THE ROYAL BANK OF SCOTLAND

Moderator: Sir Philip Hampton
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Operator: This is conference # 83843642.

Philip Hampton: Good morning, ladies and gentlemen. Let's start. Welcome to our half-year results. We have a small attributable loss in the half year but I think, essentially, we're at breakeven at the bottom line. But we've had further improvements in our capital position both achieved and expected now with the virtual near exit from Citizens with the latest sale this week.

There is a recurring theme of good profits from our operating businesses being overshadowed by conduct charges and restructuring. We've taken GBP2.8 billion in the half. And I'll say something, briefly, if I may, about conduct charges.

They're now north of GBP10 billion with more to come in this Bank. And the industry as a whole, and this Bank, have got, frankly, a poor track record in predicting these. We've consistently under-called them. They exploded, I think, after LIBOR and, arguably, the flow of money from banks to public treasuries has been very helpful and welcome in those treasuries.

We've scoped the issues as well as we can and currently believe that the forthcoming settlement on asset-backed securities in the U.S. is, by some distance, likely to be the most material of them, partly not least because it's been material in many other banks. And that's been the case for a couple of years.

So we have a lot of issues, a lot of disclosures, but the asset-backed litigation issue looks likely to be the most significant.

But for the real business of running a bank that can deliver good sustainable returns from doing the right things with its customers and focused in areas of competitive strength, after all that's what we're really about over any period of time, I think we are well on the way to getting there, as you'll hear shortly from Ross and Ewen.

And, in that context, we welcome, frankly with some relief, the U.K. Government's decision to look to sell shares at their convenience and we've always believed that this would be very much in the interests of this Bank for the Government to begin its exit process.

So let me now, with those remarks, hand over to Ross. Ross, if I may say so, has been a fantastic addition to the team here at RBS and I think he's building an ever more effective team amongst his top people and he's in charge of today's lineup. So I'll hand over.

Ross McEwan: Thank you very much, Philip, and good morning to everyone. Today I'll give you an overview of our progress and then Ewen will take you through a lot more detail from the accounts.

As I said at the top of the year that we are determined to go further and faster on the strategy and today you'll see that in our results. While we still have a lot of substantial work to do to rebuild this Bank, to make it the Bank we want it to be, I do feel that we are making good progress against the strategy and the targets that we have set ourselves.

The Bank we're building is delivering better returns and the businesses we're leaving behind are running down at a lot faster pace than we had probably anticipated.

We are also working quickly and prudently through the outstanding conduct and litigation issues that Philip talked about but we all know that the remaining drag on our resources is both financial and on our people.

You'll see from the results that we are posting today this is a Bank moving forward on its plan. It's a plan to build a stronger, simpler and fairer Bank for both customers and shareholders and we're focusing squarely on our core strengths here in the U.K. and in the Republic of Ireland.

We're determined to win our customers' trust and build a Bank that delivers sustainable returns from a lower risk profile.

So let's get into the results.

Today you'll see that we're going further and faster on delivering our plan. Our capital ratio is up. Our costs are down. Returns in the go-forward bank are improving. Restructuring is continuing at a pace and we're reducing complexity further and simplifying the Bank for customers and our employees alike.

We are now more clearly categorizing the nature of our businesses.

Firstly, those we classify as invest-to-grow businesses. These are the strongest, with the potential to deliver the biggest returns.

Secondly, the businesses we are repositioning for returns. These businesses need more work to clear the hurdles that we've set for them and to make their full contribution to this Bank.

And lastly, the areas we earmarked as close or run off. This is chiefly our exit bank and you will hopefully be very familiar with these areas, but Ewen is going to go into these in a lot more detail a bit later.

The end state is a lower risk business with strong returns and delivering against its plan. I assess that we are midway through at this point.

On the financial highlights, let me step you through today's results.

You can clearly see the pace of the progress in the first six months of the year against the targets for 2015. The results show the growing strengths of our underlying customer businesses, with an attributable profit of GBP293 million for the quarter; up from a loss of GBP446 million in Q1.

The adjusted operating profit of GBP1.8 billion for the quarter is up 11 percent on Q1. However, that does move to an attributable loss of GBP153 million for the full six months. And, just to be clear on this, I and Ewen won't rest until we get this Bank back into making profit and hitting the bottom line.

The one-off restructuring costs remained high throughout the second quarter with GBP1.5 billion of restructuring, conduct and litigation costs. But I'd emphasize that the higher costs are down to us delivering on our plans further and faster than before. CIB, for example, has seen good progress, with adjusted costs down 20 percent compared to H1 2014.

We've also seen a GBP22 billion, or 6 percent, reduction in RWAs to GBP326 billion, which is also reflected in our improved Common Equity Tier 1 ratio of 12.3 percent. This is the clearest indication of our financial stability.

Impairment releases are GBP141 million for the second quarter, as bad debt charges continue to remain very low.

And our total net asset value for the quarter is at 380p; slightly down from where it was in the first quarter, as attributable profit was offset by cash flow, hedging and currency movements.

Finally, our leverage ratio was up from where it was the full year of 2014 from 4.2 percent to 4.6 percent.

The overall picture is one of lower operating costs, stronger growth and returns in our go-forward bank. And these are very encouraging signs that our strategy is working and it's clear that the strengths of our go-forward bank are emerging. Every month we see it.

I now want to spend a little time and speak more to our strategy. You'll have seen this slide before. This is our blueprint for success. At RBS we want to keep things simple because complexity is distracting and it is incredibly costly. And at the foot of the blueprint are our 2015 goals, so let's go through what we've done against each one of them.

Importantly, our 2015 goal is to build on the excellent progress we made in 2014. And each year we are on track to deliver strength and sustainability, we're continuing to reduce risk and now have had six straight quarters of capital ratio increases.

I've already mentioned a few of the points you see up on the screen. But worth adding we've also made great progress in RBS capital resolution, with only GBP8.4 billion of funded assets remaining. And, as you saw earlier this week, we continue to reduce our stake in Citizens Financial Group. And we've also announced our intention to launch an inaugural AT1 issuance shortly, which Ewen will expand on.

