Investor Conference Call

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280 Bishopsgate London EC2N 4RB
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FORWARD-LOOKING STATEMENTS

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Moderator: Ross McEwan
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08:30 GMT

Operator: Good morning, ladies and gentlemen. Today's conference call will be hosted by Ross McEwan, CEO of RBS. Please go ahead, Ross.

Ross McEwan: Thanks, Jodie, and good morning, everyone. I'm joined this morning by Ewen Stevenson, and also Katie Murray who recently joined us from Old Mutual as Ewen's Director of Finance. So Katie's on the call with us for the first time.

I realize we've put a lot of information out this morning and thought the best thing to do was to get on the line and answer as many of the questions that you might have.

As I have set out previously, I'm determined to put the issues of the past behind us and make sure RBS is a stronger and safer bank. I think 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, dealing with some of the remaining legacy issues we still face.

So 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 and had a plan in place to close the deficit by a series of annual payments from 2014 through to 2023. We're now going to accelerate these payments as a lump sum in Q1 2016, and on conduct and litigation, we are increasing provisions in two areas.

So the second item is the provisions that first relates to the mis-selling of mortgage-backed securities in the United States where we've taken an extra GBP1.5 billion of provisioning, taking our total to around GBP3.8 billion so far. This relates solely, and can I say again, 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 US Attorney investigations.

We are taking an additional GBP500 million provision on PPI following the 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 the provisions for future claims to GBP4.3 billion. PPI has been a lesson for the entire industry in the importance of treating customers' fairly.

And the third announcement we are making today relates to our private bank where we are taking a GBP498 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 pressures.

I've previously said that this business can do better. It is a great business which is in the middle of a multi-year turnaround to get it back in shape to deliver the strong returns we know that it is very capable of doing.

You've heard me before about the three phases to our plan to build the number 1 bank for customers. Phase 1 is complete. We simplified the Bank and strengthened the balance sheet. We're now clearly in phase 2 which sees us working through much of the remaining conduct and restructuring that we face, which you can see in today's announcement. We then move to the third phase as a much stronger, simpler and fairer bank that delivers solidly on the needs of customers and of 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.

And with that, I'll hand over to Ewen to take you through these items in much more detail.

Ewen Stevenson: Thanks, Ross, and good morning all. And again, thanks for joining us at short notice this morning. I'll spend some time walking through each of the items in this morning's release, and then, as always, we'll leave plenty of time for your questions at the end.

Firstly to start on the two parts of the announcement on pensions. There's a revision in our accounting policy that triggers an estimated GBP3.3 billion liability for already-agreed additional pension contributions into our main scheme as at Q4 2015; and we've also signed an MoU with the trustee to make a GBP4.2 billion cash payment into our main scheme later this quarter.

Before I go into both, to give you some background on our defined benefit pension schemes, we operate various schemes across the Bank. The main section of the Royal Bank of Scotland Group pension fund is by far the largest and we refer to it as the main scheme in our accounts.

The main scheme is one of the largest defined benefit pension schemes in the UK. We closed it to new members about 10 years ago, but it still has 220,000 remaining members. And at the date of the last triennial valuation, March 31, 2013, we disclosed a GBP5.6 billion actuarial deficit in the main scheme that was noted in our 2014 accounts.

And then subsequent to that, we agreed with the trustee to a set of additional contributions into the scheme from 2014 out to 2023 to close that deficit, and as of today, the remaining payments that remain outstanding on that future payment stream is some GBP4.2 billion.

You may be aware that there has been some prevailing uncertainty on the interpretation of the existing IAS 19 accounting standard for pensions, and as a result of that uncertainty, the IASB in June of last year produced an IFRIC14 exposure draft to help clarify how to interpret the existing accounting standard. And then, the UK Financial Reporting Council provided further guidance in October last year.

Our main scheme has a number of specific features that provide the trustee with additional rights and protections relative to some of the newer defined benefit pension schemes. The trustee, given those rights can in theory enhance benefits to members, and as such the IFRIC 14 exposure draft has clarified that we are limited in what we can recognize as an IAS 19 accounting surplus in our pension plans as a result of these specific trustee rights.

We've decided on the back of that to revise our accounting policy in line with the interpretation provided by the exposure draft. We've discussed and agreed this revision with both our current auditors and our incoming auditors, and the effect of this will be that we'll recognize the GBP3.3 billion liability in our Q4 2015 year-end balance sheet, and a GBP1.6 billion net reduction in tangible shareholders' equity, or around 13p per share in TNAV.

