



## **Annual Results 2017**

### **PRESS Conference Call**

Held at the offices of the Company  
280 Bishopsgate London EC2N 4RB  
on Friday 23 February 2018

### **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 23 February 2018.

**RBS**

**Howard Davies, Chairman**

**Ross McEwan, Chief Executive**

**Ewen Stevenson, Chief Finance Officer**

**Howard Davies, Chairman**

Let's get going, because we're always on a tight timetable, and I know you are on a day like this, so thanks for coming along.

Today, we are, as you've seen, announcing our first annual profit since 2008, and achieving profitability is clearly an important milestone on the bank's recovery journey. And the Board acknowledged the hard work down by Ross, Ewen and all their colleagues to get us to this point, and they deserve a lot of credit for that.

But it's not the moment to declare a final victory. We still have costly legacy issues to resolve – in particular, the US Department of Justice's investigation relating to our historic RMBS activity.

We continue to hope to resolve that in the coming months, but as you know, the timetable and the process are not under our control, and we don't have any further update to provide to you on that today.

We also know that we have work to do to rebuild confidence among customers, both retail and commercial, especially amongst smaller businesses. The GRG report published in Parliament on Tuesday made uncomfortable reading, and we've apologised to customers who were not well-treated.

We've set up a complaint scheme; they were seen by an independent former High Court judge, which is working through individual cases. And we've already undertaken an automatic refund of complex fee arrangements.

We provided 400 million pounds for that redress activity in 2016, which was when we first saw the report, and payments are being made as we speak.

As we as rebuilding trust, we must also accelerate our transition to digital banking. We're making good progress, but there is much more to do, and Ross and Ewen will explain more about that.

Some of that is a factor behind the somewhat increased restructuring costs, that we have steered people towards in presenting these results. And Brexit presents a challenge to our European business.

The regulatory outcome remains uncertain. We have a contingency plan to enlarge our footprint in Amsterdam, to allow us to continue to serve NatWest Markets customers. The timing of its implementation will depend on the nature and length of the transition period on which we expect to hear more from the Government, and from the Commission soon – maybe even today.

But in spite of these challenges, we're confident that the bank is now in good shape for the future. Most of the legacy issues have now been resolved, and we, more importantly, perhaps, even refocused our activity on products and markets in which we have a strong competitive position.

One point which Ewen regularly makes internally is that, when he arrived, the large proportion of our assets were in markets where we were not yielding cost of capital; now that position has changed around quite dramatically.

Now, to answer questions, I will go straight to questions, I think. I did – I have disappointing news, because I did invite Cora to answer the questions, but unfortunately, she was not available, so we have the second team in the form of Ross and Ewen. So over to you.

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**Martin Arnold, Financial Times**

Instead of Cora, I think they should have had the – had the digital avatar of you, Howard, to answer questions. That's much better.

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**Howard Davies, Chairman**

That's beyond – it's beyond price ... that

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**Ross McEwan, Chief Executive**

I don't think he can handle it this morning, right? But he would then only be able to answer 228 questions.

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**Howard Davies, Chairman**

Yes ... and my repertoire is about six questions that I have in my head. Yes?

**Stefania Spezzati, Bloomberg**

OK. So I know you said for ...

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**Howard Davies, Chairman**

Can you just say – announce yourself? Because we got people ...

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**Stefania Spezzati, Bloomberg**

Ah, yes, sorry.

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**Ross McEwan, Chief Executive**

... on the line as well.

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**Stefania Spezzati, Bloomberg**

So I'm Stefania Spezzati from Bloomberg News. I have a question on your DoJ, which is a hot topic. So I want to know, I mean, what's your best guess for a settlement for – with them? In the first half of the year, or can we say the second half of the year – a real hope? I mean, what's your ...

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**Howard Davies, Chairman**

Well, we hope that we can ... settle this in the coming months.

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**Stefania Spezzati, Bloomberg**

Yes.

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**Howard Davies, Chairman**

But honestly, if anyone was uncharitable, they might say that I said something similar last year ...

**Ross McEwan, Chief Executive**

Well, I said something like that last year.

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**Howard Davies, Chairman**

... which I did. So that is our hope. We continue to do whatever we can to try to advance a settlement, but we do not have any news to offer you today on that.

I mean, I would – might just say by way of background that there are a number of banks whose settlements are outstanding. And you will be aware – for those who follow this closely – that no settlement has been announced for over 12 months.

The – there were some at the end of the Obama regime. Since then, there have been none, and there are a half a dozen banks who are still awaiting to settle.

So while it's disappointing that we haven't been able to settle, we are not alone in being in something of a holding pattern. But really, that's about all we have to say.

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**Ross McEwan, Chief Executive**

That's all we've got.

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**Howard Davies, Chairman**

Yes, go ahead.

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**Martin Arnold, Financial Times**

Can I ask a capital-related question, which is, how much organic capital are you generating now, and therefore, I know that it all depends on the DoJ, and you – you've answered that question now, and we don't know how big that's going to be.

But how much could, once that's out of the way, could shareholders expect for you to starting returning? Because you've got a 14 1/2 percent common equity Tier 1 ratios?

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**Ross McEwan, Chief Executive**

No ...

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**Martin Arnold, Financial Times**

Well, it's peaked nearly at 16, yes?

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**Martin Arnold, Financial Times**

... nearly 16. And, yes, – you know, pretty close to 16.

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**Martin Arnold, Financial Times**

And you're going to generate delivery ...

