



## **Annual Results 2016**

### **PRESS Conference Call**

Held at the offices of the Company  
280 Bishopsgate London EC2N 4RB  
on Friday 24 February 2017

### **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 24 February 2017.

**RBS**

**Howard Davies, Chairman**

**Ross McEwan, Chief Executive**

**Ewen Stevenson, Chief Finance Officer**

**Howard Davies, Chairman**

OK, right, let's start. We do have some people listening in. So, we'll start in a formal way and welcome you. Thank you for joining us.

Let me just say a few words before I hand over to Ross and Ewen. So, the bottom line, loss is very stark as is completely clear to everybody. But nonetheless, we think that we have made progress in two areas, and rather good progress. First of all, on clearing up outstanding legacy issues and the continued run-down of non-strategic assets, and the results reflect about £10 billion, in fact, of one-off charges made up of conduct litigation and restructuring.

And secondly, what is revealed once you strip all that away is the strong underlying performance of the core bank, particularly in mortgage lending and in business lending. And Ross and Ewen will give you the numbers to back up that assertion.

On the first point, the legacy in 2016, we concluded a number of the outstanding legacy issues that have been hanging over us. And you'll have seen most recently the announcement from the bank and the related one from the Treasury about a potential way forward on what we used to call Williams & Glyn.

The Commission will now be consulting on a revised plan which we and the Treasury think would achieve earlier benefits for the competition in small business banking and would remove a continuing burden on the bank. Now, we await the conclusion of that consultation and a formal decision by the Commission we expect later in the year.

On the other big issue that hangs over us, it's been frustratingly difficult to make progress. And by that, I mean obviously the sub-prime trading up to the end of 2007. And I just emphasize that, that this issue relates to transactions, the last of which took place in 2007.

We remain under investigation and as we've said, we face potential criminal and civil action. At this point, we can't say when these issues will be resolved; the timing is entirely out of our hands and we have no further update on that to provide you today.

Looking at the broader environment within which we operate, there have been some good things and some bad things. The vote to leave the EU is widely expected to have a negative impact on the economy, but so far although we've seen a significant fall in sterling, consumer spending's remained fairly robust and growth has continued.

Of course, we've not yet left the EU and we don't know the terms of our departure, so the long-term impact remains impossible to predict. But as far as the short term is concerned, we have not been affected by a depressed economic outlook, though of course we have as other banks have been affected by the reduction in interest rates, which is not favourable from an earnings point of view.

Our prime focus through this period has been to provide high quality banking service to our customers and help them to understand the implications of change for their businesses and they have appreciated that.

Set against a backdrop of uncertainty, the board and I remain confident in the strategy that was set out by Ross and the team at the beginning of 2014. And we are absolutely confident that this strategy, well delivered, will produce a profitable and sustainably profitable bank in the future.

But for more detail, let me hand you over to Ross and Ewen and then I'll look after the Q&A.

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**Ross McEwan, Chief Executive**

Yes, look, thanks, Howard. We had a good session this morning on the radio. So, the piece that I'd like to reemphasize is nobody enjoys putting out a £7 billion loss; was really disappointing. As Howard says £10 billion of one-offs and putting the past behind us. Underneath it, you're seeing a very strong core bank, though, £4.2 billion of pre-tax earnings, and that was up four percent on last year. So, you're seeing the corner turned on getting the incomes growing in our core bank, generating 11 percent return on equity.

We also delivered £24 billion net in lending into to this economy. And I think that was the largest of any bank in the UK. So, our focus of coming back into the UK from a strategic perspective is working. And, you know, when, part of strategy is working out where you want to play and how can you win. Well,

we've said we're playing in the UK marketplace and the Republic of Ireland and clearly it's in our retail and commercial areas that we're operating in.

Cost reduction is part of what we're having to do to get ourselves back into shape. And you've seen that again last year we delivered close to a billion and we've targeted another £750m this year. So, the business I think is, underlying is in pretty good shape. We've still got work to do and we've still got a lot of work to do to get ourselves to the aspiration we choose to be.

So, I'm thinking, Howard, we'll probably go straight to questions and see what the issues are, sort of ...

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**Howard Davies, Chairman**

Sure.

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**Ross McEwan, Chief Executive**

Ewen and I can talk forever I think.

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**Howard Davies, Chairman**

OK, questions. OK, let's go.

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**James Burton, Daily Mail**

I wanted to ask about the GRG compensation scheme. So, Andrew Tyrie and others have sort of been suggesting that they have concerns about the way it works. I think there's some of the questions I'm picking up are that there's a strong focus on, because there's a strong focus on people who were mis-sold complex fees, it's off-putting to some businesses. They feel like they can't take part in it.

And they're also I think concerned about the fact that some of the money which is eventually given out to ... , will fall into the hand of administrators and come back to the bank, rather than going to people who are actual, actual victims of

GRG sort of problems. I'm just wondering if you could say, if you think the scheme is sort of sufficiently robust and if you think it'll survive those criticisms.

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**Ross McEwan, Chief Executive**

Yes, I think it will survive those criticisms, so this is a very well-constructed complaint process that has had FCA oversight. But more importantly, we've got a third party overseeing the running of this who's an independent person. We have set it up in several ... the key part of it, though, is people can put a complaint in. If they think that something went wrong, put the complaint in; we encourage you to do so. It is a robust program.

The second part we should talk about is around the fees; they were complex fees. And we said right from the start that we thought these were too complicated for many businesses to understand and we said we would refund those, that process has started and that we'll continue on.

