



Moderator: Ross McEwan
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FORWARD-LOOKING STATEMENTS

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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, (Lance) and good afternoon, everybody. I know it's been a busy day with Barclays reporting as well, so thanks for joining me later than what normally have been the case. I will just give you a brief update on how we're progressing since we last spoke in February and then hand over to Ewen before leaving this time plenty of time for questions and answers.

Look, we are pleased to be posting a bottom line profit of GBP259 million for Q1. These results reflect very much what we've talked about at full year; firstly, a strong and improving core bank and secondly, fewer legacy issues. Core income was up on last year, adjusted costs are down and we're making better use of our capital. This drove a 13.8 percent adjusted return on equity and improving productivity in the core bank and they're important steps on our path to profitability.

Looking at our business performance in Q1, our six core businesses made an adjusted operating profit of GBP1.3 billion. This has now averaged an adjusted core operating profit of over GBP1 billion from the last 9 quarters. This is a further demonstration of the earnings power of this business. Following the strong quarter, we expect returns to temper slightly as we have had a softer start to Q2 in NatWest Markets. We reaffirm, though, our full year guidance.

Annualized lending growth in our Personal & Business Banking and Commercial & Private Banking franchise to 5.6 percent. It compares well to our 3 percent target for the year. And in context of the U.K. economy, which continued to grow at a modest rate in the first quarter, I think this is a good result.

At the same time as growing lending in the markets we like, we have improved our capital efficiency as we run down our legacy RWAs and reduced operational risk in the bank. In addition, actions in repricing deposits and asset pricing discipline are starting to flow to our financial performance.

RWAs are coming down steadily with a GBP4 billion reduction in Capital Resolution and GBP2 billion from the core bank. We're down GBP7 billion in the quarter, overall and our Common Equity Tier 1 ratio is up to 14.1 percent a result of these moves.

We see this quarter results as another step towards delivering a bank that we will become in 2020. I said at our full year results in February that we were going further on cost reduction and faster on digital transformation and we've continued to make good progress in both.

As our core bank simplifies and our customer experience improves, our core bank results strengthen as well. We've reduced costs by GBP278 million so far this year, with an additional GBP51 million from the VAT refund that is not included in these numbers and we're on track to deliver GBP750 million saving for this year. The GBP750 million will come from improving productivity in the core bank and shrinking our legacy issues. A good example of this is our property strategy. We're committed to using our existing buildings more efficiently and making better use of lower-cost locations and we see further efficiency gains in this year to come.

We exited 135 Bishopsgate recently. In this quarter, we announced plans to exit another of our London City property premiere place. This will mean we have reduced our London office space by approximately 6,500 desks.

So to reiterate our guidance on costs, we're still targeting a GBP750 million reduction this year despite the strong start and we remain confident of delivering a GBP2 billion reduction target from 2017 through to 2020.

At the same time as reducing costs, we're improving our products and customer service. We continue to grow our mortgage book, winning 13 percent of new business compared to our 9 percent stock share. Our mobile app -- despite it having a little bit of a problem running slowly today -- has been voted by customers as the best in the U.K. and it continues to improve in its functionality and see increased usage. It already delivers over 1/3 of our personal products sales. As this channel grows in importance, we aim to meet over 1 million customer needs through our mobile app this year.

The improvements we are making on customer service are flowing through to our Net Promoter Scores. Our NatWest Personal Net Promoter Score was plus 15 in Q1. This is the highest it's ever been and Commercial Bank is a market leader with a score of plus 21 and we are pulling clear away from the other competitors in this area.

We are aware that we still have a lot of work to do to improve our Net Promoter Scores across some of our other brands, though.

There's plenty more improvement going on elsewhere in the business. We have launched the Royal Bank Assist, an artificial intelligence online support tool for customers which is now answering 80 of the most frequently asked questions. This is a U.K. banking first.

We're rolling out a new small business lending platform that allows us to complete small loans much quicker and shows preapproved lending limits to customers alongside their online banking. And we're also preparing for a full migration of customers to our new best in class bank line platform later this quarter for larger commission clients.

Now turning to our 2 significant remaining legacy issues on RMBS, we have no further updates to provide today. We remain in discussions with FHFA on their primary RMBS litigation claim and we have nothing more to say on any engagement with the Department of Justice.

We have also seen the European Commission's announcements about the consultation on HMT Treasuries alternative plan for Williams & Glyn. We're pleased with this progress and we expect to continue to have positive discussions with HMT and the EC as the results of these consultation exercises are received.

Subject to dealing with RMBS and Williams & Glyn this year, we anticipate being profitable in 2018 and we do remain committed to delivering our 2020 financial and customer targets.

RBS is well-placed in the U.K. banking industry with leading market positions across the country for all types of customers in a range of strong

brands. Today's results are only a snapshot that show that we are delivering for our customers and shareholders at the same time.

