



## **H1 Results 2015**

### **PRESS Conference Call**

Held at the offices of the Company  
280 Bishopsgate London EC2N 4RB  
on Thursday 30 July 2015

### **FORWARD-LOOKING STATEMENTS**

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our H1 Results announcement published on 30 July 2015.

**RBS**

**Philip Hampton, Chairman**

**Ross McEwan, Chief Executive**

**Ewen Stevenson, Chief Finance Officer**

**Introduction**

**Philip Hampton, Chairman**

...good progress again in capital and now I think with -- we're very widely regarded as one of the most strongly capitalised at headline level of banks around and that would be further boosted when we get the final regulatory treatment of Citizens with - when we get the next slug of shares of Citizens which hopefully won't be too far away. So I think in underlying performance terms and in capital terms, the bank is in a massively better position than it was a few years ago.

There is still an awful lot to do, but I think the shape of the bank going forward is now much clearer to see and it is the sort of bank I think, that banks always should've been which is very much rooted in strong franchises, with sustainable profitability, rooted around the customer, rooted around communities and all of things but -- that Ross has been talking about and I think it is pleasing, certainly the bank is pleased that the government has made its public statement that they do intend to look to sell shares, obviously when they do and how much they do and the process by which they do it is a matter for them, but we've always said as a bank, that this will be a good thing for the bank -- it was -- they are a reluctant investor for reasons we all understand and we'd rather have positive investors, than the government investor.

So, we will support that process in whatever way we can. Ross is there anything you want to add?

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**Ross McEwan, Chief Executive**

No, of course, as I have said to a number of you, we are pleased with the results for the quarter that shows the progress we are making.

You know, we -- as you see as we celebrated we're becoming a much simpler bank. We're working very hard on the core franchises, you have described those from a financial perspective this morning and they're doing very well in the more assets that we get off the books and the claim of this bank comes from focused - - from all of our people, we can hear (volume is) going on and with delivery of good value to customers and you're starting to see that emerge but I was very pleased about other than the financial performance which you're starting to see the emergence of some of their customer service measures and our trust

measures starting to grow as well. Which I think is a good sign for the strength of the franchise that is being rebuilt.

So, ready to take any questions, you know, my theme on these things is a simpler bank, a much stronger bank and a much purer bank for customers, so we're starting to get it. I'm just going to get -- how do I take any questions?

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**Katherine Griffiths, The Times**

Okay. Could I ask a couple of ones? One is about the (inaudible) sales, you were talking about, are you in it now? What's going on there? And the second one really is around GRG. You mentioned UK's small business customers as a thing of - one of the groups that you may need to compensate, can you just be clear, are we talking about swaps there, are we talking about GRG, there's obviously a crossover and actually just particularly on Williams & Glyn, could you talk more about realistically are you going to get that done by the deadline date?

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**Ross McEwan, Chief Executive**

Maybe I could pick up on GRG and Williams & Glyn and then Ewen will need to talk about RMBS in the UK. The GRG with -- I have never said that we were having to compensate, is the process of the FCA going through a matter of 166 process that we are all well aware of. That is a long going, it's -- I mean these are complex issues when you are pulling apart files or lending files and some of these files seem to have been -- very, very complex as you go through a big part of it, so that is an ongoing process. We're working very closely with the FCA to assist in their review.

I don't think we are hedging the outline of the outcomes from that at all later in the year so I won't speculate on what their outcome is but, you know, we are still a long way to go on there.

You know, it is an emotional topic for us GRG, we know it sort of hits at the core of our organisation, some of the accusations made against them, us -- we just didn't recognise in the organisation so we'd like to see that through, but it's one that, you know, you've seen in their disclosures it does worry us, the sense of the review but at the same time, you know, we are working with the FCA on that one.

On Williams & Glyn we've working very hard to get that business out of inside our business. It is a very, very complex operation to take back from within inside the bank because it was sitting on their core systems that relies on all of their functions and HR, finance, treasury, all the functions if you run a bank so you're talking a complete -- a book of business and creating a bank out of there and you know, we've got 4,000 people working on there, this is very complicated.

We're making very good progress, but it is a tough act to get it out. We're aiming for a -- an IPO at the end of next year. Our view is we'll get there, but again, you know, lots of work to do to get there. We've got well over 1,000 systems and applications to bring out ending to test on their own, that process has started, good work being done, but I don't know of any other bank that's ever done this and we'll be the first, like along with many other firsts.

Good right there, but it's always going to be a tough time. And the program work is going well. Ewen do you want to speak there?

