



**MEDIA Conference Call**

Held at the offices of the Company  
280 Bishopsgate London EC2N 4RB  
on Wednesday 27 January 2016

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**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 Announcement published on 27 January 2016.

**RBS**

**Ross McEwan, Chief Executive**

**Ewen Stevenson, Chief Finance Officer**

***Introduction***

**Ross McEwan, Chief Executive**

Good morning everyone and thanks for joining us at such notice. We've released a lot of technical information this morning and we thought the best thing to do was to get you on the line so we can answer any of the questions you might have. Our CFO, Ewen Stephenson, is with me today and he'll take you through these issues in more detail.

As I've set out previously I am determined to put the issues of the past behind us and make sure RBS is a stronger and much safer bank. We've made good progress over the last couple of years building capital strength, taking costs out of the business, and as you'll see today, we're dealing with some of the remaining legacy issues we still face.

There are three main elements to today's announcement. The first one relates to our pension fund. There are some changes to our accounting policy around the pension fund, which Ewen will talk you through shortly. We have in the past referred to the scale of the deficit in our main pension scheme that had a plan in place to close that deficit by a series of annual payments from 2014 through to 2023. We're now going to accelerate these payments as a one off lump sum in Q1 2016.

Secondly today, on conduct and litigation, we are increasing provisions in two areas. The first relates to the miss selling of mortgage backed securities in the United States. Where we've taken an extra 1.5 billion of provisioning, taking our total to GBP 3.8 billion. This relates solely, and can I say solely to the civil litigation cases of which FHFA is by far the biggest. It does not include any provisioning for the Department of Justice or U.S. attorney investigations.

We're taking an additional GBP 500 million provision on PPI, following a consultation paper from the FCA over time barring and Plevin. On current modeling and assumptions we now believe that we have sufficient provisions to cover claims through to the proposed deadline date of Q1 2018. This takes our total PPI costs incurred to date and provisions for future claims to GBP 4.3 billion. PPI has been a lesson for the entire industry on the importance of treating customers fairly.

And the third announcement we are making today relates to our private bank, where we are taking a GBP 498 million goodwill write down based on a number

of factors including a reduction in anticipated future profitability due to the continuing low interest rate environment, a higher tax rate, and margin pressure on this business. I have previously said that this business can do better. It is a great business, which is in the middle of a multi-year turn around to get it back in shape to deliver the strong returns we know it is capable of.

You've heard me talk before about the three phases to our plan. Phase one is complete. We simplified the bank and strengthened the balance sheet. We are now clearly in phase two, which sees us work through much of the remaining conduct and restructuring as we can, as evident by today's announcement.

We'll then move to the third phase. It is a much stronger, simpler, fairer bank which delivers solidly on the needs of customers and shareholders. We have always been open and transparent about the scale of the issues we face, and today's announcement marks another important step on our path to building a great bank for our customers and delivering long term value to our shareholders.

With that I'll hand over to Ewen to take you through these announcements in much more detail, Ewen.

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**Ewen Stevenson, Chief Finance Officer**

Thanks Ross, and good morning all. And again, thanks for joining us at such short notice this morning. I'll walk you through each of the items mentioned in this morning's release and then as always we'll leave plenty of time at the end for your questions.

Starting with the two parts of today's announcement on pensions. The first is a revision in our accounting policy for pensions. This triggers an estimated GBP 3.3 billion liability for the already agreed contributions into our Main Scheme as at Q4 2015. And the second is the Memorandum of Understanding we've signed with the trustee that will see us make a GBP 4.2 billion cash payment into our Main Scheme later this quarter.

To give you some background on our defined benefit pension schemes. We offer various schemes across the bank. The Main Scheme, as we call it, is by far the largest. It's one of the largest defined benefit pension schemes in the U.K. It

was closed to new members about ten years ago, but still has 220,000 remaining members.

Following the Main Scheme's last tri-annual evaluation at the end of the first quarter in 2013, we disclosed in our full-year 2014 accounts a GBP 5.6 billion actuarial deficit. And subsequent to this we agreed with the trustees to set up an additional set of contributions into the scheme from 2014 to 2023 to close this deficit.

As you may be aware last year the International Accounting Standards Board provided greater clarity on the standard for pension fund accounting. So the first part of our pension announcement today is a revision in our accounting policy in line with these developments. We think it makes sense to adopt this change in policy now. We've agreed this change in policy with both our current and incoming auditors. As a result the schedule of future payments we previously committed to the Main Scheme must be recognised as a GBP 3.3 billion liability in our Q4 2015 accounts.