I want to reiterate what I said to you in February. This bank has a very strong core with great potential and we believe that by going further on costs and faster on digital transformation, we will deliver a simpler, safer and even more customer-focused bank with a compelling investment case.

I'll now hand over to Ewen who will take you through the financials in a little bit more detail.

Ewen Stevenson: Thanks, Ross. It's good to see our first bottom line quarterly profit since Q3 2015, even better, the underlying trends we saw this quarter.

As part of our recent full year results, we said we'd deliver 4 things in 2017 before returning to bottom line profits in 2018 and as part of our overall progress towards our 2020 targets. For 2017, for the core bank, we said we'd grow income, we'd cut costs and we'd do it with less capital.

And for our legacy issues that we seek to largely complete the job this year, namely, that we'll seek to resolve RMBS, both the FHFA litigation and the Department of Justice regulatory investigations; that we'd agree a solution for Williams & Glyn; and that we'll wind up capital resolution at year-end. And with our Q1 performance, we think we significantly derisked full year delivery against these targets.

For the core bank, we think this is a good quarter and very much in line with building towards our 2020 targets. This quarter was much stronger than Q1 2016. Good growth. We're taking market share where we want to take share. Adjusted income was up 12 percent and adjusted operating profit at over GBP1.3 billion is up 30 percent.

Also important for us is the increasingly increasing stability of our core income and earnings. For the last 9 quarters, adjusted pretax operating profits have been, on average, over GBP1 billion. On income, U.K. Personal & Business Banking continues to deliver strong growth. Mortgage volumes up 12 percent versus Q1 2016. We also saw good growth in business banking

with Q1-on-Q1 growth of 4.7 percent excluding transfers. And overall, U.K. Personal & Business Banking had adjusted income growth of 8 percent.

Commercial Banking has, as we'd said we'd do, been more selectively targeting where it wants to grow, so adjusted income growth was more modest at 1.4 percent. And for NatWest Markets, it had a strong quarter. Adjusted income of GBP508 million was up 83 percent on Q1 2016, with a strong performance by the rates franchise in particular. While we expect Q2 to be weaker, we remain on track to deliver our guidance for this year.

Overall, in the core bank, net interest income was up 7.3 percent on Q1 2016 and that's despite the core bank NIM being modestly down 8 basis points on Q1 2016.

On cost cutting, our program continues on track, excluding the GBP51 million off a VAT recovery this quarter. We achieved GBP278 million of additional cost saves, 37 percent of the GBP750 million of costs saves we said we'd do this year.

Capital Resolutions Q1 operating costs we are now down to GBP69 million. That's 70 percent lower than Q1 2016. For the remainder of the year, we expect the rate of decline in Capital Resolutions costs to moderate, meaning, much more of the overall cost reduction in the final 3 quarters should benefit the core bank. As we've previously said, we expect around half of the cost saves this year to benefit the core bank, helping drive what we expect to be strong operating jaws.

Impairment trends continue to remain benign at this point. In the core bank, impairments were 11 basis points on an annualized basis, but still up on Q1 2016 due to some single-name commercial impairments across several sectors and a reduced benefit from impairment releases.

Restructuring costs were GBP577 million this quarter. That's just over half of the GBP1 billion of restructuring costs we're forecasting for the full year, so you would expect the next 3 quarters to see a much lower run rate.

This quarter included GBP235 million of property restructuring costs. That includes part of an ongoing material reduction in our London head office footprint and an already announced further branch reduction planned for this year, both in the U.K. and Ireland.

On capital in the core bank, we achieved a gross reduction in RWAs of GBP3.2 billion, primarily from Commercial Banking and NatWest Markets. This reflects the start of the at least GBP20 billion of gross RWA reduction that we've targeted from the core bank through end of 2018.

So in the core bank, we've adjusted income up 12 percent, adjusted costs down 1 percent and RWAs down 2 percent, adjusted operating profit were up 30 percent on Q1 2016 and the adjusted return on equity rose to 13.8 percent from 10.9 percent.

Turning to our legacy issues, on U.S. RMBS, as Ross said, we are in discussions with FHFA, but otherwise, nothing new to report this quarter. I would continue to caution that we could see further material potential settlement costs for RMBS this year, above and beyond existing provisions.

On Williams & Glyn, I think you know where we stand with the European Commission and HM Treasury. Financially, Williams & Glyn income was broadly flat on Q1 2016 and adjusted operating profits of GBP111 million were up 10 percent.

On Capital Resolution, it's on track to deliver its RWA reduction target for the year, with RWAs down GBP4 billion in the quarter to GBP30.5 billion. And you'll also have seen this week's announcement from Alawwal Bank regarding its (media talks).

On disposal losses in Capital Resolution, disposal losses of GBP50 million in the quarter were largely offset by GBP45 million of impairment write-backs. So over the next 3 quarters, expect to see most of the remaining GBP800 million of further forecast lifetime losses being incurred.

