



Annual Results 2015

PRESS Conference Call

Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
on Friday 26 February 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 26 February 2016.

RBS

Ross McEwan, Chief Executive

Howard Davies, Chairman

Ewen Stevenson, Chief Finance Officer

Introduction

Howard Davies, Chairman

This is Howard Davies, the chairman of RBS. My crucial role is to speak for long enough to you to ensure that you've got your volume control set to the right point.

And we have here Ross McEwan, Chief Executive and Ewen Stevenson our CFO. And this is obviously a tight timetable. So, I'm going to hand it straight over to Ross.

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Operator

Good afternoon ladies and gentlemen. Today's conference call will be hosted by Howard Davies, Chairman of RBS. If you wish to ask a question, please press star and one on your telephone keypad. Please go ahead, Howard.

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Howard Davies, Chairman

OK. Thank you. Well, I'm sure we'll take questions in the room first and then if there are questions on the line, we'll come to them a little bit later. Well, good afternoon and good to see some people who we entertained here in our media reception a few weeks ago, and these of course, are results for 2015.

I ought to say to start with that I was only Chairman for four months of that year, so for most of it, Philip Hampton is responsible, so I want to thank him for his service to the Company over the six years up to the beginning of last September. We think that the latest set of results show another year of progress for the Bank.

We've accelerated the rundown of the nonstrategic assets, we've exited Citizens successfully, we believe that the timing of that exit looks better and better as time goes by and there are also signs that the underlying strength of the core business is showing with encouraging mortgage growth and growth in business lending.

I'm also pleased that we can announce today our intention to pay the final dividend on the dividend access share during the first half of this year, subject to final Board and PRA approval, and that's an important step towards being able to return capital to shareholders.

Our aim in 2016 is substantially to complete the clean-up operation and clear the path to capital distributions. Top of our agenda is to try to get past most of the remaining conduct issues to complete the bulk of our restructuring and wind downs, continue to work towards a clear solution on the divestment of Williams & Glyn by the end of 2017, and successfully pass the Bank of England's next stress test as we did this year.

Looking to the future, Ross has set out a clear and straightforward strategy to which the Board is fully committed. A simple bank focused on doing fewer things and doing them well, built around a low risk U.K. and Irish retail and commercial bank. A strong bank in capital terms with a long-term target of at least 13 percent core tier I.

We are, of course, well above that at the moment, and a fair bank that meets customer's needs with a target to be seen as the best U.K. bank for customer service, trust, and advocacy by 2020. Now before I took up the position as Chairman, I satisfied myself this strategy was one that I can wholeheartedly support, and one I think is realistic and achievable.

We still have a lot of work to do before we get to the end point, but these results do show further progress in returning the Bank to full health and in time to full private ownership, and of course 2015 saw the beginnings of the Government's sell down, which was also a positive statement about the Bank.

I'm also very convinced that the decision the Bank made two years ago to sell down assets, to withdraw from a lot of overseas markets, to run down parts of the investment bank, and to bolster its capital position will serve us well and were well timed, and I think current market conditions demonstrate that.

Looking forward, the next few months, I think, will be challenging for all banks. Global markets continue to be nervous and remarkably volatile. That's true around the world, but of course here the E.U. referendum has further idiosyncratic uncertainty in the U.K.

Now, we are primarily, as I said, a U.K. focused bank, but we have good businesses in other E.U. countries, notably, Ulster Bank in Ireland and of course many of our business customers heavily depend on unfettered access to the single market.

Most economic forecasts points to a slowdown in U.K. growth attributable to uncertainty around the referendum at least in the short to medium-term, which would be unwelcome, but we believe we are well prepared to manage ourselves through this difficult period, particularly given our high capital ratios at the present time.

So, on that note – sorry, one more thing I should say about Brexit is that our focus is on helping our customers. There are retail customers in our wealth management business who want to know how to navigate, and there are business customers who of course need help on foreign exchange hedging because we've seen what's happened on the sterling.

And so our principal focus in relation to Brexit is on helping our customers get through a period of uncertainty and of course, depending on the outcome, there may be further things for them to do. So on that note, I'll open the floor to any questions you might have. You can produce the questions and Ewen will produce the answers. Yes, Kathy.

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Katherine Griffiths, The Times

Could I just ask a little bit more about Williams & Glyn. Can you tell us more about what the problems are, obviously, it's clearly a very complex task? Are there delays in getting the banking license and what are the issues there?

