



Interim Results 2015
Fixed Income Investor Conference Call
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280 Bishopsgate London EC2N 4RB
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FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our Interim Results announcement published on 30th July 2015.

Operator: Good afternoon, ladies and gentlemen. Today's conference call will be hosted by Ewen Stevenson, Chief Financial Officer, and John Cummins, Treasurer.

Please go ahead, Ewen.

Ewen Stevenson: Thanks a lot, Nick and good afternoon, all. Thanks for joining the call. In addition to John, here with me, I've also got Robert Begbie, Deputy Treasurer, and Richard O'Connor, the Head of Investor Relations.

In terms of format today, John and I plan to speak for about 20 minutes. We provided a set of fixed income slides on our IR website that we'll refer to. I'll cover off a quick update on our strategy, John will give you an update from a treasury perspective, and then we'll leave plenty of time for your questions at the end.

Just a quick housekeeping note, today, we're obviously delighted to have announced our intention to launch our inaugural AT1 offering. However, as no doubt you'll understand, securities law and marketing restrictions prevent us talking specifically about this deal on this call.

We do expect to be out on the road during the course of next week, marketing. And for any of your questions on the process, please get in contact with the sales and syndicate teams who are identified in the announcement we made this morning. A prospectus will be filed with the SEC in respect of the transaction.

On the first slide, we set out three things we're focused on currently: Building value in the Go-Forward Bank through improving customer service, enhancing growth and raising returns, accelerating the rundown in the Exit Bank while not sacrificing value, and progressively working through our list of other issues. Against each, I think we've made steady progress during the quarter.

On slide 2, the task of rebuilding our Go-Forward Bank is made much easier by the point we start from. We have a very strong set of customer franchises across the spectrum. We think this will clearly differentiate our bank over

the coming years. We're not unduly reliant on the performance of a single franchise or asset class.

If you exclude restructuring, conduct, and litigation charges, this collection of businesses, the Go-Forward Bank, as we describe it, is already producing attractive returns. We think we can further materially improve each of them. We're targeting a further substantial improvement in the Go-Forward Bank's cost-income ratio over the next four years from around 63 percent in 2014 to below 50 percent by 2019.

Turning to the next slide, our results today, I think, demonstrate strong further progress with clear evidence against each of our key priorities. Our core capital and leverage ratios are up, growth in our core businesses is returning, our operating costs are down, and returns in the Go-Forward Bank are improving, a normalized 14 percent return in the second quarter.

Restructuring is continuing at pace. We're reducing complexity further, simplifying the bank for customers and employees alike. But we do recognize we've still got much to do.

On slide 4, you'll have seen this slide before as part of our full-year 2000 [sic – “2014”] results announcement. It's our bank split between our Go-Forward Bank and our Exit Bank. Today, as you can see, we've just over half of our RWAs allocated to our Go-Forward Bank, but we do expect to rapidly reposition this capital allocation by the end of 2016, through a combination of growth in the Go-Forward Bank, but moreover, combined with an accelerated reduction in the Exit Bank.

Turning to the Exit Bank on the next slide, slide 5, on Citizens, you'll no doubt have seen that we've just completed a further significant sell down. We closed on Tuesday the sale of a further 17.4 percent of Citizens by way of a one-day book build, pro forma for the exercise of the over-allotment option on that deal, and the pending directed buyback, which should happen early next week, we will hold, at that point, just 20.9 percent, down from 40.8 percent we held a few days ago.

We've previously advised that we expected to deconsolidate Citizens at or below a 35 percent shareholding. This does remain true for accounting deconsolidation, and this will now have triggered by Tuesday's sell down. However, for regulatory capital purposes, the PRA have informed us that due to certain negative protection rights we've retained with Citizens at or above a 20 percent shareholding, we will not get proportional deconsolidation.

In Q3, we will deconsolidate Citizens and account for the disposal. This will include a total accounting profit of some GBP1.1 billion, including a recycling of GBP0.9 billion of FX and other reserves through the income statement. Given most of this is reserve recycling, only about GBP200 million of this will flow through to improving our core capital.

