Q1 Results 2016
Moderator: Ross McEwan
29th April 2016

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Operator: This is conference #89104610.

Good morning, ladies and gentlemen. Today's conference will be hosted by Ross McEwan, CEO of RBS. Please go ahead, Ross.

Ross McEwan: Thanks, Will, and good morning everyone, thanks for joining Ewen and I for our Q1 results call. It's only been a month or so since we presented our full-year results; with that in mind we'll keep our remarks brief and focus on the progress we've made so far this year.

I'll then hand over to Ewen, and then be back for questions.

At the end of the year we set out five clear goals for 2016 and I think we've made good progress against them in Q1. The improvements to our core business are delivering much better customer service scores and reflecting into greater volume growth across the majority of our brands.

In the quarter we made an operating profit of GBP421 million and the six franchises that form our core business has generated a return on equity of 10.9 percent, a good return in a competitive environment.

Our loss attributable to shareholders was GBP968 million driven by the final payment of GBP1.2 billion to HMT, that allows us to retire the Dividend Access Share. As you know, this is an important milestone for us as we continue to clear the path to ultimately return excess capital.

Putting this one-off payment aside, the Bank made a bottom-line profit of GBP225 million on the quarter.

Yesterday we updated you on our mandatory disposal of Williams & Glyn; as I've cautioned before, this is a very complex process that involves standing up a full service, retail and commercial bank that works seamlessly for around 2 million customers on the day we turned it on. And the closer we get to delivering this, the more clarity we have on the risks, and we now see a significant risk that the separation and divestment will not be achieved by the end of 2017.

That said, we remain committed to our state-aid obligation and we're exploring alternative means to achieve this.

At our year-end results, I said I would continue to build capital, reduce costs, improve service and grow our core businesses, all of this in an effort to become the number one bank for customer service, trust and advocacy. Let me just give you a sense of where we stand against these targets.

Let's firstly start with capital build. Our common equity Tier 1 ratio dropped to 14.6 percent from 15.5 percent at the end of 2015. This was driven primarily by the DAS payment and the previously announced action on our pension liabilities. Even with this decrease, our common equity Tier 1 remains strong in relation to our peers, and above our 13 percent target.

Secondly on reducing costs. We continue to take steps towards becoming a simpler, lower cost, UK-focused bank by completing the sale of our international private banking business and exiting our Russian business.

We've taken out over GBP2 billion of cost base in the last two years and we're committed to taking out a further GBP800 million this year.

Many of you will have seen cost reductions and branch closures reported in the media; however, this is as much about reshaping our business to provide better service, as it is about taking costs out.

We also continue to accelerate our exit of expensive properties and we've announced that we will leave 135 Bishopsgate this year; it's one of our main London offices.

A simpler bank with greater automation is key to hitting our goal of less than a 50 percent cost to income ratio by 2019. Improving service so we do more business with our customers is the logic behind sustainable growth, and higher returns in our core business. And we've continued to make good progress this quarter.

Our NatWest personal net promoter score is the highest that it's ever been, and we've seen improvements across most of our franchises. Our new Reward account is a great product, offering 3 percent cashback on selected household bills paid by direct debit. We're building positive momentum, and we've more than doubled the number of Reward account holders this quarter, with over half a million customers now paying GBP3 for their current account per month.

I mentioned stronger service through automation and digitization. Active users of our mobile app are up 20 percent over last year, and with over 200,000 new users in Q1, we have one of the leading banking apps in the market. We've also improved our mobile banking functionality; NatWest customers are now able to apply for loans and credit cards via their phone. And our online mortgage renewals more than doubled to GBP3 billion in Q1 2016.

We also continue to grow our businesses in the markets that we like, and at a competitive price. We grew our loan book and personal and business banking, and commercial and private banking by 15 percent on an annualized basis. We expect this to moderate throughout the year but are confident of achieving our 4 percent loan growth target.

Our performance in the mortgage market continued to be strong, and we're still taking market share. The investment we made increasing our advisors and improving our relationship with intermediaries is paying off. Our share of new business was 11 percent, compared to our stock share of 8 percent.

We are the biggest supporter of British business; in Q1 our lending to the smallest businesses, that's those with less than GBP2 million in turnover, grew by 15 percent on an annualized basis. And we're opening six more entrepreneurial hubs this year to strengthen our relationships with this community.

Our commercial net lending performance outperformed the market. This is now the fifth consecutive quarter of net lending growth in the commercial business and it looks like demand is holding up well.

This performance shows the benefit of investing in relationship manager capability, and simplifying our lending processes.

We know that there are some franchises that need to do better, and the ones we're repositioning for greater returns. You can see across the sector that investment banks had a tough quarter, and whilst our CIB business underperformed in the quarter, it's important to note that the impact of such income volatility was much smaller because of the restructuring and repositioning we announced last year.

The RWAs in this business have fallen by 18 percent in the last 12 months, and costs are down 16 percent; that's vital for this business, making it less than 15 percent of our overall business mix. Three years ago, a performance like we have had this quarter would have had a much bigger impact on our overall results.

We have a new leadership coming into Ulster, and private banking. Gerry Mallon will start in Ulster in June, and Peter Flavel is already in place as CEO of Coutts. A priority for both of these new CEOs will be identifying opportunities to grow the businesses, while at the same time reducing costs.

So we're delivering solidly on everything within our gift, but as you know, there are a range of things we need to get past that are not directly in our control. We have no material updates to give today on our legacy RMBS settlements from the DoJ in the US, and over and above what we've already said at the year-end.

One quarter in, capital remains strong, costs continue to fall, our customer scores are improving, and we're seeing growth in the business in the markets that we like. I'll now pass over to Ewen who will take you through the results in a bit more detail.

Ewen Stevenson: Thanks, Ross. From our perspective an encouraging quarter, we're delivering on what we said we'd do this year. Our retail and commercial banking franchises are doing well, and that's despite a competitive operating environment.