On other one-offs, there were much more modest one-offs in income this quarter, but you should note that we had GBP105 million of losses on the

unwind of securitization losses relating to exiting certain London properties. On the balance sheet, our Common Equity Tier 1 rose 70 basis points to 14.1 percent and our TNAV per share rose 1p to 297p.

So overall, with only 2 months since we last updated you, we think we've significantly derisked 2017 guidance following a strong first quarter. We are pleased to be reporting our first profit in 6 quarters and we're happy with the underlying performance trends.

Our core bank had a good quarter relative to Q1 2016. Adjusted income, operating profits and returns are all well up. And on our legacy, we continue to make steady progress. We want this year to be our final year of substantive cleanup prior to returning to bottom line profitability in 2018.

Thanks and with that, if we could open up for some Q&A please.

Operator: (Operator Instructions) Your first question comes from the line of Jonathan Pierce of Exane.

Jonathan Pierce: You're probably sounding far more upbeat than I think I've heard RBS management sounding in a very long time and my question is really around this is a longer-term guidance. The market obviously isn't believing you on your 2020 target relative to consensus as you had about 26p reported in that year and I think your target is more consistent, we saw 32p, 33p.

And I guess, the market is probably not believing you can take GBP2 billion of costs out, whilst growing revenue through GBP13 billion. So my question is really whether you can help me as I run a few things past you on the revenue bridge. I mean, if we take the first quarter and annualize it and normalize it a further more sort of normal GBP1.4 billion of revenue in NatWest Markets.

You're starting at GBP12.5 billion. Just check these 3 things, please. Firstly, as we move forward, what sort of TFS usage do you expect to get to and if you can confirm what you did in the first quarter, that would be helpful. Do you want me to give you the other 2 points or do you want to do these in turn?

Ross McEwan: No, no, get through all 3, Jonathan.

Jonathan Pierce: The second is on the opco debt. There's about GBP20 billion that I think matures in 2020 and that's currently costing you 170 basis points to think of weighted average spread. What's your sort of thinking within your internal projections as to what you can get that reissued at? And then thirdly, can I just check this is right? I think, in March, you served the redemption notice on about GBP3 billion worth of very expensive Tier 2 that was issued in 2012.

I think the average spread on that stuff was 8 percent or 9 percent. So it didn't redeem until 16th of March, so will we see in Q2 an effective additional GBP250 million worth of annualized revenue coming through net interest income because this is all booked, I think, above the line. I'm really just trying to get a sense as to whether these are 3 key components to this revenue going up from where we are at the moment.

Ewen Stevenson: OK, so...

Ross McEwan: Go on, Ewen, it's your show now. If I could just -- maybe if I could just start - - Jonathan, I mean, (inaudible) no one believed we would take the costs out of this business. So we've taken GBP3.1 billion out to date, we signaled we're taking GBP2 billion out. We've signaled we'll take GBP750 million out this year, which we've already taken out GBP278 million.

So can I just say we are committed to taking out the GBP2 billion over the next 4 years and we'll get GBP750 million out this year? So it does come down to the revenue. We've said we will get a slight increase in revenue -- income this year and over the next 2 years to get us to the income level. I'll leave Ewen to take you through all the numbers. Your TFS to date is I think GBP14 billion, Ewen. And I'll leave Ewen the rest, the opco debt type issues.

Ewen Stevenson: So on the Page 4 of the IMS, Jonathan, we've got some disclosure on TFS. But as Ross said, it's now at GBP14 billion. We've drawn down, I think, an additional GBP9 billion this quarter. And I don't think it will go up somewhat, but not significantly from here, I think. The -- and if you look at the average funding cost of our U.K. deposits at the moment, it's actually lower than

where we're funding with TFS. I think, on the opco debt, you're right, that will continue to run down.

But the only thing I would say is we still got a lot of MREL to issue over the coming years. So I think some people have been signaling, I don't know, they agree that they expect the net of that to result in increased funding costs for us. We think it's a sort of wash with us more.

And on the Tier 2, you're right in terms of the income benefits that we should see coming through from that. But I think, as we go out, Jonathan, I guess, what we -- as you would not be surprised by, a more bullish view on our continuing ability to capture market share and grow volumes faster than market. And as you get into outer years, that becomes more of a delta versus consensus.

Jonathan Pierce: But these sorts of liability things as purely mechanical improvements or driver of revenue, they're broadly correct, are they, the math is right, GBP250-odd million on that sub-debt alone?

Ewen Stevenson: Yes, yes.

Operator: Our next question comes from the line of Andrew Coombs of Citi.

Andrew Philip Coombs: A couple of questions from me. One on global markets, one on the PBB volumes. Global markets, you've already said that you expect it to beat the GBP1.3 billion to GBP1.4 billion full year guidance. Q1, GBP0.5 billion, you've already done well over 1/3 of GBP1.4 billion, 36 percent, so you're on track to pass that, but you do talk about softer Q2.

Can you give us a better feel for just how much of the Q1 strength was one-off in nature. Positioning, for example, versus volumes. How much we can extrapolate going forward? That will be the first question.