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**Ross McEwan, Chief Executive**

Yes, we do.

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**Martin Arnold, Financial Times**

... more than – capital than on the last one?

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**Ross McEwan, Chief Executive**

Well, the core business is doing about a billion pre-tax every quarter, and then, of course, you get the conduct litigation and restructuring. So it's – the core of this bank is still very strong.

But, no, probably the – we don't know what the DoJ will be, or the size of it. So, let's put that one aside, and say, where do we hope to get this bank as we think

about the dividends? Because once the DoJ is done, we – you know, we will go to our regulator and have that conversation.

But we would start our thinking is with a small dividend, because the worst thing you can do when you start a dividend is start with something that's reasonably high, and then, have to pull it back again.

So I think we start with a small dividend, and progress from there, as this bank shows that it can generate capital freely every quarter, and that's the approach we would take. So, DoJ has to get done first, and then, we'll have the conversation with the regulator.

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**Howard Davies, Chairman**

Ewen, any comments?

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**Ewen Stevenson, Chief Finance Officer**

Yes – mind that there's feelings, too. There's – as I went through with the analysts, that there's obviously a role for the various regulatory RWA outlooks, in terms of mortgage flaws and Basel III reforms.

We've still got a very large defined benefit pension plan that we expect to have to make additional contributions into. We've got the DoJ settlement, obviously. We announced today 2 1/2 billion pounds of restructuring costs over the next two years.

So that still will leave a lot of surplus capital – as Ross said that regular dividend payment, and then, we've always got the capacity to do special dividends and buybacks on top of that. But I think until we get RMBS resolved, it – it's sort of a premature discussion with us, and not something we spend huge amounts of time discussing with the regulator at this point.

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**Ross McEwan, Chief Executive**

The other reason why we didn't start a dividend, even if it was very small, there are many fund managers who have portfolios that cannot take our stock in because there's no dividend.

And you will start to open up a lot more portfolios that this stock can go into once the dividend's paid, and I think that's quite important as well – particularly when the government's thinking about, how does it start at sell-down.

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**Howard Davies, Chairman**

Next? Yes.

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**Emma Rumney, Reuters**

Sure. Could you drill down into this 800 million on digital figure a little bit more – where exactly that's going to go?

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**Ross McEwan, Chief Executive**

Yes. Well, look, there are – there are a number of things that you've seen happening in the marketplace, and we've given some stats around the different channels of payment that are happening in the market.

I mean, for example, branches, over the last three years, payments received into our preferred branch network were down 36 percent. You have a look at ATMs. They've been falling, probably about 12 to 13 percent over the last year or two, you're seeing cash usage dropping as well, so you're seeing some quite big changes. And what's happening is, mobile has been lifting last year's 14 percent more payments going through just the mobile channel itself.

So customers themselves are getting more and more used to just doing it themselves, and doing it now, and it's not just banking that's getting impacted by that.

So, the things like your physical distribution – and everyone sort of thinks immediately branch – that is a physical manifestation of a – physical, but things



like data centers. Do you run your own data centers, or do you join with others through the cloud operations, and put your data across with others?

Those sort of things are the things that, when we think about the spend for the next couple of years, we are going to seriously look at making some of those moves. But you have to make them now for five years' time, because your leases on these things are five years long.

So you have to start making quite long-term planning provisions that may hurt your returns on the next two years, but will be very good for the business in five years' time.

And that's the job that senior executives of any bank should be thinking long term – that's actually one of our values, that you're thinking long-term, rather than thinking in the next quarter, six months.

So today, we have signalled, we are going to spend more money on this business. We have some physical assets that we have to get rid of; this is one of them. This building here will be gone, we won't require its usage by the end of 2019. To do that, we have to buy back the lease.

This lease is through to 2037. It's – it will be expensive, but if you don't need the building, you have to take the cost. Those are all part of our restructuring costs as well, from moving from very heavy, physical ... then into a much more digital world.

And we do want to make some investments. And what we realised we'd – in our – in our desire to let people know we will take costs out of this bank, and we've done an amazing job in the last four years – 3.9 billion out – that we – by having a fixed number everyone was working towards, actually restrict us from making long-term decisions in a much better way ... because we were getting ourselves a bit caught in the short-term ... and we wanted to move away from that. And that's – signalled that today, and it will have had some negative impact on the share price, but I think again, it was the right thing to do.

**Howard Davies, Chairman**

Yes?

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**James Burton, Daily Mail**

I had a – just three questions, if that's all right. I wanted to ask first of all about interest rates, there sort of seems to be expectation we might get a one percent rise over the next couple of years.

I mean, could you give us a sort of idea of what that would do to RBS' profit? And also, can you – can you sort of promise that savers will sort of benefit from the uplift as well?

And secondly, I wanted to just – you mentioned a drop-off in ATM usage. I think yourself and Lloyds have been sort of key drivers behind the change in interchange fees link.

I was just wondering – I mean, there's a lot of pushback from people who say that it's going to lead to huge numbers of ATMs across the country closing in places where yourselves and the other banks have already shut their branches down.

I mean, what's – are you – are you concerned about that impact, or do you think those fears are overdone? And then lastly, I just had one more on the GRG. So this morning on the call, you said that you're waiting for the outcome of the FCA investigation into sort of individuals, management and that kind of thing. I just wondered if you could give us any insight into whether the bank's done any of its own investigations.