On the income statement our operating profit in Q1 was GBP421 million. We made an attributable loss of GBP968 million, but that included the GBP1.2 billion final DAS dividend to Treasury. The return on equity across our six core franchises was 10.9 percent.

After many years of declining income, we're beginning to address this. While income was 13 percent lower than Q1 2015, adjusted for transfers from CIB and certain one-offs, income across PBB and CPB was broadly flat. Very good volume growth is offsetting a combination of margin pressure, asset mix changes towards secured lending, and an ongoing decline in certain non-interest income streams. Stable income across the combined PBB and CPB franchises remains our target for the year.

CIB had a tough start to the year. Adjusted income was down 37 percent on Q1 2015, but most of this impact was seen in the first six weeks of the quarter. For the remainder of the quarter CIB's income has been in line with expectations.

You should note there's a number of one-offs in this quarter. That includes a negative GBP356 million for IFRS volatility; a positive own-credit adjustment of GBP256 million; net disposal losses of GBP206 million, including a EUR28 million gain in Ulster Bank RoI.

Adjusted operating costs were down 7 percent on Q1 2015. We're managing the volume growth across PBB and CPB while remaining disciplined on their operating costs. We're now seeing meaningful reductions in both CIB, costs down 16 percent Q1 on Q1, and Capital Resolution where costs were down 43 percent Q1 on Q1. We're on track to deliver our cost target of GBP800 million this year, but I would caution against assuming linear reduction trends across the year.

Restructuring costs were GBP238 million in the quarter; that includes GBP158 million for the ongoing separation of Williams & Glyn. On Williams & Glyn and further to yesterday's announcement, this quarter's separation cost run rate of GBP158 million I think is a useful quarterly guide for future separation costs.

In our full-year 2015 results, we gave you the standalone equity for Williams & Glyn, about GBP1.8 billion. You know we're equivalent challenger banks' trade, and the support that Lloyds had to provide to TSB, so you can factor in your own views on potential exit values.

On litigation and conduct, in addition to our existing provisions, charges for this quarter were GBP31 million.

Together with the ongoing complexity of the Williams & Glyn separation, and a tougher set of Bank of England stress test criteria for this year, I would continue to caution on the timing for a return to capital distributions. We'll get there as quickly as we can address the issues we need to address, but we remain committed to returning Core Tier 1 above our 13 percent target.

Net impairment charges were GBP223 million. This includes a GBP226 million charge for additional shipping provisions. This charge for shipping should be considered part of the overall GBP1.5 billion disposal loss guidance for Capital Resolution, implying around GBP900 million of disposal losses to go.

Away from shipping, impairment levels continue to be low, but we do remain cautious in this environment given the increased potential for defaults.

Turning to the balance sheet, you're now seeing the benefit of the continuing shift in our asset liability mix towards PPB and CPB, and away from Capital Resolution and excess liquidity holdings, while addressing our legacy wholesale funding and capital securities. This is driving a higher NIM without needing to take undue risk in either consumer credit or higher risk commercial segments.

In PPB and CPB our low loan-to-deposit ratio provides us with the funding to grow market share. We grew the combined loan book at 15 percent annualized growth in Q1. Mortgage activity continues to strengthen; applications were up 61 percent from Q1 2015, to GBP10.3 billion. This provides a strong forward pipeline going into the second quarter.

Gross new lending almost doubled to GBP7 billion, partially driven by strong buy-to-let mortgage completions totaling some GBP1.5 billion in the quarter.

Flow market share was 11.4 percent versus a stock share of 8.3 percent. On commercial lending this was up 4.3 percent year-on-year, primarily due to growth in the large corporate segment. Across the combined loan portfolios of PPB and CPB, we do expect this growth to moderate this quarter.

But we're confident of delivering our growth target this year, and that's a net growth target that includes the impact of continuing to shrink both parts of the commercial book and selected PBB exposures such as Ulster Bank's tracker mortgage and NPL portfolios.

And with our lower returning assets and more expensive funding, we're continuing to actively manage these down. Interest-earning assets and Capital Resolution are down 63 percent over the last year and on the liabilities side, we've been actively managing our issued wholesale debt to both transition towards MREL compliance and reduce our overall funding costs.

Over the last six months, to end of April, we've reduced term funding by GBP11.7 billion, through a combination of both maturing debt and repurchases, and we've also issued GBP2.2 billion of new MREL compliant senior debt.

As a result of the shift in our asset liability mix, our net interest margin is up 5 basis points this quarter. Our loan-to-deposit ratio increased to 90 percent and our liquidity coverage ratio was down to 121 percent.

Our Core Tier 1 ratio fell 90 basis points during Q1 to 14.6 percent; around 50 basis points of this was due to the final DAS dividend and a further 30 basis points was a result of the previously announced accelerated contribution into our main pension scheme that we made in March.

Our Core Tier 1 ratio was also impacted by our growth in our RWAs. These increased by GBP6.9 billion this quarter; GBP3.3 billion of this was due to sterling weakness and the residual increase was primarily due to loan growth, model recalibration in UK PBB and market volatility, with some beneficial offset from annual operational risk recalibration.

Despite only a modest decline in Capital Resolution RWAs in Q1, we remain committed to delivering our 2016 target of a GBP19 billion reduction by year-end.

TNAV per share fell by 1p to 351p per share and that's despite a 14p reduction from the combined impact of the DAS and accelerated pension payments, with the positive offsets being 8p from cash flow hedging reserve gains as swap rates fell in the quarter, and 5p from FX reserve gains.

In terms of outlook for the remainder of the year, we remain committed to delivering the guidance we gave two months ago and we're comfortable with the operating trends in our core businesses.

For Q2 you should note that we'll book an approximately GBP50 million charge for the FSCS levy; this compares to only GBP11 million in Q2 2015. And we'll recognize a charge of GBP66 million relating to our most recent debt repurchase.

But as always, we do caution on lumpy quarter-on-quarter one-offs as a result of expected further conduct restructuring and disposal losses, and conduct costs in particular are subject to a broad range of possible outcomes.

