H1 Results 2016

PRESS Conference Call
Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
on Friday 5 August 2016

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 Annual Results announcement published on Friday 5 August 2016.

RBS

Howard Davies, Chairman

Ross McEwan, Chief Executive

Ewen Stevenson, Chief Finance Officer

Introduction

Howard Davies, Chairman

Well, good morning, welcome. We have Ross and Ewen in the room. Thank you for coming. I'm told there are about – there are 16 other people on the – on the line as well. So, we need to make sure we speak into mics.

The results that you've got in front of you are good in relation to the core business in our view with solid operating returns in a low interest rate environment, which is, of course, not favorable for banks. It's been an uncertain time for banks even before the referendum.

There were signs the global economy was slowing. Lower interest rates were going to be here for longer. And if you look at the share price performance of UK banks, you can see that they fell well ahead of the referendum first; and then, another kick down afterwards.

It's very difficult to predict the outcome of the leave vote on the economy and therefore, our own financial performance. We are monitoring our own customer activity closely and also market indicators. There was an initial shock to mortgage demand. But that seems to have now stabilised. There has not so far in our case been much impact on commercial loan demand.

And we measure the applications coming through from relationship managers for loans. And they are pretty much flat. You'd have to look very hard to identify any kind of trend there whatsoever. On the other hand, of course, we could see what all of the economic forecasts are.

Now, against that background, the action that's been taken over the last few years to de-risk the balance sheet, to run down non-strategic assets and focus on the core target markets is positioning us well to do with the current market.

Uncertainty, you saw the outcome of the recent EBA stress test, where although we feel partly as a result of an estimate of conduct costs, we still ended up at a perfectly satisfactory position; and not the lowest among the UK banks at all. And I think that the difficult decisions taken by management over the last two or three years are giving us strength today.

We sold off a lot of assets, which it would be difficult to sell off at prices – at current prices – over the last two years; which was quite a successful exercise. But we still have a number of difficult legacy conduct and litigation issues to deal with.

And they are evident in the bottom line of these results with PPI, with the shareholder litigation, RMBS in the States with one settlement in there. So, there are a number of issues that tend to have a depressing impact on our bottom line in spite of the robust performance of the core business.

There's one other issue to draw to your attention, particularly, and that's Williams & Glyn where the Board yesterday decided to stop the plan to create a separate bank and an IPO; and to focus on a trade sale.

As you know, we've been looking at both in parallel for a few months. As part of that divestment program, we assessed the financial viability of the future bank in the face of these changed market conditions. And a more uncertain economic outlook; and an even lower for longer interest rate environment undermine its standalone viability.

That's so, in the light of that, we decided to stand down that program. But we're in positive discussions with a number of interested parties around a trade sale.

And we will update the market as and when there are further developments. And we remain committed to achieving the deadline set by the EC for divestment at the end of 2017. That remains in place.

I remain, and the Board remains confident in the fundamental strategy that we are adopting. And in the management's ability to deliver that strategy.

We aim to produce a lower cost, lower risk, and higher return business focused largely on the UK and Ireland there with a significant business in Western Europe.

That's our objective. And it hasn't been changed. We will be happy to take your question.

And I don't think, Ross, you're not going to say anything by way of introduction?

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Ross McEwan, Chief Executive
No.

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Howard Davies, Chairman
Or Ewen? So, we'll answer your questions. Any difficult ones, we'll go to Ewen. Over to you. Yes?

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Martin Flanagan, The Scotman
Martin Flanagan from The Scotsman. What are the possibilities for an out of a court settlement with the shareholder action groups?

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Howard Davies, Chairman
Well, in the case of this kind of actions, if you get to court, the judge is always inclined to say have you attempted to settle this? So, we have engaged in an attempt to settle it. And that's the reason why we've made a provision.

We haven't so far settled it. And if we can't settle it on reasonable terms to us, then we will go to court. And that will be a long and drawn out action.

No doubt, there are several different cases following on – and after each other. And then appeals and it will take a long time.

So, we think it's in everybody's interest to try to settle this litigation. But unfortunately, so far, we haven't succeeded in that. Yes?

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Max Colchester, Wall Street Journal
Hi, I'm Max Colchester from Wall Street Journal. You obviously started out on the depreciating of RBS five years ago with a plan. I assume that didn't factor in Brexit or interest rates going down for the levels we're seeing today.

You kind of hinted earlier that you guys have been formulating a new plan from early cuts in the first quarter. I mean, how radical can we expect this plan to be?

And what kind of levers can you pull to try and offset the effects of this dual shock?

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Ross McEwan, Chief Executive
First off, we developed the plan for the Bank at the beginning of 2014, when I took over as CEO of the latter part of '13. And the plan itself was very clearly to get back into the UK and the Republic of Ireland.