It'll take many, many months to get them right through it and we're paying interest, as well. We received the fees that were paid and they shouldn't have been; those fees are being refunded in interest pay.

So, I think we've got a really robust scheme here. There will be criticism. There are a number people out there who have taken their life works now to, you know, take it out on the bank. But remembering when this thing happened, a lot of this was to do with commercial property.

The commercial property market after the collapse dropped 50 to 60 percent. Now, let's just take ourselves back. At that point in time, a lot of these businesses, the property ones, just didn't work anymore and we were a big player in that marketplace. So, I think you've got to take yourself back to the situation and we were flooded with issues of that nature.

I think the scheme is very robust. We have had, the FCA has been all over it. As I've said, we've got a third party. If people have an issue, put the complaint in through the process.

**James Burton**

Thank you.

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**Howard Davies, Chairman**

Yes?

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**Andrew McCaskill, Thompson Reuters**

I just wondered on the criminal investigation into the mortgage selling, is that investigating individuals and are they in the US and the UK? And what would be the penalties? Is it possible jail terms?

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**Ross McEwan, Chief Executive**

Well first off, we haven't yet been accused of either criminal or civil. What we put in our risk statements is that it is that it could be both of those because that's what they are looking at, but we haven't been accused of anything at the moment. We haven't got an update on the RMBS situation since the last time we spoke, probably a month ago when we made the provision.

But they do look at company and they can look at individuals. So, at this stage, there are no claims against the organisation and no charges laid. So, we're in that investigation stage. But at this stage, no change from where we were at last time.

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**Ben Martin, Daily Telegraph**

How many people have been questioned as part of that?

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**Ross McEwan, Chief Executive**

Look, it's people back into 2005 and 2007 and that'd be the senior teams, senior year team involved.

This is all US. There's no UK RMBS. The operation was a US based operation and it is US regulated Department of Justice that's doing the investigation.

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**Ben Martin, Daily Telegraph**

So, Johnny Cameron wasn't questioned around it?

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**Ross McEwan, Chief Executive**

No, this is to do with the US.

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**Ewen Stevenson, Chief Finance Officer**

No, this is to do with the RMBS team that was in place in Stamford, Connecticut in 2005 to 2007. They left, there was then a new team that came in 2008, so.

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**Ben Martin, Daily Telegraph**

How many of them were there?

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**Ross McEwan, Chief Executive**

We probably have the numbers. They would've been a normal senior team running it. Sorry I haven't got the numbers.

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**Andrew McCaskill, Thompson Reuters**

Can I -- a quick follow-up on the shareholder case. We're now two months or two-and-a-half months away from the start of the trial. Is there any thoughts going on with the remaining group to settle that case and, you know, to make another ... (inaudible) ... or not?

**Ross McEwan, Chief Executive**

Well, look, we set aside, we made a provision, what, three, four months ago. And we have settled with four of the five class action cases. The fifth one, you know, we've said they're welcome to talk to us. Have had some conversations with no resolution to that whatsoever. You know, we're building for a case that'll start looks like in May. And, you know, that's what we're working towards.

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**Howard Davies, Chairman**

Yes?

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**Richard Partington, Bloomberg**

Richard from Bloomberg. Just picking up again on the DoJ, FHFA stuff, is there any possibility that you would fight this settlement that they might request of you in this (in part) ...

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**Howard Davies, Chairman**

If you -- if you haven't got a charge, it's not really possible ... to speculate on whether you would fight it or settle it. We really have not got a charge. We are not at that point as yet. So, I think it would be just pure speculation and not helpful to answer anybody, really, since, you know, if you've not been actually accused of anything, I don't think you can say what -- how you're going to react.

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**Ben Martin, Daily Telegraph**

Have you put yourself in a difficult negotiating position by saying publicly today that you want to get it settled this year so that you can post a profit next year? Is that ...

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**Howard Davies, Chairman**

I think we've said that before. Yes, for the last three years.

**Ross McEwan, Chief Executive**

So, look, no, we've made it quite clear that this is one of the obstacles to, you know, normalising this bank. We would like to settle it, the DoJ know that but, you know, as Howard said, there's no change in where we sat probably one month ago when we did the announcement and made the revision.

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**Ben Martin, Daily Telegraph**

Why is it taking so long? Do you -- do you know what, sort of, the wheels are in (the DoJ)?

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**Ewen Stevenson, Chief Finance Officer**

Well, on the FHFA side, which is the biggest piece of outstanding litigation, we're about 18 litigants and our court date is the very last of 18 and there's still one other ahead of us. So, it's just these things take typically a long time from gestation to coming to trial.

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**Howard Davies, Chairman**

As you'll have seen, the -- on the DoJ side, they settled the case well, they didn't settle the case, Barclays case, but they settled the Deutsche and Credit Suisse, but not that long ago, after all; only just before Christmas. And, you know, as you'll have seen, the Department of Justice has been in, some changes of personnel. So, I mean, the latest hiatus is not astonishing.

It is, as I've said, rather surprising that it's nine-and-a-half years since the last of the transactions. So, it is a long time. But as you've seen, they've been chopping through cases one after another and we hope that we're coming to the top of that queue.

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**Ewen Stevenson, Chief Financial Officer**

And it's just not the sort of US legal system. And you can see it here with the 2008 shareholder rights case, 2008 coming to trial for the first time in May 2017. It's just -- this is how long these cases take to come to fruition.

**Howard Davies, Chairman**

Max?

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**Max Colchester, The Wall Street Journal**

Has there -- I mean, has there been a change of approach since the new administration? I mean, have you -- I mean, are you even in contact with these people in any way?