Have you – have you looked at people who are still working in the business from the GRG days who are still involved in business banking, and can you say with confidence that there's no one still involved in business banking at this bank who was responsible with what went wrong with GRG?

**Ross McEwan, Chief Executive**

OK, let's just go first off to interest rates. We just run on consensus, and whilst we have our own very, very good economics team, we just take a consensus economics.

And, James, you're right, that, over the next – it's probably three years, interest rate rises are much more likely now than they were when we put our budget together by the end of last year, in the final quarter of last year.

Because at that time, we were predicting through economic consensus, there would be only two rate rises between now and the end of 2020. That now looks like it'd probably be three or four – that it's consensus economics.

That does help the bank – and Ewen can give you the exact number – every quarter of a percent impacts. And that makes some assumptions about passes through to customers, and what it does to our long-term funding arrangements for the bank.

But there are some positives for us, because we do have – that's still a big book of transaction accounts that stood at zero, and those have been losing money for us for quite some years while the interest rates have been lower. It'd be nice to get them back into a neutral position.

On the ATM usage, as I said, ATM usage has gone down, and we can get you the stats on how much it's gone down. It was only – and I'm looking to Helen – I think – was it 10 years ago, how many ATMs were there in the marketplace, and today, there's something like 54,000?

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**Helen Grimshaw, Chief of Staff – RBS**

Yes, I do. I can get you the numbers – give you that number. But for instance, the financial inclusion program, so that's really looking at getting some of the ATMs into the right areas, and what we're seeing is the proliferation of ATMs, particularly in the South East. And for us, we're working closely in how we can better identify those areas, and so, where those gaps are.

**Ross McEwan, Chief Executive**

Yes, the interesting thing, too, is – because I think this has been a wee bit hijacked by a couple of players who had certainly financial interest to make sure the payments stay very high – the – there was no drop-off in the payments for the ATMs who are going to be in the country-village type areas.

So the actual payment doesn't change there. So therefore, why would you take out the ATM if you've currently got one, because there's nothing going to change?

But what's happening is, that everybody sits their ATMs beside each other when you don't need to have them there – to get the interchange fees.

So I think you just need to look at the inclusion program, of why the fee structure has stayed very solidly for making sure that people are incentivised to have them in the rural communities, and why it shouldn't be incentivised to have them sitting beside each other in Central London. And that's where it is. So this is just straight out economics.

We and most of the other banks, I suspect, lose money out of having ATMs because of the fee structuring. So it's – yes, so it is in our interest to actually stop the loss on those machines as much as we possibly can. And I think you just need to dig behind the scenes on why the interchange become an issue.

We think that the fees should be down; otherwise, we subsidise everybody else, and I don't think that's right, but that – be aware that the – they are saying their closing out in community areas – there was no incentive for them to being that.

On the GRG, the reason we'd made the comment around individuals, the FCA is still doing its review. And I don't think it's for us or anybody else that should be influencing one way or t'other. It's up to the FCA to do their review on the individuals.

As I said to the Treasury Select Committee, of the senior executives – and there were six of them who ran GRG – two of them are still in the bank, right? And we are very, very happy to have those people in the bank.

We have Laura Barlow, who is running Restructuring. She was in GRG from 2010, I think it was – so not the whole time. She is a sensational leader, and she has been making big changes in Restructuring over the last four years to, I think, making a fantastic operation with a great culture.

And the other is in a senior role somewhere else in the bank, and also a very good operator. The others – look, I – they're – they have left the bank, and I make no comment on that. I think it's up to the FCA to continue their review.

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**James Burton, Daily Mail**

OK, thanks.

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**Howard Davies, Chairman**

Yes, go ahead. Yes?

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**Stefania Spezzati, Bloomberg**

I mean, you've got the UK government, of course, they want to ... sell the shares, and they have a program in place. What do you make – I mean, today, the reaction in the market was not positive. What do you make of today's drop of the shares?

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**Howard Davies, Chairman**

Well, they – I – so you say that they have a program in place. What they have said ... is that they plan to restart the sale by March 2019 – is that right? And so that means that they've given themselves some headroom, and then – in terms – to allow some timing, if you like.

And I think that I think that it's up to them, when they decided what their considerations are. But – you know, but it's a lot of market speculation that it would be much better to have the DoJ out of the way. Because that is – it's one of these things where the range of analysts' estimates about the cost of that is so wide that, that is something which inevitably we have to accept clouds the position for the shares.

As for today I've never wanted to comment on daily price movements. We're not perhaps astonished that people that – taking a bit of time to digest quite a lot of information about slightly higher costs.

But I wouldn't regard that as being particularly significant, in terms of the Government's longer-term intentions, given the timing of the program that they've talked about. Ewen?

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**Ewen Stevenson, Chief Finance Officer**

Yes, and if you went back to mid-2016 ... the share price was trading below 1 pound 50 at some point. So ...

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**Howard Davies, Chairman**

We had a very good year last year. We went up more than any of the other UK banks, and we've gone off slightly this year, but I think it would be very difficult to tell a meaningful story about today's price movements, frankly. If you look at it over a 12-month period, we are still up by more than the rest of the UK banks.

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**Ewen Stevenson, Chief Finance Officer**

But if you go back to the earlier comment on interest rates, we've a – deposits base – is far more than current account and on-demand deposits than the other UK banks because we don't have a – we never bought a building a society in our past, so we don't have a big base of term deposits.