That was the whole – the central core of that. Because we believed that this was a great market to be in.

And that the cost of capital and higher regulation all around the world, and in every country you in, it meant that you really couldn't get returns out of those businesses.

So, get back to where your great franchises are. That was the core. So, that was announced in 2014. We had three phases to it; 2014, was the first phase.

Rebuild capital quite quickly and make some determinations about the corporate institutional bank; and get some costs out quickly because it was pretty well over burdened with cost.

The second phase was '15 and '16, which was to start working on the core franchises; but to deal with as much conduct litigation, and restructuring of the Bank, coming out of 38 countries. Bringing ourselves down to 14, it was a big issue. Bringing down the corporate institutional bank for which was a very large markets business into something that really served our corporate customers.

It was phase two. That finishes at the end of this year. And our objective is to get as much of the conduct litigation out.

Now, there are some that are not in my control. You know, things like mortgage backed securities for the Department of Justice. You know, we'll be at their timing and not mine.

And as you've seen with the FCA, GRG, we thought it would have been finished by now. But it's still lingering on. And hopefully that will be done by the end of this year.

What we've said was phase three, which starts in 2017, is having restructured and dealt with as much of the conduct and litigation.

Now, let's spend all of our energy on the go-forward franchises, which are the three business groupings, and six companies that you see in the results today, which are really good franchises.

Now, let's put all of our energy and resources into fixing those businesses and making them grow for customers. So, that's what starts in the beginning of '17.

Clearly, interest rates lower for longer, it does have an impact on banks. And you're seeing that for us as well.

We said we'd get the cost base down to a 50 percent cost to income ratio. We're thinking that the income will be lower than what we would have initially anticipated. Therefore, we will have to look at the cost position.

And we're doing that at the moment. We could see the path to the original – against the original plan. And we're going to have to refocus on it.

That plan is not quite right. Because the income is down. But what does that look like?

But at the same time, you're seeing a lot of customer behaviour changing. The customers want to deal with you electronically now.

You saw with, 4.1 million of our customers. That was up 25 percent, I think, in a year of customers dealing with the mobile phone as their primary way of dealing with you – as their main piece.

Coming out of branches, they're not using them as much. In the same study, that happened in the business banking side as well. They want it electronically.

They're happy to use video conferencing, which we're putting in; and very strong in biometrics for security. So, you're seeing a big change.

That will actually be quite helpful to us as long as we shift the focus onto their technology and end-to-end processing. And that's what we plan to do as the next part of the program.

In 2017, my thinking was we'll put out what that looks like as phase three. I do want to complete 2016, with conduct litigation as much as we can; and the heavy restructuring.

And we are doing a very good job at it. But as Howard said, if you have a look at the shape of the Bank now to where it was, it would be very hard to move a lot of those assets off your balance sheet that we have moved in the last two years.

Because the pricing wouldn't be as good for you. And there aren't as many buyers for those assets. And we've got a lot of them away.

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Max Colchester, **Wall Street Journal**
Does that mean more job cuts and branch closures …

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Ross McEwan, Chief Executive
Well, the branch closes, that one – are a factor of how many people use branches. I mean, it's no different to any other retailing operation.

You have to move with your customers. Don't race in front of them. My view has always been, you know, move with customers.

And you're seeing less and less usage of the branch network and much more usage of technology. And therefore you have to reshape. And it comes down to a smaller number.

And what that number is; we don't have a number out there. It's around usage. And the shape of them will be smaller as well.

The old days of having massive great branches of 500 square meters are finished. Because most of that can be done in a 100 squares.

So, that's what's changing as well. So, you're seeing the footprint change in its shape. And also, what happens in the branch.

You don't see many tellers nowadays. Because people come in. They use the ATM. They put their business pieces through electronically in the bags; all scanned, and coded, all gone.

So, it's quite a different shape. It's more around advice than service.

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Howard Davies, Chairman
It's a bit like the transition from newsrooms to social media, which you'll understand.

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Ross McEwan, Chief Executive
Yes, it's very similar ...

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Ross McEwan, Chief Executive
No, it's very similar. The same challenges are exactly the same in a lot of industries. That people want it now.

So, you're seeing the same with me. When you put the story up, it's now. It's instantaneous.

It's the same with customers. I want to move money now. I want to process something now. I want to buy something now.

And that's why the likes of the mobile, which you know, as I said this morning, 69,000 small loans done on the mobile phone since we've launched it. And it's growing exponentially.

Howard Davies, Chairman

Yes?

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James Burton, Daily Mail

Couple from me. First of all, obviously earlier this year before the Brexit vote, you talked about sort of ongoing difficulties looking at Williams & Glyn.

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Howard Davies, Chairman

Yes.