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**Howard Davies, Chairman**

At lawyer level, there are contacts and have been for some time. But that's on discovery and, you know, that kind of thing. But as far negotiations, if you look, or a claimant, no.

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**Max Colchester, The Wall Street Journal**

Has the bank established any pattern into any of the settlements? Because there seems to be a very broad range; it doesn't actually correspond with the RMBS that was sold by individual banks. Is there any pattern that you could ...

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**Ross McEwan, Chief Executive**

No, it was very hard to get any pattern whatsoever because you saw a lot of cases being bundled together for a, for a lender, for example. So, it was quite difficult. And as said, until you get a claim, you don't know really what you're dealing with. You know, we have made a provision based on information that the Board had and could make a determination around. We're just still yet to see where it goes and that's why we put the disclosure out that we did.

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**Howard Davies, Chairman**

Yes?

**Katherine Griffiths, The Times**

Katherine Griffiths from The Times. Who does the EC have to consult with on the Williams & Glyn thing? Doesn't it just decide itself? And I think you said on the call earlier, this could take into the fourth quarter of this year. Could you just kind of give some more detail about that whole process? And I think presumably -- I mean, the market reaction that everyone just expects what's been suggested to be acceptable when -- I think everyone just thinks that's clearly been negotiated. But just slightly surprising that there's now this kind of long period of time.

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**Ross McEwan, Chief Executive**

There is a process that the Commission has said that they want to go through. They do want to consult with interested parties and that is as broad, as it is long. They do have 27, that needs to then go to the college of commissions, 27 of them, to actually get approval. So, they'll want to make sure that this is the right proposal that actually satisfies the original seven years ago requirement to create more competition in this marketplace.

And HMT will help with that and do their own investigation to make sure they're comfortable with it, but we're signalling from our conversations this could take three to six months and we shouldn't be -- it's not up for us to rush that process; that's their process and we're asking for some changes to it.

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**Katherine Griffiths, The Times**

And the interested party, sorry, presumably that could also include other banks?

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**Ross McEwan, Chief Executive**

Yes, yes, absolutely.

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**Katherine Griffiths**

That have had (this delivered) on them.

**Ross McEwan, Chief Executive**

Yes, both those who are in the market and those who are currently thinking about coming into the market, as well. So, I think there'll be other groups that probably consult with small businesses and the likes, as well.

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**Howard Davies, Chairman**

It's important to note that this consultation is not led by us; this is led by the Treasury and then by the Commission, because that's where the legal obligation rests. Obviously we have talked to them about what we think would make sense because we understand the marketplace, but it is for them to consult on it. Yes?

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**James Burton, Daily Mail**

So, just to be clear on that, then, how did the process actually work with this? Did you suggest, look, we can't do this, we need you to think of another way. And they came back and said, OK, well, this is the idea and you said all right. Where did the idea to do this -- to do this alternative scheme actually come from?

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**Ross McEwan, Chief Executive**

First off, if I take you back seven years when we got state aid, there were five requirements that we had. We fulfilled four and the fifth one was around creating more competition in the SME market. In those days, we had about 35 percent market share in the SME across the UK and we felt that that was, you know, part of that to create more competition, we'll give away five percent, which was through the assets of Williams & Glyn. Because there isn't any Williams & Glyn; it's the assets we've called Williams & Glyn.

And the first thing around that was, the original thought was, well, we could sell them to somebody else. We'll just do an asset transfer. And after three years, you saw that was very difficult because when people did the original review I suspect people didn't really investigate that this isn't a retail bank, this is a retail right through to quite commercial parties and you need systems and applications.

And if you're going to take those systems and applications and not give them to Lloyds, Barclays, HSBC or RBS, there's nobody else that could actually take them. So, first mistake, I suspect, that was made.

Santander step up to the plate. And over a period of time, they pulled out of it, I suspect because they could do the retail but you couldn't do the commercial end of it because those days didn't have it. And after three years, a halt was called and we asked for more time to find a different solution and that solution was, we'll IPO it.

And in those days, banks were still trading at above probably around one times book; interest rates were higher than they were certainly at last year when I called a halt to it all. And this bank would've been a viable bank when you put it out there.

Roll on three-and-a-half years later or three years later, interest rates have collapsed on the floor; lowest interest rates in the marketplace for 300 years. And the bank that we're pulling out doesn't work. We've got 90 percent of the systems and applications out, we've got a bank that's looking like it's standing up and it doesn't work, we won't get a license for it. We had to call a halt to it.

But I can go in and say, hey, this isn't going to work, but we have to start working on what the other solutions are, which is do we do an asset sale, interested parties? And as you look at it, that wouldn't have gone over the timeline or the requirements of getting all those assets out.

And we asked HMT if they could have work on another option which we had ideas about and they did, as well, and that's the idea that's gone through to the European Commission. So, these are legally binding agreements.

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**Howard Davies, Chairman**

They did their own work. On it...the Treasury

**Ross McEwan, Chief Executive**

The Treasury has done their own work. We then put it, in the likes to give them thoughts on what works and what doesn't. So, this is a legal agreement that you cannot just say, oh, look I don't like it. No, these are agreements that were made, you know, prior to my time, seven years ago, four years ago that we actually had to do our absolute utmost to get them across the line.

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**Howard Davies, Chairman**

So, yes?

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**Mathijs Schiffers, Dutch Financial Times**

Yes, my name is Mathijs from the Dutch Financial Times. You might have said it before actually today, but what is the consequences if that line isn't met? What is the punishment for that?