When it comes to customer experience, NatWest personal and business, RBS business and Ulster Bank have all seen a significant improvement in the Net Promoter Scores over the year. We're determined to win back the trust of our customers, so I welcome these improvements that are just starting to show through.

On simplifying the Bank, we've cut costs by over GBP700 million for the first half of this year compared with the first half last year. That's on top of GBP1.1 billion cuts we made in 2014. That also means we're on track to take another GBP800 million out for this year.

And we're supporting growth in our personal and business banking and our commercial in the U.K.. These are our core customer segments. We're seeing a 43 percent increase in mortgage applications year on year.

On employee engagement, when it comes to our employees, the people who make it happen, we've started a comprehensive program to improve our engagement scores to get them within 8 percent of global financial service norm. And I'll report back when we've got the results later on this year.

We're also becoming a lot simpler. You've just heard from me we're on track to meet our cost-reduction target for the year. Tackling costs will be an ongoing constant goal for us, given our starting point. And, as I've already outlined, you can see we are delivering.

Our aim of reducing the cost-to-income ratio to below 50 percent, it has not changed. Stripping out the complexity and becoming simpler is key to delivering our cost-to-income ratios.

By the end of the year we will have reduced our property portfolio down by 16 percent from where it was just a year ago. And the number of costly programs that we run in this Bank will be down 18 percent compared to last year.

We're simplifying our front- and back-book product sets to the benefit of both customers and to our employees. And our Company structure is getting much simpler, reducing the number of companies in the Group by 135 already this year, with many, many more to go.

All of these examples demonstrate how we are taking costs out of this business and making it much simpler. This is a bank that's becoming smarter in the way it operates.

Our strategy to transform the Bank is in three phases. Phase 1 was successfully completed last year. Its focus was on de-risking the Bank, starting to reduce the cost but building our capital position and simplifying the organization. And I think you would agree we did a pretty good job on it.

We're currently in Phase 2 and on schedule. We're giving further clarity between the go-forward and exit businesses, accelerating the transformation of our go-forward bank and addressing other material remaining issues within our control.

Ewen and I have been clear about the conduct and restructuring issues we face and we're dealing with this as prudently as we possibly can. These will continue to be a challenge for us over the next six to 12 months.

This clarity is also allowing us to focus much more clearly on the go-forward businesses and to be clearer and more transparent with you about where the future of this Bank really lies and to build towards the third phase of our strategy.

Phase 3 will focus on RBS becoming a market leader, a bank servicing customers better than any other bank in the U.K. and achieving attractive, balanced and sustainable returns.

I want to emphasize how our strategy and the phases of it, as you can see on the slide, are designed with the aim of creating a business which supports long-term shareholder value.

We're focusing on markets where we're the strongest. We're building on businesses, and in many cases that are already healthy, and closely controlling costs throughout each of these businesses.

We're on track to achieve a Common Equity Tier 1 ratio of 13 percent next year and our current expectation is to approach the PRA for approval to pay out surplus capital above 13 percent. Ewen will articulate the timing and what we have to do to get investors back any surplus.

We're investing over GBP1 billion per year in the go-forward bank. This investment is already starting to show.

Improving our go-forward business means improving what we do for our customers. We're becoming fairer. We are the only bank or building society to have the Fairbanking 5-star mark across our entire instant-access adult savings range.

We're improving the customer experience. We've just recently launched the reward account offering 3 percent cashback on household bills to a small number of customers as an initial stage. And a full launch is scheduled for later this year. This is an important competitive development in the U.K. current account market.

We're leading the way on innovation and collaboration through Apple Pay, through TouchID and through RNIB approved cards.

These, amongst other improvements, have led to our NatWest mobile banking app becoming joint number 1 in the market according to our customers through Net Promoter Score.

And we're easy to deal with. The time it takes to open a personal current account has been halved to 30 minutes. And we've rationalized our front- and back-book set by up to 50 percent, excluding our non-personal lending.

And we're also supporting small businesses and the community. We've partnered with Entrepreneurial Spark to support enterprise. And we've created and launched a GBP2.5 million skills and opportunities fund to support local communities across the country.

And we're improving the experience of working here at RBS. We're rolling out training to 7,500 of our leaders across the Bank to improve our sales and our service culture for RBS.

I'd like to take a moment just to highlight the improvements we've made, particularly in our mortgage business; a key area of growth for us that we called out some time ago.

We've significantly increased our number of mortgage advisors and we're transforming our proposition to make it easier for our customers to do business with us. This isn't only in investment and capability or capacity; it's an investment also in service delivery.

We are more focused on our strongest products with a simplified range. We've introduced new ways for our customers to talk to us, making it simpler to apply and looking at every step of the mortgage process. This will ensure our customers get the best experience possible.

Our customers are already responding to these changes with complaints being down, Net Promoter Scores up in both franchises and we're attracting more customers and growing the market. These are encouraging signs in an important market for RBS.

You can see here that the mortgage applications are up 42 percent from the first quarter and our market share is increasing. There's a positive trend in a growing but competitive marketplace. Our gross lending is also up by 43 percent.

I've been very clear about our ambition to be number 1 for customer service, trust and advocacy. It's based on a simple logic. Look after your customers better and they will do more business with you.

And this simple logic is starting to be delivered in the results for our customers, evident from our improvements you'll see here in our applications and our market share and our growing gross new lending.

Before I hand over to Ewen to go through the numbers in detail, I want to leave you with the message I started off with.

We're in a stronger capital position. Our capital ratio is up. Our costs are down. Our returns are improving. And our customers are feeling the benefit of our strategy.

I'll now hand over to Ewen to take us through the numbers.

Ewen Stevenson: Thanks, Ross. So in Phase 2 of our plan, there's three things we're currently focused on: building value in the go-forward bank through improving customer service, enhancing growth and increasing returns; accelerating the rundown of the exit bank, while still protecting value; and progressively working through our list of other issues.