And I think you said something about some of these risks only emerging as the process goes along, I mean could you just talk a bit more about that? And secondly, could you spell out for us what are the penalties you face if you don't meet your target, and are there any that come into force by the end of this year or not?

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Ewen Stevenson, Chief Finance Officer

Probably start with the latter we are not aware of any penalties that come in force at the end of this year. We have some obligations at the end of this year, but the primary obligation is to have the sale completed by the end of 2017. This is taking a fully fledged bank out of a bank, so you've got inside RBS, inside The Royal Bank of Scotland, 300 branches, we are at 2 million customers, but it's also a commercial bank. So this isn't just a retail bank, this is a retail, right through to a commercial bank. It's actually a stronger commercial bank than it is a retail bank with that five percent market share in commercial and three percent in retail.

We had Simon McNamara describe this morning we've got something like 60,000 programs of small projects going on inside individually to take this bank out because you are taking a sliver of our systems out of here and putting them into Williams & Glyn and standing up a full bank.

So that includes all your core banking systems, your treasury operations, your finance, your HR, all of those, it's a fully fledged bank, 190 products in the set, 700 systems, and the issue as we are finding is you have a program to do this with, but it's not until you put certain things into testing you find out whether they're working properly or not, and sometimes you have to rework those things.

So there are many stages you go through and what we found at the later part of last year as we entered the testing mode on some of these things, we found there was still more work to do as you'd expect. A key determinant for us, there are close to 2 million customers that when we switch over in a weekend everything has to work because this is a bank.

And the payment structures have to work, everything has to work, so you're having to go into a very heavy test environment, then you go into what's called a production environment, and then you actually turn it on. And every part of that has to work, so we are learning because I'm not aware of anybody else in the world that's actually done what we're doing here, so we are learning on our way through.

And we just signalled to the market that we weren't going to make the first quarter of 2017 of the complete extraction. On the banking license we submitted the banking license. I think it was something like 24,000 pages. It was a massive tome for our license and we've obviously having a lot of dialogue with the PRA on that, but that's not the reason for the delay on this.

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Howard Davies, Chairman

Yes.

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Katherine Griffiths, The Times

How far are you along with their sales process of Williams & Glyn in terms of lining up potential bidders and discussing the opportunity with them?

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Howard Davies, Chairman

If you are interested, by the way, we are happy to hear...

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Ewen Stevenson, Chief Finance Officer

Look, there are interested parties in this, but you can't really get into detailed negotiations until you've got a clear path for the separation of the business, and where working through that at the moment, but there are interested parties, but remembering to that we said will do a trade sale, but at the same time, we will prepare this business side-by-side with an IPO because I don't think any bank, if you had to get it out by the end of 2017, which we do, I don't think you can rely on a process of people thinking that they're the only game in town.

We need to have an IPO running beside them for the Bank's security as well, and to make sure we get the best value we possibly can for this bank.

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Howard Davies, Chairman

The formal sales price is running at the moment.

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Male

When will you have visibility on that extraction point? You'd mentioned at the first quarter of next year, is that duration? Is that the point at which bidders will potentially know or is that far too far out?

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Ewen Stevenson, Chief Finance Officer

No. No. The separation, whilst that's important, you can run the sales process pre-that as long as you have good confidence of when you know the business are at and you make the conditional loan.

And you saw today in our Company announcement we put out additional financial disclosure on Williams & Glyn, which is our best view on the financial performance of Williams & Glyn as a standalone bank.

So that starts to inform the market about what this bank actually is as well as the first time that people will have seen it because, again, your extracting it out of our business where it sits better than our business and fully forming, which needs to have its own financials as this is the first time I think the market will have seen Williams & Glyn.

So progress is still being made. It's not we are sitting waiting for a new plan. The progress is being made. Things are happening.

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Jill Treanor, The Guardian

You use words like messy and noisy when you're giving your forecast. Do you just want to explain what you mean by noisy and messy? And then I have a question directly for Ross, you're giving up half of your fixed pay allowance, I just wondered if you wanted to talk about why you felt you needed to do that?

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Ross McEwan, Chief Executive

Maybe I'll pick up on both of those and then I think I used the term noisy. Today as I, myself was going through the accounts and some many moving parts. We restructured some of the accounting groupings and the accounts as well, Jill, for example, we've bought out RBSI, which is the business based in Jersey and Guernsey.