So overall, a good quarter for PBB and CPB; CIB has recovered from a very weak start to the year; and we're committed to meeting all of our 2016 financial targets. With that, I'll turn back over to Ross to host some Q&A.

Ross McEwan: Thanks, Ewen. Will, if you can open up the lines for calls now, please.

Operator: Of course, thank you Ross. So our first question comes from the line of Raul Sinha, from JPMorgan. Please go ahead.

Raul Sinha: Three quick ones, please. The first one is on the US RMBS. In the past you've talked about starting negotiations or sitting down for discussions as a pre-cursor to having some visibility on the timeline. So I just wanted to check factually if you have actually started discussions on this topic?

Ross McEwan: Ross here, no.

Raul Sinha: OK.

Ewen Stevenson: The only brief update that you'll see in the litigation note that we have entered into a discussion with one of the State Attorney Generals, Connecticut, but that's the only substantive update.

Raul Sinha: Sure. The second one is on mortgages and obviously some very strong growth there; your gross has almost doubled to GBP7 billion this quarter. Can you explain maybe how much of that is coming from buy-to-let and is that one of the reasons why you expect a little bit of tail-off in the second quarter?

Ewen Stevenson: Yes, it's about just over 20 percent, I think it's 21 percent of the growth that is due to buy-to-let, about GBP1.5 billion out of the GBP7 billion. Partly the growth -- if you recall, Q1 of last year was weaker, but again I think, Raul, as you think about our market share, we grew mortgages at are 11.4 percent flow share, we've got a 16 percent share of current accounts and a loan-to-deposit ratio of 90 percent.

So we do have structurally a different asset liability mix and loan-to-deposit ratio relative to some of our peers, which I think allows us to grow mortgages in a way that others are not at the moment.

Ross McEwan: Yes and I think the other thing is we have for the last three years been building mortgage distribution. We've got nearly 1,000 mortgage advisers supporting customers; that's up over 20 percent since 2015 and prior to that I think we started with 375 mortgage advisers. So it's been a big uplift.

Our online renewals, as you've seen, are well and truly up. They've doubled in the last year, so just the sheer automation of the renewals is helping on the retention. So I think the overall story, both with advisers, with the broker community and our retention, is pretty strong.

And also there was a little bit of a pull-forward in the first -- or the last part of the first quarter with stamp duty changes, so I don't see that will continue on, because as you know, you did bring forward some activity in the marketplace.

Raul Sinha: OK, and then lastly just on Williams & Glyn, I appreciate obviously you might be limited in what you can share with us, but just what is the linkage to capital return? Do you have to make progress? For example, if you did choose the IPO approach for Williams & Glyn, if you were able to list, let's say, one tranche, would that constitute enough for you to then have discussions about capital distributions or do you have to get it totally off the books?

Ross McEwan: The words that were put to us by the PRA was exit is assured. So we have to have a deal that was assured, not necessarily off our books as we interpret it, but a deal that was assured. And that's what we're working towards. I've chatted on Williams & Glyn before; it is -- we are taking what would be seen as the hardest route of getting the business out and actually taking it out without service level agreements.

So we -- when we started this we knew it was the toughest route, but it is the best route to get a bank out otherwise you end up supporting it inside your organization. But as we've said, we will look at other alternatives where we have to make sure that we get to that timeframe end of 2017.

Raul Sinha: OK, thanks, that's very helpful. Thanks.

Operator: And your next question comes from Michael Helsby, from Merrill Lynch. Please go ahead.

Michael Helsby: Three as well. Thanks for those comments on Williams & Glyn, Ross. It does look like, on the basis of what you've said, a trade sale may well be more likely than the IPO that you were aiming for. If I think about the potential buyers and if we just exclude Santander, who obviously you've talked to in the past, but even for the bigger UK challenger banks who are an obvious potential buyer, it's a very big acquisition.

So can I just ask two things in relation to that; first, would you be prepared to accept other UK bank paper as any part of any sale consideration? And can you also remind us about the agreement with Corsair and how that might complicate any disposal. That's question one.

Ross McEwan: Michael, there's very little we can say and we're obviously not going to discuss parties that can or cannot. All I'd say is if you have a look at the results, interesting enough, Williams & Glyn is starting to grow quite nicely. It's a very good bank and it's a diverse bank, so it's an attractive asset. And as we've said in the past, there are people who like this asset.

The Corsair/Centerbridge investors in it have actually been really good partners in this business and they've taken a good share in just helping us get this into reasonably good shape. The arrangement with them is they will take this position at an IPO or other options if it suits them, but they don't have to.

Michael Helsby: Right, OK. Secondly, just turning to the corporate loan growth, which was extremely impressive. Of the GBP5.5 billion quarter on quarter, can you tell us how much of that was in the UK and what the typical yield might be on that new business?

And also just drilling down a little bit within that growth, commercial real estate grew 5 percent quarter on quarter, GBP700 million. In the context of what's going on in the market, that's a very meaningful increase. It's the equivalent of putting on the total Shawbrook/Aldermore commercial real estate book in a single quarter.

So can you just give us a little bit more colour on what type of CRE lending is going on in Q1 and again, what the blended yield might be on that type of new business? Thank you.

Ewen Stevenson: On the question on -- if you look at the quarter, Q1 on Q4, I think the overall growth is about GBP3.9 billion. About GBP3 billion of that was in the large corporate segment and there are a number of lumpy one-offs in there. I wouldn't assume that we're going to continue to grow at that rate for the remainder of the year.

On commercial real estate, I wouldn't try and draw any Shawbrook and Aldermore comparisons into our loan growth in Q1; it's all comfortably within risk appetite. As we've talked about in the past, we're very conscious of our history in the commercial real estate sector and a very, very tight risk appetite.

I think, frankly, we're just doing a better job of servicing our customers than we've done in the past. If you look on an overall margin level, you could see we've provided pretty detailed margin disclosure and overall CPB margins are stable in the quarter.

Michael Helsby: OK. Thank you. And then, just finally from me, and you've already touched on this already, but clearly, buy-to-let was a big incremental business for you in the first quarter. It's not historically been something that Royal Bank has traditionally been bigging. It's 21 percent of your gross.