I think across all three fronts we've made steady progress during Q2.

You've seen this slide before at our full-year results. It's the split between what we describe as our go-forward bank and our exit bank.

Our go-forward bank has a really strong set of customer franchises positioned across the spectrum. Ross talked about earlier the continued progress we're making towards being the number 1 for customer service, trust and advocacy. Financially we're also making good progress during the quarter.

On returns, they're continuing to improve from already healthy levels; a 14 percent normalized return on equity for Q2. And that's after backing out about GBP200 million of IFRS volatility gains and prior to conduct and litigation charges. And that's up from a like-for-like 13 percent return in Q1.

On growth, the annualized first-half growth across U.K. personal and business banking and commercial was 2 percent on an annualized basis. So we're quietly pleased with this value dynamic; improving customer service, solid growth in volumes and increasing returns.

Net interest income was up slightly on the last quarter. This reflected some growth in average interest earning assets; up GBP2 billion in the quarter, offsetting a modest decline in the net interest margin.

The total net interest margin was down 3 basis points in the quarter versus a 6 basis point decline in Q1. This was primarily due to a continuing switch from standard variable rate to fixed-rate mortgages and higher liquid balances.

The margin in U.K. personal and business banking was down 3 basis points, reflecting both mix and SVR switching. This compares to a 13 basis point decline in Q1. The margin in commercial and private banking was broadly stable, while corporate and institutional banking and RCR continued to see volatility as assets run off.

On a pro-forma basis for Q2, and assuming the full exit of Citizens, the Bank's net interest margin would have been some 10 basis points lower to 2.13 percent.

On costs, we think we're building a good and disciplined track record. We're determined to position ourselves as a lower cost provider, while not sacrificing on customer service. We reduced operating costs, as you know by GBP1.1 billion last year. And, as we committed to do, we're on track to deliver another GBP800 million of cost savings this year.

Our Q2 costs were 12 percent lower than the previous quarter in 2014 and 22 percent lower than the equivalent quarter in Q2 2013.

But to achieve our longer term cost aspirations we need to keep making substantive further progress over the next three years. Ex Citizens, Williams & Glyn and operating lease expenses, we're targeting reducing our operating costs by at least a further GBP2 billion from this half's run rate.

The corporate and institutional banking restructuring will be a big part of this, as will automation, optimizing our location strategy, both onshore and offshore, and process reengineering as we become a simpler and smarter bank.

And, as we continue to move further and faster with our restructuring, we do expect that our restructuring costs will remain at elevated levels through the remainder of this year and into next. We said at the start of the year that we'd spend in the order of GBP5 billion of restructuring costs over 2015 to 2019. That remains our best estimate at this point.

Just under GBP2 billion of this relates to the exit of Williams & Glyn and preparing for ring fencing. We recognize that this delivers no value to shareholders but this spend is not optional. But for the remainder, just over GBP3 billion, we believe that spending this to deliver at least GBP2 billion of operating cost savings represents a very good return on investment.

On the reduced bank levy and additional corporate tax surcharge, we expect the net impact of these measures will be to increase our tax charge over time. In the medium term we expect a normalized tax rate of 27 percent before trending lower towards the end of our 2019 plan. We expect the bank levy this year to be around GBP280 million, falling to around GBP150 million by 2019.

Stepping through the various reported segments for U.K., personal and business banking, we had another good quarter and better than Q1.

Operating profits were GBP667 million; that's up 92 percent on Q1. And the ROE was 32 percent.

Growth was much stronger, with mortgage origination volumes stepping up materially. And the second quarter share of applications was even higher, setting us up well for origination volumes into Q3.

Margin pressure slowed relative to Q1, relative to a more modest 3 basis points. And we expect these trends to continue into the second half, with the benefit of good growth and mortgage volumes being moderated by further gradual pressure on the net interest margin. We also expect further income headwinds from the ongoing impact of the reduction in interchange fees.

With a 52 percent cost-income ratio in Q2, after adjusting for conduct and litigation costs, we see room for material efficiency improvement as we progress on our core bank transformation.

With Ulster Bank, returns continue to benefit from the ongoing macroeconomic recovery in Ireland, triggering further write-backs in the quarter of some GBP52 million.

Operating profit was GBP80 million; up 57 percent on Q1. And the ROE was 10 percent. There was a material strengthening of sterling versus the euro over the last year, which does impact Q2-on-Q2 comparisons.

The cost-income ratio at 84 percent is unacceptably high. We believe we should be able to materially reduce this over the next two years.

We also expect returns to improve with Ulster through the accelerated reduction in the drag from the tracker mortgage portfolio. We reduced the size of the tracker portfolio to GBP9.4 billion by the end of the first half and its ROA density also improved, resulting in an accelerated reduction in the capital allocated to this portfolio.

With commercial banking, we believe this franchise provides us with a powerful differentiator versus peers: the number 1 commercial bank in the U.K., with strong market shares across the country. It balances out our business mix, ensuring we're not reliant on a single asset class to sustain our returns and growth.

In Q2 commercial banking had operating profits of GBP400 million.

You should note that commercial banking benefited from the transfer on May 1 from around GBP2.1 billion in loans and GBP13 million in operating profit from corporate institutional banking during Q2.

This is the start of repositioning for ring fencing. It's the transfer of the U.K. large corporate relationships into what will become the ring-fenced bank. And it will be followed later this year with the transfer of all of our Western European large corporate relationships.

For H1 comparisons you'll also need to adjust for the transfer of RBSI, our Channel Islands business, from private banking to commercial banking at the start of the year.

On private banking, it had another weak quarter, with an operating loss of GBP78 million. This was as a result of operating losses and restructuring charges associated with the international operations. Backing that out for the commercial domestic franchise, we see material productivity improvements, both on revenues and costs in the coming years.

With corporate and institutional banking, we've had a heavy focus since our February announcement on stabilizing the go-forward business. In this context, we're satisfied with the revenue performance and progress for the business overall, despite a somewhat weaker revenue quarter for the rates franchise.