Second question, on the U.K. volumes, up 3 percent Q-on-Q. Since you already hit your full year target there, is there a case of you might step back slightly in that market and focus more on margins again? Or do you just think that volume growth can continue to surpass expectations?

Ewen Stevenson: Yes, look, on global markets, yes, we would typically expect to do about 30 percent of our annual income in Q1 and you know that tends to be pretty seasonal. If you look over the last 9 quarters, I think we fluctuated between about GBP250 million and GBP500 million in any given quarter.

We did have a very good Q3 last year that was significantly higher than we would have expected. So look, overall, I think last year, we did about GBP1.5 billion of income in the business and that's above the GBP1.3 billion to GBP1.4 billion guidance. If you sort of say 3 more quarters to go, I think that sort of feels like a reasonable place for us to guide to at the moment.

On PBB volumes, I think we always said that, that 3 percent was across PBB and CPB. I think we've talked about the fact that on commercial, we are being more selective and we do expect that more of the gross RWA reduction will be coming out of commercial. So we may see, on a net basis, very modest growth in commercial this year.

Ross McEwan

We would, however, still continue to see ourselves outperforming the market in growth in particularly the mortgage business, Andy. We have very strong distribution there and it is working well for us. We're not playing the pricing game. Actually, if anything, we've just been quietly adjusting prices slightly up.

So we do -- but we do expect to outperform the growth in that market, particularly in mortgages. On the unsecured side, they're just doing a good job on the unsecured personal lending, not so in the cards business. And for obvious reasons, we'll step back out of the 0 balance. But we're also doing pretty well in the small business market as well where we're still getting quite good growth there. It is the biggest small business franchise and we're performing in that area.

Yes. But, yes, mathematically, you're right, Andy. In the first quarter, I think we've done just under half of the growth that we said we'd deliver for the full year across PBB and CPB.

Ross McEwan: Been strong

Operator: Your next question comes from the line of Michael Helsby of Bank of America.

Michael Helsby: So I've got 2, please. Yes, so just where you left off actually because the performance in PBB was very good and that 13 percent share of the gross mortgage market in probably the most competitive market we've seen post crisis. So to be gaining share, that's particularly good.

So I guess, the question is do you have -- what market share aspirations do you have? Can it be higher than 13 percent or is 13 percent about where you want to run with? And also, you know I'm a keen follower of your reward accounts. I was wondering if you could tell me how many reward customers you've got at the end of Q1.

It's not in your release, it normally is. And then -- that's the first question. And second one is just more broadly on, I think, where Jonathan was going on your targets then. I'm just conscious that since the year-end and you put out your targets at 5- and 10-year swaps of rolled over and I know that you're well off the lowest book.

Just feel like that's a decent headwind if things don't change from where they are today on your GBP1.2 billion of hedge contribution. So the question really is, of that GBP1.2 billion, how much have you allowed for in your 2020 cost income target?

Ross McEwan: Look, on PBB mortgages, we did have a very good quarter. It was very strong for us. I think we've -- at 13 percent -- look, I would've thought we were aiming over the next 4 years to be at a 12 percent stock. If we can run it somewhere between 11 percent and 12 percent over that period of time, we'll be very pleased with ourselves, as said on the last caller, with Andy.

We have been building distribution very strongly there and it is working for us because it was something that this bank traditionally did not have. So we've been very strong, it's working, our service delivery is very, very good. So I would say at least we'll happy with a double-digit growth and we'd be aiming probably to 12 percent of stock within the next 4-odd years.

Ewen Stevenson: And remember that on top of that, if the Williams & Glyn proposal is accepted by the European Commission, Michael, we will add about 1 percent of market share as well that Williams & Glyn currently has in the mortgage market.

Ross McEwan: Yes,.

Michael Francis Helsby: OK. Sorry, (inaudible) there's a lot of good numbers of the same sort of deal. The 11 percent to 12 percent you're talking about, is that of flow?

Ross McEwan: Yes, flow. In the first quarter we ran up 13 percent, which is very strong. I think as long as we're in double digits -- and it is a point around pricing as well. We do not plan to lead this market on price at all, but we'll take a bit of a price benefit where we can and we're doing that right now.

On the reward account, we're up to 1.29 million reward accounts. So that's -- I think we finished the end of last year with about 1 million. Just -- we're 100,000 up on this year. You may have received your little notice, Michael, on the changes being made to the account. If you haven't, you should read it. The price of it is actually going down to (2 percent), but also, the benefit are only going to be 2 not 3 percent, but it's still a pretty compelling offer as you and I know.

Ewen Stevenson: And you can see some of the benefit of that product now coming through in the growth that we saw in business from current accounts, which was very strong over the last year.

Ross McEwan: Yes.