Pro forma for a full exit out of Citizens, ex a piece of operational risk RWA, RWAs in the Exit Bank at the end of Q2 would have been some GBP65 billion lower or only GBP84 billion of remaining RWAs. This would have reduced the Exit Bank from just under half of our RWAs at the start of the year to under one third, and the overall RWAs for the bank on a pro forma basis for a full exit from Citizens at the end of Q2 would have been GBP262 billion, well below our GBP300 billion year-end target.

On CIB capital resolution, we've made an excellent start in running off various asset pools. In part, were benefiting from the rapid scaling down of RCR. We've managed to shift a number of the senior RCR team across to lead the CIB capital resolution wind-down.

From starting RWAs of GBP64 billion, we've already reduced these by some GBP19 billion, or 29 percent, over the last few months, and we've reduced TPAs by some GBP33 billion over the same period. Overall, we're comfortably ahead of plan at this point on the speed of the wind-down, and we're in line with our earlier loss estimates that we announced in February as part of the overall GBP2.5 billion to GBP3.5 billion of combined additional CIB restructuring and asset disposal costs.

On RCR, funded assets reduced by a further GBP2.7 billion to GBP8.4 billion in Q2, in order to exit RCR, we need to reduce funded assets to at or below GBP5.7 billion. Based on current sales processes, we would expect to comfortably meet our accelerated target of exiting RCR by the end of this year. And then at the end of this year, we then plan to fold the residual stub of RCR into CIB capital resolution.

Financially, RCR continues to benefit from favourable markets for our asset disposals, resulting in an operating profit of GBP176 million in Q2 and GBP357 million for the first half. And for the first half, RCR achieved an average disposal price of 1.06 times book value.

On Williams & Glyn, you'll see in our longer interim report financial statement today we've got some incremental financial disclosure. This does represent Williams & Glyn under our ownership, and you should assume, as a standalone bank, that its cost structure will be materially higher, and therefore, its returns correspondingly lower. We are working hard towards a planned separation in just over a year's time and then an IPO by the end of 2016. We've also strengthened the Williams & Glyn management team in recent months with a new CEO and a new CFO.

The sale of our international private bank to UBP was announced in March. It remains on track to progressively close from Q4 this year through Q2 2016. So overall, with the Exit Bank, we're comfortably ahead of plan at this point, and we expect to have the great majority of our RWAs allocated to the Go-Forward Bank by the end of 2016.

Turning to the next slide, slide 6, the last topic we're currently focused on is addressing a number of other issues, and these broadly fall into three buckets. Firstly, addressing legacy conduct and litigation issues. These span a broad number of issues, some of which are set out on this slide. We sought this quarter to give you some additional disclosure in our interim results statement. If you look at note 16, this should help you refine your views on the potential costs of settlements across a few of these issues.

On the next slide, slide 7, given recent publicity, I did want to spend a few minutes discussing our exposure to various US RMBS litigation and regulatory investigations. We're not currently in settlement discussions for our various US RMBS exposures and hence why we've not taken any material incremental provisions at this point. But as you think about potential liabilities, we face claims across three broad categories.

Firstly, various civil litigation claims totalling some USD45 billion in gross principal balances, where we may incur settlement costs or liabilities. FHFA claims are a big part of this, USD32 billion, but not the only part. There are USD13 billion in gross principal balances of other civil litigation claims that we are subject to.

Secondly, the US Department of Justice investigation, which is ongoing, and which we believe is likely to result in material settlement costs for us.

And thirdly, we're subject to various ongoing investigations by several state attorneys general that we anticipate could result in incremental regulatory fines or penalties on top of any settlement with the DOJ.

We're not going to guide you to any specific number or range, but we believe this slide and the expanded disclosure we have in note 16 of our interim report are a good summary of our various exposures. And I would also say it's difficult to predict at this point how these various claims and investigations will be resolved and in what time frame.

On slide 8, the second bucket of issues we're addressing can be broadly grouped into the category of restoring our capital resilience, rebuilding our core capital ratio and commencing the issuance of TLAC, reducing the stress characteristics across the various asset pools, and managing our defined benefit pension risk.

You'll have seen today, as I mentioned earlier, our intention to launch a US dollar AT1 deal in the next few days. This is part of our intention to raise at least GBP2 billion of AT1 this year and will represent another important milestone for us.