Tax affecting this and together with a reduction in our pensions deficit during the fourth quarter, the net result is a reduction in our tangible shareholders' equity GBP 1.6 billion or 13p per share.

The second part of our pension's announcement reflects the memorandum of understanding with the trustee to make an accelerated single payment of GBP 4.2 billion into the Main Scheme that will happen later this quarter. This is in replacement for the already agreed current schedule of payments up to 2023. You know, together these actions provide transparency for investors. Give the trustees greater flexibility over investment strategy, delivers more certainty for pension fund trustees and its members. And strengthens our capital planning and resilience between now and 2019.

We also expect, and subject to PRA approval, the adverse core capital impact resulting from these actions to be partially offset by a reduction in our core capital requirements from 1st of January 2017 at the earliest.

The second part of today's announcement is in relation to additional conduct related provisions for U.S. RMBS litigations. We've increased our total provisions for U.S. RMBS litigation by a further \$2.2 billion or some GBP1.5 billion. The increase in provision was driven by several factors including recent litigations settlements with both FHFA and NCUA by other banks. And this has enabled us

to make better informed provision in judgments as part of our year end processes.

The additional provisions takes our U.S. RMBS provisioning to \$5.6 billion or GBP 3.8 billion. And as Ross said, we continue to have no provisions in relation to the ongoing investigations by the U.S. Department of Justice and several U.S. state attorneys generals.

We've also announced today that we plan to take an additional GBP 500 million provision for PPI. This follows our review of the November 2015 FCA consultation document. Not only does the consultation document set out a proposed treatment of complaints following the 2014 Supreme Court judgment on Plevin v. Paragon. It also proposes a deadline during 2018 for PPI complaints. In addition the FCA plan to lead a communications campaign to raise awareness of the proposed deadline. So our modeling assumptions used to create this additional provision based on an expectation of higher claims volumes as a result of that campaign. And as Ross mentioned, we believe this additional provision, as we look at things today, is sufficient to cover costs through to the proposed 2018 deadline.

The final part of today's announcement is the right off of goodwill against our private banking franchise. This follows our normal annual impairment testing process. We expect to record a goodwill and payment charge of GBP 498 million in the fourth quarter 2015. And this will write off all of the goodwill currently allocated to private banking. This goodwill right off reflects various factors including reductions in anticipated profitability following our announced repositioned strategy for private banking and higher tax rates. This business is at the start of a multiyear turnaround that we're very committed to. We continue to believe that it's a strong business with great brands, but in recent years it's been under managed with insufficient focus on its core U.K franchise. And I said before that a well performing private banking business like this should have a mid-teens returns potential, and I still hold to that.

To conclude, on a combined basis the total impact of these announced actions will be to reduce our full-year 2015 quarter one ratio by around 160 basis points. But we still expect our year-end 2015 CET1 ratio to be approximately 15 percent. Ross and I continue to be very clear that we've got a bunch of legacy issues that we're progressively working through, but as you can see from today we now have the financial strength to deal with these. And underneath it all

we've got a strong core bank. With that I'd like to hand back to the operator, Jodi, for Ross and I to take your questions.

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**Operator**

Thank you Ewen. Ladies and gentlemen if you wish to ask a question please press the \* key followed by the digit 1 on your telephone keypad. We will now pause for a moment to give everyone an opportunity to signal for questions.

Thank you, will take our first question from Richard Partington from Bloomberg. Please go ahead.

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**Richard Partington, Bloomberg**

Morning Ross, Ewen, quick questions. Firstly, on the FHFA and DoJ stuff, does this give you an indication of how close you are to settling now? And how confident are you that this is the ultimate amount you will need for FHFA? And how much more could DoJ be? And second question, what will be left now for capital distributions are you still on target for next year?

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**Ewen Stevenson, Chief Finance Officer**

First off, look the information we put out today is just our latest view on the FHFA /NCUA. It's not to say it's the end, because those negotiations haven't been done, but it's just the boards and our latest view on that. Given that the settlements that have taken place, and until we've had the discussions with the regulatory authorities there is nothing further that we actually can put out in the environment. So it's just our latest view of where the settlements are taking place.

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**Ross McEwan, Chief Executive**

Yes, Richard I wouldn't read anything into today's announcement that suggests that we're close to final agreement with either some of the major litigants or the regulatory authorities in the U.S. And on capital distributions, and I think you can safely as I said, 15 percent quarterly one ratio. Yes, as we said at the end

of Q3 our target is to return to capital distribution in 2017 and there's nothing in today's announcement that would change that guidance.

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**Richard Partington, Bloomberg**

Thank you very much.

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Operator

Thank you. You're next question comes from the line of Jane Merriman from Thomson Reuters. Please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Jane.