Can you tell us how much it was of your net lending growth? I'm conscious that you've not got a big back book there, so it might have been a more meaningful part of the net lending. And just whether you're happy -- there's a lot of regulatory scrutiny on buy-to-let, you're happy with all the underwriting and the regulatory risk that you're potentially taking on.

Ross McEwan: Yes, let's start at the back end. Just recently, the regulators have come out with their views on how we should -- all organizations should be looking at the underwriting of this business. We were within those requirements.

We've recently gone back into the buy-to-let market. You're right, our book is only 14 percent buy-to-let of our total lending book. So we're not the biggest player in this market. We have quite strong and stringent lending criteria, particularly around income and loan-to-value ratio.

So while flow was 21 percent, stock's about 14 percent. So -- and I think there's a bit of a bring-forward again in this quarter. But we have been building our capability in this marketplace, as we have in other parts of the mortgage market, which we've traditionally been quite weak in. I'm still reasonably comfortable.

You do have to be careful in buy-to-let, particularly as the rules around taxation and the likes change. But I think we've stayed within our risk parameters.

Ewen Stevenson: And again, Michael, I think, given some of the changes coming, again, you should expect growth in the buy-to-let segment, I think, for us and others, to moderate for the remainder of the year.

Michael Helsby: OK. Thank you. Thanks, gents.

Operator: And your next question comes from Joseph Dickerson, from Jefferies. Please go ahead.

Joseph Dickerson: I've got a question on two subjects. The first on Williams & Glyn. Over the past several months, there's been a two standard deviation move in investor expectations for returning capital around this one asset. And certainly, since shares were placed at 330p, I'd call it a three standard deviation move in expectations.

The process has been going on for years. What exactly is the complication? And when you've looked at it in your own assessment, where have you got it wrong, if you will, from the standpoint of estimating when this thing was going to be lifted out?

And then, secondly, on that issue. Is a de-merger to, say, existing minority shareholders, something that could be on the table? So that's -- those are my questions around Williams & Glyn.

And then, the second question is around the UK PBB NIM. It looks like it was only down 1 basis point, quarter on quarter. And I'm sure there's some -- you've got some flexibility still, given the high proportion of savings deposits in that business. Do you think that the NIM is stabilizing there? Thanks.

Ewen Stevenson: Just on the second question first, quickly. It was down 1 basis point in the quarter. I wouldn't call out that we think, at this point, it is stabilizing. I think it will continue to moderate during the course of the remainder of the year.

I think, at an overall Group basis, I think we're actually confident that our NIM will continue to increase during the remainder of the year, albeit probably at a slower pace than what we saw in Q1.

So what you've got going on, on UK PBB, is all of the trends that we've talked about previously, where you've got the progressive rolling off of cash flow hedges that we've got in place on current accounts. You've got the mix change, two mix changes going on, one from unsecured to secured. And within secured, a continued, although moderating trend of a shift from standard variable rate to fixed rate. Standard variable rate declined by about 1 percentage point in the quarter, from 17 percent to 16 percent.

But overall, if you look at the margins that we're putting on the new book in mortgages, we think it's very, very good ROE business. And yes, certainly, much better returning profitability for us in the run-off -- where it's coming from, which is the run-off of Capital Resolution and excess liquidity.

Ross McEwan: Just on the Williams & Glyn, Joseph. I've said before, this is a very, very complex piece of work taking a bank from within a bank. And we are actually having some successes doing it, but we did have to put to the market there was significant risk we're not going to hit the deadline.

And that's the reality as you get into these programs. We are moving out seven -- and standing up 700 systems here. This is not one mortgage platform that most organizations would take two years to take from one -- the business from one mortgage platform to another. We're actually standing up 700 systems, and they all have to work on the day we get them there.

And you don't really know -- no matter how much planning you do, you don't really know how it's going to go until you get through this. So we've done a lot of heavy lifting on testing of systems. We're now moving forward into what we call a production zone, which will be in the late summer.

And that means putting these systems into a production zone and then putting the customer groupings into them. And each part of those changes, you learn a lot more about yourselves and your organization, and how these things work.

So these are our systems, but they are going into a new environment. And they all have to work and talk to each other.

So unfortunately, it is just high complexity. As you go through and get further -- closer and closer to the end, you do find some difficulties, time-wise, with these. But progress has been made. We've just, for example, stood up the payroll system, which, again, for most organizations, would probably take them a year to do one of those things. Well, we just happened to do it amongst 700.

That's up and running. We've got 5,500 people standalone being paid by Williams & Glyn, now outside of RBS. And we've got other things definitely going on. But we did have to signal to the market.

We will have a look at other options of making sure we get it out. But I'll just reinforce, this is highly complex work. And I'm not too sure I've ever seen a bank do this. And we -- remember that we went down this route, rather than a full TSA. Because a TSA leaves it stuck inside your organization, and our view was, this needed to be a standalone bank and away from us, so that it didn't keep drawing on our resources.

Our capability in this area is strong. We have taken out, but quite differently, a separate insurance business, Direct Line Group. We've taken out Worldpay; again, quite a separate business. But this is taking our own systems out and standing them up. So we'll keep you updated next time we've got a quarterly result.

Ewen Stevenson: Yes. Joseph, just -- the complexity is in separation, the complexity is not in disposal.

Ross McEwan: Yes, good point.

Ewen Stevenson: So once we have got it separated, we're pretty confident that we can come up with a manner of disposal that protects shareholder value.

And your point on -- which I can't quite do the math on, two or three standard deviations on capital distributions. But yes, the overarching message that Ross and I continue to stick with is, yes, as and when we clear the remaining hurdles to being able to return to capital distributions, we will normalize to a 13 percent Core Tier 1 ratio. So it's a -- if you're taking a more conservative view, it's a timing difference, rather than a difference in absolute capital distributions.

So yes, those three hurdles, just as a reminder, are Williams & Glyn, US RMBS, and Bank of England stress tests.