On slide 9, on our core capital ratio, we've delivered material progress over the last 18 months. Our Core Tier 1 ratio has improved by some 370 basis points, from 8.6 percent at the end of 2013 to 12.3 percent at the end of the second quarter, including an 80-basis-point improvement in Q2. If we were to pro forma for the full exit out of our residual Citizens stake at the end of Q2, we would've had a Core Tier 1 ratio of some 15.3 percent at that point.

On reducing risk, to give you one example, our risk elements in lending have been reduced by over 50 percent since the end of 2013, from over GBP39 billion of exposure to less than GBP19 billion at the end of Q2. We're also rapidly normalizing our NPL ratios, with risk elements in lending to gross loans having been reduced from 9.4 percent to 4.8 percent over the last 18 months.

All of this improvement and capital resilience makes us increasingly confident in our ability to return to capital distributions. I'd repeat what I've been consistently messaging over recent quarters. We expect to achieve our 13 percent Core Tier 1 target during 2016, and that's after deducting the cost of various conduct and litigation issues, including US RMBS, and after making the final GBP1.18 billion pound dividend access share payment. We then intend to return excess core capital back to shareholders in the form of either dividends or buybacks once we have PRA approval to do so.

Realistically, though, we need to achieve the milestones we set out in the last quarter. These include sustained profitability, improved stress test results, and resolving our major conduct and litigation issues. As a result, we do not expect, as part of our central planning scenario, to be in a position to return to capital distributions until Q1 2017 at the earliest.

On the next slide, slide 10, the final set of issues that we're spending time on is what I'd describe as future-proofing the bank. This includes an increasing amount of work now underway on ring-fencing. For example, in the second quarter, we transferred the UK large corporate lending relationships from the Corporate and Institutional Bank into the Commercial Bank.

We do think that our ring-fencing solution, a broad ring-fenced bank with two small non-ring-fenced banks for both Corporate and Institutional Banking, and RBSI Channel Island franchise, positions us well to accommodate the complexity imposed by ring-fencing.

I'll now hand you over to John to give you an update from a treasury perspective.

John Cummins: Thank you, and welcome to you all.

So on slide 11, I'm going to give a quick update on our funding and our liquidity position, where we continue to operate comfortably within our target. Our loan-to-deposit ratio is broadly stable at the half, closing at 92 percent. We have significant liquidity buffers, with a Liquidity Coverage Ratio of 117 percent. Our Net Stable Funding Ratio 112 percent, and our stressed outflow coverage ratio is 215 percent. This is materially stronger versus a few years ago.

We continue to expect asset reductions through our Exit Bank to meaningfully offset funding maturities over the next few years. This means we do not have a single issuance need from a funding perspective. As a consequence, our issuance activity will be primarily focused on solving to future capital requirements, which we will break out in the next slide.

So turning to look at our future capital stack, the H1 issuance is a fundamental part of building towards our steady-state structure. We are targeting around a 2 percent AT1 component. This leads us to an expected GBP4 billion to GBP5 billion of total AT1 requirements over the planning period. We continue to target issuing GBP2 billion of that over the course of this year, 2015. And as Ewen mentioned earlier, we're delighted to kick off this process today.

We get a number of questions around our plans for our legacy Tier 1 securities. As you would expect, we intend to manage these legacy securities for value. We've continued this process with the announcement of our intention to redeem four securities.

With our planned issuance of dollar AT1, we've chosen these dollar securities as a natural currency offset. We appreciate there will be questions to which securities we may look at next in the future, and unsurprisingly, I'm not going to comment on that ahead of time. But any future decision will balance our funding needs, regulatory requirements, along with other internal considerations, some of which may not be evident externally.

So working through the capital stack, we have a significant pool of CRD IV compliant tier 2 securities, so our short-term issuance focus will be targeted around building our senior or 'bail-in' TLAC stack.

We think our regulator, the PRA, has been very clear on this requirement, with TLAC-qualifying debt needing to be issued out of the holding company. Dependent on the finalisation of the TLAC requirements, investors should expect us to issue GBP3 billion to GBP5 billion per annum.

We have shown our capital position from a TLAC perspective. However, a common question we are asked is around how this will interact with MREL. Our base expectation of the requirements will be broadly aligned, although it's clear that significant regulatory discretion remains. We will continue to work closely with industry regulators and will endeavour to update the market in a timely fashion.