Ewen Stevenson: And your question on the impact on the structural hedges, Michael, you're right, I mean, we took what would have been consensus at the time we came out with those targets. As I said a couple of times on these calls, we think of them as flaws, not targets. So you should assume that we have some margin for error in setting those targets in 2020, but they were based on consensus at that time.

Michael Helsby: OK, so you're not going to give us a number then?

Ewen Stevenson: No, no. But we did go out today and we haven't sought to change our 2020 targets. So...

Michael Helsby: No, no, I appreciate that. I guess, people are trying to do all the building blocks and that's clearly a very big building block. So it would be useful. That's fine.

Ross McEwan: Thanks, Michael.

Operator: Your next question comes from the line of Raul Sinha of JPMorgan.

Raul Sinha: Can I have 2 and maybe a follow-up as well, please? Just firstly, just staying on U.K. PBB. I think this thing that really stands out in the performance here is obviously very strong growth in balances, but quite a big pickup in NIM as well. I think you're at 3.01 from 2.94 in your last quarter.

And so, I guess, a large part of that is probably driven by your liabilities side action, along with the TFS. Could you maybe give us some indication of how much more juice there is on the liabilities side?

And does this 3.01 NIM kind of remain stable from here? Or do you expect that to kind of (inaudible) as the balance sheet growth picks up?

Ewen Stevenson: Yes, well, you can see in our reporting, I think we've set out asset liability spreads on Page 9 in the IMS. But we did a big repricing of liabilities in Q4 and we got the full benefit of that in Q1.

So the U.K. PBB liability spread declined by about 11 basis points in the quarter. But I think you can also see that there is sort of continuing asset side pressure in U.K. PBB. I think that is moderating because the set of variable-rate book has largely stabilized now. So the last 3 quarters has been 12 percent, 12 percent, 11 percent this quarter.

Yes, we're continuing to run down unsecured. You can see the credit card book is falling again, but it's becoming less of an issue for us, given the growth in secured business, unsecured. But we do think that at sort of overall

bank level, you can disaggregate further back up, that you will see a gentle reduction in NIM over the remainder of the year.

Raul Sinha: All right, that's really helpful, Ewen. Can I just (inaudible) with a sort of different -- on a different area very quickly? The cost saves in the core bank, you mentioned previously that over half of them will benefit core bank. Could you maybe give us some indication of which divisions should we see the bulk of the moves for this year? And then I've got one on RCR, just trying to understand what visibility you have on hitting the GBP800 million of losses, given this very strong performance in Q1.

Is this just you don't want to change your guidance because you've just set it out a couple of months ago? Or is there something really big in terms of losses ahead? Just trying to understand that.

Ewen Stevenson: So look, on the cost overall, really, if you think about the cost guidance we've given and where our Capital Resolution now is, Capital Resolution is running at just under 700 million -- GBP70 million of costs in the quarter. You annualize that. And I think we've previously talked about getting that cost structure to below GBP100 million in 2020. So we got, call it, just over GBP200 million -- let's say, GBP200 million or so of costs to come out of Capital Resolution.

Yes, that implies that the bulk of cost savings from here is all going to go against the core bank and it's going to be pretty widespread. We've talked about reducing NatWest Markets cost base by GBP500 million and the residual will come out across PBB and CPB. So there's cost-saving initiatives going on all across the bank at the moment.

And you can see that, too, in things like the reduction in headcount that's happened over the last year and look at where that's come out. Again, to give you an indication, that it's a pretty broad-based cost reduction plan.

Raul Sinha: OK. And on RCR, the GBP800 million -- I mean, it's really hard to see within that.

Ewen Stevenson: Yes, the Capital Resolution and, before that, RCR team have been at this for a long time. So they've got a pretty detailed understanding on an asset-by-asset basis what's still to go and what the costs are to exit that. Obviously, bouncing around a bit like the shipping markets improved somewhat from 3 or 4 months ago. But it just -- it's a timing issue more than anything. Some of the losses that we thought we might take in Q1 are more likely to occur now in the next 3 quarters.

Operator: Your next question comes from the line of Rohith Chandra-Rajan of Barclays.

Rohith Chandra-Rajan: I've got a couple as well, if that's OK, please. The first one is just returning to U.K. mortgages. You talked a lot about volumes. So I was -- the thing that also stood out for me was the overall mortgage margin. Looks like it's been stable in the quarter.

You touched on the SVR piece earlier, but in terms of new business pricing, could you just talk a little bit about what you're seeing there relative to the market and how RBS is delivering this very strong growth without really succumbing to the pricing pressure that potentially is there in the broader market? That would be the first one. And then the second one, just very briefly. Just to understand your degree of confidence on reaching a settlement with the DOJ on U.S. RMBS this year.

Ross McEwan: Yes, just going back to the U.K. mortgage market, I mean, our growth has been strong, but I keep going back to we've got very good distribution, for some reason people sort of keep pinning it back to a pricing point. Les plays a pricing issue in there around being in the market.