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James Burton, Daily Mail

Possibly missing the deadline – I mean, what would you say to people who have said that the Brexit vote was useful cover for a change of the tact?

And then secondly, I was just wondering, if I can get your view on the interest rate cut yesterday?

Do you – do you agree with the economic thinking behind it? Do you feel it was the right attitude to take?

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Howard Davies, Chairman

I don't think that Brexit is used as cover. And as I said at the start, the interest rate environment has really changed over the last eight months.

And Brexit, I'm not ignoring. But if you look at the expectations. And if you look at what's happened to the yield curve. It was really in November or December that the yield curve started to change considerably.

And people started to say that with a slowing of growth in China, we are expecting interest rates at the longer end to remain lower for longer. Clearly, Brexit had another impact on that as indeed has the change yesterday.

But actually, you know. If you really look at the way the curve has behaved, there's a bit of a kink on Brexit. But this has been a, quite a long-term development.

So, it was really that overall development. And the impact that has on the profitability of a standalone entity.

And if you recall, what we were trying to do here was clone a full service bank with everything from pure retail up to large corporates. And clone that out of an existing bank with all of the cost base problems of that.

And we all know that legacy banks, you know, have still go significant cost issues. We're not alone in that.

If you then factor that changed economic environment and look at how that bank would perform now that you look at interest rates being lower for much longer; that just does not look like a feasible prospect.

So, the risk we had was of creating a bank. But which, then turned out simply not to be viable unless it were merged with some other bank effectively, in order to achieve scale benefits that you weren't going to get by doing Williams & Glyn.

So, that I'm not trying to deny that Brexit is part of a story. But it is not the fundamental reason why we've decided that this project doesn't work.

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Richard Partington, Bloomberg

So, that decision could have been the same had we voted to stay in the European Union?

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Howard Davies, Chairman

Well, I'm not sure that – it depends on what you think would have happened to interest rates in those circumstances. And whether what you think the economic prospect would have been.

Clearly Brexit put the curve down a bit by about 70 basis points or something like that; which made things worse. But actually, where the curve was before, I think I'm right to say. It would still have meant that this bank was not a viable…

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Ross McEwan, Chairman
Yes.

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Howard Davies, Chairman
…not a viable bank. So, it makes it worse. But it's not – it's not a switch that you flip.

As for the macro position, well, you know, I think this isn't really a matter for RBS. You know, essentially, our position is in forecasting our business, we have to take account of consensus forecasts on the future of the economy.

And they have adjusted downwards. And the Bank of England adjusted theirs downwards yesterday quite significantly. We have to take account of that.

We're not trying to – we're not betting the bank on one view of, you know, our own economists view of the future. We are taking a consensus forecast.

But as for the, you know, precise timing of interest rate moves or the precise formulation of quantitative easing, you know. That's not for us to opine on, I think.

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Howard Davies, Chairman
Yes?

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Richard Partington, Bloomberg
Just an extension on that one – if there was knowledge earlier this year or late last year that Williams & Glyn would not potentially be a viable institution, should the decision to not proceed as a standalone have been taken earlier?

And then secondly, do you have a view on what the cut in interest rates will do to your net interest margin in terms of basis points lower?

Or, in terms of monetary value because I think Lloyds is 700 million over the next 12 months. HSBC $300 million over the next half year.

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Ross McEwan, Chairman

We'll start with Williams & Glyn. And then, Ewen can you give an idea of just sort of where we're seeing and going. Look, we have been monitoring Williams & Glyn, you know, since we set this program up. And the last time that it fell over.

And we've, from a Board perspective. And the Board Risk Committee had been monitoring the progress of Williams & Glyn. And its progress – it was at the end of last year that the interest rate margins started to…

Well, the lower interest rates had started to impact the margin. But also, the growth rates that we saw going forward. And it was at the same time we started having interests from other parties.

Who, you know, some of them experiencing similar views on what's happening in the market. And they showed interest in the asset. And those were developed and cultivated over the last six months.

At the same time, interesting enough, the technology that was underpinning Williams & Glyn; you know, 90 percent of the systems and applications that we needed to get up – this up – 90 percent of the 625 systems and applications are up and running – in an environment that actually could run a bank.

So, what turned into being… You know, we were having difficulties with it. It actually turned into one of the strengths of this organisation.

That it was around the long-term viability that the Board had to make the calls on. Because to get a banking license, you do have to have a viable business.

And that has to at least show that it can get the cost of capital over the long, the medium to long-term. And we saw struggles with this in the shape of it was in.

And having had the interest from other parties, what we've done is extended those discussions.

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Ewen Stevenson, Chief Finance Officer

Yes. Look, on the interest rates, the… I – frankly, I think it's more valid to look over that longer period of time. Because we, all of the banks have a structural hedges in place, which sort of protect your interest rate margin over the first six, or 12, or 24 months.