Another common question we get asked is how these securities will be downstreamed. This area, in our view, is one of the most notable uncertainties around TLAC, and as a consequence, given our funding position, the significant change expected through the ring-fencing, ongoing work around resolution planning, we do not feel the need to be in a rush on this particular matter.

We move on to slide 13, we turn now to the subject of servicing coupons. We formulated our Core Tier 1 target ratio target of 13 percent with MDA restrictions very much in mind.

Slide 14 illustrates the headroom we would have to our fully-phased MDA threshold. This is based on regulatory requirements as we know them today,

and achievement of our 13 percent Core Tier 1 ratio target. On this basis, our headroom to MDA is expected to be over 2 percent.

However, that said, we expect our regulatory requirements to evolve going forward. So for example, we have got future G-SIB and D-SIB requirements remaining to be further clarified. We have the Countercyclical buffer is subject to change, and Pillar 2A is subject to regulatory change.

On the subject of servicing coupons, we've also continued disclosure of retained earnings for the solo holding company entity as investors have requested. This is in Appendix 5 in our results for those interested. As at H1 2015, these reserves stood at GBP17.9 billion.

Turning to slide 14, a quick word on ring-fencing. A number of you will recognize this slide from the 2014 results. This high-level legal-entity outline is designed to help guide investors around our plans. We continue to anticipate solving to a broad ring-fenced structure, with two small non-ring-fenced banks for both Corporate Institutional Banking and RBSI our Channel Island franchise. We continue to target being ICB-compliant during 2018 ahead of the 30 January 2019 go-live date.

H1 2015 saw the primary legislation passed, along with the PRA statement on implementation. However, we expect further, more detailed consultations during 2015, prior to the final rules being issued in the first half of 2016. In the absence of these final rules, I must caveat the plans as a working hypothesis.

We are very conscious of investors' questions around RBS PLC securities with maturity beyond the ring-fencing implementation. However, until we have the final rules, it is inappropriate to commit to a course of action right now. The most I can say currently is that we are cognisant of our responsibilities and reputation as an issuer going forward.

On the next slide, slide 15, a quick word on regulatory change. We've attempted to lay out some of the events we can see coming up over the next few years. There continues to be very significant work around the recovery resolution, stress testing, which we believe will fundamentally help banks

operate in the future. Ring-fencing, as we touched on, will be a significant change for us and further impacted banks. And we anticipate further details on what we need to solve to for both TLAC and MREL.

I'm afraid this is a long way away from being a comprehensive list. Only yesterday, we received an update on Pillar 2. However, fundamentally, we believe that our targeted simpler bank profile is capable to adapting to these changing requirements.

And with that, I'll now hand back over to Ewen.

Ewen Stevenson: Thanks, John.

In summary, on slide 16, we're focused on doing three things well at the moment. Firstly, building value in the Go-Forward Bank, secondly, accelerating the rundown of the Exit Bank, and thirdly, working diligently through our list of other issues.

We're pleased with progress across all three fronts this quarter. I think the small attributable profit in the second quarter really does mask a lot of really good progress, both in rebuilding our Go-Forward Bank and in accelerating out of our Exit Bank for value.

So with that, I'll hand it back to the operator, Nick, to open up for your questions.

Operator: Thank you, Ewen. 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 your first question comes from the line of Lee Street of Citigroup. Please go ahead.

Lee Street: Hello and thank you very much for the call. I have three questions, if I may. So firstly, when I look at your risk-weighted assets guidance on page 5 in adjusted Citizens and compare it to your 13 percent CET1 ratio in 2016 you're guiding for, it looks like there'll be a nominal reduction in culminated Tier 1 by about GBP10 billion. Is that the right way of thinking about things, or am I missing something?

Secondly, and I suppose partly linked to that, it obviously feels like there's going to be a reduction in retained earnings from conduct charges. So I'd like to talk about IFRS9. You mentioned that in the call this morning. As a bank in the process of issuing AT1, what comfort can you give investors that there won't be a significant one-off charge for IFRS9 that could then impact retained earnings in the parent company and thus have a potential impact on your AT1 coupons as one looks ahead?

And finally, how long do you expect to remain a G-SIB? And if you were to be declassified as a G-SIB, what would that do your target 13 percent Common Equity Tier 1 ratio? There are my three questions. Thank you.