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**Ewen Stevenson, Chief Finance Officer**

Yes, so on UK I don't think we've obviously seen speculation. I don't -- we've ever said that we're in the UK for some reason, obviously if there was in relation that processing one who wasn't that would be subject to confidentiality undertakings.

What I can say is, I mean if you look at our balance sheet, you would have seen liquidity ratios spike up. What we're seeing in the balance sheet is we're doing these sort of accelerated reduction in the corporate and institutional bank.

We've become a very liquid bank. We would like to grow faster. I think we've been relatively open, we're sort of open to growing the UK, both organically and inorganically. We can find good opportunities for the bank. I think when you look at the UK portfolio, there's part of that portfolio that would be attractive, part of that portfolio that would probably sit well outside of our risk appetite.

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**Katherine Griffiths, The Times**

This gets well outside.

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**Ross McEwan, Chief Executive**

Yes. From risk perspective.

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**Ewen Stevenson, Chief Finance Officer**

And we're also obviously well aware. We're still subject to certain M&A restrictions because of the European Commission state aid requirements. Until we're fully exited from Williams & Glyn.

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**Ross McEwan, Chief Executive**

You know, these things you've got to look at in a disciplined way, and you know, we've got good buying assets we hadn't I think looked at in a very disciplined way so, we've got those skills in.

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**Matt Scuffham, Reuters**

Just following up on a couple of those things. Can you elaborate anymore on why you've thought it necessary to bring in external advisors to look at some parts of GRG's activities?

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**Ross McEwan, Chief Executive**

Yes.

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**Matt Scuffham, Reuters**

In terms of Williams & Glyn, if the CMA recommends the treasury that the asset needs to be enlarged, would that make you have to reconsider whether you can meet the European deadline?

**Ross McEwan, Chief Executive**

I'll just go on the GRG. I mean it is a very large issue for us in the sense of already we've taken a lot of brand damage against the accusations now, so I recommended to the board that we just hold external advice on that as we go through the process. We just started in with us with the FCA on this one, because it's been a massive brand damage for us and I just think it's a prudent thing that we have people sitting beside us, working with us on as we go through, that's the reason for it.

We've had good advice in the past. We haven't seen anything different as we've gone through it, but, you know, as I say, I would like to see the review by the FCA and I thought for a number of months for them to do file reviews to come to a short term conclusion and as you know there are many stages in this as well. This is the first investigative stage which is still on and -- then it goes into other stages afterwards, if there's things to be looked at.

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**Sir Philip Hampton, Chairman**

But it's a very different piece of work from the Clifford Chance work. There has been some suggestion that we're concerned about the Clifford Chance conclusions and we've dated very thoroughly every piece of work, with a very focused mandate at the time. These advisors are basically tracking more detailed FCA work, so -- there's no suggestions at all we're on a certain about the Clifford Chance conclusion, so question no work at all.

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**Ross McEwan, Chief Executive**

The CMA review -- look we don't know where that will go. We think we've got a viable business to take out and the Williams and Glyn branding. It's a bank that has both retail, midmarket and commercial capabilities and the customer base spans right through from retail to mid-bank and commercial so it's a fully formed, what you call a commercial bank.

It has some pretty good market positions, the question is, CMA do come back and say, you know, you need to enhance it, we'll have to go that point in time, but we're not doing any work on that at this point in time. We're spending all our effort getting it out and that's the big one to get it out of the organisation. It's where all our energies go and to get it into a shape that makes it a profitable

bank because as Ewen said in the analyst session this morning, we haven't looked at the Williams& Glyn accounts that we put out today for our form to put out, it's highly profitable. But where it stands today it'll -- it'll have more cost more than that, so that's what we need to focus on, how do you get it making money with earlier revenue stream there?

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**Aimee Donellan, The Sunday Times**

OK. I want to go back to the discussions about the RMBS fines with the Department of Justice and both state regulators and the US, when does your session start?

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**Ross McEwan, Chief Executive**

The good -- we're the last on the list of I think 17 banks, 18 banks and it's really just around court times, nothing other than a time of their court time scheduled for end of '16. There's been a bit of a history of having a conversation before those court cases get in place, see if you can get certain we haven't started it they haven't been to us to starting those conversations, so it's more in their hands rather than ours and we have a way to, you know, enter into dialogue with -- that point in time.

Be nice if it were to happen this year, so that we can again get some of these issues that have been quite a drain on this organisation tidied up.

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**Aimee Donellan, The Sunday Times**

Is that the main thing standing the way of dividend?