So, we have a rolling five year hedge in place for about, just over 120 billion pounds. We've got 85 billion pounds of on demand deposits for current accounts not earning interest today.

On top of that, we've got our equity base. We hedge all of that. So, over a five year period, if there was 100 basis point negative decline in interest rates and nothing else changed, that would be a 1.2 billion pound loss of income.

So, you know, this interest rate environment linking to what Howard just said earlier on Williams & Glyn. It does mean, I think that the large banks in the UK are going to have structurally lower returns for a longer period of time now, if you look at the forward curve.

And therefore, when you translate that down to challenger your banks with dis-economies of scale that has a disproportionate impact on their returns, which was the conclusion that we got to on Williams & Glyn.

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Danica Kirka, Associated Press

Danica Kirka from the Associated Press. Can I ask just a general public question? I mean, there's been a lot of, you know, sort of flack flying in the air just this week.

You know, many banks have reported deep concerns about Brexit. And, you know, the dramatic events of yesterday from the Bank of England.

Do you think that the public is just – are you concerned that the public is just going to be too scared to try to move forward in this environment?

And what is your suggestion going to be Mr McEwan to the – to the Chancellor when you know? Because we're at a point where many people think that the extent of monetary policy to help out is at an end?

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Ross McEwan, Chief Executive

Well, it's – I think it's – I think the moves that were pushed out yesterday were around confidence. That Governor Carney has basically said you should not be worrying about money there for lending.

It's available. I'll just put another 100 billion into the system, if it's needed to actually... If people need to borrow it, it's there.

As long as it's a good lend, I think it's – those – some of those moves were around saying to people the money is there. And we want to start insulating banks from their mini compression by putting it out at a good price that you can dip into take, yes, from a banking perspective, and lend out.

So, I think they were good. But I think there was another decision – or the decision he made yesterday. He had communicated yesterday that was just as important.

But he didn't see negative interest rates being part of it. And I think that's really important. Because if you look at other countries around the world that have gone into negative, the response from banks has been quite different to what I suspect you'll get out of this.
You know, some countries have gone negative. They've had to pull their deposit rates down to negative. And they've also moved their interest rates on lending in the other direction.

So, you're seeing some different changes. Our job though is just to respond to what our customers are saying and doing. And as Howard said, we saw very little change in our consumers.

And we have seen very little change in the applications coming into our – through our relationship managers. We saw about a 14 percent drop off in home mortgages.

Now, in July, that usually drops seasonally about four percent. So, let's call it ten, a ten percent drop. Now, through a highly unsettled marketplace, a ten percent drop in applications wasn't that bad actually.

It wasn't that bad at all. So, I don't think people. I think people are taking this in their stride. We didn't see any change in spending habits.

And I haven't seen any change in spending habits. We're seeing about 325 million. I think the number is... per day on debit cards, no change coming through.

So, I think people are saying let's stay calm on this. And I think the change in government very quickly with the new prime minister, and new chancellor, and a new cabinet. I think helped that process of stability.

But the thing that we've been looking at saying longer term; you know, this economy is likely to slow down. That's what all of the consensus economists are saying.

And I think yesterday Governor Carney said look, we're going to help try and stimulate this, and hold it at a reasonable growth level, which I think is the right thing to do.

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Howard Davies, Chairman
Yes.

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Simon Neville, BuzzFeed
Hi, it's Simon Neville from BuzzFeed. Yesterday Mark Carney said that banks have no excuse not to pass on the cut in interest rate. Have you passed on the cut to your customers?

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Ross McEwan, Chief Executive

Look, we've got a process of review we go through. Because the cuts in interest rates go both ways. It goes on the deposit side as well as on the lending side.

And I think that's what you've got to remember. And when you look at the lending side say on the mortgage book, 80 something percent is sitting on a fixed rate, all right.

Then it's mainly a two year or a five year fixed rate. You've got about another – I think it's about nine percent that's sitting on a connectivity to the bank rate.

So, that automatically moves. You have to give notice that it's moving. But that moves within say 60 days. But notices have gone out. And those have moved.

So, you're left with a very small portion for our book on standard variable. And that's up for review for us. I have seen other banks move their Standard Variable Rates.

And still their rates are not lower than our rate is today. So, you know, those have moved quite quickly.

And I think some of them have moved down. But they haven't actually moved down to where their market even was. We are reviewing all of our rates at the moment.

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Simon Neville, BuzzFeed

What are you reviewing? I don't understand. Are you saying can we afford to …

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Ross McEwan, Chief Executive

Yes, because you've …

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Simon Neville, BuzzFeed

… Make this cut?

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Ross McEwan, Chief Executive
Well, you've got depositors.