Ewen Stevenson: In terms of the first question on the 13 percent guidance, I think the right way to think about that is just, we've, Ross and I have told you, consistently, I think, our target is to get to a 13 percent Core Tier 1 ratio. We can see that we've got some headwinds, even if RWAs continue to reduce, one being conduct and litigation, another being needing to make the GBP1.18 billion final DAS payment.

If we're running an excess above that level in 2016, we'll just run an excess, and then what we'll do, as soon as we can normalise our capital structure, which we signal would be from Q1 2017 onwards, we'll find a way of returning the excess capital back to you. So it's quite possible we'll be operating, as you say, mathematically, at levels above 13 percent for a period of time until we're able to normalize our capital structure from 2017 onwards.

On IFRS9, again, as I said this morning, it's still very early days for us. I think the early work suggests there will be some incremental one-off

provisions on the introduction of IFRS9. Difficult to say what the impact is on capital, though, because there's an expected loss deduction in our capital structure, so what's not clear yet is how the PRA will reconcile the additional provisioning we will take under IFRS9 with the need for any or all of the current expected loss provision.

Can I give you comfort on your question? No. Not really.

On the G-SIB question, realistically, it may take us a while to become a non-G-SIB, because these are effectively lookbacks on various measures. If you look at our future plans, I do think at some point, we'll continue to shift down. We're currently in the 1.5 percent bucket. I think at some point, we should transition down to the 1 percent bucket.

And at some point we've got no real aspiration to need to be a G-SIB. But having said that, it's not entirely clear to me that the PRA would view D-SIBs as being any different, frankly, from how they currently view UK G-SIBs.

Richard O'Connor: And Lee just on (IFRS-9) obviously, that's going to hit the subsidiaries with loan books, at the OpCo level. Not clear how that will impact HoldCo retained earnings. Obviously, it's still too early to tell.

Lee Street: OK. Fair enough. Thank you very much for your comments today.

Operator: Thank you. And as a reminder, if you wish to ask a question please press the star key followed by the digit one on your telephone keypad.

Your next question comes from the line of Greg Case of Morgan Stanley. Please go ahead

Greg Case: Afternoon, gents. Just a couple from me, if you don't mind. First one you may not be able to comment on, but I thought I'd have a go anyway, which is, on the newest disclosure on your litigation, you're saying that you've got GBP9.1 billion outstanding, or there is still GBP9.1 billion outstanding to the FHFA. Could you give us an idea of any valuations had on that?

Ewen Stevenson: You're right. I can't give you any guidance, but I think there is disclosure out in the market about what those securities relate to, so you should be able to come to a view about what the loss estimates are potentially on those securities.

Greg Case: OK thanks. The second one is on Pillar 2. Obviously, this is an absolute capital number rather than an RWA number. With your RWAs coming down significantly over the course of this year, are there levers you expect to be able to pull, or do you see this coming down in a material way, or should we think about this coming up towards the mid twos number for Core Tier 1 if you get towards say a 250 number of RWAs?

Ewen Stevenson: Could you just repeat the back end of the question, Greg?

Greg Case: Yeah, sure. Say I'm assuming a 250 number for RWAs, which I know you're just saying it's less than 300. On a GBP6.5 billion absolute capital number for Core Tier 1, Pillar 2, I get that to be around mid-2 percent Core Tier 1 requirement for Pillar 2. I'm just thinking about what you can do to influence that.

Ewen Stevenson: I think it's sort of a matter of negotiation with the PRA, but over time, we would expect the absolute amount of Pillar 2 to decline as the absolute scale of the bank reduces.

Richard O'Connor: It's obviously something we'll work on over time, as well, to reduce the risk in that bucket.

Greg Case: Just a last one from me, then. I know this is probably asked on every call. Would you be able to give us an update on the future of RBS NV and how you're thinking about that entity over the next year or so?

Robert Begbie: Greg, there's a number of actions we're going through in terms of the rundown and the de-risking of that entity. Some of the exit strategies involve detailed conversations with regulators over a period of time, so we're looking at the NV securities in the context of the capital and funding requirement of that legal entity as it goes through wind-down. We've

nothing more really to add at this point, other than we're obviously keen to get NV down as quickly as possible.

Greg Case: Does the PRA look at those securities from NV, the capital securities, any differently from anything else that you guys have outstanding?