Ross McEwan: And we got rid of the fourth one in the first quarter, which was paying out the DAS.

Joseph Dickerson: Thanks.

Operator: And your next question comes from Andrew Coombs, from Citi. Please go ahead.

Andrew Coombs: Three questions. The first, I'm afraid, is another follow-up on Williams & Glyn. You mentioned earlier that, in your discussions with the PRA, there need to be a deal assured on Williams & Glyn before returning capital.

I guess the point we're struggling to understand is, even if restructuring charges were to double, it's difficult to -- how that would mean for the impact on your capital, once you adjust for the GBP10 billion of RWAs dropping out. So could you just elaborate on why the PRA has this stance, why they have attached the Williams & Glyn disposal to any capital return?

That's the first question. Then I've got a couple of more technical questions.

Ross McEwan: Well, maybe if I answer that one first, Andrew. This is all to do with state aid. We have an obligation to take this business out. So whilst it doesn't have the immediate impact on capital, this is a state aid requirement. And it's agreement between the UK and the European Commission, and we're a party to that.

So that's why it's one of the requirements. So whilst not a big capital impost, until it's tidied up, it's pretty clear that, that's one of the things holding us back from becoming the absolute normal bank we aspire to be. It's not the biggest capital issue for it, is one of the requirements to become a clean bank again.

Andrew Coombs: OK. That's clear. I could ask what the consequences of Brexit might be on that agreement…

(Multiple Speakers).

Ross McEwan: Probably, we suspect, not much at all, because it is agreement that sits in place.

Andrew Coombs: Great. And then the couple of technical questions. The first would just be on the shipping portfolio, the write-downs there. Can you just remind us of the size of that portfolio? And also the mix of that portfolio between container, tanker, bulker, and where you've seen the charges?

And then the final question would just be on this IFRS volatility through the corporate centers. The second time in three quarters we've seen a large charge there. Can you just remind of what's driving that charge, what the key inputs are into that impact?

Ewen Stevenson: The shipping details are actually in the report, I think –

Ewen Stevenson: Page 17 of the report, Andrew. We've got some details on the shipping portfolio. About -- just under 40 percent of it is dry bulk, but we set out in there what the credit exposure is; what the non-performing pool is, etc. So -- and the third -- the last question, Andrew, was?

Andrew Coombs: It was on the IFRS volatility. It's just what the key drivers of that are, because it's the second time in three quarters we've seen a large charge relating to it. So it'd be great to give us an idea of how we can better assess that in the context of the wider Group.

Ewen Stevenson: I think the way ultimately to assess it is that -- yes -- longer term it should have zero impact on the Bank over time. And I think when we get into IFRS 9 in a couple of years' time, we shouldn't have this issue. It relates to some hedges that we put on, on some very long-dated loans that we put on a number of years ago. And quarter on quarter, with interest rate volatility, unfortunately you're just going to see that volatility come through the other income line.

We have broken it out separately. It obviously had a bigger impact this quarter, given the significant movement in long rates, but it shouldn't impact your valuation models.

Andrew Coombs: OK, thank you.

Operator: And your next question comes from Chira Barua, from Bernstein. Please go ahead.

Chira Barua: Three questions. One, again on topics which you've already commented, but very quick ones. Williams & Glyn, is there a -- what's the penalty from Brussels if you miss the deadline? Have you had a chat with them as yet, and -- because you've gone public right now, saying that you'll not meet the deadline, most probably not meet the deadline. So what is the feedback coming from Brussels?

Should I give you all three?

Ross McEwan: I'll give you that one now, that we haven't had those conversations. We keep in touch with them, obviously, through the monitoring trustee that sits through the sessions regarding Williams & Glyn. They know the work that's going on in the sector, but they see 6,000 people working at it, they see the entire organization focused on it.

So at this stage I think it's far too early to be talking about what are the penalties. It also depends upon what do we miss on if we're minorly out? We'd hope to see nothing. If we're well out, it may be different. But no discussions at this point.

Ewen Stevenson: And just to repeat some guidance around numbers. Obviously, if you looked at 2015, we had GBP630 million of restructuring costs for the separation of Williams & Glyn. We've just incurred another GBP158 million. So we think that feels like a pretty good quarterly run rate.

Obviously offsetting that is the fact that every quarter we keep Williams & Glyn, it's making good operating profits: it made another GBP80 million of operating profits, so you should offset that against those numbers. And we've provided, I think, enough disclosure for you to form a view as to what the exit values may be for Williams & Glyn. And given you've got a very active challenger bank sector now trading in the market.

Chira Barua: That's the first. The second one is on, again, the UK mortgage book. Just a quick question on that. What percentage of the front book is actually fresh lending as opposed to buy-outs of loans from other banks?

Ross McEwan: I'd have to have a look at that. I don't know what the actual –

Ewen Stevenson: I think we'll have to get back to you on that, Chira. I don't have those numbers to hand.

Chira Barua: OK. And the third one, Ewen, to your disclosures on US RMBS, I always thought that your strategy was to try and settle with all agencies together, because you've got a big bunch of them, and work through the DoJ around that. But I've seen that you started one-on-one talks. So has the strategy changed? Is there something fundamentally changed from the DoJ side?

Ross McEwan: No. Our strategy hasn't changed, but it does -- we can't stop those other individual parties wanting to have those conversations with us alone if they feel that their timing is different to the DoJ or any other state attorney. And that's what's happening.

Ross McEwan: And just remember, we've got the Department of Justice; we've got a handful of states; and on top of that we've got about 20 different pieces of litigation. So there's always going to be -- yes, we continue to want to work with the Department of Justice, to get -- settle as much as we can by way of an umbrella settlement, to the extent that that continues to push out.

I think we will choose to negotiate individually with some of the states and some of the litigants ahead of that.

Ewen Stevenson: Particularly if they come to us.

Chira Barua: Thanks, guys.

Operator: And your next question comes from Jonathan Pierce, from Exane. Please go ahead.