And, you know, in the last six years, you've seen what's happened to the savers and depositors. And you've also got lenders.

And what's the impact on both of those, and also the impact on a bank?

So, we are reviewing. We've got our policy or our product meetings next week. And we'll make the decisions about what we do.

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Simon Neville, BuzzFeed
Do you want…? You want make sure the savers sort of – at the moment, the savers are sort of subsidizing the people that are borrowing then. And you want to see …

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Ross McEwan, Chief Executive
Well, no …

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Simon Neville, BuzzFeed
… Whether you continue that?

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Ross McEwan, Chief Executive
It's the other way around. When you think …

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Simon Neville, BuzzFeed
I'm sorry, the other way around.

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Ross McEwan, Chief Executive
Yes.

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Simon Neville, BuzzFeed

But you want to keep that then?

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Ross McEwan, Chief Executive

No, we're just having to look at every rate. And we'll do that in a measured way over the next week. That's our normal procedure. Nothing different changing here.

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Howard Davies, Chairman

(So), (we're just) over here. Yes?

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Emma Dunkley, Financial Times

Yes, Emma Dunkley from the Financial Times. I'm just wondering what happened in the scenario whereby you can't find the buyer for Williams & Glyn assets?

And also, just to clarify what happens if you miss the 2017 deadline. Do you get fined? What happens then?

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Ross McEwan, Chief Executive

Look, that just from the technical perspective, the arrangements regarding the sale of those assets was part of the European Commission, by that of RBS some time ago.

And there were many parts to that. The last part is Williams & Glyn, so remembering there was Citizens, Direct Line Group, Sempra. And there was also WorldPay. So, this is the last piece of it.

And our obligation is to put – grow competition in the SME market. That's the primary piece of it. But the arrangement was between the European Commission and HMT.

And our agreement is between ourselves and HMT. So, there are three parties here that are involved.

We have an obligation to have these assets out sold, and out, by the end of '17. And that's what we as a Board and executive team are working towards.

We have said that could be a difficulty. We put that in our disclosure items. But that's the time frame we're working very hard towards.

The moves we've made in the last day or so, have basically said there are people who are interested in this asset. They have had … You know, they're having discussions with us about taking those assets. But the way of doing that will not be through us separating and then selling the business through an IPO. It's – most likely would be through a trade sell.

At the end of the day, if we don't get it out, those will be discussions between HMT, the European Commission, and ourselves. But our objective is to get those assets out.

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Howard Davies, Chairman
The technical answer to your question, the legal answer, if you look at the agreement is that the Commission does have the power to put in place what's called a divestiture trustee to manage the sale themselves.

I mean, I think that's highly unlikely. But, I think, that's the …

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Ross McEwan, Chief Executive
Yes …

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Howard Davies, Chairman
… technical answer to your question, rather than a final decision. Yes?

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Andrew MacAskill, Reuters
I just have two quick questions. I know the economic environment has changed. But you know, you were trying to put off what you described as a the most complicated restructuring in banking. And you pursued that for a number

of years. Can you acknowledge that any part of your strategy was wrong on that?

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Ross McEwan, Chief Executive

Well, no, let's start back seven – six years ago. Seven years ago when the – this was part of the saving of the Royal Bank of Scotland.

And the Bank at that time went through a path of trade sell. And it had an arrangement with Santander. And that fell over. At that point and time, I think quite rightly; and this was again, slightly before my time.

But I'm not pushing that aside either. It was – you know, the decision was we should get this up, standing up, and get it into the marketplace ourselves.

So, that it is a fully functioning bank. And at that time, the interest rate margins were a lot wider than they are today. And there was growth in the marketplace.

So, I think the decision was right. Then we went through – and spent a lot of time on actually extracting – and starting to extract the business out.

And I had said to you, you know, 90 percent of these systems, 625 of these are up and running in a production environment today. So, our technology team I think has done a very good job.

And we've got operational sites operating this business. And we've got the management in place. You know, this is nearly there.

There's still a lot of work to do, and heavy lifting to do on it. Because when you push that green button to move all of those customers across, it's a big day.

But the reality is, it won't be a viable bank. And it still needs to get a license. So, interest rates lower do hurt these sorts of banks; and particularly, the shape that Williams & Glyn was in.

So look, hindsight, I always find is an amazing thing. But have you looked back through the decision making process? I think it was right.

And I think the call we made at the end of last year to say, you know, we'll look at a trade sell as well as the IPO.

I think it was the right one at that time. And today, we're saying we're going down the IPO – sorry – the trade sell route.

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Andrew MacAskill, Reuters Another quick one ...

(off-mic)

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Ross McEwan, Chief Executive
And look, it may not work. Let's be quite honest.

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Andrew MacAskill, Reuters
Yes. It's just how concerned are you about the reputational damage from – if you do go to court – of RBS being associated with that 2008 era and ...(inaudible?)