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**Jane Merriman, Thomson Reuters**

Hi there. I just wondered if you could give a total figure for how all this will affect your profit in the fourth quarter or for the full-year?

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**Ross McEwan, Chief Executive**

For the full year have you got the numbers that have been texted through. So we're not doing the end of year results here Jane, so it's the –

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**Jane Merriman, Thomson Reuters**

No.

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**Ross McEwan, Chief Executive**

It's the accumulation (inaudible) doesn't include some of these, you know obviously, some of these have an impact on P&L as they stand.

**Ewen Stevenson, Chief Finance Officer**

Yes, so as we set out on page 2 of the release, the impact on tangible shareholders' equity is GBP 3.6 billion or 30p per share, but a lot of the pension's related changes are directly to reserves and won't go through the P&L. So is difficult to read from that and you've got the goodwill impairment, which is a non-capital item, which will go through the P&L.

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**Jane Merriman, Thomson Reuters**

Right, OK.

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**Ewen Stevenson, Chief Finance Officer**

I would focus on the change in tangible shareholders' equity is probably a better proxy of the impact.

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**Jane Merriman, Thomson Reuters**

And that's 3.6.

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**Ewen Stevenson, Chief Finance Officer**

GBP 3.6 billion.

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**Jane Merriman, Thomson Reuters**

Pounds OK, thank you. One other question is on – you've already been asked about the U.S. situation. Can you say anything at this point about the global restructuring group, the FCA looking into that?

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**Ewen Stevenson, Chief Finance Officer**

The timing of the 166 on the GRG is a matter for the FCA, they have committed to having this resolved as early as possible in 2016, which is clearly aligned with

what we'd like to also see, and we continue to work closely with them but there is no further update on that today.

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**Operator**

Your next question comes from line of Max Colchester from Wall Street Journal, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Max.

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**Ewen Stevenson, Chief Finance Officer**

Hi, Max.

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**Max Colchester, Wall Street Journal**

Hi, guys. So could you just run through the pension stuff again in layman's terms and just explain it so I have it clear in my mind?

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**Ross McEwan, Chief Executive**

So there's probably no layman's terms when you into the details of pension funds, but Max we'll get Ewen to give you a simpler view as we possibly can.

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**Ewen Stevenson, Chief Finance Officer**

So we have to revalue what the trustees come up with a valuation for the pension deficit every three years. The last time we did that was at the end of March 31, 2013 that was disclosed in our 2014 accounts. You'll see, I mean, there is there is no 4 or 9 to 5 in those accounts, GBP 5.6 million actuarial deficit. As part of closing that deficit we agreed a set of additional payments into the pension fund starting in 2014 and running out to 2023.

As of today the remaining payments as per that schedule of GBP 4.2 billion so there was some uncertainty about when – and then there’s different ways of evaluating the pension deficit. There’s the actuarial valuation, there is also the IAS19 accounting valuation, which gives you a different number. But as the pension goes into surplus there was a lack of clarity under IAS19 accounting as to our rights to that surplus. There was some guidance put out by the accounting authorities last year on how to interpret that accounting standard, something called IFRS 14 exposure draft and on the back of that we’ve decided that we need to change our accounting policy. The impact of that is to take that GBP 4.2 billion of future payments, which has a present value of GBP 3.7 billion and together with some other movements that went on in our deficit during Q4 plus some tax effects gets you to net impact on shareholder’s equity of GBP 1.6 billion.

Then what we’ve done is take that future stream of payments for GBP 4.2 billion and agreed with the trustees that we’re going to bring it forward today into a single cash payment. The advantage of that is obviously gives the trustees the cash today so they have more flexibility on their investment strategy. The advantage for us is they are also going forward the next valuation to the end of 2015, and have agreed with us they are not going to seek any further payments effectively for the next four to five years out to the first quarter of 2020. So it gives us capital certainty around pensions over that period.

Sorry, it’s not a particularly easy topic to reduce down to a very, very simple –

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**Max Colchester, Wall Street Journal**

Right, the GBP 1.6 billion does that feed into your full year 2015 net profit or is that off that?

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**Ewen Stevenson, Chief Finance Officer**

Well, it won’t feed through because a lot of this is done through directly to reserves, it will flow through to shareholders equity, so if you see on the release on page two we’ve set up what the impact is from a shareholders’ equity point of view. It’s a complicated run through as to what goes into the P&L versus what goes directly to shareholders’ equity. But pensions doesn’t run, largely doesn’t run through the P&L.

**Max Colchester, Wall Street Journal**

Right OK, so the total hit on net profit for this year is would be GBP 2.5 billion?