We've set out on page 5 of the release how we calculate this. Firstly, you've got the NPV of the GBP4.2 billion of future agreed payments, or GBP3.7 billion less a GBP400 million asset ceiling, or the amount that we recognize as an IAS 19 recoverable surplus. The asset ceiling is the NPV of future service costs on an accounting basis less the NPV of those regular contributions committed to be paid until 2023. The net of those two numbers gets you to the GBP3.3 billion liability.

From this, we then deduct the existing IAS 19 deficit at the end of Q4 2015, or some GBP300 million, and the improvement in the IAS 19 deficit during Q4 of 2015 of GBP800 million. And post the tax impact of all of the above, that gets you to a change in TNAV as a result of both the new pension liability and the change in IAS 19 deficit during Q4 of some GBP1.6 billion or 13p per share.

Separate to that, we've signed an MOU with the trustee of the main scheme to make an accelerated single payment of GBP4.2 billion later this quarter into the main scheme in a replacement for that current schedule of already-agreed payments out to 2023. There are a number of benefits in doing this, including improving our capital resilience in the period through 2019 and allowing the trustee greater flexibly over investment strategy.

The impact on Q1 2016 TNAV as a result of that accelerated payment is expected to be around 3p as the majority of the GBP4.2 billion payment is already provided for under the new accounting policy.

And subject to PRA approval, we expect the core capital impact resulting from the proposed pension accounting policy change and the accelerated payment to be partially offset by a reduction in our core capital requirements;

but the timing of any such potential core capital offsets are likely to occur at the earliest from January 1, 2017, and will obviously depend on the PRA's assessment of our core capital position at that time.

Under the MoU, the trustee has agreed to accelerate the next triennial valuation from March 31, 2016, to the end of 2015, and except in very limited circumstances, not to seek any further additional contributions until following the subsequent triennial valuation in Q4 2018, that requires an agreement on future funding arrangements to be concluded by Q1 2020.

In Q1 2020, we currently expect to have to commit further additional contributions into the main scheme that could be material at that point, and that would in turn trigger a further liability.

The next part of today's announcement is in relation to additional conduct related provisions for US RMBS litigation. In Q4 2015, we've increased our total provision for outstanding US RMBS litigation by a further $2.2 billion, or some GBP1.5 billion.

The increase in provision was driven by several factors, including recent litigation settlements with FHFA and NCUA with other banks that have enabled us to make better informed provisioning judgments as part of our normal end-of-year processes. This additional provision takes our total US RMBS provisioning outstanding as at the end of last year to $5.6 billion.

Despite this additional litigation provision, we continue to have no provisions in relation to the ongoing investigations by the US Department of Justice and several US State Attorney Generals. As we've said in the past, we continue to be unable to reliably estimate potential costs for these investigations, and we continue to caution that the final settlement cost for us in relation to US RMBS could be substantially in excess of our new higher provisioning levels.

We've also announced today that we plan to take an additional GBP500 million provision for PPI into our Q4 2015 results following our review of the November 2015 FCA consultation document.

As you'll be aware, the consultation paper proposes not only a 2018 deadline for PPI complaints, but also sets out a proposed treatment of complaints following the Supreme Court judgment on Plevin versus Paragon.

The FCA proposals include an FCA-led communications campaign to raise awareness of the proposed deadline, and as a result, our modeling assumption used to create this additional provision has been premised on an expectation of higher claims volumes as a result of that campaign.

In Q4 2015, PPI claims costs for Q4 were in line with previous trends over recent quarters, and based on our modeled assumptions and the FCA guidance as it currently stands, we believe the combined December 31 2015 provision for PPI is sufficient for foreseen costs through to the proposed 2018 deadline.

Whilst we've tried to be conservative in setting up these additional provisions, please don't hold us to a no more on PPI provisioning, as the claims experience and FCA guidance may differ from current assumptions.

The GBP2 billion of conduct-related provisions for US RMBS related matters and PPI are expected to reduce our core Tier 1 ratio by around 80 basis points, and tangible net asset value per share by 17p per share at the end of Q4 2015.

The final part of today's announcement is the writing off of goodwill against our private banking franchise. Following our normal annual impairment testing, we expect to record a goodwill impairment charge of some GBP498 million in the fourth quarter of 2015, and that's to write off all of the goodwill currently allocated to private banking.

The goodwill write-off reflects various factors, including a reduction in anticipated long-term profitability following our reposition strategy for private banking and the impact of higher corporate tax rates.