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Ross McEwan, Chief Executive
Look, you know, we have to assess this from many angles. One of those is the public reputation. But the other one is for our shareholders as well.

You know, we shouldn't be signing up for something that we don't think is fair value for our shareholders. And I, you know, at this point and time, this may well go to court. And, you know, it will be very public.

But that's so be it. We have to take that. And we'd take that with any other case that we make a decision around. Yes, Katherine?

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Katherine Griffiths, The Times
Is there a scenario in which you could sell Williams & Glyn for nothing? Or, even indeed, pay a buyer? Or, can you just talk a bit what sort of value you're carrying the assets at, Ewen?

Ross McEwan, Chief Executive
Ewen, just put the … (inaudible)

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Ewen Stevenson, Chief Finance Officer
Yes, and so, I mean, just to remember that Williams & Glyn is not a bank today. It's effectively part of our balance sheet.

So, if you look in our accounts, you will see that we have about ten billion pounds of RWAs for Williams & Glyn. So, on a 13 percent core tier 1 ratio, that's about £1.3 billion pounds of equity.

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Ross McEwan, Chief Executive
So, there is a position with, you know… It depends what the book trade buyers front up with. It – there is a chance that will be below that.

But – and you'd have to look at what banks are trading at today. We're trading at 4.4 times book.

If you look at most – a lot of the banks in the UK, they're trading well under the price of book today. So, if you look at the marketplace, the recent sales have been at 0.65.

You saw Clydesdale listed at 0.65. I think they're now trading probably still around it, probably at 0.7. But I haven't looked at them recently.

Others have traded slightly higher. But, you know, people will have look. And we do have an obligation to sell.

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Howard Davies, Chairman
But this is a … You know, ultimately it would be a commercial and negotiations.

So, that wouldn't make sense for us to say what our minimum price would be, even to you …

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Katherine Griffiths, The Times

(Yes) ...

(off-mic)

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Howard Davies, Chairman

... privately.

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Katherine Griffiths, The Times

But I'm sorry. Could you just remind us? I'm sure everyone else is totally onto this.

But what's going on with that whole Corsair, consortium and the economics of that?

. . . .

Ross McEwan, Chief Executive

Again, I'll take it back a wee bit. When the last management decided to do an IPO, one of the – I think a very good strategic thought was to get an investor in early. And get them to put effectively capital in.

But it was by way of a bond. And then they had the rights to taking a portion of the new Williams & Glyn when it came out. And you think about that strategically.

You immediately had about a 35 percent shareholder when you IPO'd, which meant that within probably one tranche of sale, you – the control had passed.

So, I think very good thinking around that, the Corsair-Centrebridge, we choose them for their partnering ability and can I say I think they were a very good partner for us and the team.

They had been nothing but highly constructive right the way through. And doing the best to get this business up and out.

You know, the issue is that it's not going to happen. And we'll, look to pay back the bond.

. . . .

Howard Davies, Chairman

Jill?

. . . .

Jill Treanor, The Guardian

Jill Treanor from The Guardian. I had a question about that bond as well. So, from memory, you were paying something like 18 million pounds a year in – as a result of that bond to the consortium.

Can you confirm how much money you've paid to the consortium? How much it will cost you to buy the bond back – for a first question?

. . . .

Ewen Stevenson, Chief Finance Officer

Yes, I don't – I don't have the figures. But I'm sure we can get them to you. And in terms of…

. . . .

Jill Treanor, The Guardian

Does it sound about right 18 million a year isn't it…

Ewen Stevenson, Chief Finance Officer

No, it sounds high.

. . . .

Jill Treanor, The Guardian

It sounds too high, OK.

. . . .

Ewen Stevenson, Chief Finance Officer

Yes.

. . . .

Ross McEwan, Chief Executive

There was a reasonable coupon on it, Jill for the very reason that they had put money in. And we re-valued the issue of them being the big strategic shareholder. That was the value in it for us.

. . . .

Jill Treanor, The Guardian

So, will they get money back when you – when you…whatever happens to Williams & Glyn? Do they get money?

. . . .

Ross McEwan, Chief Executive

You know, they get – they get their bond. They get their bond money back. And they get the interest rate on the bond. And there were certain break points on that. And I can't pull the absolute detail. But that's – because we'll be breaking the bond.

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Jill Treanor, The Guardian

Yes, I just want to ask. If there were possibility that the fastest way to do this would just be to close the branches. Is that allowed into the terms of the deal?

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Ross McEwan, Chief Executive

No, it's the creation of a – more competition in the marketplace. It was key to this.

. . . .

Jill Treanor, The Guardian

I just wanted to pull up the question Max was asking you. You didn't answer when he asked you about your cuts. You've clearly think branch closures are on the cards? What about job cuts?