Revenues for the go-forward business were GBP310 million in Q2; down 28 percent on the seasonally high Q1.

Assuming normal seasonal trends, we expect the go-forward corporate and institutional bank will generate revenues in the region of GBP1.3 billion. And this reflects the transfer of U.K. GTS and U.K. and Western European large corporate relationships into commercial banking.

So on top of the GBP1.3 billion, there's about GBP400 million of additional revenue benefit, which will be reflected into commercial banking over time.

Backing out the impact of conduct and restructuring charges, the go-forward business was broadly breakeven in Q2.

As we highlighted in February, we expect the turnaround back to cost of capital returns for this franchise will be in the order of three to four years. It will require re-platforming of a substantial part of CIB's IT infrastructure in order to operate the franchise at a materially lower cost structure.

ROAs were down to GBP43 billion by the end of the quarter.

Of the GBP35 billion to GBP40 billion of RWAs that we announced in February as being the steady state RWAs for this business, we now expect that number to be approximately GBP30 billion. The remainder of the RWAs will have been transferred across into commercial banking.

Turning to our exit bank, we continue to make excellent progress in reducing the scale and scope of the exit bank.

On Citizens, you'll have seen that we just completed the sell-down of a further significant stake, exiting 17.4 percent of Citizens on Tuesday. Pro forma for the exercise of the overallotment option and a small directed buyback in the next few days, we will hold now 20.9 percent.

We've previously advised that we expected deconsolidation of Citizens at or below a 35 percent shareholding. This remains true for accounting deconsolidation and this will now have been triggered by Tuesday's sell-down.

However, for regulatory capital purposes, the PRA has informed us that, due to certain negative protection rights that we've retained with Citizens above a 20 percent shareholding, we will not get proportional deconsolidation.

So in Q3, for accounting purposes, we will deconsolidate Citizens and account for the disposal. This will include an accounting profit totaling 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 around GBP200 million of this will benefit our core capital.

Pro forma for a full exit out of Citizens ex operational risk, 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 around one-half of RWAs at the start of the year to under one-third at the end of Q2 on a pro-forma basis.

And overall for RWAs for the Bank, including the pro-forma benefit of Citizens at the end of Q2, would have been some GBP262 billion, or well below our yearend target of GBP300 billion.

On CIB Capital Resolution, we've made an excellent start in running off various asset pools, and I'll come back to progress on the next slide.

On RCR, funded assets reduced by another GBP2.7 billion during the quarter and are now at GBP8.4 billion. In order to exit RCR we need to reduce funded assets to at or below GBP5.7 billion. And, based on current sales processes, we expect to comfortably to meet our accelerated timetable to run off RCR by the end of this year.

At the end of the year we then plan to fold the residual stub of RCR into CIB Capital Resolution from a management perspective.

Financially RCR continues to benefit from favorable markets for asset reductions, resulting in an operating profit of some GBP176 million in Q2 and GBP357 million in 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 note in appendix 4 in our interim report we've put in some incremental financial disclosure. This represents Williams & Glyn under our ownership. You should have seen as a standalone bank that its cost structure will be materially higher and, therefore, returns lower. We're working hard towards a planned separation in just over a year's time and then an IPO at the end of 2016.

We've also strengthened the management team in recent months with a new CEO and a new CFO, who will be in place shortly.

The sale of our international private bank to UBP was announced in March. It remains on track to progressively close from Q4 of this year through to first half of next.

So, overall, with the exit bank, we're comfortably ahead of plan and we now expect to have the great majority of our RWAs allocated to the go-forward bank by the end of next year.

On CIB Capital Resolution, we've made an excellent start with winding it down. In part, we're benefiting from the rapid reduction in 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, in recent months. And we've reduced TPAs by some GBP33 billion over the same period.

In the Americas we've signed sales for over two-thirds of our corporate loan book and associated commitments that were targeted for rundown or sale. And we expect to be substantially out of our American wind-down portfolio by the end of this year.

In APAC we've already announced sales of substantially all of our Australian and Hong Kong businesses. We've commenced sales processes for China, India and Malaysia.

With our GTS platform, we've notified over 30,000 customers of our intention to exit and we've reached agreement with BNP Paribas to offer those customers a strong alternative GTS partner and, therefore, helping minimize customer disruption.

On the back of these portfolio disposals, we also booked combined losses on sale of GBP113 million in Q2.

Overall, comfortably ahead of plan at this time in terms of the corporate and institutional bank Capital Resolution wind-down. And we're also in line with our earlier loss estimates that we announced in February as part of the GBP2.5 billion to GBP3.5 billion of combined additional CIB restructuring and asset disposal costs.

The third topic I wanted to focus on was what I describe as our other issues. These broadly fall into three buckets.

Firstly, addressing legacy litigation and conduct issues. This includes a range of issues, a number of which are noted on the slide. We have sought this quarter to give you some additional disclosure in our results, note 16. This should help refine your views on the potential costs of settlements across a few of these issues.

Given recent publicity, I did want to spend a few minutes discussing our exposure to various U.S. RMBS litigation and regulatory investigations. We're not currently in settlement discussions for our various U.S. RMBS exposures and hence why we've not taken any material incremental provisions this quarter.

But, as you think about potential liabilities, we face claims across three broad categories.

Firstly, various civil litigation claims totaling some $45 billion in gross principal balances, where we may incur settlement costs or liabilities. FHFA claims are a big part of this, $32 billion, but not the only part. There are $13 billion in gross principal balances of other civil litigation claims that we are subject to.

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

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 Department of Justice.

We're not going to guide you to any specific number or range but we believe this slide and the expanded disclosure we've got on note 16 are a good summary of our various exposures. It's also difficult to predict at this point how the various claims and investigations will be resolved or in what timeframe.

The second bucket of issues that we're addressing can be broadly grouped into the topic of improving and restoring our capital resilience, rebuilding our core capital ratio and commencing the issue of TLAC, reducing the stress characteristics across various asset pools and managing our defined benefit pension risk.