Robert Begbie: Not particularly.

Greg Case: OK. Thank you very much.

Operator: Thank you. Your next question comes from the line of Paul Fenner of SocGen. Please go ahead.

Paul Fenner: Hi gents. A couple of questions. First is specifically on tier 2, obviously, you're doing the AT1. But on tier 2, your guidance was always that we've got no interest in issuing tier 2, no need for it for one or two years. Is that still the case? Can you give us a sense of what we might expect?

Ewen Stevenson: That's still the case.

Paul Fenner: OK. Actually, my other question has been answered. Thanks.

Operator: Thank you and your next question comes from the line of Chintan Joshi of Nomura. Please go ahead.

Chintan Joshi: I had a question on yesterday's PRA releases on Pillar 2. They talk about that they don't expect any bank to have a PRA buffer requirement, but then they also say that if there is a weakness in RM&G, that if there's significant weakness, that they would be asking for buffer. So they're saying good things and bad things at the same time.

I'm just wondering what your read is and if litigation is something that would qualify significant weakness until that issue is still outstanding for you? Suspect it goes away at some point. And perhaps that might tie into why you might have to hold all of those 15 percent that you get on CET1, hold that while you plough through the litigation issues.

And the second question was on packaged accounts. It seems like other banks, including yourself, are starting to take slightly bigger provisions on this issue. I'm just wondering is this a starter for mini PPI, or is it a relatively scoped conduct issue that we shouldn't be overly worried about? Those two questions. Thanks.

Robert Begbie: I'll take the first question just in terms of the Pillar 2 stuff. I think in the consultation paper that talks about risk management and governance, so nothing was seen yesterday, and the final paper wasn't really any surprise.

I think, really, this relates to what Ewen's talked about earlier today, which is the importance of stress testing within the PRA's evaluation of capital and leverage going forward. I think it's really the mechanism by which the PRA can look at a bank's ability to both provide the data for accurate stress testing but also how the appropriate controls, risk management, governance in some ways moving towards a more FED-based model around CCAR.

I think the evolution of what the PRA really expect from or how they're going to assess that is still under development. But rest assured, we've been making significant investments in that capability within RBS and will continue to do so, because we realise the bar will rise, and it really is a catch-all for the PRA in terms of if they want to impose further capital restrictions through that mechanism.

Richard O'Connor: On packaged accounts, obviously, this came in the news earlier this week, because another bank made a provision. You'll recall that we made provision in this area at the full year and a top up at Q1. We didn't make a top up in Q2, and the experience more recently in terms of claims and the number of claims we won has got better, hence the no needs to top up. It came into news because of other bank, and that's probably more of a timing issue, rather than anything else.

And we think we've done a lot of remediation work a few years ago to cap liability here and obviously work with customers to make sure the accounts are suitable for them. So we've done a lot of work in the last two to three years in this area so hence whilst we obviously monitor the trends and the

claims very closely, for the last few months, the trend has been slightly better and within our expectations.

Ewen Stevenson: If you look in note 5 in our interim report, the provisions we have are sort of combined into a column called "Other Customer Regress." But to describe it as the next PPI I think is stretching it, somewhat.

Chintan Joshi: Mini PPI. I hope it's not PPI. No. But okay. That's clear. Good to hear trends are coming off a little bit. Thanks.

Operator: Thank you. Your next question comes from Aditya Bhagat of HSBC. Please go ahead

Aditya Bhagat: Good afternoon and thanks for the call. Two questions from my side. The quick one first. The timing for settlement with FHFA, is that still expected year end 2015 this year, or could that drag to next year? The second one really is more conceptually trying to understand why you're looking at room to MDA of 2.6 percent. Just wanted your top-down view on that. Clearly, we've had another UK bank yesterday talk down their room to MDA and keep that buffer around half of where you want to keep it.

In that context, could this have something to do with ALAC to get senior HoldCo rating higher than where it currently is, which is currently a crossover rating? If not, then are there any active steps that you're considering to do with regards to improving the rating, which I'm sure from your point of view should be less than ideal for where it is now? Thank you.