So we suffer a lot more when interest rates are low, and we should benefit a lot more as interest rates go up. So, we do view a more positive interest rate environment as something that should be good for us.

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**Howard Davies, Chairman**

Yes?

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**Emma Rumney, Reuters**

Yes. On NatWest Markets, can you say a little bit about how recent volatility has impacted that unit, and whether you have any plans to invest on that? I appreciate there are probably ... some sort of simplification initiatives like in the rest of the bank, but are there any plans to expand or anything you can say?

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**Ross McEwan, Chief Executive**

Yes. So, well, first off, the bank – that part of the bank is doing exactly what we wanted it to do.

It's got a four-year plan that it's done two years on of restructuring itself into being a very strong foreign exchange player, which, we are one of the largest players in this marketplace; it's got a global rates business; and it is a debt capital markets business – so credit funding for businesses.

And those are the three things that it focuses on. When it was the – at its peak, it had 28 different produce groups; we're down to three.

And the reason we went to those three is because we had strategic positions in them, and we believe we can do really good things for our corporate customers and financial institutions.

So, Chris has got it on a program. It delivered well last year. It does enjoy volatility in the marketplace. So when things are very, very quiet, you usually see incomes very low ... because customers don't do anything – you know, the corporate customers. But when they see volatility, they hedge their positions, and that's where our part of the bank works at its best.

It had a – we always know it has a quiet fourth quarter, and it did last year; we saw that in the accounts, but that's expected. It usually has its first three quarters are reasonably good, and the very four – fourth quarter is quiet, purely around what customers do, and we saw that last year. But it enjoys volatility.

We don't have major plans for expansion. Chris Marks who runs it with his senior team, they have a plan to rebuild it. I originally thought it was going to be about a 1.3 to 1.4 billion revenue business. For the last couple years, it's done 1.5 or greater.

So we think it's – well, we know now that it's probably around that level of revenue, as opposed to 1.3 to 1.4, which is good. And it is starting to quietly grow market share again in the markets we like.

And that's around the whole strategy of this bank, is focus. Go to the areas where you can do wonderful things for customers and just stay there. And we just started a big technology drive behind that business ... and I think in the upside, I hope it will surprise over time when we finish the investment in it. But it's got a – another two years of very heavy investment to re-platform that business.

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**Howard Davies, Chairman**

Yes, Martin?

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**Martin Arnold, Financial Times**

Asking a question for Howard about GRG, and just the – reading the report that came out, the – particularly the conclusions of Callum McCarthy and the – about the culture, and also, the governance, and the conflicts of interest in that unit.

There are quick – he raises a question as to whether RBS has taken on board all the lessons from that period, and whether all of the recommendations have been adopted. Has the Board looked at that again recently, and are you satisfied that you've – the answer to that question is yes?

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**Howard Davies, Chairman**

Yes. Specifically what he says is that they did not look at that. They were ... they didn't – they have not checked that; that wasn't part of their remit. So I think it's just a neutral observation; not anything else.

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**Martin Arnold, Financial Times**

You also didn't, because RBS has disagreed repeatedly with some of our findings, that he is not sure whether RBS will have ...



**Howard Davies, Chairman**

Yes.

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**Martin Arnold, Financial Times**

... gotten more people to say a recommendation.

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**Howard Davies, Chairman**

That bit – that bit I would – as you know, we explained to the Treasury Committee the areas in which we didn't agree. And that was because we were asked to do that. And so, that wasn't something we specifically volunteered.

But that was really around the fact that, on cases we carried out our own review of individual cases under a Board Committee. And, in many cases the advisers we had took a different view on individual cases, as to their viability, or to what should be done with them, et cetera.

So that was just clear. I mean, I'm afraid there were two sets of people looking at this, and they reached different conclusions.

But as for the recommendations, we accepted them. We accepted what ... they said we should do because this is part of a regulatory process, and we accepted their recommendations.

The Board has had a Board Oversight Committee, which was actually introduced before I joined, but which was met over 20 times to review the way in which these cases have been handled – both the past ones, but also, to review the way in which the old part of that part of the organisation has been restructured.

And we are comfortable that all of the lessons, in terms of conflicts of interest, et cetera, or potential conflicts of interest – because actually, they do point out that there is no evidence that, for example, West Register did actually ... act in a way that was damaging to interests of customers. And so, essentially, this is a kind of theoretical point, that there might be a conflict of interest.

But we do believe that all of those lessons have been taken on board, and that the Restructuring organisation that we have now is fit for purpose, and follows the procedures of something called the Institute for Turnaround Practice, I think it's called ...

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**Ross McEwan, Chief Executive**

Yes.

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**Howard Davies, Chairman**

... which has a code of practice, which was agreed by turnaround experts in the industry and advisers to the industry. And that's the basis on which we operate our system now, and we are comfortable that that does meet all of the recommendations in the 166 report.

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**Howard Davies, Chairman**

Yes?

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**Iain Withers, Daily Telegraph**

Hey. Can I ask about the researching costs? You've indicated they'll be 2.5 billion over the next two years.

So obviously, it comes after lots of researching already. Are you indicating the bank will get even smaller, and there will potentially be more branch closures and more job losses? And obviously, people will read into it, but then that's the case?

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**Ross McEwan, Chief Executive**

You want to do it?

**Howard Davies, Chairman**

Yes, Ewen – Ewen.