As you've seen from the numbers in our Q3 2015 results, the private banking business is at the start of a multi-year turnaround, and we're very committed to achieving that turnaround. We continue to believe this is a strong business; it's got some great brands. But in recent years has been undermanaged with insufficient focus on its core UK franchise.

As I've said a number of times before, a well-performing private banking business like this should have mid-teens return -- ROE potential, and I still hold to that.

Just to remind you, this is a non-cash charge and has no impact on TNAV or our core Tier 1 ratio.

So to conclude. First, thanks for your patience as I've worked through this. I appreciate it's a lot of detailed news flow on us today. On a combined basis, the total impact of these announced actions will be to reduce our expected 2015 core Tier 1 ratio by around 160 basis points, and our TNAV per share by around 30p.

Overall, and obviously subject to completing our normal year-end processes, we expect TNAV at year end 2015 will be approximately 350p; and our core Tier 1 ratio will be approximately 15%.

Ross and I continue to want to be very clear and transparent, but we've got a bunch of legacy issues that we're progressively working through. Clearly humbling to have to make today's announcement. This represents another important set of actions in our clean-up, but it won't be the last set of actions. So please do expect a few more bumps on the road this year.

We've got a strong core bank underneath us, and we're moving as fast as we think is appropriate to deliver that outcome for our shareholders. We're not making any other statements today on our trading performance in the fourth quarter. We're obviously aware of our market disclosure obligations. And as noted in our announcement this morning, we'll also be publishing the restatement documents for our new business segments in early February via RNS and the IR website.

We trust you'll find this re-segmentation another helpful step in our desire to provide you with better transparency on how and where we make money.

You'll also be aware that we're now less than a month away from our full-year 2015 results announcement. So as we move into Q&A, please don't be disappointed when we don't get drawn into questions that go beyond the items in today's announcement.

So with that, I'd like to hand back to the operator, Jodie, for Ross, Katie and I to take your questions.

Ross McEwan: Thanks, Ewen. Jodie, back to you to open up for questions, please.

Operator: Thank you, Ross. (Operator Instructions). Claire Kane, Royal Bank of Canada.

Claire Kane: Just one question from me, please. Firstly, on the comments on the capital add-ons, or requirements coming down on January 1, 2017, could you tell us why you've picked that date and why we would not expect to see a reduction in the Pillar 2 in May when it's reassessed; May this year?

Thank you.

Ewen Stevenson: Yes. As you know, there's an annual ICAAP process means that the capital benefits don't take effect until January 1 of the following year. So as part of our 2016 process, when we submit to the PRA, depending on the outcome of that process and their views, obviously, yes, you shouldn't expect that formally we would get any benefit into our Pillar 2 buffers until January 1 of next year.

It's obviously -- also, I think it's important to note that the benefit that we will get will depend on how the trustees seek to invest the GBP4.2 billion. If they choose, for example, to invest in equities, we'll get less of a capital benefit; but equally, benefit from the improved investment return potential that should come from that.

So it's not a straightforward calculation to go through and, obviously, we're somewhat limited in terms of what we can say as to the current capital we're holding in Pillar 2 for pensions.

Claire Kane: Okay. Thank you very much.

Operator: Raul Sinha, JPMorgan.

Raul Sinha: Can I have a couple, please? The first one is if you can throw any further light on how you've actually taken this RMBS provision. Could I ask how much of the existing balance relates to FHFA versus NCUA, and the third bucket on other; just broad numbers?

And then, secondly, if you've got an expected timeline for RMBS. Obviously, I think, you were quite keen to settle it as soon as possible, but it does look like the timeline is slipping. So any thoughts there would be really helpful.

And then the second question, broadly different, but I think the Chairman had made some comments about capital return recently and the fact that you were still hoping to meet your earlier comments around returning capital to shareholders early in 2017. Do you think that's still a timeline that you can hit given your comments on Pillar 2A?

Ewen Stevenson: Yes. So the first question I think had multiple parts to it, but in relation to US RMBS, we're not going to break out how that splits across FHFA, NCUA and other. But that whole bucket of additional $2.2 billion of provisions, as I said, are set very firmly against the litigation provisions and we haven't and still haven't got any provisions for potentially regulatory settlements with Department of Justice and the State Attorney General.