Ewen Stevenson: Maybe just to take some of those and others might want to chip in but on timing of settlement with FHFA, our actual court dates is not until first quarter 2017, I think. We're 18 out of 18 in the queue. Nomura still has to settle ahead of us. I would hope that somewhere in the next 6 to 12 months we are in substantive settlement discussions.

Conceptually with the MDA trigger and head room were running, you're right, it's bigger than some of our peers in the UK. I think it's important that you recognize not every bank in the UK is the same bank so we do think MDA buffers are appropriate. We are a bank that's in the middle of a quite

substantive restructuring, so we would naturally run bigger buffers during the period of that restructuring.

We are a bank that faces significant litigation and conduct issues. We're a bank that has a large defined benefit pension plan, together with our traditional banking risk. So there are a bunch of regions where I think it would probably be inappropriate just to read directly across from one bank to the other and say Bank A is therefore being more or less conservative than another. We do think that buffer we've got is appropriate and conservative and should give you an appropriate level of comfort about the triggers.

John Cummins: On the ALAC ratings point, obviously we are on stable with all three of them now. We do want to continue to see our ratings improve but obviously there are issues there in terms of getting some of these execution risks done and as we're doing, become a simpler stronger bank, profitable bank with organic capital generation and improving that with stress testing as well. Then we think these rating agencies will give us credit once we've achieved it. But we still have some execution risk we have to complete, including this AT1 issuance.

Ewen Stevenson: But then if you look at this Go-Forward Bank as we now separate it out, that Go-Forward Bank is a very good strong credit in my view. We had a 14 percent normalized return on equity in the first quarter. It is growing, it is producing good organic capital by itself. I've said earlier in the call that we think the Exit Bank will have rapidly transitioned to most of our capital being in that Go-Forward Bank over the next two years. We do think our credit story is in the middle of a very rapid transition and we would hope that the rating agencies respect and follow that transition and that should lead to more positive ratings over time. Clearly, the ratings as they currently sit is not where we want them. It's not our aspiration to be sub-investment grade with one of the three rating agencies and we do anticipate ratings improvement over the coming years.

Aditya Bhagat: Just to follow-up, on your expected supply of tier 2, does that consider any of the benefits you could get from ALAC benefits or is that purely at this point to meet the different TLAC buffers?

John Cummins: We are looking purely at TLAC and we have no requirement to issue tier 2 bucket instruments.

Aditya Bhagat: Thank you very much.

Operator: Thank you. Your next question comes from the line of Angelo Graci of Stifel. Please go ahead

Angelo Graci: Hi, thank you for the call. I was wondering if you could give clarity and detail behind the choices in the US dollar preferred redemptions announced this morning.

Robert Begbie: I think Ewen and John sort of covered this before in terms of we look at the population through multiple lenses but really on a economic value basis. We've announced the intention to do an AT1 dollar deal as part of our overall currency management within our treasury business, that made sense to certainly look to target some of those dollar securities.

There are a number of internal transactions and hedging instruments that go into that, that influence that decision. The other part was that you'll see that they're all under Scots law and I think over time were looking to reduce that exposure to that in terms of the registration of those securities. It will continue to do that. It's obviously in the context of grandfathering and the ineffectiveness of the securities as we run down. So that's really the main reasons.

Angelo Graci: Got it. Thank you for the call.

Operator: Thank you. Your next question comes from the line of Robert Smalley of UBS. Please go ahead

Robert Smalley: Couple of quick questions on slide 11 on funding and liquidity. Liquidity Coverage Ratio, Net Stable Funding Ratio and stressed outflow all well

above minimums. Are you managing to any specific number there, number one? Number two, are you keeping these where they are around here? Is that partially ratings based, following up on some of the prior questions given that you're split rated now? And I have one more question following up from Greg's as well on RBS NV.

Ewen Stevenson: I'll start off, Robert, and then John can pick it up. If you think about what's sort of going on in our business at the moment, we've got a very rapid de-scaling going on, on part of our balance sheet out of RCR and out of Capital Resolution. We've released, out of Capital Resolution, a loan in Q2, some GBP33 billion of assets and that is causing the increase in liquidity at the moment so we are very liquid. I'll let John go on, but I think we're in a position where we're running ahead of our natural liquidity position because of the rapid de-scaling that's going on, on our run-off businesses at the moment.