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**Ewen Stevenson, Chief Finance Officer**

Yes – yes. So, well, I think in terms of the 2.5 billion, that there's a mix of things going in there. Some of it is property-related, and some of it is the – technology-related. There's also some costs we're incurring – not insignificant costs into – relation to things like ring-fencing and Brexit preparations.

The – I mean, the headcount is coming down in the bank, as you've seen, but we've never given headcount reduction targets out to the market and won't until we've spoken to our own people. But there is an increasing trend towards digitization going on in banking. So ...

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**Ross McEwan, Chief Executive**

And remembering the 2.5, we already had the market understanding 1 of the 2.5 – so it was an additional 1.5 on the items that Ewen's talking about. And some of these – some of the things that were unforeseen by us at the time.

The costs of ICB or ring-fencing has been very heavy for us. And setting up a new – the physical infrastructure and coming out of that has been I think harder than I ever anticipated, and we've done probably done it faster than many expected.

I mean, last year alone, there were 25 non-branch properties that we came out of as well. I mean, these are very heavy costs to come out of those with the leases.

So it's been a big – but it – you know, there is a much faster move towards digital infrastructure as opposed to fixed infrastructure, and customers are dictating that as much as we are pushing it.

You know, so I gave you the stats on where – how people are interacting with us, and it's no different, I think, from any other business – I mean, your own being the same, from physical distribution to online distribution.

More and more people are reading the work you do online, and not picking up the physical newspaper; it's the same with us with the branch versus them using a mobile. So those things are really quite rapid in the way they're changing.

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**Iain Withers, Daily Telegraph**

Well, can I ask you, should you cut that heavily when you're owned by the tax payer? Obviously, it's very controversial when you close branches, which it seems that you're doing more of.

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**Ross McEwan, Chairman**

That is the thing that I think we have not done a good enough job of talking to people about. What we have done, though – because branch infrastructure is just one part of how we interact with customers ... we get around to over 600 villages and towns every week with our little mobile vans – they get around. And there are many people in the villages who tend to be a bit older, or don't have WiFi or the likes.

But we're well over 600 points of contact with customers every week – we've left behind a hundred community bankers in those little communities where we did have a branch, so people have somebody to talk to.

We pay fees to the Post Office. There are 11,000 post offices that people can put money in or take money out, including small businesses.

Now, I never had those 11,000 operations before. You know, three years ago, we didn't have that connection, and we're keeping those post offices going because of that. And our mobile and online capability is just growing and growing.

So, last year, we had 68 percent of the things you can do in a branch, you could do on a mobile phone; by the end of this year, that'll be 85 percent. Only – a year ago, it was 50 percent.

So you've jumped from 50 percent – a year ago to the end of this year, 85 percent of the things you could do under your – normal banking, you can do on your mobile phone.

So these things are changing quite dramatically. Purchase of products is now being done on a mobile phone. I purchased a credit card through Royal Bank of Scotland the other day – all data, all done.

We're now doing 95 percent of our new commercial customers are taking a current account for their business online, doing it themselves, and it saves them 30 minutes, as opposed to ringing and doing it at a contact centre. So you're seeing some big changes.

You're seeing some changes in lending now. For our own customers, they can apply for a loan, and some of this only takes four minutes, because we have all the data. And we're using the data we have on them, and they put a – yes, on the data

These – so this is far easier for customers than having to go into a branch or make the calls when they can do it themselves, and I think that is the way the world's moving.

So, unless we invest in that, the shareholder – which includes the UK taxpayer – won't have a valuable asset, and that's where we're having to put the money.

And as customers, you know – you know, move away from using a branch we have to change that structure.

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**Howard Davies, Chairman**

I think it's important on the shareholder points – and this is a Board issue – we do have a responsibility as a Board – a fiduciary responsibility to all our shareholders, 30 percent of whom are private shareholders; and the Government has chosen to treat its investment in RBS as a financial investment.

It is – that's why it has in place the UKFI – the UK Financial Investment – as the holding company, and their objective is to secure the best return on their investment.

They do not intervene in commercial decisions, or customer-facing decisions; they do not give us directions, or a different set of objectives from a normal

commercial venture. It just happens that 70 percent of our shares are owned by UK financial institutions, but they don't give us separate directions as to how we run that business.

Now, that is not to say that we should not. And that's why Ross' answer was correct that we focus on serving customers well, because in the long run, you won't be a successful bank unless you serve customers in the way they want to be served.

So we're not saying we're just doing it for purely short-term profit; we're not, because we want to have a long-term view to – of our customer base, but we're not operating in a different way from other banks. Katherine, I think you've been waiting patiently.

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**Katherine Griffiths, The Times**

Just a couple of questions. One, do you think RBS is going to be a net beneficiary ... from open banking or not? And also, Howard, I just wanted to ask you on Brexit, do you feel optimistic that the UK can secure this mutual access deal that's got a bit of momentum recently, or do you think that's not – that's very far from clear?

.....

**Howard Davies, Chairman**

I'll deal that one, and then ...

.....

**Ross McEwan, Chief Executive**

Yes, and then, I'll do the open banking, yes.

.....

**Howard Davies, Chairman**

... and then, you do the open banking. At the moment, the noises that one hears from the 27 – from the sort of knowledgeable people – and I'm talking about just purely financial services. I don't know – I'm not answering in relation to Customs Union or whatever.

The noises from people, like the Bundesbank and others, are that they find it difficult to see how a mutual recognition, or you know, an in-house equivalence deal can work except in certain narrow areas.