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**Ewen Stevenson, Chief Finance Officer**

Broadly, broadly.

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**Max Colchester, Wall Street Journal**

OK.

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**Operator**

The next question comes from the line of Jill Treanor from The Guardian, please go ahead.

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**Jill Treanor, The Guardian**

Good morning, hi, good morning. Two quick things just on PPI, is this it now then, no more PPI charges ever? And the second question is what message does this send the Chancellor while he's trying to reach his goal of selling down his shares in RBS? Is this good news or bad news?

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**Ross McEwan, Chief Executive**

Let's start with PPI, Jill, we've done the analysis given what we currently know about the FCA document that came out some months ago, and read through and to what will be the impact on PPI claims now. And particularly around the timeline of closing off for the first quarter of 2018. And also a marketing campaign that will happen, which will no doubt have some impact on more claims coming through. So we've done the best we can on what we know today on what we think will be the final provision for us, but if things change well so will our views on provisioning, but at this stage we think it is hopefully the end and it's been a long torturous saga for many banks. And as I've said in my statement it's a good lesson for the industry on dealing with customer's feeling.

I think from a share perspective, we are again trying to give as much certainty as we possibly can on the strengths of this bank. We had built capital up particularly well over the last two years, which has been our objective, knowing that we had some of these issues to deal with. The timing is in the hand of soothsayers for UKFI and the Chancellor, not for us. And our job, Ewen and mine, and my executive team is just to build a much stronger and simpler bank. And that's what you are seeing today.

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**Jill Treanor, The Guardian**

But when you look at the share price is a loss, do you see any hope that the government will just keep selling the shares at a loss. Is that your expectation?

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**Ross McEwan, Chief Executive**

I have no expectation on that it's up to the government, Jill, and you have a look at what's happened to the market, most banks have dropped off, the share price has come off quite considerably since the start of the year, we are one of those. We have been moving with the market near enough to.

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**Jill Treanor, The Guardian**

Thanks.

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**Operator**

Next question comes from the line of Nick Goodway from Evening Standard, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Nick.

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**Nick Goodway, Evening Standard**

Hi, two very simple questions for a thicky like me. Does what you're announcing today basically mean you will declare a loss for 2015, it looks to me like it. It should.

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**Ross McEwan, Chief Executive**

Yes, it will, Nick. There are a number of these items that will flow through as Ewen said. On the more complicated issues of pension, most of those don't but there are items here that flow through and you know, we made it quite clear with the heavy restructuring that we had going on in the business in 2015, plus these additional provisions, yes, there will be a loss in 2015.

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**Nick Goodway**

Right, and can you tell me what the total PPI figure is after today?

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**Ross McEwan, Chief Executive**

The total figure for PPI is with including provisions and to pay to date is GBP 4.3 billion.

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**Nick Goodway, Evening Standard**

OK, thanks very much.

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**Operator**

Next question comes from line of Tim Wallace from the Telegraph, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Tim.

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**Tim Wallace, Daily Telegraph**

Firstly have you seen PPI claims increase already since the deadline plan was announced, since the cut off plan was announced.

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**Ross McEwan, Chief Executive**

No, we haven't –

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**Ewen Stevenson, Chief Finance Officer**

No, we've in the release you will see that we've talked about Q4 volumes being in line with previous trends and actually normally what happens in Q4 is there's a spike up so that would imply that it continues to be what we've seen over the year which is a progressive decline in claims on auto versus the previous annual.

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**Tim Wallace, Daily Telegraph**

OK, thank you, and can you break down the GBP 498 million in private banking, how much of that is from tax, how much of it's from lower interest rates and so on?

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**Ewen Stevenson, Chief Finance Officer**

We do an annual test at the end of every year on goodwill carry to each part of the business and it was those impacts that we covered today that have, you know, we probably should write that down. And that's exactly what we've done but it was a combination of those as it affects the long term profitability of that business.

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**Tim Wallace, Daily Telegraph**

Why does the tax change only affect the private bank, why is not a write down across the board from that?

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**Ewen Stevenson, Chief Finance Officer**

No, it does affect across but this is the part of the bank that showed when we did the test that the goodwill carry was not appropriate any longer, other parts of the bank were fine.

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**Tim Wallace, Daily Telegraph**

OK, thank you.

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**Operator**

The next question comes from the line of Emma Dunkley from the Financial Times, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Emma.

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**Emma Dunkley, Financial Times**

Hey, sorry to reiterate this I didn't quite catch the answer, but in terms of setting aside more for PPI, is this something you have on the cards, or is this the final sort of payment you're making today? The final sort of around your earmarking?