John Cummins: And obviously means in terms of short-term funding and the wholesale funding there are limited opportunities for us to get rid of this excess liquidity, and obviously, try to buy some debt back which is difficult and then obviously you've got the potential for the cash to be used for loans, which we always like to see. And in the meantime we try to manage it.

There is no real connection with the rating agencies' split rating. It's very much that all three agencies see our funding liquidity positions as very strong and over time will continue to be in that. In terms of managing our regulated ratios, we are very cognizant of the switch from the ILAA process to the Liquidity Coverage Ratio; we want to be in the pack.

Robert Smalley: That's helpful. Following up on Greg's point, when you said that the PRA doesn't look differently at NV versus the rest of the Company. Could you talk a little bit about the ability to migrate some of those Tier 1 securities from that to the holding Company or possibly the bank? And what the obstacles are for that?

John Cummins: Well we don't intend to give out forward guidance on any potential LMEs, as you know, but obviously, any instrument that sits within one different

regulated regime prefer to be moved somewhere else would have to go through a significant amount of regulatory interaction, rating agency interaction, et cetera. There'd be a fair amount of that and obviously we look at the overall position at the regulated entity and it needs regulated capital where it sits right now. Over time, things may change.

I can't really comment on any type of LME instrument or exercise, but obviously when you're dealing with two different sets of regulators then there is always going to be a fair amount of work.

Robert Smalley: Understood. Thanks a lot for the answers and thanks again for doing the call.

Operator: Thank you. And you have a follow-up question from the line of Paul Fenner of SocGen. Please go ahead

Ewen Stevenson: Hi Paul.

Paul Fenner: Hi, thanks can you hear me?

Ewen Stevenson: Yes.

Paul Fenner: Oh, yes, thanks.

On available distributable items, can you give us an up-to-date number at the end of the first half?

Richard O'Connor: We've given you the retained earnings for the whole term and that, we believe, is a simple proxy for that. We've looked for exact definitions of ADI and we prefer to use the established definition of retained earnings under UK company law and that's what we've given you.

Paul Fenner: OK. Thanks.

Operator: Thank you. And your next question comes from the line of James Hyde of Pramerica. Please go ahead

James Hyde: Hi thanks for doing this call.

My question is in order to try and get a colour of where the non-ring-fence OpCo standalone ratings could go. So if we take these transfers of portfolios into the CIB, and it's presumably the bits that will stay in RBS OpCo. Are these just transferring loans and leaving deposits elsewhere in order to maybe find assets to match the term liabilities that are stuck in the RBS OpCo? And if you can give any points as to anything else that might help the standalone rating in terms of business mix, that would also be helpful.

Ewen Stevenson: I think the right way, almost conceptually, to think about it rather than think about things coming in and out is just saying for that CIB non-ring-fenced bank to be an effective market competitor, it is going to need to be investment-grade rated. So if it's not investment-grade rated I don't think that we would view it as having succeeded. So we will do what we need to do to ensure that, that business is appropriately investment-grade rated.

James Hyde: But specifically is it just the loans going over currently? Without deposit?

John Cummins: At the moment we're excess deposits. So it's homogenous. Effectively, the loans are moving.

Ewen Stevenson: Some of them aren't even funded in corporate entities.

John Cummins: Between legal entity. Same entity.

Ewen Stevenson: The same entity. They are just changing the division in which they report it.

James Hyde: OK.

Robert Begbie: It's more driven by the team that serves the customer than the legal entity.

Ewen Stevenson: We don't hypothecate deposits from one set of loans to another. There is a funding pool and it's done by division. It's all the same entity.

James Hyde: That's clearer. Thank you very much.

Operator: Thank you. Ewen, I will now hand the call back to you for closing comments.

Ewen Stevenson: Thanks all, for joining the call today. As I've said, we are sort of pleased with this set of results. A small attributable profit but one that I think masks a lot of progress, and that progress really good acceleration of our Exit Bank.

Some very good trends going on in the Go-Forward Bank. I think if we were sitting here in a year's time, you would see a very different bank than what you see today, one that's substantially through a lot of its restructuring and hopefully substantially through a lot of its legacy conduct and litigation issues. So thanks for all your time, and no doubt we'll see some of you on the road over the next few days. Thank you again.

Operator: Ladies and gentlemen, that will conclude today's call. Thank you for participating. You may now disconnect.

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