And right now, at the moment, he's actually tweaking prices up a little bit because of the volumes that we have been receiving, let's say, 13 percent flow in the first quarter. He has been quietly tweaking up a wee bit, but we do want to grow at a greater level in the marketplace. But we've got very good distribution.

Our service delivery, I think, in that market, is now second to none and I think we are going to surprise on the upside of our service delivery over the next 12 to 24 months as well with some of the things we're doing. And as we get

better at it, our costs come out as well. So we're looking end to end on a lot of these processes and there's plenty to take out as we get better.

So I'd say we will continue -- my view is we will continue to outgrow the market in flow. In mortgages, we will stay in the market on price. We -- he has been playing, I think, a very good game on this.

We spent 2 or 3 years of losing NIM on this book as our (SBR) market disappeared and went on to fixed. That's just not the case today. Most of our business is on fixed. We don't have a back book that we're protecting and we're enjoying growing in the market.

Rohith Chandra-Rajan: Are there particular market segments or LTV bands or type of buyer that you're focused on? Or is this really just about distribution?

Ross McEwan: Distribution -- we haven't really changed the -- our LTV hasn't changed. Quarter on last year, I think it's broadly pretty much exactly the same. We've...

Ewen Stevenson: Yes, I mean, about 70 percent of our distribution is through brokers. So in the first couple of months of the quarter, we were running actually comfortably ahead of where we thought we would be. We tweaked pricing up into February, beginning of March to take back margin a bit and we saw slightly lower flows in March as a result.

But I know we keep delivering mortgage growth quarter-on-quarter, I never understand why. But it does fundamentally come down to a dramatically improved service delivery, a better product offering and better operational capabilities to deliver higher volumes.

Ross McEwan: And I think the other thing we have is just the sheer consistency in this marketplace, which consumers like and the brokers certainly enjoy.

Ewen Stevenson: Yes, on the second question, on the DOJ, I mean, as you know, when the administration changes, a lot of the senior folks at the Department of Justice changed. Yes, those appointments, I think they've never even been identified, but not yet appointed. So it's really the lack of the counterparty to engage with

at the moment. But yes, there's no reason at this point for us to think that we're not able to get that resolved this year.

Operator: Your next question comes from the line of Chris Cant of Autonomous.

Christopher Cant: I just wanted to come back to the customer rates you referred to on Page 9. Could I just check, are those your swapped out yields or is that headline rate that you're charging customers? And if I could just follow up on the discussion around front book mortgage pricing. Could you give us an idea of the spreads you're seeing on front book products, for an example, owner occupied mortgage and for example by flat mortgage, please?

Ross McEwan: I just have to grab those numbers out of the report. You've got those details?

Ewen Stevenson: Yes, yes. So those are the customer rates that we're charging.

Christopher Cant: So this is pre the swaps you would've put against those where they're fixed?

Ewen Stevenson: Yes, pre the swaps we would have put against it.

Christopher Cant: And in terms of the front book spread you see?

Ewen Stevenson: Slightly lower than back book spreads, but that differential is closing now quite substantially.

Christopher Cant: Could you give us a sense of the quantity?

Ewen Stevenson: Yes, it's not a lot, it's probably in the order of 20 basis points or something.

Christopher Cant: In terms of the front book, back book gap you mean?

Ewen Stevenson: Yes.

Operator: And your next question comes from the line of Fahed Kunwar of Redburn.

Fahed Kunwar: Would you mind telling what the deposit rate is on your stock at the end of the quarter on your deposit balance at the moment? I think your average during '16 is about 30 basis points. So of the action taken in 4Q '16, where is that deposit at the moment?

Ewen Stevenson: ... page 9 of our IMS, that represents, I think, a pretty good indication of where deposit rates are as we repriced them in Q4 and I don't think there's been any material pricing action in Q1. And again, there's quite a bit of spread around that. So in the U.K., most of our deposits, both in commercial and retail, are priced at or below 10 basis points.

There's a certain amount sitting in with special incentive saving deposits, which cover those slightly higher rates. What that does show you, though, is that there is very limited capacity from here, we think, to reprice deposits out.

Ross McEwan: Yes. That is the case.

Fahed Kunwar: OK. On your mortgage business, obviously, really good performance. How much of that comes from your corporate franchise and how much is institutional business? I imagine the corporate side is stickier revenues and therefore kind of we can be more comfortable putting that forward into your future forecasts.

Ewen Stevenson: Yes, look, I mean, I think you should assume that the majority offered is classic financial intermediary business, but there is a decent amount of corporate flow in there, but it's minority of the flows.

Ross McEwan: Yes. We haven't in the past disclosed that number either.

Operator: Your next question comes from the line of David Lock of Deutsche Bank.

David Lock: Just wanted to stick on Page 9 actually, please. I know a lot of the questions have been about the U.K. business. One thing that struck me, it's slightly strange, when I look at the customer funding rate is how high Ulster Bank is. I think the way I see it, deposit rates are kind of going at about 20 bps at the moment for new deposits in Ireland.