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**Ross McEwan, Chief Executive**

No. I'll give Ewen to speak on that. There's a number of things that we need to make sure that we've got in good shape before we think the PRA will allow us to pay up a dividend or return capital. You know, some of those issues, that one in particular would be relevant because it's an unknown, it's quite a big one, but there'll be other things like getting through this first test as well. And the first test had done on data at the end of the year, so the stress test we're doing now,

which will come out in November is based on December data that's gone in and by the time we get to the end of 2015, we'd be a completely different bank to what we -- we were at the end of '14.

We --, we need to probably get through this year and another one before the regulators would be very comfortable with this bank on under stress. Any other

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**Ewen Stevenson, Chief Finance Officer**

Some were surprised today by the comment and they shouldn't have been. The -- and I think the simple way to think about it is, what does the PRA want to see? They want to see us being largely and predominantly the go forward bank that we set up, so we've got to get through, you know, the bulk of the larger uncertainties around litigation and conduct, US RMBS is a big piece of that because until we can do that, the (PRA) is always going to take whatever our central planning assumption is and assume a larger number.

We need to have, you know, we will show, as you know, last year, we passed the stress test but only just I think we'll show improvement this year. Realistically we need another year of good stress testing and we also need to show sustainable profitable, so what we currently got it, you know, go forward bank making (mid-teens) returns and then every quarter we deduct decent amounts of that profitability back before conduct innovation cost and some restructuring cost, so the whole story kind of fits together, you know, and it sort of year to 18 months' time, the bank will be substantially cleaned up. At that point, we can engage with (PRA) and for dividends we just thought it was appropriate to tell the market first quarter 2017, because, you know, there were certain analysts and investors, it wasn't just taking a view that the only single test we had to achieve was get our core tier 1 ratio above 13 percent and then we could break capital.

And I think you saw at Lloyd's that, Lloyd's I think did get out of the market to get ahead of itself for awhile. You know, they've overshot their capital ratio. They are now back to paying dividends and we feel we're probably just a couple of years behind Lloyd's in terms of our own restructuring.

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**Richard Partington, Bloomberg**

Could I ask about the investment bank? How is that performing at the moment? How many more sales do you need to do? Is there anything on the block that's coming soon? And also, you mentioned that it broke even in this quarter.

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**Ross McEwan, Chief Executive**

Yes.

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**Richard Partington, Bloomberg**

Is that something that would be acceptable for the investment bank in the future? Is it something that you need to have as an ancillary for the commercial bank regardless of how profitable it is?

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**Ross McEwan, Chief Executive**

First off, any parts of this business need to play their part in returning on capital it's invested in the corporate institutional bank which has -- our markets business and so must do as well. It will take us I think three to four years to get it performing at a cost of capital level. We have substantially changed it, not just the size of it, but the shape of it as well. We are withdrawing from a number of countries around the world and in doing so, you do incur a lot of costs of restructuring.

We are going to re-platform that whole business, with big, large chunks of their business although it's got really up to date technology and you can operate it on much lower cost structure that it does today and a better risk framework as well. So lots of challenges but it's a -- it shows -- it's a worthwhile business for our large corporates and our midsized corporates, it performs some pretty basic functions that you'd expect from the player who's one of the largest in the corporate marketplace and the largest commercial marketplace in the market, so it's a -- it does provide facilitation to many parts of our business. But it has to get its returns up and but, you know, I think we've got to be patient with it as well.

We are the ones that are restructuring it to get back into a shape we're more comfortable and it fits with their UK, Republic of Ireland sort of position. And we will have outposts so -- in the US and Singapore and some sales offices throughout Europe that will support our corporate and midmarket commercial customers.

Comfortable with where it's going, it's -- it looks like, you know, this year, if you took away all the restructuring and conduct and you know, it's sort of breakeven point. The team have worked very hard on it, costs down about 20 percent over this time last year, but really these revenues are down because of what we're doing to their customers, so I think patience and you know, it's a great franchise that will emerge out of us.

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**Sir Philip Hampton, Chairman**

Yes, it sounds terrible, but breakeven's not a bad result, if you go back far enough for that business. It's accumulated losses, so far this century off and on.

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**Max Colchester, Wall Street Journal**

We had another technological issue recently and you've put a lot of money into bolstering IT systems of late, how long and how much more investment do you think you need to make to create a truly resilient IT system in the bank?

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**Ross McEwan, Chief Executive**

I think the -- well first off, in and off service again that, you know, any systems outage is unacceptable to us because it's -- if you're running a customer focused bank you just got to have your systems up 100 percent at the time, and that's our objective. So it was really disappointing. It was disappointing for our people who run our technology, who spend so much time and effort over the last three years, making it a much more resilient business and better platform, to have us miss a file. It was a big file and it impacted a lot of customers. There was about, I think 5 percent by volume of what went through the system that night. It's still a very big volume.