I wouldn't read into this announcement any news in relation to expected timeline. We're not currently in any substantive discussions either with any of the major litigants or the Department of Justice and State Attorney General. We do have conversations with them. I guess the only encouragement is, as others progressively settle, including the recent Goldman settlement with the Department of Justice, the timeline for us improves. And just as a reminder. FHFA, the earliest possible court date for that is 2017.

So Ross and I continue to hope and expect that we'll be able to reach a settlement, and we're working hard to try and do that (on) substantially most of this during 2016; but obviously, part of that is beyond our control.

And on capital return, I wouldn't read anything into today's announcement that would change our previous guidance on capital return. We obviously -- there are a number of things that I've highlighted previously that I think we need to progress during the year to put ourselves in that position. We've got to find an exit out of Williams & Glyn; and you saw the announcement that we put out pre-Christmas on that.

We have to have a -- we have to settle US RMBS that I've just talked about. I think we need to make more progress with the rest of our restructuring, and we need to have a good stress test at the end of this year.

I think all of that, as we said today, should be achievable, but it does mean that we've got a lot of work ahead of us to deliver that during the year.

Raul Sinha: Ewen, if I can come back on that. Obviously, you say that you have to settle US RMBS, but by your own disclosure, there are more than 20 cases outstanding. And given that we haven't -- this is out of your hands, we haven't had any settlements for the last 12 months in terms of progress for you guys, it is quite possible that you might not get a settlement this year and a large part of these cases will be outstanding next year as well.

So I'm just trying to gauge --

Ewen Stevenson: If you go through the litigation, $32 billion of outstanding principal balance is related to FHFA. There's another significant chunk that relates to NCUA. We haven't settled but -- we have settled one of the NCUA cases, so I don't think it's fair to say that we haven't. We've been settling a number of the smaller cases over recent quarters, including one of the NCUA settlements.

In the last couple of quarters, as you know, Barclays, Wachovia and Morgan Stanley have all settled NCUA cases. Goldman's settlement a few weeks ago also included a settlement with FHFA. It's only us and Nomura to finally settle on FHFA.

So I think if you think about the big pieces of it, it's the regulatory fines; but the Department of Justice, it's NCUA and FHFA. As I said, we should -- there is a path for us settling most of that this year if we can.

Raul Sinha: Sure. I guess what I'm trying to say, is your capital already strong enough to absorb the expected loss; and would that not be enough if you got to a point, let's say, Q1 next year, when even if a few of these cases were outstanding, for you to be clear on capital return?

Ross McEwan: I think the big issue for us -- the big case is RMBS and FHFA -- until we've settled those, I personally don't think we would be in a position or the regulator would allow us to be doing capital distributions. And that's why we've said 2015 and 2016 are about us sorting out as much of the big ones as we possibly can and the finishing off of the restructuring of the business. And that's what we're holding firm to.

Raul Sinha: Great. Thanks very much.

Operator: Andrew Coombs, Citigroup.

Andrew Coombs: I had a couple of questions on the change in defined benefit pension accounting policy. The first is just where are we on the process of this. I know the exposure draft was released in June 2015; comments were due by October. I think a consultation paper was due out earlier this year. But has this actually been formally finalized? Because I thought we were still in the consultation process on this. But could there be further amendments to this accounting policy?

That would be the first question.

The second question. I know the auditors themselves have had different interpretations of this, and if I recall correctly, you are set to change auditors at the end of this year. So would that have any potential implications on this going forward?

Thank you.

Ewen Stevenson: Yes. So you're right. The exposure draft is just an exposure draft at the moment, but based on our reading of that exposure draft of where we think it is likely to come out in final form, the guidance that came out from the Financial Reporting Council in October, conversations with two auditing firms, both our current auditing firm Deloitte’s and our new-to-be auditor Ernst & Young, we're pretty comfortable that what we're doing in terms of adopting that interpretation early in effect and changing our accounting policy is the right thing to do.

Both Deloitte’s -- we've had extensive conversations with Deloitte’s, our existing auditors, and our incoming auditors Ernst & Young. There's no gap between them in terms of supporting the approach that we're taking today.

So -- but I would caution. If you're trying to take from this, Andrew, and read across to the rest of the sector, we've got -- the main scheme that we have has its origins in the 19th century, and it's a very, very old scheme with a lot of trustee protection. I'm not a pensions expert, but I'm told some of the newer schemes have substantially reduced trustee rights. And when we've talked to the auditors, they've cautioned that people shouldn't necessarily read into our announcement today that there are substantial implications across UK corporates.

So I think you're going to need to talk to the individual companies and understand and they're going to have to guide you on their own individual schemes.