So just wondered if there's any potential further cuts you could be making in the Irish business and how you're seeing margins there because they're up very strongly quarter-on-quarter.

And then my second question, sticking with Ulster Bank, actually. I think over the last 4 quarters, every quarter, the risk weight density seems to have dropped about 3 percent. Is that something we should just continue to extrapolate going forward? Or is there a kind of lumpy model change that's been kind of coming through that we shouldn't expect to reoccur?

Ewen Stevenson: Yes, on the NIM and Ulster in Q1, if you look on Page 22, there was a one-off income recognition on some nonperforming loans, which contributed significantly to the margin increase. But rather than focus, I think, on the liability margin, it's better to focus on what's going on, on the asset side in Ulster Bank.

We've got a continuing significant runoff of about 55 percent of the book is either the tracker mortgage book or an NPL book with very low margins. And then on the other side, we've got 45 percent of a good core bank where front book margins frankly are very attractive and every quarter you're seeing a significant shift away from back book to front book, from the legacy to the core, which is having a material impact on asset margins and we think that will continue.

On RWA density, I think, for the time being, you can assume that RWA density over there is going to continue to improve, given what's going on, on the property markets and as we continue to run down what is a very RWA-heavy track of mortgage book.

Operator: (Operator Instructions) We have a follow-up question from the line of Raul Sinha of JPMorgan.

Raul Sinha: I didn't want to let you go so early, it's a Friday afternoon. Can we talk about Williams & Glyn, please? I think there were some comments from the European Commission recently in terms of an initial response to the proposal and they mentioned a range of costs up to GBP1.5 billion.

How have you received that order? What are your thoughts around what they're saying in terms of Williams & Glyn here?

Ewen Stevenson: Yes, look, I mean, I think that it's important to -- they were sort of comparing that apple with a pear. Yes, the apple is the GBP750 million of provisions that we took into Q4, which is the cost we think of addressing the remedy. And the pear, on top of that, they've been speculated what the loss of income was that we would suffer as a result of implementing that remedy.

I think Treasury came up with a different number, different lower number. There obviously will be some impacts on income as customers -- commercial customers transfer from us to some of the challenger banks. But overall, you've seen the public consultation. I think we were encouraged by some of at least the initial comments from the European Commission. There will obviously be a lot of noise in the market from various challenger banks. So we should all just expect that to be the case. But overall, we're encouraged at least with the initial consultations.

Ross McEwan: ... the basis why they create more competition in this marketplace because instead of one player getting our book, you're opening it up for all of the challenger banks to actually improve their capability. So the expense of RBS, the GBP750 million cost for us that I think gets transferred across the challenger banks. Who wouldn't be happy with that?

So we'll see what happens with to consultation. It still got a few months to go. And as we said, third or fourth quarter, we should have a result from that.

Operator: And we have a further question from the line of Chris Cant.

Christopher Cant: The ring-fencing proposals, obviously, are looming. I just wanted to discuss, if possible, how you're thinking about the relative capital stacks for the ring-fenced bank and the non-ring-fenced bank.

And in particular, given that the ring-fenced bank is likely to have a greater proportion of the pillar 2 capital and you also face a potential inefficiency due to the fact you're systemic risk buffer is likely to be higher than your G-SIB buffer, which will introduce a higher PRA buffer in the non-ring-fenced bank as well.

How are you likely to run with a slightly lower management buffer in the ring-fenced bank to avoid creating sort of that high capital requirement at a group level?

Ross McEwan: Yes, so look, we're obviously still working through those both ourselves and with the regulator at the moment. But I think we're very comfortable at a group level with the 13 percent target that we've put out. As you say, there is likely to be different capital requirements between what we -- remember, we've got 2 non-ring-fenced banks and one ring-fenced bank.

But I think, overall, we're very comfortable with the 13 percent core Tier 1 guidance we've got out in the market at the moment.

Christopher Cant: In terms of the non-ring-fenced bank, in the past, you talked about looking to capitalize that to around 15 percent CET1 to achieve the necessary ratings to be a derivative counterparty. How are you thinking about that now, please?

Ewen Stevenson: No, well, I think I'm not aware. I don't recognize the 15 percent number. I think we're sort of -- would be below that, much closer to probably somewhere between 13 percent and 14 percent. But the -- again, I think we're very comfortable based on the work that we're doing that we'll get to the right ratings outcome on NatWest Markets.

Christopher Cant: I think your divisional equity allocation for NatWest Markets is currently 15 percent. At least that's what was in your divisional restatement document last year.

Ewen Stevenson: Yes, but that doesn't mean that, that -- remember, that's a divisional number, that doesn't include Capital Resolution, for example and as pre a ring-fencing split, which has -- in terms of where some of the buffers go. So I wouldn't read that 15 percent as our view on what the capital requirements are for NatWest Markets.

Operator: Our next question comes from the line of Claire Kane of Crédit Suisse.