Jonathan Pierce: Three quick ones in risk-weighted assets, please. Firstly, can you reconfirm that the Capital Resolution RWAs are intended to get down to GBP10 billion mark by the end of 2018, which I think is guidance you've given before?

Secondly, some model changes in the first quarter. I think that was only a couple of billion of additional RWAs. Is there any more of those to come? Anything you see in the pipeline now?

And thirdly, on the commercial Bank, the loans and the risk-weighted assets went up by fairly similar amount in the quarter. Previously I think you've talked about a GBP9 billion RWA opportunity around efficiency in the commercial Bank. When might we start to see that come through? So if we continue to see solid loan growth, could we expect the RWA growth to slow as some of that GBP9 billion efficiency improvement comes through? Thanks.

Ewen Stevenson: Yes. So on Capital Resolution, I don't think I've ever mentioned GBP10 billion at the end of 2018. But the -- what we have guided to is GBP30 billion at the end of this year, which is a sort of commitment of -- in terms of a reduction in RWAs out of Cap Res. I think we will -- we remain committed to achieving that.

They were down a relatively modest GBP1.4 billion this quarter, so they're currently at about -- just over GBP47 billion, so that implies we've got just over GBP17 billion to go for the remainder of the year.

And then, Jonathan, that leaves us with about GBP30 billion. So could you get to GBP10 billion by the end of 2018? Well, you know that growth -- that reduction will begin to moderate, but it's plausible that we'll be at that sort of level by the end of 2018.

In terms of the model recalibration, some of that will reverse, I think, in the coming quarters. Is there more to come? I think that really depends on some of the discussions that are going on in Basel, etc., and where they land over the next few years, but much longer dated.

On the commercial Bank, we have got about -- a pool of about GBP5 million. One of the reasons you saw that high growth in commercial in Q1 relative to other quarters was because there wasn't a corresponding offset coming through from that portfolio of GBP9 billion. We do think you'll see some of that start to come out again in the coming quarters.

Jonathan Pierce: OK. That's helpful. Thank you.

Operator: And your next question comes from Martin Leitgeb, from Goldman Sachs.

Martin Leitgeb: A few follow-ups from my side, please. And one again, I think, on Williams & Glyn. I was just wondering what kind of alternatives you are exploring? And then the question is, obviously, looking at some of the previously European Commission mandated restructurings in Europe, so we have seen some banks completely changing from a disposal to a rundown or similarly. Is that part of your consideration? Or would that be part of your discussion?

I think if I remember back at the disclosure back in 2009, one of the key concerns of the Commission, with regards to state aid, was your market-share position within SMEs in the UK. Could then an alternative solution be to this dispose loans and just close the branches? Or do you think the going -- or at least the base-case assumption remains carving out a completely standalone functioning banking entity going forward? And that obviously as well in light of the substantial restructuring costs you have incurred already in that process.

The second question is just a quick follow-up on your funding position and you obviously mentioned your structural advantage you're having. From your disclosures, together you had around GBP8.1 billion of legacy AT1s, which no longer count as part of your capital stack, at least from an endpoint perspective. Could you update us there what your plans are with regards to that? I think you're past the potential call date. Should we be expecting any further liability exercises here going forward?

And the last is really just a quick clarification with regards to costs in Capital Resolution, which obviously have declined meaningfully over the last couple of quarters. And I get your comment we shouldn't look at a linear basis on that sharp decline we had versus last quarter. But I was just wondering in terms of indirect expenses, which is down sharply, is that a new run rate going forward? Or could we imagine that to come down even further in the short term? Thank you.

Ross McEwan: I'll just pick up the first one, which is the alternatives. We won't go into any detail of what we're looking at. But you need to -- you're quite right, when you look at -- what was required from the state aid, was the disposal, but the creation of competition in the marketplace. So I doubt that a complete rundown of the business, or big chunks of it, would be acceptable. Because it wouldn't create that competition.

The European Commission and HMT would want to see increased competition into the marketplace either through a new vehicle or a strengthened vehicle. So I can't see a position where the book would be run off is my view. I just don't think it would be acceptable when you look at the terms of our requirements.

Ewen Stevenson: On the other two questions, Martin, on the legacy capital securities we still have. Yes, you're right. It's important I think to recognize that some of them still have regulatory capital value for us for the time being. But as you've seen over the last couple of quarters, we are actively managing down legacy capital and legacy wholesale funding when it makes sense to do so, some of it through natural maturities, some of it through repurchases. I'm not going to speculate on what our strategy is, but we're going to manage it for value on your behalf.

On Capital Resolution, look our target is to take the current quarterly run rate of just over GBP250 million down to as close to zero as we can over the coming years. And we will manage that expense base down as rapidly and as prudently as we can.

The one thing I'd caution about though is it's obviously much easier to take out front-office cost than it is back- and middle-office costs because as you close down the business, you've got years of legacy clean-up to do around accounting, tax, litigation, etc., that just takes time to work through. So there will be a stub of costs that I think runs for a while.

Ross McEwan: And can I just add to that, we've still got to bring down the global transaction service business, which is a heavy back-ended business, as Ewen said. So the stub of that will take some time. But we're planning to have all customers off by the end of the year. And then the systems and the administrative staff down out of that pretty soon after.

But those sort of things do take time and that's where the cost is. So front end's pretty well out. Now we're working on the back end, and all the service and technology pieces behind it. It'll take a couple of years.

Martin Leitgeb: Thank you very much. Very clear.

Operator: And your next question comes from Rohith Chandra-Rajan, from Barclays. Please go ahead.

Rohith Chandra-Rajan: Just a quick one from me actually, just on the net interest margin. Obviously the positive progression in the quarter, and Ewen, I think you mentioned earlier you'd expect progression for the year as a whole. Looking at the businesses that drove that, Ulster Bank was up 30 basis points and commercial up 6 basis points. Is that really due to the liability repositioning that you were talking about earlier? Or is there anything else going on there? And how should we think about that progression going forward? Is Q1 particularly lumpy? Thank you.