We've taken that because it will sit outside the ring fence. When you take that out of, for example, where it was sitting you then have to change the account of the entity you're taking out, which was a good will write down out by the bank of 498 million, all of those things start to detract away from what is the core strengths of this bank, so it becomes quite messy and noisy.

And we've done all these things for a very clear reason, not to make it noisy for you, but to actually make it clear about what the businesses that we go forward with and how they are performing, and you can track those in the future as well.

We are also starting to think about ring fencing of this bank, so RBSI coming out is because it will sit outside the ring fence. The same with the Corporate Institutional Bank and we've taken out Williams & Glyn, as Ewen said, again, that's extracted out of the personal and business bank where it was embedded. So taking that out, so what was the like for like results and then we've had to go and restructure all the accounts through so they can see past you. That was very noisy.

Ewen Stevenson

But were also, (Jill), just trying to be transparent and realistic about what people should expect on any given quarter were over this year. We know that we've got additional conduct costs to come that we've really flagged. We talked today about an additional £1 billion of restructuring costs this year.

We know that we are going to see some additional disposal losses as we run down capital resolution and dividend access share that we announce regarding that final payment will run through the profit and loss statement when we make it, so it's just acknowledgment of the fact, but if you go back to also what we talked today, the core business last year, those six businesses made a pre-tax operating profit of £4.1 billion.

It's just that in any given quarter you're going to continue to see, I think, some combination of what I just talked about creating noise in the results.

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Howard Davies, Chairman

On the pay thing, before Ross answers the specific question that we just say where from the Board's perspective, the Board awarded Ross a package, which included the full amount of his role based allowance and the Board is firmly of the view that he is value for that package, and that it is by no means extravagant even in the totality of it in relation to other Chief Executives of comparable banks.

And if you look at the numbers you will see that. As for the personal decision as whether he wanted to take the whole of the role-based allowance, that is a matter for Ross, but I just wanted to be absolutely clear that the Boards view is that the total package is totally appropriate and justified and well earned.

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Ross McEwan, Chief Executive

I think I've been pretty clear last year and I'll say it again this year, I just don't want to pay to be a major distraction and it's usually the CEO's pay that is a big distraction for these businesses. We've got a lot of hard work to do in making this a great bank for this country. I think we've made some really good strides in 2015, but I think 2015 and 2016 was the years that we had to deal with conduct litigation and the restructuring of this business.

I think we've done a very good job in 2015, we're not there yet, and I've said to Howard and the Board I think I should take 50 percent of it, , I donated 100 percent last year, and just start to a normalised pay, but also acknowledge that we are not where we want to be yet and the other 50 percent is taken in shares, so I'll take the uplift, hopefully, with shareholders if we do a great job for this bank, so I think it's sharing in that side as well.

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Howard Davies, Chairman

Thanks. Do we have any questions from on the line? Not at the moment? OK. Yes.

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Male

Just on the capital CET 1, obviously, is very high at the moment and I imagine partly because you've not been able to return any to shareholders.

Can you just give us a bit of guidance once that is paid out you've said that you wanted to be at around 13 percent on a longer-term basis. Can we then imagine that that 2 percent additional you've got at the moment, can you give us some guidance on how much of that might come back to shareholders or might be reinvested...?

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(Crosstalk)

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Ross McEwan, Chief Executive

I'm going to hand it to you, Ewen, but we clearly said that in the long term we want to hold 12 plus percent common equity tier 1, we said that back in the beginning of 2014. We lifted that level to 13 while we were doing heavy restructuring with our corporate institutional bank.

We also said that we needed to build capital because there are some things that we do need to pay for and some of those will be mortgage-backed securities and some of the conduct and litigation issues that we've talked about and been very open with, but also needed to make sure that we are in good condition as we restructure this bank.

We've still provisioned a number of issues in 2015, there are still some things we have no provision for because we just don't have a line of sight to how big or small they will be and that's the Department of Justice and the State Attorneys in the U.S. around mortgage-backed securities and I'm sure they'll be some other shocks of course, but we wanted a very strong capital position so that this

bank did not have to worry about its capital position again and at some point we will want to see our capital drop down to those 12 to 13 percent levels when we are able to and we've got more certainty that one needs to be paid down. Ewan, you want to?

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Ewen Stevenson, Chief Finance Officer

Yes, I think Ross and I continue to be very, very clear as and when we can normalise our capital base. We were quite encouraged, frankly, by the fact that Lloyd's seems to have got to that position now with the PRA yesterday in terms of their special dividend that they announced.