Ross McEwan: And interpretation of the changes.

Andrew Coombs: Certainly. I guess the follow-on question would be, to be clear, the entire charge that you're taking, so you talk about a GBP3 billion adjustment, is purely because of this accounting policy change. There is nothing else. It's just the accounting policy change.

And secondly, to what extent or why do you believe your scheme is potentially more impacted, in your own words, than some other schemes? You talked about the wording of the scheme, but specifically what you think it is that makes you exposed.

Ewen Stevenson: Yes. So to be clear, as we set out on page 5 of our press release, we tried to be clear about how you work from the GBP3.7 billion present value of the current commitments we've got all the way down to the GBP1.6 billion of

TNAV adjustment. But the GBP3.3 billion just relates to this accounting policy change.

And it really goes into the rights of the trustees to be able to -- it's the rights of the trustees to be able to use the surplus to increase pension provisions. And they're somewhat theoretical rights, but when you read the IFRIC 14 interpretation, it's our view that that doesn't allow us to recognize the surplus, most of the surplus that we've now got under IAS 19.

But, therefore, it's a very gritty conversation on a company-by-company basis on what their trustee documents say and what rights they have to use IAS 19 surpluses.

Andrew Coombs: Thanks very much.

Operator: Chintan Joshi, Nomura.

Chintan Joshi: Can I follow up on PPI and RMBS? So on PPI, you mentioned you'd assumed an increase in the provisions -- the claims as you go along in your models. It's costing you about just under GBP100 million a quarter. Just wondering how much of an increase you assumed. If you can give us some kind of indication around what assumptions you've made to get to your PPI number. And also, how much of that relates to Plevin? If you can break that out, that would be helpful.

Just wanted to follow up on Raul's points on RMBS. Have you formally started negotiating with the FHFA? Because I remember from past conversations that you were in a queue, and right at the back of the queue along with Nomura, in even starting those negotiation process. So has there been any progress on the negotiation process that gives you this comfort that you will settle it in 2016?

Ross McEwan: Yes. Thanks very much. Ross here. Look, We're not in any substantial conversations. There's no negotiations going on.. So these are views that we've taken based on other settlements that have been going on in the marketplace and where we see our position.

So no substantial conversations. Of course, you have conversations, but they're not substantial or any form of negotiation on that one. So no change on RMBS and our position there.

On the PPI, we haven't broken out the difference between Plevin, time barring, increased claims that we expect from additional marketing that will happen in the round. Our view is that GBP500 million provision, given what we know, is the provision we should be taking today to get us through to the end of first quarter 2018 based on the information.

Now that may change as the consultation document comes to its conclusion and if any change is made, but this is just based on that. And we haven't broken out into Plevin versus time barring versus any other item.

Chintan Joshi: Thanks. Just quickly again on PPI. And if I think about general experiences, we've been inundated by PPI calls, and if I understood correctly, what you're saying is you've assumed an increase in the run rate and I would suspect you would also assume a pop at the end of the deadline period when things really get hot.

If that increase in the interim never comes about, and just the pop comes, then really you're over-providing. Or conversely, if there is anything in the consultation text that clearly indicates that claim rate will pick up, then you may be under-providing. So just trying to get a sense of those assumptions gone in.

Ewen Stevenson: Yes. Look, You're quite right that we may in hindsight prove to be over or under provided. Look. All we can do -- and I think you've seen a similar statement by Santander today in terms of their full-year results announcement. But I think all we've tried to do is say, look, we've got a consultation document as part of the exist -- and that period for consultation runs until February 26.

So as Ross said, it's not yet completed, but based on that consultation document, based on our assessment of the FCA-led communications campaign, based on our current claims experience which continues to show quarter versus previous year quarter declines, that we think that this GBP500 million (alongside the current) provisions we've already got is enough.

Could we be wrong on it? Quite possibly. If we're over-provided we'll write it back and that's the view. The moment that we think we're under-provided, I think in recent quarters we've been quite clear that we're trying to take a conservative position on our provisioning approach on PPI. And if we find in subsequent quarters that our estimations that we've made today are wrong, we'll update the market and adjust those provisions at the time.

But all we can say today is, I think, based on a lot of work that we've done over the last month or so, we think this is a sufficient provision.

Operator: Martin Leitgeb, Goldman Sachs.

Martin Leitgeb: Just one question from my side on operational risk-weighted assets. And in light obviously of the substantial increase in litigation provisions, how should we think about development of operating risk-weighted assets going forward? So I think one could see that as you provision for the remaining items, the risk to the Company should decrease over time, and hence those are the (inaudible). I was just curious in how you're thinking about this going forward.