. . . .

Ross McEwan, Chief Executive

No, look, we're changing the shape of this bank. Because this – when we took it over, I was in 38 countries. We're going to be in 13. You don't do those things without obviously having a reduction in the workforce. You're seeing major changes throughout banking in technology and in the shape of your distribution.

You know, there are going to be less people. But I've never – also, I never said what those numbers will be. Because we've always talked to our people about any changes in the business.

But, you know, the industry too – is going to have less people employed in it. Obviously, because of the way it's shaping. But that's no different to any other industry that's having technology changes.

. . . .

Jill Treanor, The Guardian
Howard to you – if could ask one other question. The taxpayers still own 73 percent of this bank.

. . . .

Howard Davies, Chairman
Yes.

. . . .

Jill Treanor, The Guardian
The share price is what, 118? The average price is 502p. I mean, what are the prospects of taxpayers ever getting their – any of the money back?

. . . .

Ross McEwan, Chief Executive
Well, they just got back £1.2 billion at the start of this year from the dividend access share. But you're right on the point of will they get the five pound back? The market would have to move dramatically to get that back. But could I also take you back to why did the government do this? And I think we quickly and easily forget it, and rush around the price.

The government wanted to make sure that RBS was secured. Because it was such a fundamental part of banking in the UK and in the Republic of Ireland. And they needed to secure that.

Because we're a big part of the payment structures. We're about 35 to 40 percent of all payments run through this bank. So, that's vital for the flow of commerce in the – in the UK. That was the fundamental reason.

Now, the issue around whether they'll get the money back, I think is – it depends on the markets at the time they try to sell. But today, it's looking more difficult.

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Jill Treanor, The Guardian
OK.

. . . .

Howard Davies, Chairman
Who else?

. . . .

James Burton, Daily Mail
Yes. I just had a follow-up on the – on the passing interest rate ... I think unless I misunderstood you. You talked about a review for a week?

. . . .

Ross McEwan, Chief Executive
No, we have a normal cycle of reviewing rates on a weekly basis. So, and that's – I know what – that Les and Alison were doing it.

. . . .

James Burton, Daily Mail
So, do you know when you might be in a position?

. . . .

Ross McEwan, Chief Executive
I'm not too sure when their product committees are. I think it's early in the week.

. . . .

Howard Davies, Chairman
... just to emphasize that this, the SVR, the Standard Variable Rate is 12 percent of our mortgages.

So, it's a – it's a small proportion of ...

. . . .

Ross McEwan, Chief Executive

A small portion – and there are a lot of other customers that are indexed linked that are already moving. So, you know, I think you're making a play out of a – quite a small part of our book here.

And the other big portion of it is actually on fixed rates that don't move. They've already locked themselves into a fixed rate, mainly for two years.

Ross McEwan, Chief Executive

But that's the big thing from yesterday was Governor Carney who said there's money to be lent. And there's prudent lending to be done.

But if you have a look at what we did in the first six months of this year; £20 billion of net lending put into the UK marketplace.

That went into things like mortgages and businesses in the UK. But if you step back three years ago, we were being criticized for not lending. So, as long as its prudent lending, and it's within our risk appetite statements, you know, we're open.

. . . .

Howard Davies, Chairman

Our growth, if I'm right, is more than all of the rest of the market put together. Isn't it?

. . . .

Ross McEwan, Chief Executive

All of the big banks....

. . . .

Howard Davies, Chairman

... of all of the big banks, yes.

. . . .

Ewen Stevenson, Chief Finance Officer

Gentlemen, I think the other reason that – I mean, as Ross has been alluding to. That – I mean, the reason our SVR book is a small percentage of our overall book is because we've actively not been trying to protect our back book.

We've been out. I mean, one of the reasons we've seen very good new mortgage origination is because we've been out converting customers off our back book onto lower rate and fixed rate deals for a number of years now.

And, I think that there has been a different strategy. Some of the other banks, I think have been much more protective of keeping higher rates of customers on SVR books.

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Howard Davies

Katherine...

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Katherine Griffiths, The Times

So, I just wanted to clear up, so just on the saver's side, could you just remind us what you've said in terms of passing on this cut?

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Ross McEwan, Chief Executive

Well, I haven't at this stage. We haven't delivered those in the range for all of our product sets.

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Howard Davies, Chairman

Yes?

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Richard Partington, Bloomberg

There used to be a lot of focus on capital return at RBS in previous quarters. Is that something that can now completely discounted until the start of 2018?

And when we get there, will there be the considerable amount of excess capital remaining that the investors and sell-side analysts had previously talked about?

Ross McEwan, Chief Executive
The big thing there is around what are the sentiments for...? Well, first off, we've said, we have to sort out Williams & Glyn and get that out.