We've also been very clear that there's milestones that we need to get through before we think we're going to be in a position to return capital, but I think if you look at most sell side research, one of the core underpinnings of our equity story is the fact that we've become very capital generated and we think there should be meaningful capital services coming out of this bank in the future.

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Max Colchester, Wall Street Journal

I had a question about low interest rates and what you guys are doing to offset that because on the continent, banks are charging corporates to deposit their monies into the banks and so forth, is this something that you guys will consider? What are the other kind of levers that you're pulling?

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Ewen Stevenson, Chief Finance Officer

It's quite clear that the interest rates will be lower for longer, which does hurt banks incomes and we are having to adjust for that. One of the issues that we are having to face into again is the cost structure of this business, which has been far too high for too long. We've seen this take 2 billion of cost out of the last couple of years and we said today will take another 800 million out this year, so that's part of it.

We have been, obviously, adjusting the amount we've been paying for deposits for commercial customers and, to a slightly lesser extent, to the personal (commercial customer) slightly edged to personal customers, but the lower for longer does mean that customers have deposits they're just not going to get the returns out of them and that's why the reserve Bank once these interest rates to below.

They want them back into the active investment in the marketplace. So we are managing that. Some of the banks in Europe have gone into negative, I mean some of the interest rates are negative over there, so they've had to adjust negatively. We are not of that position here and we still have a 0.5 percent Bank of England rate, but you know we are having to constantly be reviewing what we do give on deposits.

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Max Colchester, Wall Street Journal

What about your customers in Western Europe?

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Ewen Stevenson, Chief Finance Officer

They are all corporate and commercial customers and it is pretty likely that – I don't know the exact rates, but they are probably getting zero for any deposits they have with us that's been pretty standard over this for some time.

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Ross McEwan, Chief Executive

Not a large part of our book.

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Ewen Stevenson, Chief Finance Officer

And most of that, remembering 90 percent now of our business sits here in the U.K. and Republic of Ireland. Yes, we've got corporate clients in Western Europe, but the 90 percent, which is what we said we'd do two years ago when we said we were going to be a U.K. and Republic borrowing business with

offshoots that support our corporate customers and that's pretty well where we are at today.

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Max Colchester, Wall Street Journal

Yes.

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Katherine Griffiths, The Times

Can you see a scenario where you move toward charging for current accounts? Are there sort of sensible things you can do to is kind of move your customer base that way even if you were potentially doing it on your own?

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Ewen Stevenson, Chief Finance Officer

Well you ask a good question, Katherine. You are starting to see that now for example, Santander is one two three accounts, was three it's now five pounds a month. We've launched, I think, one of the best current accounts in the marketplace that pays 3 percent on household bills.

It's a reward account that Les and his team have launched and NatWest and RBS and it's incredibly simple, it has a monthly charge of £3. So you're starting to see fees coming into the industry, but we will always have a no fee account for those people who need to be in the banking system that are struggling on a daily basis and can't afford to be paying.

We've got about 1 million customers that are on our basic account that they pay nothing for and they get good basic banking services. I think you have to be there for them. But you're seeing a trend already towards more payment.

And as interest rates stay lower for a lot longer you'll see more of that come through as the banks, they are not making any income out of the current accounts where they are not paying a charge, and as we all know the service provision on those is very heavy when you think about the cost of an ATM, the cost of even running a mobile platform, or online platforms, and all the services

you get out of using a transaction account and all the payment structures that sit underneath them. It's a very expensive vehicle to be running.

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Katherine Griffiths, The Times

And do you have forecasts on when you expect to make an annual profit and do you have a figure on the cumulative losses that you've made since the crisis?

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Ewen Stevenson, Chief Finance Officer

I think if you look back over the last seven odd years, cumulative loss would be well in excess of probably 50 billion. We're not going to give you a prediction on what's going to happen when we start making profits.

But I'll draw you back to, as I said, in 2014 there were three phases of the development of this business and the strategy we have, 2014 get the business in shape, gets momentum, take some cost out and rebuild capital, 2015 and 2016, take the major conduct and litigation issues and try and resolve them, and restructure this business to get back here into the U.K. and the Republic of Ireland.

We've set out there the cost of doing those, they will flow as you've seen in 2015, and there will be costs of restructuring. We put out the number which I think was about 1.2 billion this year and it depends on what the conduct litigation issues are for us this year. Those are heavy on the bank, but the underlying performance of this great bank is about £4 billion of profitability.