But what it did show was the work we've done in the systems two years prior. We knew where everything was. We knew where that file was, we knew what we had to do with it, and we made a conscious decision to hold it back for another night which pushed it back later in the week so that when it went through it was correct.

So I think the work that we've done some years ago actually put more resilience in and put us in a better position to actually fix something when it does go wrong. Our objective is to have nothing going wrong, but to be honest, when you're running a very complex bank like we are, with 146 payment systems, which are too complicated, that's why we are actually work very hard to make less systems and simplify this bank at every level including our technology. I think it is the right direction.

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**Max Colchester, Wall Street Journal**

You're going to put more money into it?

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**Ross McEwan, Chief Executive**

No, we are. We're investing in our core bank, this is the core go forward bank about 1 billion a year, which is a lot of that money will go into areas like our systems, our technology, our processes that operate this business and a big -- some of that is very much centered around reducing the number of systems and applications we run. This bank runs about 9,500 systems and applications. It needs to actually spend a lot of time and money on reducing those substantially so next we don't end up the issue that happened, it's around, you know, let's make the system (inaudible).

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**Max Colchester, Wall Street Journal**

Right.

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**Ross McEwan, Chief Executive**

Still lots to go and we've got a lot to do but we are getting on with it.

**Max Colchester, Wall Street Journal**

And just on the mortgages, obviously you had quite a successful quarter with mortgages and you've been growing in that space, I mean it's quite a competitive market. You guys have been growing relatively aggressively. Do you think you're going to continue growing at that rate?

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**Ross McEwan, Chief Executive**

I think we will continue to grow. It is a part of the market. We are putting a lot of focus, resource, investment in. From a capacity perspective, I have numbers of people on how we run the business, but also the service levels which we operate with and I think what's showing through is, we're really good at mortgages. This was not a skill base, this organisation had or part of its DNA but we are developing it.

You also have to be very careful in this marketplace, that you don't get ahead of the market in the sense of, you stay with very strong risk and controls because we don't want -- what again that happened in Ulster bank, where we went out to be number one in the market for growth and the number one market position. We just want to be really good at it. So we got to stay within our risk controls, that we've set for this business as well, and there are parts of this business that we are strengthening, we do like the buy to let part of the marketplace I think that we'll continue to grow over the next three to five years. Again, you have to stay within your risk parameters but a lot of that is just being known for being good at it and have a really good service delivery which we are -- you're seeing in our net promoter score and our mortgages, some of the highest anywhere in the bank and market wise.

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**Ewen Stevenson, Chief Finance Officer**

But I don't think we're being particularly aggressive. I mean our share of current account is 16 percent, 17 percent share of mortgages, you know, we took 10 percent flow share in the second quarter. Share of applications actually was slightly higher than that, so -- but, you know, we think there should be a growth at 10 to 12 percent without being particularly aggressive relative to our current account market share.

And our history is though that we didn't ever acquire a building society like some of the other UK banks, so we've had lower share than would be natural share for many years.

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**Ross McEwan, Chief Executive**

Yes.

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**Ross McEwan, Chief Executive**

And that sort of runs - used to run in the building society DNA, it didn't run in RBS or NatWest DNA and we're building -- and I think building that quite successfully. And the other thing too is you have to look at the offering. There are many, many customers who have a current account with us, who are still sitting on an outstanding variable rate with other companies because a number of other companies is sitting at 50 percent of their book, on the standard variable rate.

Well, actually on our standard variable rate, most of those customers would be better off on our standard variable rate, and they'd be certainly better off if that shows to corner off fixed rate, that makes substantial savings. So, you know, this is a very good market for us to be in, with our offering and our capability. Now that's why you're starting to see some good runs towards that amount.

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**Tim Wallace, Daily Telegraph**

I have a couple sort of follow up questions. Just on the investment banks buy-in, in three or four years' time, what do you think is a more sustainable footprint? How big you're going to see one of the top bank understanding of that?

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**Ross McEwan, Chief Executive**

We haven't got a figure on the staff but Ewen gave some indication today that their business should be around about 1.3, one point, you know 115 ...