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**Ross McEwan, Chief Executive**

Well, at this stage, we would hope that what's being put forward will actually meet the requirements from the European Commission to actually create more competition. So, at this stage, there isn't any talk of, is there a penalty or the likes; it's will this solution work. Because this solution is very good for a number of parties.

I think it's really good for competition of this marketplace in the SME space. That actually is good for our customers to give them certainty; it's good for our colleagues who work in this operation who, for seven years, have been wondering where on earth this bank's going.

And it gives us as a bank certainty that we'll actually be able to fulfil our obligations, which is what we want to do. We're not sitting here, saying we don't want to do it. So, all of this I think if we get an agreement, that will be the agreement going forward.

**Mathijs Schiffers, Dutch Financial Times**

There's no precedent for someone missing a deadline like this.

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**Ross McEwan, Chief Executive**

I don't know. Not that I'm aware of.

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**Ewen Stevenson, Chief Finance Officer**

But equally, there's no precedent for this type of complexity of separating out a bank within a bank and seeking to sell a very complex SME bank.

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**Ben Martin, Daily Telegraph**

Lloyds managed

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**Ewen Stevenson, Chief Finance Officer**

No.

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**Ross McEwan, Chief Executive**

No, Lloyds didn't. This is what I think this is what people forget. Lloyds still not -  
- haven't got it out. It's still sitting inside Lloyds running on their systems.

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**Ewen Stevenson, Chief Finance Officer**

It's a very simple savings and loan institution.

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**Ross McEwan, Chief Executive**

A savings and loan institution. This is a commercial bank. I think we could've got -- we have pretty much the retail put out to Santander three-and-a-half years ago. This is quite a different vehicle.

Now, probably our struggle to actually get this communicated to people, this is hundreds of systems and applications. It's quite a complex -- and banks, other than the major trading banks, just do not have facilitation to take the big end to town.

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**Max Colchester, The Wall Street Journal**

Yes, because the last time -- I mean, there is a precedent, which is when you missed it last time around, the deadline, and I think they forced you to sell to Citizens, right, as a punishment for that.

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**Ross McEwan, Chief Executive**

Well, there were five ...always five – Citizens was one of those. Citizens, was there along with WorldPay, Sempra and Direct Line Group.

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**Max Colchester, The Wall Street Journal**

OK. So, what -- so, the amount of £50 million pounds would be enough to sway ... (inaudible)

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**Ross McEwan, Chief Executive**

We've assessed at this stage that that will be the cost of that proposal. If that proposal gets changed, we'll have to work this through.

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**Howard Davies, Chairman**

I'd just say, Max, I think you're looking at it the wrong way. The issue -- what Ross pointed out is the objective is to enhance competition in the marketplace. The danger clearly was that you stand up a bank, spend a vast amount of money, it can't get a license. So, that's not very helpful, so that's not improved competition.

Or -- the only way you can get rid of it is it gets swallowed up by somebody else and that's not fantastic for competition.

So, it is not about losing face situation. This is about finding a better way to enhance competition in the marketplace by providing a fund to assist new challenger banks but also incentivising transfers of customers to a range of challenger banks which helps strengthen all of them and promotes competition.

So, I think it's not the right way to look at it as a -- as a sort of blood money because we can't do this. It's actually a better way of achieving the objective.

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**Ben Martin, Daily Telegraph**

Is it possible that the proposal contravenes all being done by the CMA in competition rules?

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**Ross McEwan, Chief Executive**

Well, I would've thought it'd actually enhance competition. I don't ...

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**Ben Martin, Daily Telegraph**

If you're incentivising customers paying ...

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**Howard Davies, Chairman**

That's a matter for the Treasury. But I don't really, I believe they're confident that's not the case.

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**Male**

Are you concerned at all that we're heading into Brexit negotiations and this is a sort of side issue that the Treasury has to negotiate with the European Commission and get agreement from 27 separate nations?

**Howard Davies, Chairman**

So, far, I would say that the Commission have handled this as a discreet matter on its own merits and I have no suggestion that that's not going to be the case. That's what they have done so far.

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**Howard Davies, Chairman**

Yes, Jill?

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**Jill Treanor, The Guardian**

Hi, can I ask a couple of follow-up type things? I just want to check for shareholder litigation that you asked about a minute ago. It says -- it also says here that if this remaining group's claim isn't settled, you'll keep defending it. But it says damages haven't been quantified. So, does that mean you might have to increase -- if the cost could rise about £800 million? That's my first question. I've got another one, but you can ...

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**Ross McEwan, Chief Executive**

Well, that would depend upon what the outcome of the case is because there would be several stages to that, as well. But I think this could -- case could go on for years. And once it gets into court, my view is it will go on for years because, you know, we want to defend our case, which we've always said is very strong.

The reason I wanted to actually see if we couldn't take it out of the courts, because it will run for years and it will be big legal bills and it also means this organisation has its good name dragged through the courts for month after month after month and years. And if we could avoid that, I was interested. But there's a price to which we're interested and we put that out there.

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**Jill Treanor, The Guardian**

There were some other shareholders trying to join that, as well. Are you going to resist that? I think some former employees are?

**Ross McEwan, Chief Executive**

Well, the issue for them is that there is -- we believe that it is time barred, back to 2014, and they are well and truly too late to join us. And that's what we will be defending.

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**Jill Treanor, The Guardian**

Right.

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**Ross McEwan, Chief Executive**

So, they've got to get through that hurdle first. These things have a six-year time barring and that was 2014.