It's the one offs that keep hitting us because of mainly past behavioural activities. So I can't give you a prediction, but clearly I've said that 2015 and 2016 are heavy conduct litigation and restructuring as we make a really good bank here.

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Katherine Griffiths, The Times

Howard, I'll ask you another question. When you are taking the job you said you look at the business model. Did you also managed to satisfy your self whether taxpayers would get their £45 billion back?

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Howard Davies, Chairman

I couldn't possibly satisfy myself on that because that would make me kind of a mystic in terms of what the future share price will be. What I think I can say is that once we overcome these conduct costs from the past, and I would remind you that by a long way, the biggest ones date back to 2005, 2007.

This is a long way before the current management team was around. Once that is overcome, I believe, as Ewen says, that this is fundamentally a profitable bank with good customer franchises and perhaps surprisingly those franchises have been preserved through very difficult times, and many customers have remained remarkably loyal to this institution.

So, I do believe that there is, at the core of this, a good profitable bank with some strong franchises, particularly; NatWest in England, but Ulster and Ireland, Coutts is a good strong franchise, RBS International and the Royal Bank in Scotland. The Royal Bank south of the border will effectively go with Williams & Glyn.

So I think there's a profitable bank, but you then go on to say can I forecast precisely what that will be worth? Well, I'm afraid I can't do that because I can't forecast yet what the conduct costs will be going back to the past and so is it possible to say whether the Government will get all its money back? But the taxpayer will, I believe, get quite a lot back over time.

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Ross McEwan, Chief Executive

I think you also need to go back to why did the Government of the day put the money into the Royal Bank of Scotland? And the answer to that is it was such a fundamental part of the financial service system here in the U.K. that if they'd

let it fall over it would have been, I think, a catastrophe for the U.K. and for the Republic of Ireland.

So I think you have to go back to that decision and our job is to just to create a really good bank, and that's what we are doing. We are making it a much simpler bank than it's ever been, getting it back to here in the U.K. and the Republic, and focusing very, very heavily on the customer agenda. And that is starting to pay dividends for us.

Two-hundred-thousand people took a mortgage out with this organisation in the last 12 months. We grew our commercial book for the first time, I think, in what? Five or six years, £1.4 billion and we still took big chunks of the commissionable cost and sold them off and it still grew, so I think you're starting to see the real strength of these franchises that we have and it's a really good underlying business. And we do have confidence.

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Male

I was going to ask again on costs. You set that 800 million target for this year, would you have gone further given the current low rate environment being lower for longer could potentially hurt the revenue line more and then secondly where are the cost cuts directed at most? I mean, Ulster in Ireland, particularly, will have high cost base and lower potential revenue given its part of the Euro zone.

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Ross McEwan, Chief Executive

The major part of the 800 will be because we are contracting our international position from 35 countries down to 13 countries. We are also removing what is known as the global transaction service business, which was a global payments business that we said we are out of and we're taking customers off it for now.

As you close down those services you do extract cost out of those things, so the predominant amount of the 800 this year will come out of there.

But there has to be some core costs that come out of our U.K. franchises, including Ireland, but also including personal and business bank in the

commercial bank because they're still running at cost to income ratios and that's still too high for what they should be to be highly competitive and this marketplace and if you allow businesses to keep running and high cost to income ratios one of two groups and of suffering, either customers or the shareholder, and our view is you've got to balance off each of those needs and our view is we can take a lot more cost out of the core bank as well.

But to this year, a lot of the cost will be coming out of our international portfolio as we shrink that back down to their corporate institutional bank that we're making a much smaller business.

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Ewen Stevenson, Chief Finance Officer

It is, as a sort of reminder, we've taken over 2 billion out the last two years, we took cost down 10 percent last year, we're going to take costs down by another 9 percent this year, we've still got £1-1/2 billion of cost sitting in capital resolution.

So that cost is trending toward zero over the next few years and we've got £1-1/2 billion of cost sitting in corporate and institutional banks and we've said we want to take that down to 700 or 800 over the next couple of years, so a lot of the cost-cutting is going to be directed at capital resolution and as it runs off and significant cost efficiency is coming out of our wholesale banking operation.

But as Ross says, a lot of that then goes back into some of the central functions and services.

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Male

Given that low rate environment, were you tempted to go further or accelerate that?

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Ewen Stevenson, Chief Finance Officer

I don't think there's any bank in the world that's been as good as tightening at the costs the last two years is the Royal Bank of Scotland. We took the 2 billion not out of selling assets, not out of the sale of Citizens or whatever, this is core costs that have come out of this and go-forward business.