Thank you.

Ewen Stevenson: Yes. Well, we currently use a standardized approach to operational risk, so you'll probably see litigation for us playing more into stress testing.

So I think what you'll see for us is as we continue to settle out things like PPI, which as I said I think we have tried to provide against today for lifetime losses, as we continue to address US RMBS, you won't see the numbers but what you'll see is the stress position that we currently have in our modeling as part of our annual stress testing for conduct and litigation will come down and, therefore, our stress-test results will improve. But I don't think you'll see it come through, for us at least given our standardized approach in terms of lower operational risk, RWAs.

Martin Leitgeb: Thank you.

Operator: Joseph Dickerson, Jefferies.

Joseph Dickerson: I just have a couple of questions. The first is can you explain perhaps on US RMBS what changed in terms of the fact pattern? It seems to me based on your comments on this call and what I've read in your release today that perhaps the fact pattern changed more around NCUA than FHFA. So that's the first part of the question.

The second part of the question is thinking about a Q1 17 prospective capital return, obviously subject to the caveats which you've put on it. I guess the question that I have is would you need to have the DoJ cases actually settled before you're able to return capital, or would the FHFA, NCUA and others be enough to get you past the post, particularly given that in the last stress test there was, I think, about GBP40 billion of litigation and conduct risks that the regulator threw at the industry. So if you could answer that, that would helpful.

Thank you.

Ewen Stevenson: Well, the litigation provisions we've set up today cover FHFA, NCUA and other outstanding US RMBS litigation-related claims against us.

You're right on NCUA. I think in the last quarter, there was a Morgan Stanley settlement in previous quarters, both Wachovia and Barclays, so we do have a better understanding of where NCUA settlements may be required.

On FHFA, Goldman obviously provided for their overall umbrella settlement in the last few weeks, which included part of that for FHFA. So there is better guidance I think across the piece which has allowed us to take these additional provisions.

On the question on capital return, look, I think realistically, the Department -- understanding where we are with the Department of Justice is a big part of us being able to satisfy the PRA that we understand what a -- within a reasonable ground what our final settlement costs will be for US RMBS. But I would distinguish between being able to set up a provision versus settling cash, and there can be months between that.

But from an accounting point of view, I think we do need to be able to say to the PRA that within a reasonable basis we understand what our likely regulatory fines are going to be, both with the Department of Justice and the State Attorneys.

But again, as I said previously, it continues to be an open expectation that we would be able to get to that clarity during 2016.

Joseph Dickerson: Thanks.

Operator: Sandy Chen, Cenkos.

Sandy Chen: I just had two follow-up questions. One, Ewen, at the tail-end of your -- when you were talking about the pensions, you mentioned that there might be in the future some additional adjustments. Could you just talk a bit more about that; whether or not it's going to show up in other comprehensive income versus the interface of the P&L and TNAV, and all that kind of stuff; what the key drivers in that would be?

And the other question was just about private banking. Well, and you might choose to answer this later on in the results, but blaming a low interest rate environment for roughly 8% ROEs, is that --? Do you see, given that that top-line income might be constrained for private banking for a while in these markets, do you see that more as a cost exercise in terms of improving the profitability?

Ewen Stevenson: I'll pick up the private banking and you can catch the first item.

We've done some substantial restructuring work in the private bank. We've sold the international business. We've taken out RBSI. So there's a lot of moving parts in that business.

And as we looked at one of the items that we mentioned was you've got a low interest rate environment that's been running with a loan-to-deposit ratio -- I think today it sits at about 63%; it was at 43%. That has an impact on its revenues (sitting in the NIM). But that's only one item. There's an increase in the tax rate on that business and a whole raft of things.

And as the finance team quite rightly did their end-of-year goodwill review, it was just found not to be able to carry that any further. So that's why we've taken the charge now. There's no impact on TNAV so our view it's the prudent thing to do.

Ewen Stevenson: Sandy, in relation to what may come in pensions beyond setting up this provision at the end of Q4, the recognition of the liability, obviously, when we signaled the fact that we'd reached this memorandum of understanding with the pension trustee, broadly from an accounting perspective at that point, we've got the GBP4.2 billion payment with recognized liability of GBP3.7 billion because of time value. We then take that additional GBP500 million tax effect that I think most of that goes through OCI at the time.

