see costs come out of those businesses.

And the private bank, you're seeing us slimline that down to being a U.K. bank. Its performance has been hampered by expansion into the international markets. I think that's a 15+% return on equity business.

Again, you're starting to see, as we reduce the costs structure in that business and start focusing back on the customers, it's starting to come through; and I think you can expect to see that next year.

And Ulster Bank, as you see, is, well, it's our star performer this quarter, which is a bit of a surprise after five years of losses, but it's based on the write-backs.

So, we're reasonably positive about our U.K. franchises. It's CIB that is the one that we're having to put the effort into with the team.

Andrew Coombs: Right, thank you.

Operator: Our next question comes from Joseph Dickerson from Jefferies.

Joseph Dickerson: Two questions. Firstly, the run rate of your restructuring costs is substantially below your guidance. And I appreciate that you'll probably spend more in Q4 per your guidance, but could you give us some specifics as to why the overall net cost of this is going to remain in and around the GBP5 billion range?

In other words, what's kind of left to do? Because if I look, your costs are already coming in quite a bit in the various businesses, and we're down 5% quarter on quarter across the Group. I was just wondering, what are – if you could enumerate some of the areas that are left.

Secondly, you've been incredibly capital-generative year to date, and if you think about a pro forma number for disposals your core capital is going to be around 13% for the first nine months of the year.

Obviously, one appreciates future litigation costs, what have you, but do you think you'll be in a place, in the next 12 months, to start talking about capital return? I know you laughed at me the last time I asked that on a call (laughter), but I'd appreciate some update on that front, too. Thanks, guys.

Ross McEwan: Yes, I'll lead in on the cost one. As you've seen, I think we've done a very good job this year, as we've concentrated everybody on just taking out some of the costs that should never have been there.

Our run rate will be lumpy. You will see some big hits being taken as we restructure businesses. You saw a wee bit of that in, I think, the second quarter as we took out one of our major properties, Bankside, which was quite a hit on us. And there are others of those, that nature, to come, but we can take those only when we vacate those buildings. So there's a bit of that.

There was also – I think the first cost take-out is the easiest bit, and the next few years is going to need us to do the investment in those as well.

Williams & Glyn is a very big expense for us, so that's included in the numbers. I think that will be a GBP1.5 billion, probably, on its own cost of take-out.

And then the other side is we've got major costs to do the ring-fencing, which you've seen other firms talk up to GBP1 billion, or so. Without us giving you firm numbers, I think we're in that GBP750 million to GBP1 billion of cost at the first blush, before we really get heavily into it.

So there's some pretty big costs there that you should take into consideration.

Ewen Stevenson: And all of that, just to be clear, Joseph, included in the GBP5 billion. And that's why even though the run rate so far is below trend, we continue to be cautious about trying to re-forecast that number, given some of those major events we've got ahead of us.

Joseph Dickerson: That's very helpful on the granularity.

Ross McEwan: Yes. And I'd say also, close to that GBP1.5 billion for this year, we haven't walked away from that one. I think it will be around there.

On the dividends, Ewen and I continue to smile at each other around that. That would be lovely to be able to pay a dividend. I wouldn't factor that into your calculations for the next 12 to 18 months. We've got a lot of work to do. We've got to get through this litigation and conduct issues, and we've got to get ourselves well over the 12%.

We said here 12+%. And I still believe we've got to get over that level to get to a position where we can start thinking about the dividend. So, on track; lots of heavy lifting to do yet on that.

Ewen Stevenson: But, to be clear, when we do get in a position where we're able to pay dividends, we will pay dividends.

Ross McEwan: Absolutely.

Operator: Our next question comes from Martin Leitgeb from Goldman Sachs.

Martin Leitgeb: I've got three questions, please. The first one is on the Irish write-backs. Obviously, in this quarter you benefited a lot from asset improvement in Ireland, and I was just trying to see if you could give us a sense for further write-backs going forward, if the market there continues to improve.

In particular, when I look at your RCR disclosure, in terms of your commercial real estate exposure within Ulster Bank in RCR, do you see there the potential to sell larger blocks of commercial real estate loans there?

And just looking at the provisioning level you have there specifically, could that be a significant source of write-backs, going forward? I was just wondering if you could comment on plans on asset disposals there.