So I think we have a task ahead of us, it's never easy. Because a big part of it, as you all know is around staff and we've been able to hold-off our staff engage (so to us) highest levels we've seen in a long period of time as we've gone through big changes with our people. I think it's important for us to keep them engaged in this business and deal with customers. I think we've shown that balancing act we've been very good at but we do need to reduce costs out of this business.

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(Crosstalk)

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James Burton, Daily Mail

Are you disappointed at taking so long to pay dividends to shareholders?

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Ross McEwan, Chief Executive

Look, I think when Ewen and I sit down and work through the time frames, we thought that we'd like to do that in 2017, but we have to be certain – we clearly laid out the path to do doing that as well. Having a sell-off of Williams & Glyn, paying out the DAS which you're seeing – signal today with paying out, making sure that we pass stress tests in 2016. We said we needed – what was the other one we had there?

RMBS, the major conduct issues for RMBS to be sorted through. So, we clearly laid out what needed to happen, we put in their pensions from the hole in the pension funds which we did post-Christmas. There's a very clear path that we need to work on to get this into being a sound bank so that the Board feels that it can run, pay a dividend and also the PRA allows us to do it.

And we're tracking I think very well against that. But this was never going to be an easy job and you've got so many things to do but I think the teams are doing a very good job of delivering.

.....

Male

Yes?

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Male

Since you've become CEO, you've been kind of humming and herring about Coutts and the wealth business and the returns still not great. I mean, how key is the Coutts brand to RBS and would you be tempted to maybe sell it?

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Ross McEwan, Chief Executive

Let me be clear. I have never been hummed and harred about Coutts, I've always liked them. It is one of the great wealth management private banks in the U.K. The piece that I was quite keen to sell was the international. My view has always been that it was getting all the attention and the jewel and the crown was not getting the attention, which is the U.K.-based Coutts business. You will see returns on that business will increase over the next two to three years.

We've got a new CEO going into that business in March. Peter Flavel's come out of J.P. Morgan, he understands private banking brilliantly. He's a customer-focused individual. So, I think you'll see that business blossom over the next two to three years and get back to its returns that it should be doing because it's being focused. It's only U.K., that's where it should be, that's where the jewel and the crown of that business.

And we're getting rid of the distractions. I mean, if you have a look at what the international business, in my mind, was a major distraction. It was a 99 percent cost-to-income business and we were number – I think 50 in the world of wealth managers, strategically positioned wrongly. I think we're going to have a really good business that we're going to focus on and I think we'll be close, but I've

never wanted to sell Coutts at all, international very delighted to be out of. And that sale is nearly finished as well.

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Male

If Coutts were sold to a foreign buyer, we would not be amused.

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(Crosstalk).

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Female

Just for mortgages, are you in the market to potentially buy a group of mortgages to boost that part of the business? Could you look at some of the UK assets, was that just off the table until other things are done?

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Ross McEwan, Chief Executive

I've encouraged the team to keep an eye out for good assets to build the bank. I think good banks do buy and sell books at a time for various reasons, but it has to be a good customer play for us as well. That will fit with this business; it has to fit some strategic hurdles.

We have looked at small activities in the last 12 months and chosen not to participate in some of those because of various reasons. But they have to fit strategically with the organisation and mortgages is something we like. But if there was a good, sound book that would add to our portfolio, we'd have a look, but not necessarily, I'm not going to be buying at any price, no desire to do that anymore.

And Howard it was encouraging us to look at a few things recently, when he came on the Board, so the Board was quite open but I think it has to fit strategically.

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(Crosstalk)

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Male

Sound is also an important word that Ross used there too. So I mean they are mortgage portfolios for sale that sit comfortably outside the risk appetite of what we'd like to invest in. We've got a very low risk mortgage broker on our books and that continues to be where we want to be positioned.

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Female

What kind of things was Howard encouraging you to do?

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Male

Oh, it's around things like mortgages. We've had a look at those and however it's encouraging to keep us to keep going looking. But to me, it is around... you've got to make sure it fits strategically. I think, understand the strategy, stay within the parameters of that and only buy sound assets that you can add some value to. So I think good discipline. As we've sold assets while disciplined, if we look, we need to look with good discipline as well.

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Female

Can I ask about Brexit? If the referendum does result in a vote, what happens to RBS? How much does it cost you and what do you do? What's the plan you're going to roll out?

.....