You'll have seen today that we've announced our intention to launch a U.S. 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 another important milestone for us as a bank.

On our core capital ratio we've delivered, I think, 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 last quarter. If we were today to pro forma for the full exit of Citizens at the end of Q2 we would have had a Core Tier 1 ratio of some 15.3 percent at that point.

On reducing risk, our risk elements in lending have been reduced by over 50 percent since the end of 2013 from over GBP39 billion at that point to under GBP19 billion at the end of the second quarter.

We're also rapidly normalizing our NPL ratios with risk elements in lending to gross loans having been reduced from 9.4 percent at the end of 2013 to 4.8 percent over the last 18 months.

All of this improvement in capital resilience makes us increasingly confident about our ability to return to capital distributions.

I would repeat what Ross and I have been consistently messaging over recent quarters. We expect to achieve our 13 percent Core Tier 1 ratio during 2016 and that's after deducting the cost of various conduct and litigation issues, including U.S. RMBS, and after making the final GBP1.18 billion dividend access share payment. We then intend to return excess capital back to shareholders in the form of either dividends or buyback once we've the PRA approval to do so.

Realistically, though, we need to achieve the various milestones that we set out last quarter. These include demonstrating sustained profitability, improved stress test results and resolving our major conduct and litigation issues.

As a result, we do not expect in our central planning scenario to be in a position to return to capital distributions until first quarter 2017 at the earliest.

The final set of issues that we're spending time on is what I would describe as future proofing the bank.

These include an increasing amount of work now underway on ring fencing; for example, the transfer of U.K. large corporate lending relationships that we made in Q2.

We do think that our ring-fence solution, a broad ring-fence bank with two small non-ring-fenced banks for both corporate and institutional banking at RBSI, our Channel Islands business, positions us well to accommodate the complexity imposed by ring fencing in the coming years.

So, in conclusion, and before I hand back to Ross, we're focused on doing three things well at the moment: building value in the go-forward bank through a focus on improving customer service, enhancing growth and achieving higher returns; secondly, accelerating the run down on the exit bank while preserving value; and thirdly, working diligently through our list of other issues.

We're pleased with the progress across all three fronts this quarter. I think the small attributable profit we made in Q2 masks a lot of really good progress both of rebuilding our go-forward bank towards being the best bank for customers here in Britain and accelerating out of the exit bank for value.

So, with that, I'll hand back to Ross for a few quick summary comments.

Ross McEwan: Thanks very much, Ewen. I just wanted to close by revisiting the slide that I talked to you about in February of this year.

You will see from the results that we are posting today this is a bank moving forward on its plan. It's a plan to build a stronger, simpler and fairer bank for both customers and for shareholders. We're focusing squarely on our core strength here in the U.K. and in the Republic of Ireland.

We're determined to win our customers' trust and build a strong bank that delivers attractive, balanced and sustainable returns from a lower risk profile.

This is a bank that is delivering on its plan and readying itself for the future.

And, with that, we're open for questions.

Tom Rayner: Tom Rayner, Exane BNP Paribas. I just wonder if I might have three actually. The first one on the central items. Ewen, I think you said at Q1 as good an assumption as any would be to assume that revenue was zero on an ongoing basis. Clearly it was a lot higher than that in Q2. So I just wonder if you could just reiterate that that is your best guidance for that line.

Second question, just on the distribution not until the first quarter 2017. Does that rule out the announcement of a dividend in 2016 to be paid in Q1? Or is that being too precise?

And I'm interested in which of the caveats you think are the most important. Is it the passing the peak of litigation, because that's what it sounds as if it might be the reason you're pushing out that guidance?

And then just finally, the work you're doing so far on IFRS 9. I wondered if you could give us any feel for how material you think that issue might be for yourselves and the industry. Thank you.

Ewen Stevenson: On the central items, look, I think the answer is the best **guidance /**answer is zero. Of that GBP300-odd million that I think is in the go-forward bank in Q2 there's over GBP200 million of IFRS volatility gains, for example. So when I mentioned that normalized return of 14 percent, I'd already backed out a couple of percent of excess return for that.

On distributions, I think you are trying to be too precise on that, in terms of – it links into the caveats questions. So if you think about the things that we need to demonstrate, I think it's right that we need to demonstrate sustained profitability.

At the moment we think we've got a very good go-forward bank and then every quarter we are continuing to report very substantive restructuring charges and substantive conduct and litigation charges.

So we have to travel through the period, which we think we'll be through over that period, of seeing the bulk of our restructuring charges through the P&L. Realistically, the bulk of that should be over the next 12 months or so.

On conduct and litigation, I don't think we view that probably as the – it's the biggest hurdle of the ones I mentioned. We would be disappointed, I think, if we were sitting here in a year's time and hadn't managed to bottom out a lot of those conduct and litigation issues, particularly U.S. RMBS.

I think you also have to bear in mind the annual stress-testing cycle, which is effectively an 11-month lookback in terms of the performance and capital resilience of the Bank. So stress test results this year will be out in November, effectively looking back to the end of 2014.

So we think we need to go through this year's stress test round, another stress test round, which means we should be able to start to engage with the PRA, I think, in late 2016.

So when I talked about Q1 2017 I was talking about dividend or buybacks in Q1 2017.

Tom Rayner: Sorry, there was just on IFRS 9 I don't know if it's too early …

Ewen Stevenson: On IFRS 9 it is too early at this point. I think we do expect there to be a one-off increase in balance sheet provisions at the time of the introduction of IFRS 9. It's too early for us to give you a decent quantification of that.

We also don't know yet the impact on capital because there's the expected loss charge and what the offset is. If provisions increase does the expected loss charge then go away as a capital deduct?

But as and when we're able to talk about that and give you some guidance, we will.

Tom Rayner: Thank you very much.