Second, on litigation, you are obviously guiding that litigation is likely to continue to be a drag going forward. I was just trying to get a sense whether litigation, with that you mean regulatory fines, or civil fines, or a combination thereof; and whether you can help us, give a bit of light, I know it's difficult, on what your biggest concerns there are. Is that U.S. mortgages and FX going forward, or there are other issues you see as potentially significant there?

Finally, lastly, the third question on William & Glyn. I was just wondering if you could provide an update on the progress, shape, and timeline of this disposal. Thank you.

Ross McEwan: Yes, I'll – we'll start at the back and work our way back, if you like.

Williams & Glyn, we still are planning towards having it ready for an IPO late 2016. We've got about 3,300 people working on the extraction of that business, and taking it out. It's as complicated as you'll ever find it, and this is why, I think, people who chat about breaking up banks and distributing them all over the place, they should come and have a chat to us at some point in time on just how difficult these things are.

So we're still running for end of 2016, and it will be the end of 2016. As I've given you an indication of the costs, it's a very heavy piece of cost work for us, and very labour-intensive, so no change in our guidance on that one.

On the litigation drag, it is FHFA and FX are the biggies. The other things fall/pile into very small items after those two. And it is both the regulatory actions, and, I suspect, litigation, that will come after some of those, as we saw with LIBOR. What they will be, I've got no idea, but I'm sure people will legal up and lawyer up, and have a go at all the banks on those issues. But we still have conversations to go with many regulatory authorities on those. Those are the two big items.

On RCR, just on bigger blocks, we would – we are very happy to sell bigger blocks, and have done so. As you know we've got a very efficient model that runs at RCR. At any one time, we've got about 150 groupings of assets for sale, and in the marketplace. It's going very well, and we'll continue to push it pretty hard. And some of those will be our Irish blocks of business, as opposed to single items.

Ewen, do you want to pick up on the write-backs on Irish?

Ewen Stevenson: Yes. So I just quickly go back on litigation, just to clarify for everyone. As of today, obviously, we've taken a GBP400 million provision against FX. We have an existing provision against FHFA for mortgages of $2.5 billion.

On Ulster, as a very broad rule of thumb, for every 1% improvement in the House Price Index we would expect to see write-backs in the order of GBP25 million. But it is a very broad rule of thumb. And as you saw, for example, over the last year, quite a broad distribution of house price improvements in Ireland with Dublin up 23%, and the rest of the country up, on average, 7%.

So we do expect to see some write-backs potentially in Q4, getting more modest, I think, if any, into 2015.

Martin Leitgeb: Very helpful. Thanks a lot.

Operator: Our next question comes from Tom Rayner from Exane BNP.

Tom Rayner: Just one clarification, please, and then one actual question. Just on the restructuring, you confirm GBP1.5 billion for the full year; am I right that that's implying quite a pickup into the Q4 allocation? It looks like GBP700 million, GBP800 million to be reconciled with the nine-month number. What would be behind that?

Ross McEwan: It's mainly associated with property and IT right now, so at this point in, Tom, if we're in a position to be able to take them. And it does require timing and when we vacate buildings so that we can take those, so this is why we've stated we'll stay with the GBP5 billion. But I think we will use up a larger portion of the GBP1.5 billion this year, just looking at what's coming up.

Tom Rayner: That guidance was GBP2 billion, wasn't it, at one point? Maybe that was brought down …

Ewen Stevenson: Yes, it was GBP2 billion, and then, Tom, we updated guidance as part of the Q2.

Tom Rayner: Yes, I knew that. The other question, please, just going back to the restructuring, in CIB it sounds as if you're following the mantra that if the returns don't get to where they need to be you'll still keep shrinking, keep finding other ways to improve that.

But can I ask what sort of standalone return you think is required? Is it very much in line with the Group targets? Or is there any element that CIB has flow benefits to other divisions, therefore, it's probably worth maintaining a certain structure, even if the standalone ROE might be a bit lower than your Group targets? What's your thinking on that?

Ross McEwan: You're right, they do give opportunities to commercial bank, and some even into personal banking business through foreign exchange, and the likes. But they need to stand up on their own and get close to, or around, that 10%.

I think I gave guidance at the start, that we'd have two businesses at 15+%, and the other one around the 10%. And again, that's my expectation of those businesses, and this business as well. It does need to solve for that; we can't have major businesses with major drags on the business.

Tom Rayner: I understand that, but ultimately, if you follow that to conclusion, you might end up with a business which is subscale and you might as well shut, or certainly, the markets within the CIB. Are you prepared to be that radical, if the economics suggest that's the right path?