What we've also tried to signal I think today is the fact that one of the benefits of what we're doing is accelerating the next triennial valuation to the end of 2015. And in return for us making the single cash payment up front, what the trustee has agreed is to bring forward that valuation over the next three-year period to the end of 2018, not seek any incremental payments from us. We then have fifteen months from the end of 2018, which is the date of the next valuation, through to the end of first quarter 2020 to agree what additional top-up payments may be required.

So effectively, what we've thought is certainty on the impact on pensions on our capital position all the way through to the end of 2019. We do expect when we get to first quarter 2020 that there's likely to be some incremental top-up payments required, and at that point, that would then crystallize an additional liability for whatever that payment stream was into our accounts in 2020.

Katie Murray: And adding Ewen at that point, you would see that flow through OCI as well.

Sandy Chen: Right. Okay. So basically, don't worry about it. Worry about it in 2020.

Ewen Stevenson: Yes.

Ross McEwan: Yes

Operator: Jason Napier, UBS.

Jason Napier: Three simple ones, I hope. The first, I appreciate this is I think a question that's been asked in various ways already, but I'm just wondering whether the delay in recognition in capital requirements of the pension top-up to 2017 is a principle that would be extended to other types of provisions. I know Raul asked this already, but I'm just thinking in particular about provisions for legacy issues.

You've said that if you're able to say to the PRA that you've got some confidence around a provision made in regards to the DoJ, the inference is that you'll get some credit for that immediately. Is that right or are we to expect a delay?

Ewen Stevenson: No. All I was trying to allude to there -- for example, one of the banks, Morgan Stanley I think, reached agreement with the Department of Justice on what the settlement cost was in the first quarter 2015, and I'm not sure they've paid the cash yet. So they're able to set up the accounting provision, but the actual payment and settlement of the fine hasn't occurred yet.

Goldman has just obviously announced a GBP5.1 billion settlement with the Department of Justice including FHFA and a few other things. So that would allow them to set up the accounting provision even if they hadn't settled the fine yet.

So I would think that we would have to be in pretty advanced negotiations with the Department of Justice such that we were able to certainly look the PRA in the eyes and say in a very tight range here's what we think the final settlement cost is going to be.

Jason Napier: My question was more do you have the transparency on the provision in your hurdle capital requirements such that the provision goes in, your capital requirement falls at the same moment; or are we to expect an enduring delay similar to the one that applies in the case of the pension top-up?

Ewen Stevenson: No. We have a capital plan that has within it a central planning assumption of what we think both final settlement costs will be for US RMBS and a range of other conduct-related issues that we've been transparent about with the market. And then on top of that, we have a stressed view on outcomes on what those settlement costs could be, and that's all part of our annual stress-testing process that PRA is very familiar with our capital plan, spends a lot of time with our legal team to make sure that they're comfortable with our central planning assumptions, but obviously continue to take a relatively conservative view on final settlement costs.

So it's really closing that gap, which is important, which does require us to be further advanced than we are today to have a reasonable basis. The fact that we can't set up a provision today against the Department of Justice and the State Attorneys is because we've got really no reliable basis for understanding what that settlement cost could be.

Jason Napier: And the time -- the delay between setting up the provision and submitting and having approved a new capital plan would be as much as how much?

Ewen Stevenson: It's not so much getting a new approved capital plan. We're constantly updating our capital plan during the year. It's really if you think about the annual -- well, firstly, there's the annual stress-testing process and how the numbers feed into that. Secondly, there's the annual ICAP process. We do think this recognition of the pension liability in our 2015 accounts will flow through into our 2016 ICAP, which we'll then get a decision on, which will impact our required capital buffers from January 1, 2017.

But in terms of -- if the core of the question ultimately is what does that mean for distributions in 2017, as I think we've been trying to say, we don't think there's anything in today's announcement that would cause us to change our views on that; but it's with all the caveats that I've been talking about, i.e., we need to have solutioned Williams & Glyn, we need to have a substantial understanding of final settlement costs on US RMBS, and we need to have a good stress test result at the end of this year.

Jason Napier: Thank you. And then in the interest of time I'll just have one more, if that's okay.

I know it's probably arcane, but I'm just trying to understand why it is that you're flagging potential top-up requirements in 2020 and why those wouldn't be liabilities that if you can see them in 2016 you'd have to provide for today. Why is that?