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**Jill Treanor, The Guardian**

Right, OK. Can I ask another question about Williams & Glyn? I asked you earlier about what you're going to -- what these 300 branches are going to look like but I also realise you're talking about closing branches, as well. How does the £2 billion of cost savings that you're envisaging over the next four years fit in with these branches that you thought you were going to get rid of? Is that ...

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**Ross McEwan, Chief Executive**

They will fall back into the organisation. So, those branches, if we are successful and the European Commission accept the case that's going forward from Treasury, if that's successful, it will fall back into our normal operation as to where it came from. And then the branch numbers will be the branch numbers based around customer usage of them. So ...

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**Jill Treanor, The Guardian**

Is that branch number you have earlier on of 1,200 include these 300 branches or not?

**Ross McEwan, Chief Executive**

No. No, it doesn't.

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**Jill Treanor, The Guardian**

So, that number goes back up to 1,500 branches?

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**Ross McEwan, Chief Executive**

Yes. It's regulated at 300 branches. I think we're allowed to reduce it down to 275 branches. So, it's that number of branches that would be integrated back into the operation if -- and I say if this deal is agreed.

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**Jill Treanor, The Guardian**

And when you say integrate -- I'm sorry to ...

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**Ross McEwan, Chief Executive**

Go ahead.

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**Jill Treanor, The Guardian**

Pursue this point for one more thing. When you say integrated back, to what extent have they ...

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**Ross McEwan, Chief Executive**

Well, they used to be.

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**Jill Treanor, The Guardian**

Separated then? So, what are they now? What are the ...

**Ewen Stevenson, Chief Finance Officer**

Well, I mean, if you go into the High Street in England and Wales and see a Royal Bank of Scotland branded branch, that that is what was going to become Williams & Glyn.

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**Ross McEwan, Chief Executive**

Yes, all those in England and Wales.

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**Howard Davies, Chairman**

And actually, I think NatWest ones in Scotland, also.

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**Ross McEwan, Chief Executive**

Yes. But -- so, they -- and they were always part of the Royal Bank of Scotland and they were run-off the systems that run the Royal Bank of Scotland because that's whence they came from. Their growth came out of the Royal Bank of Scotland.

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**Ross McEwan, Chief Executive**

So, they'd be integrated back into because we'd be -- despite what people thought, we've been taking it out and setting it up as a separate business. It's got its own payroll system, it's got all sorts of things that are quite separate now and we have to integrate that back into the business.

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**Emma Dunkley, FT**

Yes, do you expect to make any further provisions for RMBS ahead of any formal discussion with the DoJ? Or are you going to wait until those small negotiations begin? And then secondly, how do you plan on boosting income this year, given the rate environment? And just something about the mortgage mix helping with this going forward and how that works?

**Ross McEwan, Chief Executive**

Well, first off, I don't think -- we haven't got any plans to increase the provision for RMBS. It would have to be after conversations of -- with the parties associated with that that are numerous. But at this stage, there isn't any conversation that would lead us to that. Once we do have those, we may have to change as we see it when we put the provision out that this, you know, may well not be enough.

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**Ewen Stevenson, Chief Finance Officer**

On income increase, growth, you know, we think as we said today, we can continue to grow mortgage business above market growth rates. We think we demonstrated now for many years our ability to do that. Last year, our flow share was 12 percent. We increased our stock share during the year from 8.2 to 8.8 and we do expect there will be some margin compression.

What we were saying today is that we've been suffering doubly because we've also had a mix change going on in our mortgage franchise because consistent with our approach to customers, we're not trying to protect and keep existing customers on expensive back-book rates. We're offering them right to move to fixed rates if they want and we've seen quite a bit of customer migration as a result of that.

But, you know, the -- we do think and we've put in our outlook statement today that we expect to grow income in UK PBB and that's based on an assumption that we will continue to be able to grow mortgage business well above growth rates this year.

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**Ross McEwan, Chief Executive**

There's also good growth outside the mortgage business and our business banking business was up last year. We had growth and the unsecured personal loans part of the business was up, I think it was about seven percent. So, you know, we are getting growth at least on market, if not higher, in many, many parts of our business which then flows through into our income in future years. We've also taken some NIM contraction across that. But we believe that the growth actually compensates, if not more from that.

**Ben Martin, Daily Telegraph**

Can I ask just -- I've got a follow-up from Jill's point. So, I think there were 306 Williams & Glyn branches now.

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**Ross McEwan, Chief Executive**

Yes.

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**Ben Martin, Daily Telegraph**

You said you'd fold 275 back into the business. That means 30 will close.

.....

**Ross McEwan, Chief Executive**

No, sorry, no. The original agreement was 306 branches for the customers within those branches. In the agreement, it had we could as customer requirement dictated drop down the branch level to 275. And I think we're probably closer to the 275 today with this 306, so that's the connection point.

.....

**Ben Martin, Daily Telegraph**

So, they've already -- you've already got it down?

.....

**Ross McEwan, Chief Executive**

Some of those have already been closed out ...

.....

**Ross McEwan, Chief Executive**

Because of lack of customer usage.

**Ben Martin, Daily Telegraph**

So, the £2 billion of cost savings, that's not -- that's not -- I think you said (the estate) was 1,250 but it's actually 1,550 then?

.....

**Ewen Stevenson, Chief Finance Officer**

Yes, and I think this is paraphrasing what reintegration means. I mean, today, all that will happen is for those Royal Bank of Scotland customers is they're aware that they will become Williams & Glyn customers in the future. All that will happen is that we'll go back to being Royal Bank of Scotland customers in England and Wales and the NatWest customers in Scotland will go back to being NatWest customers in Scotland.

.....