Ross McEwan: You've got to be in businesses that customers are prepared to pay for it, and you've got to have a cost structure that actually justifies it.

We're solving for the cost structure piece here; we've got a very heavy cost structure in this business. As I've said, and I keep saying, the revenues always come down faster than the cost, but we do need to get this to a level we're all very comfortable with and it is going to provide good, longer-term results for our business. Otherwise, we've got to find other ways of doing it.

The load on these businesses is quite different to what it was five years ago and we'll – when we find out about leverage ratio and some of the other features, well, we'll have to solve for that as well.

Tom Rayner: I take your point, actually.

Ross McEwan: We're not on our own on this one.

Tom Rayner: No, you're certainly not. OK, thanks a lot.

Operator: Our next question comes from Mike Trippitt from Numis.

Mike Trippitt: Two questions, back on the, sorry, same subject, Ulster and CIB. I just wonder, with Ulster, clearly, huge benefit from releases recoveries in Q3. If you could just talk a bit more about the operational improvements that can be made before the recovery comes. Or does the ROE improvement really just come with economic recovery? Thinking specifically on the margin, you've talked about deposit re-pricing; is there any more benefit of that to come?

Then secondly on CIB, I don't know if it's possible to do this, I think, Ewen, you mentioned a couple of times very disappointing performance. At the same time, you've talked about de-risking and deleveraging, and we know that Q3 was a weak quarter anyway for the market. Is there any aspect of the CIB performance you think was a distinct underperformance, or where you just simply got it wrong in Q3, relative to the market?

Ross McEwan: Maybe if I pick the Ulster one and give you a couple of comments on there. Costs are an issue for that business. They are an issue for our total business.

We've got to get that to a, as Ewen said, cost-to-income ratio around the 60%. It's well over 70%; it's just too high.

So we do need to take the costs out. We will rely on the overall model of a shared function model for the entire Bank to help with that, wherever we can, using – staying within the regulatory frameworks of the Irish business.

We are relying on a small uptick in margin; but I say small. We're not expecting this thing to be saved by the economic growth, but we're hoping to get some small uplift in economic growth and margin lift on that business. But it's also a cost play. So it's no different to the rest of this business.

And the business trend across there are very good, so I think it's worthwhile staying in that marketplace to benefit, after five years of very hard work.

Mike Trippitt: Ross, can I just ask a follow up? I know you – are you prepared to give an idea now, having gone through this release recovery phase, of an impairment run rate that seems reasonable for this business, going forward?

Ross McEwan: Let me have a think about what I've put there, just on the risk. A normal impairment run rate on that business, it'd probably be no different to the guidance we've given on ours, around the 40 basis points to 60 basis points, would it be? It's a very similar shape to ours …

Ewen Stevenson: The question is, when are you going to get there in Ireland?

Ross McEwan: I would have stayed on that – around that 50 basis points. We gave guidance 40 basis points to 60 basis points on the overall business long term, and I think that's probably about right for Ireland as well.

The thing you have to factor in when you look at Ireland is it used to grow, stupidly. It was doing, what, EUR30 billion a year in gross lending, it's now EUR3 billion, across the whole market; not by our business, across the market. So you've got to build a business that actually works in that environment. But we do see we can do that.

We can support that business with what we so across processes and efficiencies and our technology across other parts of the business as well, rather than having it constantly standing on its own.

We also see that we can grow the mortgage book over there a bit safely. I'm not – I don't want to be number one in market share, but safely grow the mortgage book.

Again, when you look at that business, we are underdeveloped as far as the numbers of people we've got on the ground doing mortgages; and also in other parts of the business, that we're nearly non-existent in some of the other personal product sets of the business that Jim and the team are working on as well.

Mike Trippitt: Sorry to reopen the question, but just does that – the base rate tracker book, I think was about EUR10 billion. Is that still kind of just sitting there?

Ross McEwan: Yes. EUR12 billion, I think, isn't it?

Ewen Stevenson: EUR11 billion or EUR12 billion, yes.

Mike Trippett: OK, right.

Ross McEwan: Anyway, there's a drag.

Ewen Stevenson: On your questions on performance of CIB in Q3, we do provide some segment analysis on income. And when you look at that, you can see that rates was down 19% quarter on quarter.