So at the moment, we'd have to say that there seems to be quite a bit of negotiation to be done because the Government's set out a mutual recognition objective. And the initial reaction from people like the Bundesbank, who happened to be here a week or two ago, has been fairly downbeat about that. So it's very difficult for us to forecast whether that will come off.

I suspect that it will be part of a broader negotiation, and probably it won't be resolved till everything is resolved. And that's why, as a bank, rather than trying to speculate at what the final outcome would be, we have to develop contingency plans ...

.....

**Ross McEwan, Chief Executive**

Which we're doing.

.....

**Howard Davies, Chairman**

... in case we don't get that. And therefore, that's why we've got a plan to have an operation in Amsterdam through which we can run our markets business in case we don't get that kind of firm mutual access deal.

.....

**Ross McEwan, Chief Executive**

On open banking, we have now fulfilled all the obligations of reading ourselves, and enabling access to data was required 13<sup>th</sup> January. On the 13<sup>th</sup> January, we had it about 99 percent ready to go.

There was only one part of the business, which was Bankline, which was for our commercial customers. That actually wasn't connected up, but it is now. So we are a hundred percent compliant with the legislation.

But the issue of – that you're asking quite rightly is, will we be a neat beneficiary or a loser out of it?

First off, I think that there will be a slow uptake on open banking in the first year or so, but it will accelerate over time that people will put in place facilities to pull together data for customers so that they can see a fuller picture ... of their position, and make better decisions; and possible, nudge them towards making better decisions than they may have made on their own.

We will participate in that. And being one of the first banks to be up and ready fully for open banking just shows that our technology is pretty good.

And we have positioned ourselves so that, over time, we'll be able to make data available to customers through using APIs from other organisations, to give customers full data, and put it in a way that is useful to them. Because there's no point in giving them data that's not in a way that's of any use – that doesn't help them make decisions in their financial life.

So I think we – over time, we will be a good user of open banking, and we'll be able to make propositions to customers that are good for them, and that's the way we're thinking about it. So net revenue I think over time will be actually positive for us.

.....

**Katherine Griffiths, The Times**

And you've referred to the need to improve trust among customers, and obviously, there are several specific issues.

And I just wonder, though, whether you think in a slightly cynical way, perhaps – and I don't – not just RBS, perhaps; all big banks – that perhaps customers. And to what extent are you sort of relying on that suspicion to keep your customers, and to not really have to do very much?

.....

**Ross McEwan, Chief Executive**

No, no, we will do lots. I don't think is one of the things where you sit back and let an opportunity pass you by.

There will be lots of players, financial technology companies, that will get customers to move data across to them. I think you're right that there are



customers – despite what we think about banks – actually do trust their banks to safely guard their information.

And if you have a look at our – well, and it's why trust and – for us is vitally important – and if you have a look at the trust scores for both NatWest and the Royal Bank of Scotland over the last 12 months, have improved very nicely because of the work we've been doing. And when you do the research, they do trust their bank to look after their data.

Now, there are some segments that don't worry about it too much, right? Youth, for one, are less worried about it than people who have – you know, might have a little bit of grey hair, because they do worry about these things.

And so, I do think there are different groupings that will adopt it a lot quicker, and there'll be some that take a lot longer, and we've been working with our customer groups on this.

So trust is vitally important – having the trust of your customers, so that when you do propositions to them, it's in their interest. And I think this is the thing that you've got to make sure that the proposition is in a customer's interest, and that's where we just can't be wrong.

.....

**Howard Davies, Chairman**

Yes, we've got the example of other industries who – some of whom did think that people would continue to trust them, and not go to other sources, because they weren't as trustworthy, like the newspaper sector, for example, and that didn't work out too well, so, we have that.

.....

**Katherine Griffiths, The Times**

The newspapers, or the – or the ...

.....

**Howard Davies, Chairman**

The newspapers ... we thought that the social – other types of news would not certainly have had to adapt their processes – their delivery methods. You know

... perhaps a bit late, so.

.....

**Ross McEwan, Chief Executive**

Yes. But I think (that) ...

.....

**Howard Davies, Chairman**

I think that we will accept that we need to do that.

.....

**Ross McEwan, Chief Executive**

... yes, I think there's some good opportunities, and there's some threats. And I think net-net will be positive long term for banks that – that actually embrace.

.....

**Howard Davies, Chairman**

Yes?

.....

**James Burton, Daily Mail**

I had a couple of follow-ups today. So, first off, your point is sort of how the government's oversight of you as a shareholder works, and how you're operating like any other kind of commercial bank. I mean, are you worried about a prospect of a Labour Government kind of fundamentally changing that relationship?

And secondly, just following up from Katherine's point, on open banking, Ross, my understanding is that one of the ways small, new players in this market can access customers' data is by asking them to basically hand over their passwords ...

.....

**Ross McEwan, Chief Executive**

Yes ...

.....

**James Burton, Daily Mail**

...and that's one way.

.....

**Ross McEwan, Chief Executive**

... screen scraping.

.....

**James Burton, Daily Mail**

That's right. And, I mean, the FCA tell me when I ask them about this, that that's fine, because you can check on the FCA database if the company's registered, and it's kosher and safe to do that. I suspect a lot of people won't both to do that. So are you worried ... that there's a kind of major fraud risk of companies that aren't properly training people to do that?

.....

**Ross McEwan, Chief Executive**

Yes, look, first off, of course I – of course, we do believe this; we think open banking will be positive, net-net and it – and will be good for customers long term as they get used to it.