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**Ewen Stevenson, Chief Finance Officer**

Emma, hi, it's Ewen. If you look on page eight of our press release we've tried to be clear. We think this is sufficient for all the claims cost that we can see through to the proposed deadline. It obviously comes with all the provisos that it's based on the current consultation document and that consultation doesn't play for a month or so. And we have tried to anticipate the fact that claims experience will probably go up on the back of the FCA advertising campaign, and try to do all that modeling in the best way that we could. And create a provision that together with the existing provisions is sufficient. So we would highly expect that this is it.

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**Emma Dunkley, Financial Times**

Does this include sort of payments management firms as well?

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**Ewen Stevenson, Chief Finance Officer**

Yes, it does, absolutely. Yes.

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**Emma Dunkley, Financial Times**

OK, brilliant, thanks.

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**Operator**

Our next question comes from the line James Salmon from Daily Mail, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, James.

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**James Salmon, Daily Mail**

I just wondered if you could break that PPI provision down into numbers of extra people you think might claim the compensation, and is there a specific breakdown for how much the Plevin element might cost and how many people might claim through that?

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**Ewen Stevenson, Chief Finance Officer**

James, we haven't given and won't be giving the breakdown, this is our best estimate looking at all those features that you've put and they make them in a different shape or form, but our view is that this is the right provision to be making given what we know today.

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**James Salmon, Daily Mail**

OK, thanks.

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**Operator**

The next question comes from the line of Holly Williams from Press Association, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Holly.

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**Holly Williams, Press Association**

Morning, a lot of my questions have already been answered, but I just wanted to double-check impact on bottom line so pension provision – the pension payment isn't likely to affect the bottom line but all the other provisions that are out today will do, is that right?

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**Ross McEwan, Chief Executive**

Yes. Broadly, that's right, yes.

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**Holly Williams, Press Association**

OK, so the only figure you've given U.S. legal actions. I've seen an impact in the fourth quarter of the GBP 1.5 billion sort of directly coming off –

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**Ewen Stevenson, Chief Finance Officer**

The GBP 1.5 billion for what will hurt the P&L is the GBP 1.5 billion additional provision for U.S. RNBS litigation, the GBP 500 million provision for PPI and the GBP 498 million goodwill impairment charge write off for private banking.

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**Holly Williams, Press Association**

OK so essentially it's GBP 2.5 billion of the –

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**Ewen Stevenson, Chief Finance Officer**

Yes, yes.

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**Holly Williams, Press Association**

All right, thanks.

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**Operator**

The next question comes from the line of Lianna Brinded from Business Insider, please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Lianna.

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**Lianna Brinded, Business Insider**

Hi, good morning, so from the – I mean there seems some provisions for PPI, but I don't see anything in regards to interest rate swaps and selling, so I'm assuming that's all done and dusted then.

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**Ross McEwan, Chief Executive**

Yes, there is no change to that from past announcements on it, Lianna.

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**Lianna Brinded, Business Insider**

OK, and so is that because all the cases are closed now from RBS?

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**Ross McEwan, Chief Executive**

Not all cases but we believe at this point our – we’re not making any changes to the provision we’ve got.

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**Lianna Brinded, Business Insider**

OK, thanks so much.

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**Operator**

Your last question comes from the line of Jill Treanor from the Guardian, please go ahead.

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**Jill Treanor, The Guardian**

Hi, sorry to ask another one but it was Nick making that point about this being a full year loss for 2015. When was the last time RBS did make a full year profit?

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**Ross McEwan, Chief Executive**

It was probably seven years, Jill, I’d say. I’d have to check that but 2007 I believe was the last year.

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**Jill Treanor, The Guardian**

OK great.

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**Ross McEwan, Chief Executive**

As you know, Jill, we said that ‘15 and ‘16 was going to be about tidying up a lot of these conduct litigation and restructuring issues and this is exactly what we’re doing.

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**Jill Treanor, The Guardian**

OK, thanks.

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**Ross McEwan, Chief Finance Officer**

OK, thank you very much, Jodi, thanks very much for hosting the call, I just wanted to you know put out a lot of technical information today. I've said so we've made good progress over the last couple of years building capital strength and taking cost out of the business. And as I said before this year is about working through as much of the legacy and restructuring issues. We can deal with the things we face. We'll try and tidy them up as much as we possibly can. We've also been, I think, very open and transparent about the scale of these issues, and today's announcements mark another important step on our path to building a great bank for our customers and delivering long term value to our shareholders. So thanks for joining us and all the best for the day, cheers.

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**Ewen Stevenson, Chief Finance Officer**

And thanks Jodi.

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**Operator**

Ladies and gentlemen that will conclude today's call, thank you for your participation, you may now disconnect.

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