Howard Davies, Chairman

We can't say precisely how much it would cost us. But we have looked at all of the economic forecasts. There was another consensus of all of the forecasts published today actually. And they would all suggest that in the short to

medium-term, there is likely to be a resultant slow-down. And that would certainly be unwelcome to us.

In the longer-term, who knows? There is much more uncertainty because that clearly depends on what our future relationship with the single-market is and at that point, at this point, we can't forecast that.

So, we say it's unwelcome, it would be unwelcome because we believe it would slow-down U.K. economic growth and this business, it's no secret, is heavily geared to U.K. economic growth. Our lending volumes are heavily influenced by that. Clearly, we aim to gain share in certain areas. But nonetheless, the dominate influence on us would be economic growth.

It's impossible to say how big that cost would be on us. So what we have to focus on is, well, how do we navigate ourselves through that? You'll see from our reports – I know it's quite long, we can't expect you to have read it so far – but we identify this as a material risk factor. We believe that we are well-positioned to survive a downturn in the U.K. economy and that is linked of course to our capital strength, which is a comfort to us.

Because what you do in these circumstances is you stress, you have to make certain assumptions and you stress your balance sheet and say we're proposing this happened, what position would you be in? And we're comfortable on the kinds of impact people are talking about, we would be OK because we have enough capital strength to cope with that.

And there's certain other consequences for us – we own a bank in the E.U. if we were outside the E.U., we therefore would need the right kind of relationship with the European Central Bank, which we are developing. So there are certain things you have to do and prepare for but we believe that we can navigate through what would be a choppy period. Ewen?

.....

Ewen Stevenson, Chief Finance Officer

I mean we are the biggest commercial lender as you know in the U.K. So anything that's sort of bad of for our customers and in that context is something

that we have to pay attention to. But as Howard says we've done all the sensible work that you'd expect us to do.

We'll continue to focus on the impact of our customer base through Brexit. But does, it also grants some uncertainty in the financing markets which again, is something that we're paying attention to.

.....

Male

Yes?

.....

Male

George Osborne has stated he's in favour of staying in the EU – has he privately petitioned you to kind of make the case around the risks of leaving that trading book?

.....

Howard Davies, Chairman

He didn't need to because we have done that, obviously. We identified this as a risk and we planned around it. We took a paper to our Board this week which was based on this but there was nothing – the treasury weren't involved in it, the treasury hadn't seen that, but this is a normal activity that we would undertake ourselves in the interest of our shareholders, which of course includes the treasury but they haven't directed us on this at all.

.....

Male

And just to Ewen's point, in terms of financing and the uncertainty that that raised have we seen that started to feed through, investors start to get a bit worried pre-the-vote?

.....

Ewen Stevenson, Chief Finance Officer

Look, I think it's more international investors who are less certain around Brexit because they struggle; I think to understand the nuances and impacts. Our sense is U.K. investors are much closer to Brexit as a topic and therefore, more able to sensibly assess the risks of Brexit.

It is certainly a question which arises from overseas investors in our business, as well as elsewhere. So it has got on people's radar. As for whether you can identify in recent market movements a particular idiosyncratic Brexit function is more difficult to tell because actually you've seen some pretty sharp moves in a lot of euro-zone banks just as you've seen in U.K. banks. It's a question that comes up.

.....

Male

Any questions on the line?

.....

Operator

Yes, we have a question from the line of Christopher Spink from IFR, please go ahead.

.....

Christopher Spink, IFR

Thanks very much. I just wanted to ask, you had a slide in your presentation about ring-fencing. Can you give us some more details about how the process is going and how you might fund the non-ring-fenced bank?

.....

Howard Davies, Chairman

Thanks, yes. We haven't dealt with that in this – Ewan, do you want to?

.....

Ewen Stevenson, Chief Finance Officer

Yes, so. Yes, I think you're referring past to the fixed income slides. But yes, we've been relatively open I think over the last three quarters, the majority of our business will be what's called a broader in-fence bank, which will be 80 percent of the group. We will then head to non-ring-fenced banks; one will be RBS International, where we separately reported today. One of the reasons for separately reporting that business, it's the biggest retail commercial bank in the Channel Islands, Isle of Man and Gibraltar. And then corporate and institutional bank will be its own, separate non-ring-fenced bank.

Yes, in terms of the downsizing we did in the corporate and institutional bank, part of that was very much driven by a look-forward to a size and shape of a wholesale bank that we felt could be easily funded in the markets as a standalone bank.