Martin Leitgeb: Martin Leitgeb, from Goldman. Just a follow up on litigation and one on legacy IP. With regards to litigation in terms of how you think about the outstanding litigation issues, both in terms of potential quantum and timing, has there been any material change in how you think about these over the last two quarters?

And secondly, on the rundown of the legacy IP, you're now at GBP20 billion versus a target of GBP25 billion. And, if I understand your comments right with regards to the U.S. loan sales, you're essentially now already close to GBP25 billion once those close.

How do we think about this rundown into 2015 and 2016? Will this pace, this very fast pace, you had in the first half 2015 be maintained and will have a relatively small balance left towards the end of 2016, which is potentially derivative? Or how should we best think about it? Thank you.

Ewen Stevenson: Maybe I'll take the second one and Ross you can …

Ross McEwan: Yes.

Ewen Stevenson: So on the rundown of CIB Capital Resolution, you're right. It's not the full GBP20 billion because there was a transfer out of CIB of about GBP2 billion of RWAs into commercial. But, in terms of our GBP25 billion reduction target, I think you should assume that we're relatively comfortable with achieving it this year. I'd be disappointed if we only achieved it.

In terms of the rundown of Capital Resolution, I think overall it would be our expectation, I think, that it would be our expectation that we would have made substantive progress by the end of 2016. Not dissimilar to RCR that there is assets in there that are quite long tail in nature simply will get down at some point to a stub of assets that will take a long period of time to manage out.

But I'd be disappointed if we hadn't got through the bulk of the rundown in the next two years.

Ross McEwan: I think that it's fair to say that the team are working incredibly well on getting the assets out at a pace faster than we thought. You've seen that in the first half. I think we're about GBP19 billion RWAs down against a target of GBP25 billion. So, markets being OK, we will exceed that this year. We've got good markets for selling into and we're taking advantage of that.

On the litigation set out this year, with three things in mind around conduct and litigation. One was around tidying up the FX issues that we were dealing with. Second one was the GRG, which has been a plague on our reputation. That's with the FCA still at the moment and still a bit of time to go through that. But that's one we would like to have at least the answer to this year. And the third one was RMBS.

We've been watching all other cases come through. Our time is coming. But we still just don't have an indication of what those numbers until we get into conversations. But, again, we'd like to have those conversations, if it's appropriate, starting this year so we can give that much better guidance to yourselves and to the rest of the market.

Philip Hampton: I think, specifically in relation to your question, we haven't changed the provisions now for some time. But our expectations of costs are higher than the provision. We just don't have a basis to identify a different number.

Ross McEwan: Correct.

Martin Leitgeb: Thank you.

Andrew Coombs: Andrew Coombs, Citi. A couple of number-related questions and then one – a bigger picture question. First number question's on the commercial bank. The other non-NIIs jumped quite a bit quarter on quarter; GBP69 million to

GBP104 million. And in the text you reference gains on equity disposals as the reason for that. Perhaps you could elaborate on just how sustainable that is.

And my second question would be on the GBP9 billion of RWAs that are being transferred from CIB to the commercial bank. You talk about GBP400 million of attached revenues. What's the attached costs in impairments to that? I'm trying to get an idea if that's a drag on the 13 percent go-forward CPB, or a benefit, or some idea.

And then the final question, broader question. There's obviously a lot of focus on litigation and particularly the U.S. MBS case outstanding. How much of a headwind do you think the uncertainty is around that litigation as to starting the timeframe of the government exit? Do you think you need to be further along in the discussions? Do you need to have a better idea of the quantum of that before you think you could proceed with that government placing?

Ewen Stevenson: On the first question, I think you should assume that those equity disposal gains are one off and, therefore, not sustainable.

On the costs and returns out of the GBP400 million of incremental revenues, we're still in the process of working through those numbers at the moment. Because, as you've seen, one of the reasons we're not able to give you, and we'll work towards this over the next couple of quarters, giving you a much better understanding of the full cost breakdown between Capital Resolution and CIB going forward, but because we're in the middle of that restructuring at the moment we can't give you precise estimates of what the costs are against that GBP400 million.

Ross McEwan: Just on the headwinds, particularly around litigation and conduct issues in the governments' sale. It's in the hands of the governments to take their timing on when they do the sale. I think those parties that I suspect they'll be talking to will have their own views on what these costs will be and will have to factor them into their own pricing numbers.

We've just been as clear as we possibly can with the known knowns that we know to make sure that everybody is aware of those numbers. And that you've got even fuller disclosure this time round because we found that there was quite a bit of confusion when we talked about RMBS. What did that mean? And people went to Freddie and Fanny and that was it. But there were some other cases that we knew about that we just wanted everybody to know about. So I think it's in the hands of parties that the government talks to.

Philip Hampton: But our disclosures targeted at having a fair orderly market in which trading can sensibly take place.

Ross McEwan: That's an answer to your general question, not just related to the government sale.

Raul Sinha: Raul, JPMorgan Cazenove. If I can have two questions, Ross, please. The first one is a general one on your mortgage growth strategy. Because I get the point that the Bank is hiring a lot of mortgage advisors in an area where it hasn't been focused in the past and there clearly needs to be more growth going forward.

But if you look at the numbers and the margin on this product area, in the last couple of quarters your balances have gone up by roughly GBP2 billion but your income is broadly flat sequentially. And if you look year on year clearly you make less income now than you used to make in the previous quarter of last year on a higher balance.

So we're not quite (2007) yet, but the margin on mortgages is falling very rapidly. And do you think it still makes sense now for the Bank to continue to grow this area? Especially if you can maybe talk about the ROE as how you look at it would be interesting.

And the second question is more on Williams & Glyn. If you can talk to us about what's going well there? What isn't going well? And the dependency on any competition enquiry because, obviously, that seems to be an area of focus as well. Thanks.

Ross McEwan: First off, we do like the mortgage market. We've been quite weak in this market. Been growing over a number of years but still weak for the size of the bank we are and for the customer base we have. We believe that, with the right capability and service delivery, we can grow this safely.