We do have a little bit of a concern about screen scraping as opposed to APIs. Because customers may think they're doing the right things, and pass that data off, and find all of a sudden that if somebody has gotten behind a business that's not appropriate, that they have taken data off customers.

And I think we have to be working with customers on that to make sure that we're – you know, we are signalling to them the best we can; where we see it, But, now, I think this is a really good benefit for customers longer term, as long as we're all responsible in how we use that data for customers.

.....

**Howard Davies, Chairman**

On the first point, I think it's too early to speculate on that. I mean, we could be four and a half years away from an election, and we don't know what the policy's going to be, we don't know what the shareholding is going to be by the time another election comes around. So I'm afraid we're not speculating on that at the moment.

**James Burton, Daily Mail**

But then, I've heard there are pledges to break RBS up, to nationalise into – break it up into a regional ...?

.....

**Howard Davies, Chairman**

There was last time, and since then, of course, there has been the experience with Williams & Glyn, which I think people would want to look at, as how difficult that turns out to be.

And I think the Labour Party will need to explore that, and see how easy or difficult it is. So at the moment, we think it's best to wait for the time being, and see what turns up.

.....

**Martin Arnold, Financial Times**

Can I ask about another Brexit question? The transition period, how essential do you think that is, not just for the banks, but for the economy – for all of your customers – your corporate customers that we get an early commitment to a transition period? And what type of transition period? Do you have a view on the timing of that?

.....

**Howard Davies, Chairman**

I think that ... I think the importance depends on the sort of business you are in. I mean let's be fair – a lot of the small businesses we deal with, probably haven't even registered Brexit's happening, and they probably don't need to.

But for trading businesses, I think it is important, because March 2019 is now around the corner for many people. So I think for any trading business, – knowing that the transition period is going to be effectively a standstill – which is what I think most people would want – in other words, nothing much will change – is pretty important.

And from us – from our point of view specifically we are looking very carefully at that, because if there is no clear standstill agreement, then we will have to implement our contingency plans very quickly.

If there is a – an assurance by the time we get to the March Council that there will be a transition period up to the end of 2020 – which is what the Commission wants, or a bit longer – then that gives us a lot more time to think and plan.

.....

**Martin Arnold, Financial Times**

When is it too late? When can you not – when do you just have to start preparing for it?

.....

**Ross McEwan, Chief Executive**

Well, no, we have been preparing, we have to prepare, because if we do get a hard Brexit we have to be ready for our customers. But the impact on the bank for ourselves is limited, but for our customers, could be large. So that's why we've said we've planned to put an operation in Amsterdam.

.....

**Martin Arnold, Financial Times**

But you haven't done it yet?

.....

**Ross McEwan, Chief Executive**

No. But we have the planning, we have – you know, we've gone forward with having to get the license, and those sort of activities. We've got a senior team, but we haven't fulfilled everything. But we have a plan that would get us to a hard Brexit, because we have to. We have to be ready for our customers.

.....

**Howard Davies, Chairman**

Well, we had to (do it). The PRA have required us to.

.....

**Ewen Stevenson, Chief Finance Officer**

Yes, I'd give – I wouldn't describe it as a hard – I mean, it's just progressive things that we need to do. So we have leased office space in Amsterdam, for example, because there's a run and a lead time into that that requires us to do it.

And I think the other area that is – would benefit from a transition plan is really around contract law. Because ... typically, enforceability of contracts becomes very unclear, particularly if they bridge cross-border between the UK and Europe. So whether that be ... derivative contracts ... or trade insurance, or ...

.....

**Howard Davies, Chairman**

Yes.

.....

**Ewen Stevenson, Chief Finance Officer**

... a whole host of issues.

.....

**Howard Davies, Chairman**

These are known in the trade as the "hygiene factors." And on those, I think actually, there's quite a lot of understanding between the UK and the EU 27 that things need to be done to make sure that there isn't a cliff edge in that sense.

But that's a subset of the broader agreement, because that just papers over the cracks, if you like, rather than providing a durable, long-term basis.

.....

**Stefania Spezzati, Bloomberg**

If you will have two quickly, how many people will you have to send to Amsterdam from here?

.....

**Howard Davies, Chairman**

We've said about 150 in the end, we think, for the scale of our business, and I – and I think ...

.....

**Ewen Stevenson, Chief Finance Officer**

And not all of those would come from the UK; some of them would just be people would hire in Europe.

**Angela Monaghan, Guardian**

Yes. Sorry, what was the 150?

.....

**Howard Davies, Chairman**

What the scale of our – we've estimated that the eventual scale of our Amsterdam Natwest Markets subsidiary – which would be the entity which would deal with trading with EU 27 clients – would be, when it's all up and running, about 150 people in NatWest.

.....

**Emma Rumney, Reuters**

And does the cost for that increase? Because I think initially, you said they'd be in the low tens of millions, but then, you take in the extra costs today. So I was wondering if you ...

.....

**Ross McEwan, Chief Executive**

...the cost of setting up would fit into our restructuring charge; the actual running costs wouldn't change.

.....

**Ewen Stevenson, Chief Finance Officer**

And the running costs are in the ... guidance we have on... NatWest Markets' running costs.

.....

**Emma Rumney, Reuters**

So the set-up and running costs are the same for this?

.....