Claire Kane, Crédit Suisse I have a couple of questions, please. I know we started off by saying that consensus doesn't really believe the targets. So I think the earnings

upgrades have come through and they're not too far off on the revenue and cost line. But I guess, when you get down to the bottom line, we're not close to the 12 percent return on tangible equity.

And I just wonder if you could give us sort of an update on what the leverage levels you might expect for the business. So any update on your mortgage risk-weight inflation expectations? Where you see sort of the net level of risk-weighted assets moving over the period? And really, what kind of level of net profit you might think that, that you need to deliver that 12 percent?

And then my second question really is about your consumer credit strategy. I know you've been quite vocal you don't like the zero per cent balance transfer market and the bank seemed to agree with you there. They also are quite focused on the unsecured personal lending market and the low rates. Could you maybe talk about your tolerance levels and what your expectations are for how they might try to increase capital requirements for that type of lending?

Ross McEwan: Just on the unsecured move, we start there -- we haven't changed our risk tolerance on our own unsecured business, Claire. What we have -- I think our growth in that area, we have certainly smartened up our service delivery in that area and using all our own scoring engines made it a lot easier for customers to come and put the detail in themselves. And given that we've been concentrating on our customers, not new ones, they have been able -- we understand them and are able to use data analytics to actually get the much quicker answer and get the money into their accounts, usually within 24 hours. So that's helped us grow that business.

We haven't again used the pricing lever. If anything, we're probably 1 percent higher than most in the marketplace if you look at the starting point on unsecured. So we haven't made moves other than changing the service delivery on that at all. We -- as you say, we stayed. We're in the credit card market, but not at the 0-balance and therefore, we have seen a drop off from the amount of business that we're doing in there.

And look, I've said to the team, they can't get back into the market. They have to answer the questions that I have for them from a customer behavior

perspective around how do you get the money back, how do you make sure that all those issues around customers knowing what their pricing points going to be when they come off the 0 balance.

No tricks on the way through with the fees that they get and the charges they get for their missed month, those are the things I wanted the team to actually sort through. And if they can do that, we'll come into that market. At this stage, it's a work in progress for them.

Ewen Stevenson: Yes, on the RWA question, yes, I mean, firstly, I think it's a bit generous to describe consensus as being in line with us. The last time I checked, consensus was about GBP6.9 billion of costs in 2020 and we've been guiding to GBP6.4 billion.

So there is still GBP0.5 billion gap in consensus. But on the RWAs, in terms of what we've talked about, we said we were going to strip out at least GBP20 billion of RWAs out of the core bank on a gross basis. We did GBP3.2 billion of that in the first quarter so we're well on track to deliver that.

We've talked about the impact of mortgage risk rates at being a sort of GBP12 billion to GBP15 billion impact and would be at the low end of that today. We haven't, through our end numbers, built in RWA inflation for Basel 3.5 or 4 or whatever you want to call it. Also, assume that a decent chunk of Williams & Glyn comes back in. On Capital Resolution, we've talked about being down to GBP15 billion to GBP20 billion ex the Saudi stake by the end of this year, comfortably on track to do that and that will continue to moderately roll off over the coming years.

And you saw earlier this week the announcement -- preliminary merger announcement in Saudi Arabia. I think that does give us a path probably over several years, but definitely creates a path now for us to be able to exit that stake at some point within a timeframe out to 2020.

So I don't think it's all on RWAs and the thing I'd go back to which I said at the start of the call, too, we continue to be confident, as I think you've heard today, on our ability to consistently grow volumes where we want to grow

volumes above-market growth rates in the coming years. And again, I think that is a gap to consensus.

Operator: Those are all the questions we have time for today. I would now like to hand the call back to Ross for any closing comments.

Ross McEwan: Thanks very much, thanks for joining us on the call this afternoon. And I'll just take you back, I think it was Jonathan that raised that he thought we were feeling more positive about the business this year and that is the case.

Last year was a very tough year for the business with all the conduct litigation and very, very heavy restructuring that we were going through. And this year, we are feeling, as we're getting the time to actually spend on our core business and the results are, as you see, very strong.

The (inaudible) path to profitability and putting a lot of the past behind us. We're pleased to actually have a bottom line profit this quarter of GBP259 million. And the core bank, as we've said, received 9 quarters now where it's done a GBP1 billion or greater of adjusted operating profit.

The strategy is working. Costs are down, income's up, capital is robust and we're working the capital a lot harder and we are growing in the markets we like. So we are feeling more, I won't say comfortable about the business, but more feeling better about this business this year despite what I still think will be a reasonably tough market.

You've seen the GDP numbers this morning. We don't have more than that in their targets. So we started the year with I think a 1.1 percent or a 1.2 percent GDP growth and anything on top of that is good for us. So we are feeling good about it. We believe we'll grow in the markets we like faster than the market itself.

Thanks for joining the call and we'll talk on the next quarter.

Ewen Stevenson: Thanks.

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

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