Ewen Stevenson: I wouldn't read the Ulster trend as -- there was some liability, well, both in commercial and Ulster, the main benefit was on the liability side. In Ulster there was also some changes in the way that we accounted for the interest cost and NPLs I think, which also drove it up. So I wouldn't read the Ulster trend or movement in that quarter as going to continue for the rest of the year.

I think the biggest drivers, frankly, and what's driving NIM up at the Group level is really driven by the continued rundown in Capital Resolution and the continued rundown on our excess liquidity. So if you look at the shift in interest-earning assets in the table that we've provided on Capital Resolution, over the last year we've taken interest-earning assets down from GBP83 billion to GBP31 billion. And the margin on that in Capital Resolution is about 1 percent. So that has a very meaningful impact on overall Group NIM.

Rohith Chandra-Rajan: OK. So primarily a mix change. I hadn't assumed that Ulster would continue improving at 30 basis points a quarter, but thanks for the clarification.

Ross McEwan: Be nice if it did.

Operator: And your next question comes from Manus Costello, from Autonomous Research. Please go ahead.

Manus Costello: I had a couple of questions, please. Just back on Williams & Glyn, to follow up on what happens if you aren't able to get it done. In your annual report you disclosed that the Commission can appoint a trustee to sell it with no minimum price and that they can impose additional remedies. I wanted to check that that is still the case if it's not done by 2017?

And is it -- what's the nature of the agreement between you and Treasury around this because I think the state aid commitment is not just for you it's also for Treasury as well, is that correct?

Ross McEwan: There's a back-to-back deal between us and Treasury and Treasury and the European Commission is the way it's structured. So it is the same agreement so we're all working in unison here.

Ewen Stevenson: In terms of the monitoring trustee, Manus, they actively participate, they're involved in all of our meetings, and they’re fully briefed. As I said earlier actually the challenge is not the disposal, the challenge is the separation.

So as and when we have confidence in separation, I think we're very confident in our ability to dispose. Yes, the monitoring trustee is not going to be able to, I think, add significant value to the ease of which we can separate.

Manus Costello: OK. And then on operating performance. Just on costs. Your GBP800 million of reduction this year, that comes off the GBP9.4 billion base from last year, right?

Ewen Stevenson: Yes.

Manus Costello: Because if I look at the Q1 rate overall, it's running somewhat ahead of that. You talked about it not being linear, Ewen, I wondered if you could give us an indication of where those costs will come out. Because in your commentary, it looks as if there's more investment going into areas like PBB, in particular you talk about a pick-up in technology spend. So I wondered how that's going to progress through the year. Thanks.

Ewen Stevenson: I think at the full year, we talked about the fact that of the GBP800 million we expected the majority of it to come out of the rundown of Capital Resolution and that we also expected to have positive jaws across the six core franchises. So I think from that you can do the math and figure out that there'll be some element of that GBP800 million offsetting the income erosion that we expect to see in CIB this year.

In terms of when I talk about non linear, you'll have seen in the numbers today that headcount numbers have actually increased. Some of that is because of an increase in Williams & Glyn, as we continue to invest in the build-out of Williams & Glyn.

Some of it's due to ongoing remediation. We have large numbers of people helping out on various remediation issues. Some of it's to do with the GBP1-odd billion of investment spend we're putting into the core Bank and the people we've got helping on that.

I think you'll see through the progressive quarters, headcount beginning to come down across the bank which will drive costs down. But we've got a pretty detailed plan at this point on where the GBP800 million's coming from. We're pretty confident, as we said today, in terms of our ability to deliver that number.

Ross McEwan: And as Ewen said, it will be lumpy. Second quarter we've got the FSCS levy of GBP50 million, we've got the bank levy in fourth quarter, so yes, a couple of big bumps in the year, but we're confident we'll get the GBP800 million out.

And a big chunk of the change will come out of CIB. You've seen it 16 percent down quarter on quarter; we need to get the cost in that business down. It'll happen over a three- to four-year period but a good start.

You are seeing the investment, as we've said there, three businesses we want to invest to grow. One of those is our personal Bank, the other one's the commercial Bank, and RBS International. We are investing in these businesses.

So that's where some of the spend is going but the cost reduction needs to come across the board and it'll be much bigger in CIB and Cap Res this year and slightly less reduction out of the others.

Manus Costello: Thank you.

Operator: And your next question comes from Jason Napier, from UBS. Please go ahead.

Jason Napier: Three quick ones, please, and I'm afraid we're going to be ploughing much the same field as we've been in all morning. Williams & Glyn.

Just to be clear, I appreciate that the challenge is on separation rather than disposal, but given all the work and the investment that's gone in, the various options that are under examination, presumably none of them are about customer transfers. You're going to stand up the bank and then it's really about how the transfer takes place would be my guess, given the experience with Project Rainbow earlier on.

Second question was I appreciate the reiteration of the cost target for 2016. I guess I'm wondering, you're having to throw the kitchen sink at getting Williams & Glyn done. Surely that's putting the business under business-as-usual strain. Your ability perhaps to hit next year's cost targets and so on must be under some pressure, given the talent that you must be diverting to getting that single project done.

And then thirdly, and I appreciate that this may be a question that is very difficult to address in April 2016. But I'm just wondering if you miss the 2017 deadline whether there's any colour that you could add around the capacity of the Board to pay a meaningful interim dividend in 2018.

What are the sort of hurdles, perhaps from a regulatory standpoint before a meaningful payout can be made? Because there are those on the market that'll point to Lloyds's first interim dividend, but it was really small and relative to perhaps the excess capital that some would hope you would have, that's really not going to do it. So I guess the question is are we looking at potentially a year's delay in a real payout from Royal Bank of Scotland?

Ross McEwan: I'll pick up on the first two, just on the separation. We are -- our course of action and our number one course of action is to completely separate the systems out from the Bank so it stands on its own. We are going to look at all alternatives though to make sure that we do honor our commitments, but you know we have to come out and say that there's significant risk there.

But our course of action, our number one course of action is to separate out. And we are throwing a lot of our very, very good people at this. We've had good people on it, but we are stepping it up, but it needed it anyway because you were getting into quite big technical pieces of separation.