Ewen Stevenson: Well, because it's subject to a future valuation that would occur in -- had we not done this memorandum of understanding, Jason, we would have been having that discussion -- the next valuation date would have been March 31, 2016, which would have meant by the end of Q2 2017, we would have had to sit down and agree with the trustees. So effectively, we were likely to trigger, we think, an additional set of top-up payments in Q2 2017.

So what we've effectively done with this memorandum of understanding is push back that set of top-up payments to Q1 2020. I think we're just being appropriately cautious and transparent. We can't foresee today, based on a whole range of variables, both actuarial and investment-return variables, what that valuation and what that actuarial deficit is going to be at the end of 2018. But based on what we can see with the current deficit that we have, remember it was GBP5.6 billion as at the last valuation date, we don't think that this set of GBP4.2 billion of top-up payments completely solutions that deficit. So we're just cautioning people.

And I think what we do intend to do as part of our full-year results announcement this year is give people some more of the actuarial assumptions used to calculate our deficit so you can all go away and do some maths on what you think that deficit could be at the end of 2018 and, therefore, what top-up payments may be required in 2020.

Jason Napier: I look forward to doing that (laughter).

Ewen Stevenson: As I have recently!

Jason Napier: Can I just check though that there is some -- in line with what you're saying about the more recent top-up there is a partial offset in (rate) cap for the 2020 as well?

Ewen Stevenson: Well, at that point there would be. Yes.

Jason Napier: Okay. Thank you.

Operator: Chris Cant, Autonomous.

Chris Cant: I have two please, one on pension and one broader one which I guess might be a nice way to wrap up.

On the pension, obviously, you've accelerated the recognition of these cash commitments, and I guess you're effectively putting a liability on a cash-funding basis almost in the accounts. But I'm just curious as to what impact that's likely to have on your running P&L charge for pension contributions going forwards under IAS 19. Is it going to be higher, lower? How should we think about that in terms of what your cost/income ratio impact of this, if any, will be going forwards?

And then the second question is more broad. Obviously, you've still got a lot of outstanding issues. I think early in 2015, you were hoping to have cleared most of these litigation topics and it feels now like some of them may persist looking into 2017. How much management time is this absorbing? You've obviously got to deal with the Williams & Glyn separation. You have numerous ongoing US law suits which are material to the Bank I guess require your attention. How much time does this absorb? Does it detract from your ability to focus on re-energizing the core franchise which is obviously part of your longer-term strategy?

Thanks.

Ross McEwan: Maybe, Ewen, you take the first question and I'll take the latter one.

Ewen Stevenson: Well, I think that there will be some benefit but less than GBP100 million a year, I think, in terms of the impact on P&L as a result of what we're doing on pensions.

On litigation, Ross.

Ross McEwan: Now look. It was a good one to finish on because we set out the 2015 and 2016 (with) phase 2 of our strategy, which was to clean up as much of the conduct and litigation. And we made it quite clear - both conduct and litigation and the restructuring of the business. We made it quite clear that the big items were around RMBS and through FHFA and DoJ, and those still are there with us. We are quietly confident, but it's not in our hands for timing. But we'd like to see those tidied up this year along with the bulk of the restructuring of this business, which is progressing very well.

From a timeframe perspective, our two core businesses, personal and business banking, get very little involvement in these. Les Matheson and his team have got a free run to keep on with it. They'd like to see the end of PPI obviously because they've got a number of people that are doing remediation work.

And from Alison's perspective running our commercial and private bank, private bank is one of the areas that we are spending time on to get it right. It's a great business. Taking the write-down of goodwill today, we still think this is a very good business that as Ewen said should do mid-teens returns. We'd like to see some slightly better performance out of it this year on its path for the next two years to three years.

We've got a specialized team who deal with these issues of conduct and litigation; highly skilled people. Unfortunately, it takes a fair bit of Board time, but becoming less and less of the management time. And as we get to the end of 2016, I'd like to hope it's taking very, very little of mine and Ewen's time, but at the moment, unfortunately, it is. But our senior executives are spending more time on the other.

Williams & Glyn, a big one for us. It is big. As we've said, we've got over 5,000 people dealing with the take extraction of this business out. It's never going to be easy, and that is a distraction for our business. But we have to do it and the sooner we can get it out and sold the better for everybody going forward, including the people and the customers.

Chris Cant: Okay.

Ross McEwan: Thanks for your time today. I know this was a very big news announcement with a number of moving parts. Thank you for your perseverance with us. And I know the investor relations team are available today to take any of the questions that you have on these. And we look forward to talking to you again at end-of-year results in February.

So thanks for your time this morning.

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

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