We're not going to be growing this market like we did in the Irish market back before we collapsed. There's no way that's going to happen. It's within a risk-appetite tolerance that Les and his team are very well aware of and have to stay within that.

I think you'd have seen, if we hadn't started growing the balances, the profitability of this business would have come down anyway, because the margins are coming down as people move from standard variable across to fixed. Of any banks we've probably got the lowest now standard variable book as a percentage of the total book.

There are still some banks with 50 percent of their book on standard variable, which, to me, says this is a great hunting ground for RBS to go after because they're paying too much. And that's what we've been concentrating on with our customer base; actually identifying customers that actually have a standard variable rate that we can approach to do a better deal for them.

The key in this market, costs have to come down in delivering mortgages. And that's another thing that we're working on as our service delivery and how we operate in that market.

So I think we're seeing more volume. Yes, it's going to be lower margin because people are transferring from standard to fixed. That's going to continue.

Ewen Stevenson: I think we're a long, long, way from 2007 in terms of margins. The returns we're getting on the front book are still very attractive and are still quite…

Raul Sinha: Do you not get the mortgage, margin on ROE then?

Ewen Stevenson: ROEs we're getting on the front book are still very attractive and we still like putting the business on. It's a very good ROE. And there are countries around the world that have much thinner margin they're still making good ROEs on, but it does come back to efficiency.

The other problem in this market is we just didn't have enough people qualified to do it and it had never been in the DNA of RBS or even NatWest because we didn't come from a building society. Now you're seeing us getting very good at this and I think people are enjoying the experience they they're having. You've just seen the Promoter Score up.

Ross McEwan: On Williams & Glyn exit, this is a big task. I don't think anybody has ever taken a bank from with inside a bank and recreated it. It's got a 1,000-plus systems and applications that we're having to take out of our Bank and stand it up. So no one said this was going to be easy and it's not. If you set out to have a look at this you wouldn't do this to yourself on purpose.

So we are doing it as Ewen said. We don't have options. It is a tough task. We've got 4,000-plus staff just working on taking it out.

It will be tight, but our view is that we'll get it out by the end of next year ready for an IPO. We have to have done a pretty good job on this to have got our banking license and that's something that we're working on. And it needs to be an organization that can show itself to be sustainable as it comes out over the long term. We're working very hard on it.

What's going well? The entire organization is focused on it, where I'd say probably even 12, 18 months ago that was not the case. It is one of our top priorities because, without this coming out, we are restricted what we can do under the RBS brand and we're restricted with what we can do with the flexibility of this organization. So all minds on the job but a tough one.

Raul Sinha: And the CMA, interest in that. Is that something you consider a risk factor?

Ross McEwan: We've had good conversations with CMA. We've put the financials. We've actually said to them, look, take these numbers but there's more coming as we get more acquainted with this business.

As Ewen said, as you look at it as a unit inside the Bank it's highly profitable but the issue for us is to put the cost structure it will have against it. That's what we've been building and those numbers still change. So that's why we're not declaring them out to you today because we're just not convinced that they're the right numbers yet. It's a pretty complex business. We're standing everything up, treasury, systems, boards, absolutely everything, to get a license.

Raul Sinha: Thanks very much.

Philip Hampton: We have a question on the line from Mr. Joshi from Nomura. What are your views on the buy-to-let market? Do you think it's attractive and would you look to increase market share? If yes, to what level?

Ross McEwan: I think the buy-to-let market is an attractive market for us done well and done within the risk parameters, again. We have recently examined this market and what type of business we want and, again, in the risk parameters of this business risk appetite statement, are quite clear about what we'd want and what we don't want.

I think this will actually become a more important market in the mortgage area over the next probably five years, in the sense that, as house prices come up, some houses get out of the reach of many people who want to live in certain areas and the investors need to come into those markets. I also see as people choose to take some money out of their pension funds may well be investing in this area as well.

So I think we do need to be there but we do need to stay within good risk parameters and not blow ourselves up on this market.

But I think it's a good attractive market. The margins are OK, returns are pretty good. But stay within your risk parameters; don't get tempted to go outside them.

Ian Gordon: Ian Gordon, Investec. Could I just come back to the capital return story? It feels like over the past quarter you've spent a lot of time with investors reiterating the guidance you gave one quarter ago, namely that you expected your CET1 to get to 13 percent in 2016. And, with respect, that felt pretty unlikely then and, given the progress you've made in the last 48 hours, it feels exceedingly unlikely now, even after taking due account of the cautionary comments you've given us in note 16 on conduct.

So, just in case I've missed it, have you dropped that guidance in terms of timescale or number, especially in the light of the very helpful pro-forma disclosures you have given us in terms of A, the progress you've made and B, the mathematical effect of what you plan to do in the next five months with CFG?

Ewen Stevenson: I don't think we've adjusted the target. We always said that our target is to get to a 13 percent Tier 1 ratio. We expect to get there during 2016 and we expect to get there after we've set all conduct and litigation and paid the debt.

I think you're right. The dynamic around Citizens is probably different from our original guidance.

But, in terms of the real guidance, I think the real guidance today is don't expect us to be making a capital distribution until first quarter of 2017 irrespective of where our Core Tier 1 ratio is during 2016. And why is that? I think the principal pinch point for us would be demonstrating good stress test results at the back end of next year as being the key determiner of our ability to return to capital distributions.

You would have seen at the end of last year we were a stressed bank. We think we've removed a lot of stress but we've still got progress to do.

Ian Gordon: Thanks.

Claire Kane: Claire Kane, Royal Bank of Canada. Can I have two questions? One is a follow up, please, on the mortgage pricing. So could you please talk us through the slowdown you've had in the margin compression? Perhaps tell us how if the churn of the SVR book has slowed or if you're seeing front-book pricing improve slightly from last quarter?

And then my second question, perhaps a bit early but I just wondered if you had any comments yet on the new Pillar 2 framework that came out yesterday from the PRA and how, in general, you are hoping to manage down your Pillar 2 capital buffer requirements. Thanks.