**Male**

How is your certainty to damage that business? Has it put off big group of customers? Have you lost any?

.....

**Ross McEwan, Chief Executive**

Well, I think Jim Brown and his team have done a very good job of holding on to the customers and their business. So, you saw it and you've seen the accounts; it's actually grown in the last 12 months of our accounts, very similarly to our retail and commercial bank has grown. So, it's a good franchise.

As I said, the issue was putting it on to its own separate set of systems, in an environment of low interest rates that didn't make any money. Under our supervision when it's on our systems and under our scale, it actually does make money.

.....

**Howard Davies, Chairman**

Well, the good news is it hasn't suffered any atrophy as a result of this. It's perhaps almost surprising, but it hasn't. Yes?

**Male**

Just on the reintegration point, do you have any idea how much that's going to cost and how long ...

.....

**Ross McEwan, Chief Executive**

It won't be the same cost as taking it out. I mean, it's quite a different thing to taking it out and putting it on, setting up systems and structures and operating environments and the likes to bringing it back. And it will be quite a different situation but I haven't got a number.

.....

**Male**

And it will be most cost associated with bringing it back in.

.....

**Ross McEwan, Chief Executive**

There will be, but I don't know the costs. And until we get certainty around what the outcome will be, it's pure speculation.

.....

**Howard Davies, Chairman**

There's also income.

.....

**Ross McEwan, Chief Executive**

Yes, we hold on to the income, as well.

.....

**Howard Davies, Chairman**

Yes?

**Max Colchester, wall Street Journal**

A question on your cost to income ratio. Are you -- are you not slightly worried that bank ... (inaudible) ... very much are going to slightly destroy your franchise?

.....

**Ross McEwan, Chief Executive**

No.

.....

**Max Colchester, Wall street Journal**

Going into that level? Because obviously you, I mean, that's the kind of level that, I mean, Santander runs at and they're a big retail big. You guys are the big corporate franchise in that around those.

.....

**Ross McEwan, Chief Executive**

No, we are very comfortable with the fact of, as you move more and more to a technology front where customers can do more for themselves because they want to and you've seen the usage of the mobile phone and how easy it is for customers to do transactions now and to buy products.

They're very comfortable sitting on a bus or a train or wherever actually doing it for themselves. That takes costs out of our back office operations. So, and you'll see more and more use of technology.

Just in the last week, we've launched a business banking lending vehicle called ESME which actually will go head to head with peer-to-peer lending. It's just on a quite a separate platform. We're doing the funding of it. But we're trialling a number of things that, you know, where customers just want to do it themselves, here's the vehicle.

You're seeing this in the, I gave some stats around our commercial operation. Eighty percent of what customers do today is they do it themselves. In another year, we believe 95 percent of what they do, they'll be doing it themselves.

In the next two weeks, we launch a -- for our own business banking clients, an electronic tool when they go on to their online business, Bankline, they can do their own borrowing. If they want to borrow £20,000 for their small business and it's available to them, they choose how to do it, they choose what vehicle to go on and they can do that within minutes because of the technology we've built into this bank.

So, these are the things that make a huge difference to customers. I do it myself because that's what you do most of the time with your mobile phone. Thirty-five percent of our sales in the personal and business bank are now done on a mobile phone or a laptop. That's 136 percent up, no interaction with us whatsoever. Forty-two percent of our customers now have got a mortgage and they want to transfer it from a two-year to a new two-year, within two minutes they can just do that themselves. It used to take days and days of our people's times having to spend on it. That's the change that's happening in banking right underneath our noses; customers are happy to do it themselves, but make it easy for them.

And then for our staff, when they need an interaction, they'll get a qualified staff member to interact with them. That's what's changing in the banking industry.

We cannot sit without our cost to income ratio of 66 percent when the rest of the industry is sitting at 60 or lower than that in the Lloyds situation. So, we're going to use the ability of using our technology for customers; show them how to do it themselves or allow them to do more of this themselves as you and I do.

.....

**Ewen Stevenson, Chief Finance Officer**

I mean, it's -- perhaps looks ambitious from where we start from, but remember 18 percent of others are a simple retail commercial bank. Lloyds is targeting to get to a cost income ratio and now a 45; best in the world is in the low 40s. So, getting to 50 is sort of ambitious from where we start from, but it's not a particularly ambitious target for banking globally at the moment or even in the UK.

**Ross McEwan, Chief Executive**

We also know where a lot of this cost is already coming from and Ewen's put that out today.

.....

**Howard Davies, Chairman**

Katherine?

.....

**Katherine Griffiths, The Times**

It was just a very small one, to return to the subject of these people going back into the bank. Will you have to write for these people who think they're going to Williams & Glyn? Will it have to be a whole new letter shot?

.....

**Ross McEwan, Chief Executive**

It depends on what the outcome is. That would entail what we have to write to them.

.....

**Katherine Griffiths, The Times**

So, for the next potentially six months or so, they could be ...

.....

**Ross McEwan, Chief Executive**

Well, I popped into a Royal Bank of Scotland branch down in Bank -- down by the Bank of England yesterday. And nothing changed from yesterday to what it - - they thought about two weeks ago. They're just getting on with business and that's all we've asked our people is just keep on business, do business with customers, be there for them.

And that's I think the way this business has held on so strongly; that's the message to our people. The customers don't see any change today. I think this will give certainty to -- this operation will give certainty to our people and I think

it will create a lot more competition in this marketplace, which we'll enjoy competing against.

.....