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**Ewen Stevenson, Chief Finance Officer**

Yes, like a mass you could work for him. We've said that's going to have about 30 billion. We said want a cost of capital return on it, so we've got a 13 percent quarter in ratio, so that would imply about, you know, plus minus £4 billion of capital supporting that business sort of, you know, all the 10 percent return on equity and we've talked with the way we think revenue run rate is, which is about 1.3 billion. So - I mean in context, you know, that 30 billion of RWAs, we provided disclosure on capital allocation and we're advancing it, but will be about 15 percent of our RWA, so not a particularly significant part of the overall business, but I think it's important when people think about (CIB) non-ring fenced banks to remember that, you know, we've got the number 1 market position in commercial (Alison Rose) is just standing at the end of table.

A lot of her business relies very heavily on the ability to sell complex derivatives to that customer base. The money you've got a mildly sophisticated corporate, they need the services of a non-ringfenced bank under the ring fencing rules. So, I think you need to look at (CIB) very much as an integral part of our commercial offering as well.

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**Ewen Stevenson, Chief Finance Officer**

That produced returns, you know, scheduled around the customer care agreements back from that straight forward's time and we're shaping it accordingly. Revenue 1.3 billion, it should give us a reasonably good return.

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**Sir Philip Hampton, Chairman**

OK.

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**Sir Philip Hampton, Chairman**

We'll go to the others and then come back.

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**Jill Treanor, The Guardian**

Excuse for -- I just want to call it that, you recently talked about three billion of mis-weighted assets, how ...

**Ross McEwan, Chief Executive**

Thirty billion.

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**Ross McEwan, Chief Executive**

Thirty

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**Jill Treanor, The Guardian**

Thirty billion, I have written thirty. What it -- how does that compare to what the bank was using?

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**Ross McEwan, Chief Executive**

Well, at the start of 2000 and -- end of 2013, just before I joined ...

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**Jill Treanor, The Guardian**

Yes.

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**Ross McEwan, Chief Executive**

... it was about 100 - just under 150 billion.

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**Jill Treanor, The Guardian**

Yes.

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**Sir Philip Hampton, Chairman**

It's been an older derivatives, held (GBM) business was closing £3 trillion. It was absolutely ...

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**Ross McEwan, Chief Executive**

Didn't intend to come up that way. So -- I mean it had already shrunk down to that 150 billion, so it will be substantially smaller than the past.

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**Jill Treanor, The Guardian**

Yes.

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**Ross McEwan, Chief Executive**

Back to your - much simpler bank delivering to UK and the Republic of Ireland. The customers know we've got very good customers in Europe, which sit inside our ring fence. We've got a facilitation operation in the US, will be very helpful as well, so, you know, you're getting the shape now into, it's all part of a bank, given though its ring fenced versus non-ring fenced.

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**Jill Treanor, The Guardian**

You wanted longer, we've talked earlier on about the asset you're moving around and those you're moving around sitting with ring fencing, can you take -- talk a bit more about what the ring fenced bank we're looking at kind of -- what you are going to call it and do you need a banking license?

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**Ewen Stevenson, Chief Finance Officer**

Yes, so we don't - well, in terms of the structure of the group, there'll be no change at the top. So the holding company will be the holding company. RBS plc will become the CIB non-ring fence bank. RBS plc today houses Scottish retail and commercial customers, so they will have to be moved into a - one of our existing Scottish banking licenses that we have.

So, broadly speaking what is UK, what is (PPB) today, and CPB, will be the ring fence bank. What is CIB today will be one of the non- ring fenced banks and there's a small business, well, small in our context not small in the context of what it is, we have the biggest bank in the Channel Islands, RBSI, Isle of Man bank. It's got the number one market share in the Channel Islands. The



Channel Islands team will be outside of the ring fence, so we will have to sit at opposite zones, separate ring fence bank and that today sits within commercial.

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**Ewen Stevenson, Chief Finance Officer**

We have two structures outside the ring fence and the one large inside ring fence operations throughout many years about commercial retail operations including the private bank. So we are -- you're starting to see us moving towards a structure, we believe that ring fencing will be.

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**Jill Treanor, The Guardian**

They do within RBS.

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**Ewen Stevenson, Chief Finance Officer**

So what we talked about today, for example is, all of the large corporate relationships that currently sit in CIB will transfer into balance sheet, the lending relationship will transfer into commercial because all of the lending relationships for UK and (EEA) corporates can sit with inside the ring fence and the derivatives relationship we have with those banks will sit within CIB non ring fence bank. I'd be - it will get quite complex but also we can ...

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**Ross McEwan, Chief Executive**

We take it through those, we finalise because there's still some things moving around from weak branding perspective and we'll work through the branding of each of those as well.

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**Jill Treanor, The Guardian**

This is individuals doing that with around -- have a bigger focus in the scheme of this ring fenced bank.