**Ewen Stevenson, Chief Finance Officer**

Yes, I mean, – the running costs haven't changed materially from the previous guidance.

.....

**Emma Rumney, Reuters**

OK. And the set of costs?

.....

**Ross McEwan, Chief Executive**

They'd be in the tens.

.....

**Ewen Stevenson, Chief Finance Officer**

Yes, I haven't looked at it recently, but tens ... of millions ...

.....

**Howard Davies**

Yes.

.....

**Iain Withers, Daily Telegraph**

Just to clarify, you said you have a senior team. Is that senior team already in Amsterdam?

.....

**Ross McEwan, Chief Executive**

Well, we were lucky to have a senior executive who was based over there. So that person is designated CEO of the Natwest Markets NV. And because we had a license, where I would have repurposed that license – well, so we had a step forward probably above many others because of the ABN Amro.

.....

**Ewen Stevenson, Chief Finance Officer**

Well, going back to ABN Amro days, we've had a bank in Amsterdam. And we've been running it down, and the intention had been pre-Brexit to de-bank it. So we went back to the DNB, and said, look, we'd like to keep ...

.....

**Howard Davies, Chairman**

Yes.



**Ewen Stevenson, Chief Finance Officer**

... to keep this bank still going, because an existing management team has been running it for many years, and ...

.....

**Howard Davies, Chairman**

There's a Board. You know, we've – and it's – it exists. I've looked at it, and I've seen it. There it is. With real Dutchmen and everything.

.....

**Katherine Griffiths, The Times**

You mentioned this morning that the bank has suffered a spectacular fall from grace over the past ...

.....

**Ross McEwan, Chief Executive**

Yes.

.....

**Katherine Griffiths, The Times**

... decade or so. What will it take to make you satisfied that the repair job is sort of fully done?

.....

**Ross McEwan, Chief Executive**

Look – it's normal. To me, just a normal functioning bank that customers are proud to join – to operate with, and our staff are proud to be part of, and a shareholder who actually wants us.

I mean to get it back into a normal shareholding position, it's clear the government quite rightly doesn't want to be the long-term shareholder.

So I think for this bank today is a very symbolic day, because we have lost money for 10 years and here, we've finally broken through. That is one of the signals. It's by no means a finished job.

We've got a long way to go to get a good return out of this bank for shareholders. No, I – I've always said if we can get our customers proud that they operate with this bank, our colleagues proud that they operate here, and we have ... shareholders who really want us, that it's a good time for this bank. We've still got work to do.

.....

**Howard Davies, Chairman**

Yes?

.....

**Martin Arnold, Financial Times**

And personally, Ross, how much longer are you going to be committed to running this bank?

.....

**Ross McEwan, Chief Executive**

As long as I'm still having some fun and we've still got some challenges, I would still like to be part of it. But it's up to the Board as well.

.....

**Howard Davies, Chairman**

Yes, it's up to us.

.....

**Ross McEwan, Chief Executive**

Yes. But we've – I'd like to certainly see us through the DoJ, and I'd like to see us getting back to paying a dividend. Those are part of the other question, around what does success look like, getting those. Because once you start to paying a dividend, you are a more normal business.

And those are things that I think are really important for this bank, and will be great days for our shareholders, for example, when we do start paying a dividend.

**Katherine Griffiths, The Times**

So that might even be a few months, Ross. So you seem a little confident. Are you?

.....

**Ross McEwan, Chief Executive**

No, I believe that you've got it wrong for the last two years, so I'll leave it to you to keep speculating.

.....

**Howard Davies, Chairman**

Anything else? Are we ...

.....

**Stefania Spezzati, Bloomberg**

Do you expect a ... spike in PPI as a deadline, or what's the 2019 approach on that?

.....

**Howard Davies, Chairman**

I think we've probably ... expect the odd – a number of spikes, probably.

.....

**Ross McEwan, Chief Executive**

... a multiple number of spikes, I think, every time there's –

.....

**Howard Davies, Chairman**

Because what we've tended to see is the advertising campaign produces a bit of a spike, and then it goes down ... and then, there's another one – another one.

So we have to – I don't know how many – is it three more or four more?

.....

**Ewen Stevenson, Chief Finance Officer**

Three or four more.

**Howard Davies, Chairman**

Three more of them.

.....

**Ewen Stevenson, Chief Finance Officer**

But we've built that into our sort of modelling assumptions. But understanding the impact of those advertising campaigns on those spikes as ... based on the assumptions ... that we've made.

.....

**Stefania Spezzati, Bloomberg**

... (the 100) million (on them), (right, or)?

.....

**Ross McEwan, Chief Executive**

Well, we took another 175 million ... at the end of last year. We – look, at this stage, we believe that it's enough cover, but we'll have to look at it every quarter based around these spikes from the advertising, and from campaigns, for the likes of Which? and others run.

So for us, it's – we would like to get it resolved. It's got a – now a drop dead date on it, which I think's really important from an industry perspective. We've all been absolutely amazed at how much this has cost and gone on. I think the original expectations were 400 million, and it's now 25 billion. So I think it's been a ... fairly torrid time for the – for the industry.

.....

**Howard Davies, Chairman**

OK? Thank you very much for coming.

.....

**Ross McEwan, Chief Executive**

Thank you for joining us.

.....

**Howard Davies, Chairman**

Have a good weekend ...

**Ross McEwan, Chief Executive**

Thank you very much.

.....

**Howard Davies, Chairman**

... and all that.

.....

**END**

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