**Richard Partington, Bloomberg**

Can I ask a question on the sort of structure of the fund and the dowry that you pay? Is that limited to any number of banks or could you see sort of, like, one or two coming out as preferred partners for RBS customers?

.....

**Ross McEwan, Chief Executive**

Well, the way it's been structured is around challenger bank, so it won't include the major banks. So -- because remembering it was about creating more competition which is around the challenger bank, so it'd be the defection of challenger that will be important. And that'll be up to Treasury to work through with European Commission. But it won't ...

.....

**Howard Davies, Chairman**

It will be up to them to decide that, you know, the ones who want to -- want to play the game ...

.....

**Ross McEwan, Chief Executive**

Yes, right ...

.....

**Richard Partington, Bloomberg**

A number of banks that would be eligible.

.....

**Ross McEwan, Chief Executive**

And it's also going to be around what they're offering to the customer bases and also a technology fund for SME. So, it's how do you create that competition, as well.

And can I just say, we're doing a lot of work on the technology front for, you know, we have now the best mobile app in the marketplace. It's been not just rated by us but by, you know, the Bankers Association, whoever -- this is one of the best. We are pretty good at this stuff. So, we're now moving that technology into business banking.

And as I said in two weeks, our own customers will be able to click on a make their own, take their own loans down and do a lot of the stuff themselves in very short periods of time. Those things are happening, you know, and I think putting that sort of technology into the marketplace, people choose to build it themselves, will be fantastic.

.....

**Howard Davies, Chairman**

Jill?

.....

**Jill Treanor, The Guardian**

So, Howard, I wondered if you could tell us what sort of discussions you have in the board room about bonuses when you know you're about to report £7 billion pounds of losses and your chief executive is getting 3-and-a-half million and 78 members of staff are getting more than a million euros, I think it is. Do you -- do you sort of think it's got to be done, or ...

.....

**Howard Davies, Chairman**

Yes, the -- well, the Remuneration Committee obviously is responsible for this. And we clearly have to set a rather careful balance here. And the -- where we've set it is that the bonus pool is actually down about 8 percent.

But of course going back to where I began this session, the core business, which is what we are motivating people to do and to create here, is a good robust core business, is in fact doing well. And you cannot link problems related to activities in another country in 2007 and realistically say that people currently doing a great job, whether in NatWest Markets or in the branch network, should pay for that.

That doesn't make any sense. If you did that, then those people would reasonably say there's no future for us in this institution because we're paying for the sins of the quite distant past now.

So, the way look at our remuneration is in relation to a set of objectives for performance of the core bank. And those objectives have in many respects been met; not all of them. The Remuneration Report shows that in some areas, some parts of the bank, our net promoter scores, for example, have not succeeded in what we wanted.

Some have succeeded -- have done better than what we wanted. The growth in the business, in the mortgage business, has been actually above what we had targeted. The growth in business lending has been above what targeted. And we've believed -- managed according to our risk appetite because the risk people come along and say, well, have these people been growing the business, but by lending in an imprudent way.

So, the way we have to think about our remuneration is about remunerating people for the job they're currently doing in the bank that they currently run and we can't take all of the sins of the past into account. And we believe that we have set the objectives and the remuneration appropriately.

As for the very top, the bank has accepted that it will be a back marker and that is where we when. When we look at the remuneration of the very top people in the bank, they are being paid somewhere in touch with market but by no means leading the market. Indeed, they're typically somewhat behind the market, which we believe is just realistic in relation to our shareholder and where the bottom line is.

So, I won't hide from you that this is a very difficult decision. We spend hours and hours on it. We try to come out with a balance recognising the optics of it, the ownership structure, but also that our real duty is to try to deliver an institution which returns money to the taxpayer who supported it. And we think that the way you do that is by keeping a good team of people, as long as they're doing well in the businesses that they're running. And we believe that actually they are doing well in the businesses that they're running.

**Jill Treanor, The Guardian**

And can I ask a follow-up to that? When will taxpayers get their money back? When is Philip Hammond -- or is he still going to be Chancellor? I don't know. Who is -- who is going to be ...

.....

**Howard Davies, Chairman**

Well, you've heard ...

.....

**Jill Treanor, The Guardian**

Well, I haven't ...

.....

**Howard Davies, Chairman**

That's news.

.....

**Jill Treanor, The Guardian**

No, I don't know. But I mean, you know, when is the stake in this bank going to be sold off?

.....

**Howard Davies, Chairman**

Well, that I'm afraid is a matter for the Treasury. And the Treasury decided that they would not presume that they were going to sell the bank during the course of this parliament. But I'm sure that they would like to make progress with it. But realistically, there are some obstacles to overcome before they do so.

But as for the timing is concerned, I mean, this is a very scrupulous relationship between the bank and UKFI. And we have very careful Chinese walls in place; we treat them like another shareholder. And they do not confide in us on what they are thinking about selling us. That would be bad for them because, you know, investors would suspect that we were cooking up, you know, happy surprises which for them, they're not borne out.

So, we don't know what they are going to do. You'd have to ask UKFI that. Yes?

.....

**Male**

Ross, I think you were asked on the call this morning whether you would want to stay until the bank became profitable, which takes you to 2018. But would you not also want to stay until you see through the next phase of your strategy, through to 2020?

.....

**Ross McEwan, Chief Executive**

That's my objective. That's clearly my objective. We've done three pretty tough years of restructuring this bank and getting into better shape. You're seeing the underlying performance starting to flow through. I'd like to see this come through and us being able to successfully implement the full strategy. So, that is my objective.

.....

**James Burton, Daily Mail**

Could you update us on the pension deficit at the moment? I've not sort of seen the detail...