Ross McEwan: Just on your first question, certainly in the first quarter there was acceleration into fixed which created quite a drag on our NIM. I'm looking at Mr. Les Matheson to get a feel for the next quarter. Has that backed off a bit? Or has it stayed the same?

Les Matheson: Backed off slightly.

Ross McEwan: Yes, that's what I suspect. We've got a smaller now book of standard variable rates, so the rate of movement for us will be less than I suspect for some other parties on that one. And I'll pass to Ewen on Pillar 2.

Ewen Stevenson: I profess I was in Board meetings all day yesterday and yesterday evening, so I haven't yet caught up on the news. But I'm sure within 24 hours I'll have you a good answer on that.

But I think whatever they announced I would stick with our previous guidance. And when we've run all of our analysis on where we think the PRA is going to go, we think the 13 percent Core Tier 1 target gives us appropriate buffers both above MDA (triggers) and where we think Pillar 2A is likely to go for us.

David Lock: David Lock, Deutsche. Just a couple on Ulster Bank, please. Firstly, when you look at risk-weighted assets there, your risk-weighted asset intensity still is very high versus the rest of the market. I just wonder if you could give any color on whether you think that could come down over the coming years, particularly as you roll off that tracker book.

And then, secondly, you made a comment around the cost-income ratio being too high. Is the strategy about getting that down, is that mainly a cost dynamic? Or are you trying to reprice any of the mortgages you have there or move the tracker mortgages onto a higher rate? Thank you.

Ewen Stevenson: On RWA intensity or density, we do think that will come down over time. I think you have to remember that we're under PRA RWA rules, not CBI RWA rules, and there is a difference. That's why the Irish banks have lower mortgage density relative to us for their RWAs.

But the reason why it's so high in Ireland is because of the tracker mortgage book. If you look at our Irish mortgages, the ROA density is still north of 80 percent. So that will take some time to come down but it will slowly come down, I think, both as the tracker book comes down and as house prices continue to accrete

In Ireland I think there's very little capacity to actually reprice those mortgages. So I think it is mainly a cost-reduction story for us.

Ross McEwan: And that's going to come through us working well with the Ulster Bank team to actually eliminate whatever costs and use, the old saying of many restaurants, one back kitchen. And that is what we plan to do. We've started to align some of the systems much better than what we've had so that we can do some of these things just once rather than five times across the organization.

That process has started. It will take some time. It's too costly. Les and the team know that. That's what they're working on. They've got to get the cost down. It's a smaller bank than it was five years ago. The balance sheet is much smaller. It needs to realign itself.

Philip Hampton: OK. I think we're coming to the end. There's a question online. Why is your performance in U.K. personal and unsecured lending so weak? Both loans and credit card balances are falling. It seems surprising you have positive impairments from both areas. Thanks.

Ross McEwan: That's a really good question. I'll put that into Les's review next time around. There is certainly pressure on the margin in this business and there are some parts of this margin we have chosen not to fully participate in because the pricing in some areas here, I think, is getting to a point where we're not, we were talking about this on mortgages, not getting a return on equity. Therefore, why put your capital forward? And we are being sensible in these areas.

In the credit card side, actually our balances haven't been falling. They've actually been quietly growing, even though we haven't been playing the zero balance transfer, which I think is – you know my views on that. We just need to be growing that business much more sensibly long term other than short-term plays.

So the credit card business has been OK in its growth but it's certainly in the personal loans that we have chosen to actually not participate in parts of that market. We just don't see the returns in it and, again, nice piece of discipline by Les and the team on that.

Joe Dickerson: Joe Dickerson, Jefferies. I have two questions, if I may. The first is as you run off legacy funding, does the benefit from that funding show up in the corporate centers allocated out to the business segments?

And then the second is on the FHFA litigation in the U.S.. There was a recent case and ruling from Judge Cote in New York. And so I was wondering if your expectation on the FHFA settlement is that the settlement would be paid gross or net of the securities.

Because in that case there was a requirement for the parties to actually buy back the securities and we see these numbers of $13 billion in the press and that seems to overstate because that includes buying back securities and it seems as if you've got about $9.1 billion of securities left out of the $32 billion of UPB. Thanks.

Ewen Stevenson: We do philosophically try and charge everything out to the franchises. So, as the benefit of those legacy funding costs come out, that will be allocated out to the various franchises. We're trying not to keep any cost at the center to try and get you true returns for the businesses.

On the FHFA litigation, Judge Cote, I think, is probably the most extreme judge of FHFA settlements. It's not our expectation that we are going to have to settle gross.

I think, when you look at FHFA, there's been plenty of people settle now. I think there is a reasonable range of estimates that exist in the market as to where those settlement costs have been relative to the gross exposure. Our views would not be inconsistent with those market views.

Joe Dickerson: Thanks.

Tom Rayner: I just want to come back, you and your response to Ian's, Ian Gordon's question just earlier, just so I'm completely clear because if we're talking about 2016, obviously Citizens should be fully sold sometime around the end of the year. So the pro-forma number we're talking about today is over 15 percent.

So what you're saying is that you're thinking about 2016 because of the stress-test impact and it's backward-looking nature, not because there's a danger that litigation could be so large in that year that it knocks the capital ratio back from what should be north of 15 percent to closer to your 13 percent. I just want to be 100 percent sure on what the message is. Thank you.

Ewen Stevenson: So (guess) GBP1.2 billion. So, if you pro forma for Citizens exit, that's just under 50 basis points. I think I'd be a brave man to estimate what our final litigation and conduct costs are.

But what I am trying to say is, look, stick to the 13 percent because that's the benchmark that we're going to use to return excess capital back to shareholders. We don't want to hold anything more than that. But I'm just being transparent and realistic and telling you we don't expect to begin that capital distribution back to shareholders until first quarter 2017.

Tom Rayner: OK. Thank you.

Philip Hampton: OK. Any more really important questions? We've had a good run through. OK. Thank you very much.

Ross McEwan: Thank you very much.

Ewen Stevenson: Thank you.

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

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