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**Ross McEwan, Chief Executive**

We're already starting to see the NatWest, particularly in Wales taking prominence because the Williams & Glyn will take out the (RBU)'s brand that you see on the high street, so all the branches that are (RBU) essentially become Williams & Glyn move part of the IPO. So you are starting to see NatWest emerge in England and Wales, particularly as a very strong brand and the rural bank up in Scotland is starting to emerge again as well in (Ulster), so we do run multiple brands and each of those needs to have its own personality and we just recently brought on David Wheldon as our Chief Marketing Officer to work for the rest of us that's here today to actually work on a number of those issues along with our position in the marketplace.

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**Jill Treanor, The Guardian**

(Inaudible) that the government's (inaudible) 10 percent to 9 percent 7-1.2 years on? What would you have done differently?

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**Sir Philip Hampton, Chairman**

I don't. I wouldn't characterise it as disappointment. I think it's just realistic about how long a bank with the scale of problems of RBS, which I think were underappreciated at times, certainly underappreciated by me, how long it takes to fix. You know, it's taken a long time to address the balance because it was the biggest bank balance sheet in the world, it's a very complex bank obviously as well, because -- largely because of the wholesale activities and just a lot of the things take a long time to do and you can't do all in day one because you never have the capital to do it and on day one you have to spread them overtime and you never have the people, resources to do, you know, immediate or in one go.

So -- but I said, many, many times, and again this morning, that I don't think banks should be owned by governments. The British government didn't want to own any banks, -- it took control of this bank because it was bust, and I think the bank will be better when it's got more natural and happy owners than an owner that from time to time has been reluctant and unhappy to be owner.

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**Sir Philip Hampton, Chairman**

Tim, what are you going to share?

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**Tim Wallace, Daily Telegraph**

Yes, over on the Williams & Glyn side and the CMA and the Bank of England seem to have expected they would have all -- full of business plans from you on that by now and the CMA speaking about it, a week or two ago. And where are you on that with the regulators and are you happy with the progress you're making with that?

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**Sir Philip Hampton, Chairman**

Yes, we've got some deadlines we need to meet and we believe we'll meet those deadlines particularly around, most of the times around getting a license for the bank, we've got a part that we're working with the (PRA), so I think we're working towards that plan. And as I said, you know, we are standing up a fully fledged bank here. This isn't just a retail bank, this is a retail commercial bank that's being set-up. These are reasonably complicated vehicles.

As I've said we've got a full team of people on it, we're making I think reasonable progress and I think that we'll see it, the numbers emerge as we go through that, but these aren't easy processes, you know, you are setting up a full bank, with all of the machinery that goes with it.

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**Sir Philip Hampton, Chairman**

The authority seems to be noticing a little bit of slippage at least from what they've expected in terms of getting that out.

Yes we're not -- well's that - maybe they should -- these are tough things to do. Coming and have a look at 4,000 people working very hard on getting this business out is not easy at any stage. We also come and see the plays that we have for these when we get the chance, that we're operating with daily, weekly, monthly progress reporting on it and you know, got my senior executive here, Ewen, myself, (Simon McNamara), (Alison Rose), (Les Matheson) are sitting on the steering committee, this is getting a lot of attention.

The origins of this are actually quite interesting at least to me, which is, you know, this is part that fog of war of the bailouts, which is -- it was the quid pro quo of the state aid, we received a larger (debit) slip state aid I think of any business in Europe has ever received, £46 billion and European commission will determine that it had to be significant if we're to close and they brought up this notion that we should sell off branches, believing also that branches were independent accounting units, so they thought we could simply aggregate these branches and sell them off, so they thought it was a matter of months to do this, and of course no branch in this country is going to sell its accounting unit for all of our lifetimes.

So, you have to completely disintegrate things and that is why it's so difficult and so complicated.

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**Ross McEwan, Chief Executive**

Particularly there when you throw in six branches in Scotland and in (NatWest), which again are completely separate operating units out there so if it's complex we'll get there.

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**Ross McEwan, Chief Executive**

The state aid negotiations are conducted by the Treasury and by the UK government or, you know, whatever the number state government and the European Commission is so, the bank, this happened elsewhere in Europe as well, the bank had virtually, you know, locked us in the talks, so I guess -- but it's a legal agreement you have to do.

.....

**Sir Philip Hampton, Chairman**

And we understand our obligation we're getting on the job.

.....

**Tim Wallace, Daily Telegraph**

I think the referendum for the EU was in favor of UK unit EU. Would that be an opportunity to then shelve the state aid though?

**Ross McEwan, Chief Executive**

I think the timeframes there will help with -- have Williams & Glyn out at that point in time, speaking on the referendum but I think we'll be well and truly out by that point in time

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**Tim Wallace, Daily Telegraph**

OK.