.....

**Ross McEwan, Chief Executive**

It's in surplus at the moment I think? Ewen, do you want to make some comments on that?

.....

**Ewen Stevenson, Chief Finance Officer**

You'll recall that we -- at our last tri-annual evaluation about a year or so ago, we put on 4.2 billion pounds in Q1 into a pension plan.

.....

**James Burton, Daily Mail**

It remains a surplus after the sort of falling guild.

**Ewen Stevenson, Chief Finance Officer**

Yes.

.....

**Ross McEwan, Chief Executive**

And the next review is 2019?

.....

**Ewen Stevenson, Chief Finance Officer**

At the end of 2018 is when our next tri-annual evaluation date falls. So, it's quite detailed disclosure which you might not have got to yet in the annual report.

.....

**Ross McEwan, Chief Executive**

That was a big issue for us last year. That's why we put that money into it.

.....

**Howard Davies, Chairman**

Well, I'm sure you've all got your tables booked at La Chapelle at one. So, if there's any -- is there anybody -- last concerns?

.....

**Richard Partington, Bloomberg**

Just ask about dividends, you know, when potentially the outlook for that -- for them returning.

.....

**Howard Davies, Chairman**

So, the word I didn't catch.

.....

**Richard Partington, Bloomberg**

Dividends.

**Ross McEwan, Chief Executive**

There's clearly four things we think -- we've said all along we have to meet to resolve. One, RMBS; secondly is Williams & Glyn; thirdly, we need to make some money, i.e., profit, bottom line profit; and the fourth thing is we ought to get through our stress tests.

And we'll wait to see in the next couple of months what -- next on stress -- what this years stress test will be, but those things still remain in place. The four, I think we can have a serious conversation with the PRA about returning to dividend.

But my objective, Ewen's objective, Howard's objective is to get this bank paying a dividend again that shows a normal profit-making organisation that will be one of our signals of success, I'd say one of them.

.....

**Richard Partington, Bloomberg**

(And you had) mentioned 2018 as the year you'll turn a profit. Do you think that's realistic?

.....

**Ross McEwan, Chief Executive**

Look, we have to complete the whole lot, but I -- we -- our view is 2018 was if we can resolve the RMBS and Williams & Glyn this year, that does give us a clear line of profit -- of making a profit in 2018. But when we'll pay a dividend really is getting all of those four done, then, having a good conversation with ...

.....

**Ewen Stevenson, Chief Finance Officer**

I mean, we -- I mean, you can see in the results we're making more than 4 billion pounds and have in 2015, have in 2016 in the core business. So, once we get through the one-off charges, we'll have a very nicely profitable bank that will be -- have a good, healthy capacity to pay dividends at that point.

So, you know, we appreciate we're on a journey and it's taking longer than we would've hoped. But we can definitely see now that we're getting through the issues that will enable us to have that discussion with the PRA in due course.

.....

**Howard Davies, Chairman**

Ross, do you want to say something?

.....

**Ross McEwan, Chief Executive**

Maybe I'd just include, you know, it has -- 2006 was a very tough year for the bank. You know, we don't take lightly having to make a loss of £7 billion.

.....

**Howard Davies, Chairman**

2006 was quite a good year for the bank.

.....

**Ross McEwan, Chief Executive**

Sixteen. Yes -- did I say six? 2016, you know, was a really tough year. And, you know, a bottom line loss of seven billion is a tough message to put out. It's tough for our shareholders, it's also tough for our staff. But it was, you know, it encompasses £10.3 billion of one-offs to this bank which, as Ewen's point was, you look at the underlying franchises that we run, you know, make £4.2 billion last year pre-tax.

They grew last year, which was the first time in probably seven years that our core actually grew. They put out 11 percent return on equity.

We've seen real growth in our balance sheet in the areas we like, right? We're not going to invest money into areas we don't think are going to be good for this bank long-term.

And certainly our focus is on the UK and the Republic of Ireland. Those are the markets we like, commercial and retail. We've got a markets business that is

very slimmed down now and focused on three areas, again, where they're strategically strong.

I think we've got the strategy right. We're starting to deliver strongly against them. The next three years will be quite different to the last three that we've been through.

You know, I said to this morning -- this morning on the analyst call, there are I think no banks in the world that have done what we've had to do in the last three years. If you'd asked a bank just to sell Citizens, it would've been a big issue for them. If you'd asked them to rebuild capital from 8.6 percent to 13.4, it would've been a massive issue for somebody.

If you'd asked them to try to come out of 26 countries, to come out of global transaction services, would've been a massive task for somebody. If you'd asked them to go through all of the issues that we've gone through, decommissioning 30 percent of our systems, closing 50 percent of your actual subsidiary and listed subsidiary companies, would've been big issues.

And when you look at what we've done in three years, we've done all of that and we've got a bank that's starting to grow again. So, our focus now is to putting all of that energy that we've had to put into fixing this place and dealing with the one-offs into the go-forward market. And that's what we're looking forward to.

2016, it was a tough year for this bank. But we knew it'd be tough and that's why we said '15 and '16, we wanted to get rid of as much of the one-off conduct and litigation. We're not through it all yet. RMBS is not finished and Williams & Glyn is not finished; we have to get the resolutions around that. But the path forward is quite different to what we've seen in the bank.

Thanks for your time. Good to catch up and let's hope that 2017 and '18 are quite different to the last few. We certainly plan them to be.

.....

**Howard Davies. Chairman**

Thank you.

**Ewen Stevenson, Chief Finance Officer**

Thank you.

.....

**END**

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