And the second one was RMBS. So, until we know those numbers, the last question you asked is how much spare capital is available? Won't be known.

And we built the bank knowing that there were some large numbers that will be paid out. And that's why we've held our capital position very strongly.

And it won't be until we've settled those that we'll be in a position to actually know what's left. And to actually distribute it out.

But we're also producing about a billion a quarter. You know, this bank does produce a billion pre-tax profits. So, and of course, so, it's a good generator of capital.

But at the moment, we're restructuring very heavily to get rid of assets we don't want; and getting this business back in shape. And paying out legacy issues.

We don't see that now that RMBS hasn't been done this year. I suspect that won't be until next year. So, you know, the earliest for dividends, I suspect; the earliest would be in '18, at the earliest.

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Richard Partington, Bloomberg
A quick question if I may? The EBA stress test showed a significant move in the – in the RBS starting point of …

(off-mic)

. . . .

Ross McEwan, Chief Executive
Yes.

. . . .

Richard Partington, Bloomberg
... the final point. Why is that? And should we read into that for the BOE stress test, which is one of those hurdles for …

(off-mic)

. . . .

Ross McEwan, Chief Executive

Yes.

. . . .

Richard Partington, Bloomberg

... the capital return?

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Ross McEwan, Chief Executive

No, look our starting point was higher than most as well. You know, we started at 14.6 or 14.8 position. And then it comes back the conduct issues, the RMBS type issues.

Those were factored into when the EBA and the PRA do their reviews. Those factors are put into their calculations to bring you down to a stress capital level. So, but even then, our capital position was pretty good.

And I think as people looked at the drop, well that is to do with why we've got the money. Because we know we've got the bills to pay.

And to come down to an eight percent odd level after that, and still be in very good shape.

I thought it was very good. But I think that was missed on the market. It may have been our communication on it.

. . . .

Ewen Stevenson, Chief Finance Officer

But, I mean, you can certainly – when you – when you look at, I mean, the two big... We used to have three.

And we're down to two big stress deltas. One was pensions. And we addressed that earlier this year. The second is credit.

And we think our credit books. You can see the numbers produced by the Bank of England last year.

We think our – and you can see it as part of the EBA stress test. I think our credit stress is well within a reasonable peer group.

I think the big issue continues to be stress deltas on conduct. So, that can obviously be read across into a Bank of England stress test as well.

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Howard Davies, Chairman
OK, I think - do you have more?

. . . .

Max Colchester, Wall Street Journal
No, just one more final question. Do you have meetings with the new Treasury Chief? And what kind of – what kind of reaction are you getting?

You said that he was going to be generous towards the Bank in the next tax treatment.

. . . .

Howard Davies, Chairman
We haven't … had meetings with the chancellor yet. I mean, I know from other – for other reasons.

But I – we haven't had a meeting with him as RBS.

And nor, we haven't discussed bank tax or anything like that. And these are a few other things.

. . . .

Ross McEwan, Chief Executive
We do have regular conversations with Treasury. Because you know, that for example, we've been talking about Williams & Glyn.

Well, that's an obligation to them – and then onto EC. So, you have to have… there are natural places where we have a conversation. But we haven't seen any changes or thoughts there.

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Howard Davies, Chairman
Who wants to wind up.

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Ross McEwan, Chief Executive
Yes, look first off, thanks for coming in. And secondly, you do see another series of noisy accounts this quarter and this 12…, six months.

But it – and I did warn you of that as we go through and take out the conduct and litigation issues that have plagued this business. And I'm sure we'll have some more of those over the next six months, unfortunately, until we get them resolved.

And the big one is mortgage backed securities in the US. It's not in my time gift. We've got GRG through the FCA. We are hoping that will be resolved this side of Christmas.

But I thought that, you know, six months ago as well. But we're – you know, we're co-operating well to get that resolved. But we are growing this bank. You looked three years ago, this bank was not growing.

It core businesses were not growing. We were criticized for not actually funding into the UK marketplace. We are a strong growing bank again and the fastest growing in the first six months of all of the large banks.

We're more resilient. We have got a good capital position that showed up on the stress testing. We had a very good starting point. Yes, we've got those things that get negative – are taken out of it.

But it ended up in a pretty good position as well. And we are doing better with the customers. So, this is a bank that I think we're building that people will be proud of.

And that will be part of this economy. And that's why we brought it back to the UK and the Republic to be a very strong bank here.

And we're getting there. It's just very noisy on the way through.

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Howard Davies, Chairman

So, thank you.

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Ross McEwan, Chief Executive

We did expect it. Thanks very much.

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Operator

Ladies and gentlemen, that will conclude this afternoon's call. Thank you for your participation. You may now disconnect.

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