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**Ross McEwan, Chief Executive**

It is true to CMA, we've -- in the interest of time of the CMA the other day on just competition with inside the professional transaction kind of business transaction on (SME) market. We have ...

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**Ross McEwan, Chief Executive**

We will be asking what competition in this market is and I think we're seeing a long time small banks are emerging and some banks are emerging into quite specific targeted parts of the market by quarter , you know, so there's lot of competition going on and technology's playing a much bigger part and new entrants coming into this market more so than I think people have realised and that will continue with the past, that's why we've, you know, joined up with Apple Pay and taken a very strong position in the mobile phone market where, you know, we're very strong in our mobile apps. We, you know, we want to be the number 1 bank there for customer service, that's where a lot of investments going.

And again, it comes back to make a simpler bank and stronger bank so that we can compete in these marketplaces very, very well.

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**Matt Scuffham, Reuters**

Did you think the tax changes announced in the budget was fair to industry?

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**Ross McEwan, Chief Executive**

I don't know whether we've covered the fairness of this, we suspected there'll be some changes come through. My view has always been make sure that the tax regime we operate in is pretty much the same or on an equal footing with other countries, banks that we compete with. That's the thing that I think we just need to be focusing on, you know, as we think about the countries that from a banking perspective, other banks compete with us, we just don't want to be left in an uncompetitive position or I think that when you look across G-7 they're probably pretty much the same or in a reasonably good position.

.....

**Matt Scuffham, Reuters**

From a competition standpoint do you think they're beneficial?

.....

**Ross McEwan, Chief Executive**

I think that the - considering who from a ...

.....

**Matt Scuffham, Reuters**

The larger banks.

.....

**Ross McEwan, Chief Executive**

Look, I think we all have to pay our share of taxes, doesn't matter how big or strong or big we are, I think, yes we've got to pay our share of it, so.

.....

**Max Colcehster, Wall Street Journal**

Yes, following on from that, what's your impressions about the government's views towards banks in general? Do you get an impression that it's kind of softened since the May election and we – (inaudible) and you know, there's been renegotiation of the bank levy, but I mean do you get a sense that the government is taking a more favorable attitude towards that sector?

.....

**Ross McEwan, Chief Executive**

Maybe if we take a step ourselves back five years, when the global financial crisis really hit, banks were found to be wanting and across a raft of fronts, on the rigor free frameworks, of risk, venture capital, and or - all that contact to customers, so I think I've been on record saying, you know, we've got to work with the regulators, we should be actually hitting in the same direction together it doesn't mean conduct or capital.

It hasn't been an easy time for banks as we've had to realign ourselves to be better on both those fronts and I think what you're seeing is an industry that is getting itself in better shape both from a customer conduct perspective and from a capital perspective, and once you get into that position there's not a lot of -- shouldn't be a lot of conflict between all the parties.

So I think we're getting to, you know, we certainly if you look at our strategies around the customer, which goes -- grew strongly. We've said we want to be you know, because that's our theme, to customers. We simply want to be a stronger bank which really hits into thePRA perspective of more capital and better liquidity, and so I don't see any real conflict, we're just getting better in what we do and therefore it should become easier for us.

.....

**Max Colcehster, Wall Street Journal**

What kind of ramp up in regulatory pressure is that kind of easing off now?

.....

**Ross McEwan, Chief Executive**

Well, I think the ramp up came, because, you know, we were found to be wanting externally, and now that we are getting much better, you'd expect that ramp up to stop ramping up because we're all getting to the point that most regulators want us to be in. Then you've got us keeping the quality. We do want a competitive banking market here in the UK, it's a big part of the services sector, it is the hub -- one of the major hubs of financial services in the world and I think everyone should be concerned if that started to slip away.

.....

**Philip Hampton, Chairman**

Anything else?

.....

**Jill Treanor, The Guardian**

Now, speaking about all the buildings you've got, but I know about in London, with that growth in Edinburgh, goodness knows where else, what are you doing about all these?

.....

**Ewen Stevenson, Chief Finance Officer**

Yes. I know it's really a sort of building by building discussion because it depends very much on the whether we own it, the lease terms are, you know, this building for example we have a very long lease on, so we will be here for a while. The building across the road we have a much shorter lease on, so we will seek to get out of that building.

.....

**Jill Treanor, The Guardian**

And what's that -- one of the end of the road? Which is -- the third across those one possibly ...

.....

**Ewen Stevenson, Chief Finance Officer**

There's 135, we have 280, we have ...

.....