But I'm not going to go into any detail but we'll keep you informed the next time, probably at the next quarterly result, or six-monthly results.

On the cost target, given that a lot of activity is going into Williams & Glyn, you'll notice this week I made a separation of one of our senior roles. Because it does actually separate out to go forward on technology with the challenger Williams & Glyn under Simon McNamara, and also brings Mark Bailie into the mix with more the business-as-usual operational parts of the Bank, just to spread the load a bit across the executive team.

Some of those -- they were working together on a number of features anyway, particularly about bringing the international portfolio, global transaction services; they were working together on that because a lot of that is service, operational service parts of the business.

But that will bring Mark into play a lot more, and BAU in making sure we stay very focused on the process-type activities in this business, so that we stay on cost target and spread the load.

Ewen Stevenson: On capital distributions, Jason, we've said what the three things are that we're focused on, and you're right that for us to pay a modest dividend, obviously TP is less than GBP250 million of capital out of the Bank, so it's not really a question of our capacity to make an initial modest dividend payment.

So we'll get there as quickly as we can get there, and we will just reiterate if -- I think Lloyds does set a good precedent for us, that they have been able to normalize their capital structure in a way that we would like to be able to normalize it in the coming years.

So I appreciate it's a bit frustrating, but we will get there as quickly as we can.

Jason Napier: So just as a follow-up, the annual stress test really isn't a binding factor in -- as far as hurdles go, you can pass the stress test but not have sold Williams & Glyn, and then move on from there. I guess that's another way of looking at the same question?

Ewen Stevenson: Yes, and there's obviously quite some volatility around US RMBS outcomes too, which obviously does color people's views from a regulatory perspective.

Williams & Glyn, as Ross said earlier, assured exit, I think once we know that we've got confidence in separation, I think we can have confidence in -- exit the sale as well.

Jason Napier: Thank you.

Operator: We have time for one further question, and I have been informed the IR team will come back to your any remaining questions.

This final question comes from Tom Rayner, from Exane. Please go ahead.

Tom Rayner: I was just looking, Ewen, Ross, at slide 5 where you split your core franchises from your exit businesses and comparing that to the same slide at the full year.

One thing from this call, the balance of questions would suggest that people are still worrying much more about the right-hand side of the slide, and the -- Capital Resolution, obviously, Williams & Glyn, etc.

I just wondered what's your feeling as a management team about the movements on the core businesses compared to the year-end position. Because it looks, just by following your slides, that your profitability in your core retail commercial businesses has improved, but at Group level it's actually come down with a bigger drag from CIB.

I just wondered if you could comment on how you're feeling. Do you feel you've made any steps forward in terms of that core business, or do you think it's still very much steady state? I just wondered if you could add some colour to that because as I say, it seems to be the main focus is on the exit businesses still.

Ross McEwan: Yes, to be quite honest, our focus is now on the go-forward business as opposed to the run off businesses.

Ewen's given you the comments on the run-off businesses, we're still assured that we will get this down to our target level this year, and go after it again the year after. So our focus is now on core. You’re seeing strong results out of UK PBB. We said the NIM would stabilize later on in this year and we're still confident that it will. Very good growth coming through on that business.

And also it's an underlying growth starting to appear in the unsecured personal for the first time in a long time. So we've got that book into the shape we want it, and it's now starting to quietly grow, but the mortgage growth is very good.

Commercial you have seen good growth in there and good cost control on that business as Alison and the team have restructured it, and got it, I think, coming along nicely.

You've seen personal business -- sorry the private banking, I think it's just quietly, this year, going to restructure itself, so it starts focusing on good growth there and get the cost down.

CIB, I was actually quite pleased with the result out of CIB. I know the revenue line was disappointing, but that was six weeks and everybody else got hammered with it. And if they didn't, to be quite honest, you'd have to wonder about how they were accounting for it.

It did take a knock. And the issue I pointed you to is are we able to get the costs out there? 16 percent down year-on-year, that's what we need to concentrate on. Chris and the team are doing a really good job on that side, they've reshaped it.

The front end's pretty well in the shape it wants to be, now we've got to get the back-end costs out of it.

Our net promoter scores, which I think are an indicator of how people and our customers are feeling, we're at the highest level in the big brand NatWest. And you've got to be pleased about that because that was lagging; it was sitting in the pack at nowhere, and all the others are coming up as well.

Digital is top in the marketplace, growth is good, and costs are down.

My personal view is we're starting to focus on the core franchises; Mark Bailie and Ewen are concentrating on the get-rid-of businesses; we know Williams & Glyn was a disappointment, but crikey, we're working very hard on that, we want it out. But we had to tell you about the significant risks associated.

So overall, from my perspective, a pretty good quarter from the team, lots of work still to do.

Ewen Stevenson: Yes, Tom, just to cement out what Ross said, I think when you look at all of the things that we've been doing, yes, we felt a lot of that starts to come through in this quarter, which is shifting the business mix towards retail and commercial.

Yes, we've been investing heavily in improving customer service which is now translating through to growth. We've been making big investments into digital, and you can see the improvements coming through there. We're continuing to strip cost out. The only thing that we couldn't control was some pretty difficult markets in the first six weeks of the year for CIB. Even some of our more maligned businesses, like Ulster Bank, you can see the costs beginning to come out of that now.

If you strip out the excess bank levies we had to pay, yes, private banking with Peter in place, is now beginning to show some momentum.

So yes we think it was a pretty good quarter for, particularly, PBB and CPB, and within the context of the markets and CIB, they recovered well in the second half of the quarter.

So we would love to spend more of our conference calls talking about the core business, but we recognize we've got a few quarters to go to talk about the right-hand side of the slide.

Tom Rayner: All right, thanks very much.

Ross McEwan: Will, thank you for running the session. Thanks for joining us on the call and you know where Richard and the team are if you've got any questions coming through. And appreciate your time this morning. All the best.

Ewen Stevenson: Thank you.

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

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