I think we were disappointed by the rates' performance last quarter. Currencies was up 21%. Credit was down 36%. And credit, in particular, I think we've been impacted by the run-down of our U.S. ABP business where, compared to some of our peers, they had a very good quarter on the back of asset-backed businesses in the U.S..

Our asset-backed business is now half the size it was when we started the run-off, and we expect to be out by the end of Q1. We've taken about one-half of the GBP24 billion in RWA reduction in CIB since the start of the year has come out of the asset-backed business.

And then, we're also not in some of the segments that are doing very, very well last quarter, like leverage finance, and like commodities, and emerging market credit.

So there is an element of mix. There is an element of what we're deleveraging around ABP. And if I was to call out one business that I thought probably had a weaker quarter than what we had expected, it's the rates franchise.

Mike Trippitt: Thank you.

Operator: Our next question comes from Edward Firth from Macquarie.

Edward Firth: I just had a quick question about, I guess, the broader provisioning policy, or impairment policy. Because, I guess if one looks over the course of this year, you took this huge great provision at the beginning of the year, pretty much alone in the market. And since then, you've pretty much written it all back, or I guess a good chunk of it back.

I guess my question is what sort of lessons have been learned from that in terms of your approach to provisioning, and whether any lessons have been learnt? That was the first question.

Then just related to that, if I look at some areas of your litigation coverage, particularly things like PPI, at the moment, it looks quite a lot lower than peers. Are you expecting at some point, or is there an opportunity at some point, that you might approach that in a similar way to how you've approached your impairment charges? Thanks.

Ross McEwan: I was here when we did take the additional provisions last year. It was when Nathan and I were in the role. And it's been an interesting year when you consider what has happened in 12 months, because when we were looking at the RCR book, one, we'd been told, you recall, numerous times by the head of the Bank of England that our provisions were not high enough for years, and years, and years.

We'd had a major review done of the book by an external party, on behalf of the government, who saw our markings on that book were OK. So they didn't say we were over provisioned, they said we were OK.

We then decided to bring forward the losses on that book, because we were saying we're going to release them out in two to three years, as opposed to 10 to 15 years, so we had to take the hit on the book at that point in time.

And then – so we went through and put the markings on that book and thought we had reasonably good provisions, but if we were going to take them off the books faster we would have to take some additional provisions. That's the exercise we went through. We had that whole process audited by external auditors, so I think there was a very clear process.

But then, all of a sudden, remembering a lot of these assets are in Ireland, and you've had a 25% uplift in 12 months in the Irish home loan book, in the property prices in Dublin alone. You're seeing a lot more money coming in because they see that market improving.

And remembering, we took hits on that book right down to, I think they were worth, what, 20p, 25p on the pound, pretty close to that. And all of a sudden you're getting some increases. So the increases did provide some uplift, because they were so severe so quickly.

Ewen Stevenson: But I think some of this you have to see in context. If you sell an asset at EUR0.28, and it's marked at EUR0.25, you get a 10% uplift on where you've marked it. But ultimately, we can't be that smart.

I've joked with Ross a number of times that if he and I, a year ago, had taken a leverage bet on the Dublin house price index, he would be sitting on his dairy farms, and me on the beach in New Zealand, at the moment.

Edward Firth: I guess the question is …

Ross McEwan: I'd be on the beach as well.

Edward Firth: I guess the question is simply that in January, February, March time you may well have been selling assets at prices that now you subsequently regret, because you'd marked them down so aggressively and now you find that actually you didn't have to mark them down at all.

Ross McEwan: I have no regrets whatsoever about the actions we have taken, because you guys would be sitting there criticizing me if I hadn't (laughter).

We've actually regenerated massive amounts of capital at a time when we need it, at a time that the regulators are requiring us to have it. We've de-risked this business massively, not just in Ireland, but right across, with some of the work we've given and the team have done on the NV business. So I think – I have got no regrets above the moves.

And look, in a year's time, if the property prices keep coming you could say the same to me. But to be quite honest, I'd rather have the capital in our Bank, as opposed to sitting out there in assets we were worried about.

Ewen Stevenson: Yes, and overall, we feel pretty happy about the timing. In the last quarter, we got out of a GBP7 billion pool of European mortgage-backed securities. Had we done that a couple of months later, we wouldn't have been able to get out.

We IPO'ed citizens about two weeks ahead of some quite significant market volatility, where, had that market volatility hit, we would have had to re-think the IPO timing, I think.

So we're very, very happy that hit. Wherever the windows are open, we're going to continue to de-risk.