**Jill Treanor, The Guardian**

Yes.

.....

**Ewen Stevenson, Chief Finance Officer**

... 250, we have 135. I think the shortest lease contract is at 135.

.....



**Jill Treanor, The Guardian**

Right.

.....

**Ewen Stevenson, Chief Finance Officer**

280 and 250 are our core buildings for the longest leases.

.....

**Jill Treanor, The Guardian**

Yes.

.....

**Ewen Stevenson, Chief Finance Officer**

So, you know, we'll be here for a long time.

.....

**Ewen Stevenson, Chief Finance Officer**

And then in Edinburgh for example, (Gogarburn), obviously we own -- we're about to move with flexible working reconfiguring that office to take a lot people into it, we're going to get out of some other buildings in but - so we're sort of just aggressively working through a fairly sense of resale (inaudible) in the US, you know, you know that we took a bit of a write off against the headquarters because there wasn't a good alternative use for that building.

So less -- much less property, numbers of properties will operate on. Even this year over last year were down 16 percent That continues. As you get a simpler business. You know, you cannot be spread all over the places we have been.

.....

**Sir Philip Hampton, Chairman**

So you'll be coming here for some years to come.

.....

**Sir Philip Hampton, Chairman**

Anybody else got any other ...

.....

**Christopher Spink, IFR**

Yes, (inaudible) coming back for it this morning, perhaps those been here, could you expand on what you feel it is on how it might impact?

.....

**Ross McEwan, Chief Executive**

Yes, my comments when asked the question, I said let's get the facts, I mean let's really get the facts about what does it mean for the UK would come out on? I think with the facts and I think that would be really important to have that but I think we need to let the prime minister go through and do the negotiation that he wants to do and we have the terms of, you know, the renegotiation of the agreement and think after that have the conversations is my take on it.

.....

**Ross McEwan, Chief Executive**

Talking about the continuing (CIB) selling of assets but, are you -- you kind of see kind of the losses on some of this sale, are you prepared to slow the pace of sell, you could wait for better prices or just ...

.....

**Ewen Stevenson, Chief Finance Officer**

No, I mean look this interest rate environment actually is very supportive of doing accelerated disposals, it's not particularly good for the core business. We would like interest rates to be higher because of the lack of return on our current account funding but in terms of selling assets, we told the team keep going and keep going at pace. You've seen that with RCR, we're very pleased with the start that they've made as much of the same team, in fact because we were able to run down (RCR) much better than expected, we sort of shifted a lot of their team over to help run down (CIB), they've already reduced the starting asset base for us to 30 percent.

So, we're very pleased with the start made - I would think if we were sitting here in about 18 months' time, the hard yards on that run down have been achieved. There are some very long term assets that will take longer to get out of, but in terms of the initial hard work and running it down, you know, we think that will probably be about 18 months from it.

.....

**Ross McEwan, Chief Executive**

I agree totally with Ewen that we've been very disciplined about pricing these assets so we actually don't destroy a lot of value on the way out but some assets while the market was open and then that is -- that's where -- yes.

.....

**Ewen Stevenson, Chief Finance Officer**

One of the things I've come to appreciate since I've been here, (inaudible) for world-class restructuring skills because of the history of the bank and RCR sold over 300 portfolios in the first half and very few banks have that skill, competency embedded in the organisations.

.....

**Sir Philip Hampton, Chairman**

I think ...Anymore questions?

Well, thank you all very much for your challenge and your support. Thank you very much.

.....

**Ross McEwan, Chief Executive**

Thank you Philip, this will be Philip's last half, so thank you very much for your leadership. I think you are seeing a bank now that is making really good progress. We set-up a pretty aggressive and challenging strategy for the business last year. We announced that this year in February I think we're going to go further and faster, getting our capital position up and you're seeing it coming it through in the results. We are becoming a simpler bank, long way to go, but simpler. You've seen the strength of this bank building -- just even in the last quarter about 80 basis points of common tier 1.

You will continue to see a noisy year because you can't do the restructuring we're doing and deal with this much as a conduct in litigation we're doing without a lot of noise around the financials unfortunately, but the sooner we get through that, the sooner we can get every person in this bank focusing on the go forward franchise, the better it will be for the UK, so that's why we've accelerated, we've got the capital to do so.

You know, we've got a lot of noise coming I think particularly a lot in the year around the US. Putting these issues well and truly behind us, we are determined to win back the trust of customers, you're starting to see the customer service metric and the trust metrics.

I'm delighted in that, because it's showing it's working. Thanks for your time and speak to our team, if you've got any other questions. Good to see you again.

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END

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