We don't think there's any significant financing issues for that business at all, far from it, we think we've already taken the proactive steps that we needed to in order to size and shape it appropriately for ring-fencing. But I think overall, the ring-fencing is not one of the more complex issues that we're facing as a bank.

.....

Christopher Spink, IFR

OK, thanks very much.

.....

Male

Anybody else? OK, well – sorry, yes.

.....

Female

Apologies.

.....

Male

That's all right.

Female

Can you just quickly clarify; is the intention to have those two non-ring-fenced banks going-forward then or...?

Male

Yes.

Female

two separate...

(Crosstalk)

Howard Davies, Chairman

There's not complete clarity from the regulators yet on how the governance of these institutions would work but we are assuming that we would have two separate ring-fenced banks with their own Boards and that the ring-fenced bank would have to have a separate Board, that would be a group holding Board which might be two representatives of the three institutions.

But there's still a little bit – they're still working through what those precise rules would be. But roughly, the architecture I doubt will change. It could be a group holding company, a ring-fenced bank which would be 80 percent and two non-ring-fenced banks which between them would be about 20 percent, that's sort of roughly.

Ross McEwan, Chief Executive

That's sort of (rough) compared to RBSI which is the Jersey Guernsey Isle of Man and Gibraltar business. And then you have corporate – what is effectively what is today a corporate institutional bank. And you've seen us recently move

clients out of corporate institutional bank and move them into commercial and private bank, as we start preparing for ring-fencing. For those customers will effectively fit inside the ring-fence and will be relationship managed there.

So we're starting to make the movements as we see fit but because some of the rules, we're not too exactly clear on them until we hear back from the regulators that's why they want it tied up by June, Ewan.

.....

Howard Davies, Chairman

Yes, West European corporate loans for example have been transferred into the CIB, that's buried somewhere in the report. And so in the future, the corporate and the CIB corporate investment bank will be primarily justified by the services it allows us to provide to our other corporate customers.

I mean, it has to do trading, with a lot of financial institutions in the course of that. But it will have a forex business, the rates business and a capital markets business but they will be primarily justified by the services that you can provide to your existing corporate customers. But which under the ring-fencing rules, you're not allowed to provide within the ring-fence.

We've adopted a broad ring-fencing approach so that as much as possible goes into the core of the bank. So when you ask about funding, well RBSI, is not really an issue on funding, it is very deposit rich institution actually, as again you'll see in this segmental analysis that points that out.

CIB is not intended to be a highly capital intensive business either because a lot of the – now, it still has some capital at the moment because a lot of derivatives positions which we haven't been able to exit – where every other investment bank would say the same, but it's not intended to be a bank with a very large balance sheet and therefore a huge funding demand.

.....

(Crosstalk)

.....

Male

I'm not sure it'll interest other people in the room but I'm fresh in from Hong Kong so forgive me. I just wanted some clarity on the China securities joint venture, whether you've completed the exit from that JV?

.....

Male

I know we're – I'm not exactly sure...

.....

(Crosstalk)

.....

Male

Completed yet or not.

.....

Male

Right.

.....

Male

But we're definitely exiting.

.....

Male

The intention is full exit from that.

.....

Ross McEwan, Chairman

And we are doing a good job of exiting we got approval to do so

.....

Male

OK.

.....

Ross McEwan, Chief Executive

But the sales process of a lot of these assets has gone very well or we're in run-down mode on a number of countries and I think recently we said India was trying to go into run-down

.....

Howard Davies, Chairman

Just, maybe if I finish off. Our strategy is very clear. We have created a very strong capitalised bank. We're making it a much simpler business that's focused here in the U.K. primarily and in the Republic of Ireland, with businesses – or operations off-shore that support the businesses here.

We have simplified as you've seen in our accounts today, a whole wealth of things from systems to properties to company structure, just making this a much simpler bank of products.

And the third piece is still around making this a very good bank for customers and that's what we're leading on. Those are sort of the three things we keep talking about internally and exercising strength. We want to make a much simpler bank and we just want to make a fair bank for our customers, so that's what is driving it.

I remind you, 2015 and 2016 were the years when we looked went through and worked out all the conduct, litigation and the restructure – the heavy restructure of that business. We're at the start of 2016, there's still work to be done. So again, you get a lot of these things through coming through the accounts but this is a planned activity to make this a much better bank.

Thank you, thanks you all for coming. Have a good day; we'll see you again, et cetera.

.....

Operator

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

.....

END

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