Edward Firth: Thank you.

Ewen Stevenson: On the PPI question, we don't feel that – we do think that our book is better than others. In terms of what we've just taken, the additional GBP100 million, it represents just over two months of the current run rate.

You'll have seen that I think we ran down the provision by about GBP143 million, I would say in the quarter, so it's just over two months of provisions.

We do think that, that is prudent. And when we compare to others, we're quite comfortable with the provisions we've got.

Ross McEwan: I think you need to look at our book somewhat differently to the others. We haven't had to go back and rework a lot of prior claims that I think another couple of the banks have had to do. Our claims process has worked very, very well, so we haven't had to go back and re-mark a lot of the claims, which may be generating bigger provisions for some of the other banks.

Edward Firth: OK, great. Thanks.

Operator: Our next question comes from Manus Costello from Autonomous.

Manus Costello: It was just a couple of follow ups, really. You said, Ewen, that you've got $2.5 billion against FHFA. I just wondered if you could comment on some suggestions, out of the U.S., that, that case might actually get chucked out on concerns over the timing of when it was filed. I wondered if you had any considerations about that.

My second question relates to the asset-backed business which you also called out. You made just under GBP1 billion of credit revenues so far, year to date. How much of that was actually in the asset-backed business, which presumably goes to zero next year?

Or to put it another way, your year-over-year decline in revenues in CIB is now about 34%. Is that the kind of run rate we should be carrying through into next year, given the disappearance of those asset-backed revenues?

Ewen Stevenson: Yes, on the first question on FHFA, you're right, there has been some new case law emerging that potentially time limits the FHFA claims against us. Equally, there's been some other case law that is contradictory to some of that.

So we continue to monitor it. We continue to leave our provision in place. We would be, obviously, very happy if those claims did become time-barred, but it's not our current planning assumption that they will be. But we actively continue to monitor it.

On the asset-backed business, I don't actually have the numbers to hand. But I would think that in relation to the U.S., the U.S. business was about a, I want to say, GBP600 million to GBP800 million-a-year business in terms of revenues.

Ross McEwan: The other part of that business, too, we are holding onto is the U.K. and European business, which is about GBP425 million of revenue. So there will be some of the ABP business left, but it will be U.K. and European, which is, as you know where the focus of our business will be.

Happy to get you the numbers and detail, if you like, on what's coming out and what's going, but there will be a run-down of that, the U.S. business, over the next six months.

Manus Costello: But all else equal, we should see about GBP700 million be dropping out of numbers as the run rate? Or maybe even a bit more, because I think there were some gains in Q1 book in that asset-backed business, weren't there?

Ewen Stevenson: Yes, about GBP700 million, or GBP600 million to GBP700 million.

Manus Costello: OK, thank you.

Ross McEwan: I'll just do a quick, two-second sum-up. Thanks very much for your time this morning.

We set out this year to create a much more U.K., European-focused business that served our personal customers, our mid-market commercial customers, and our corporate customers. We said that, in doing so, we would take out GBP1 billion of cost out of the structure this year, and we're on target to do that.

We've said we'd make a simpler business by restructuring it from seven businesses down into three. We are not quite, but nearly, finished that major piece of heavy restructuring of the business. It's been hard on our people. It's been distracting. But our two core franchises, the Personal Business Banking and our Commercial and Private Banking, are now starting to get their feet, and you're starting to see some growth there in the businesses that they're operating, helped certainly by the U.K. economy going well.

We said we would get our – much more resilience in our IT operations, and that's nearly finished as well. It'll be finished by the end of this year.

We'd said we'd build a plan for 2015 to 2017 that had all of the moving parts in it. And that will be to the Board later this year, and we'll give you some sights on that, as it relates to our strategy, next year.

And the big piece for this year was to rebuild the capital, which, I think you'll agree, we've done a very, very good job on. Citizens' IPOed; running down the RCR much faster than we had anticipated, and put into the plans; and also, bringing down the risk-weighted assets, particularly in our CIB business, where we didn't see the returns were going to be there.

So I think three quarters in, three quarters of profit. Just take our warnings that there are some rocky stuff coming. I think I'd describe it as a cold winter coming, after a nice sunny summer; probably describes the English weather, and how we're feeling about what's coming at us. But we are creating a really good franchise here.

So, thanks very much for your time. And all the best with putting the numbers together. We wait, with interest, to see what you put out. Thanks for your time.

END