



Q3 Results

Thursday 24th October 2019

Katie Murray, CFO, RBS

FORWARD-LOOKING STATEMENTS

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OPERATOR: This is Conference #: 5889802.

Operator: Good morning, ladies and gentlemen. Today's conference call will be hosted by Katie Murray, Chief Financial Officer. Please go ahead.

Katie Murray: Thank you, Tracy. Good morning, everyone, and thanks for joining me this morning. As besides the H1, with Q1 and Q3 really just being financial updates, I'm not being joined by Ross this morning. I'm going to give you a brief overview of our financial performance in Q3, and then I'm happy to take any questions you may have.

The core retail and commercial bank continued to perform well and our underlying performance remained solid in a tough operating environment. Our lending is up 3.2 percent year-to-date on an annualized basis. We are attracting new customers to the bank and our costs are down, with a pretax operating profit of GBP 2.7 billion for the first 9 months, in line with the same period last year, and attributable profit of GBP 1.7 billion, up GBP 0.4 billion from the same period last year.

As expected, however, our Q3 numbers are significantly impacted by a PPI charge of GBP 900 million, following greater-than-predicted complaint volumes in the lead-up to the deadline.

In addition, NatWest Markets had a disappointing quarter, generating an operating loss of GBP 193 million driven by challenging market conditions, principally affecting the Rates income and more significantly during August. The Rates income was impacted due to elevated hedging costs caused by reduced liquidity and wider bid offer spreads as the market experienced sustained curve flattening across European fixed income markets.

These factors have contributed to a group operating loss of GBP 8 million and an attributable loss of GBP 350 million for the quarter at group level. Our cost journey remains on track, and we plan to achieve our GBP 300 million target for full year 2019.

So let me now take you into more detail on the results, starting with the P&L. Our total income across our retail and commercial business, excluding notable

items, was 3 percent lower than Q3 2018 but was flat compared to the Q2 2019. This was primarily driven by ongoing margin pressures and the contraction of the yield curve. Bank NIM of 1.97 percent was 5 basis points lower than Q2 2019.

U.K. PB NIM decreased 7 basis points versus Q2 reflecting continued mortgage margin pressures as front book margins remained lower than back book and, as mentioned in Q2, lower deposit margins as a result of the lower yield curve.

As we talked about previously, our front book, new to bank mortgage margins, has been in the range of 80 to 100 basis points this year. In Q3, we have been writing new business at slightly above that range.

We have also increased our volumes this quarter as a result of the operational and digital improvements we have made in the business. This means that we're adding mortgage income, which is offsetting the loss of margin. This clearly does not help NIM but it is important for income, good for ROE and reflects the strength of our personal business.

Commercial Banking NIM was down 7 basis points this quarter as deposit income was impacted by the lower yield curve. However, our lending pricing margins have maintained in a competitive environment. RBSI and private continue to generate strong income flows for the group.

NatWest Market's core income at GBP 194 million was down GBP 147 million or 44 percent versus Q3 2018 primarily driven by our exposure to the euro Rates business, which had a volatile August.

Additionally, in terms of income, one thing I wanted to remind you of, we continue to anticipate a circa GBP 1.2 billion of FX recycling gains in Q4 upon the transfer of ownership of NatWest Markets N.V. to NatWest Markets Plc. This is, of course, subject to regulatory approval and it's important to remember that this is both capital and TNAV neutral for group.

Turning to costs. We reduced other expenses by a further GBP 20 million in Q3, taking the year-to-date reduction to GBP 193 million. As we have said,

cost reduction will not be linear throughout the year and we remain on track to achieve our GBP 300 million target for full year 2019.

There were GBP 215 million of strategic costs in Q3, which included further property exits and ongoing technology transformation program costs. Our litigation and conduct charge were GBP 750 million for the quarter. This included GBP 900 million of PPI provision and a reimbursement of USD 200 million under an RMBS indemnification agreements.

At Q2, I said our book was showing some signs of strain in terms of impairments. Our impairments in Q3 were GBP 230 million. This includes a GBP 55 million charge reflecting a more uncertain economic outlook, including the deterioration of growth forecasts, the ongoing volatility we have seen and the slightly increased unemployment figures from an admittedly low level. We also had some IFRS 9 modeling adjustments in the quarter, which are reflecting some small deterioration in our assumptions.

In commercial, we saw a small number of single NIM charges and a new U.K. PB lower debt sale recoveries. In total, this makes up 22 basis points of impairment year-to-date. We maintain our guidance of a normalized long-term loss ratio of 30 to 40 basis points.

Overall, this takes us to a small operating Q3 loss and a year-to-date operating profit of GBP 2.7 billion. Our fully diluted Q3 TNAV was 272p, down 17p on Q2, largely due to the interim and special dividend payment.

Turning to loan growth. We have seen growth across all of the businesses in Q3, which is a good result. U.K. PB gross new market lending – mortgage lending, forgive me, was GBP 8.6 billion in Q3 compared with GBP 6.7 billion in Q2, with approval shares of 15 percent, market flow share of approximately 12 percent and stock share of circa 10 percent.

We're seeing good tick up of our new credit card product, where we had 2 consecutive quarters of growth in balances and customers. And additionally, our main current account acquisition continues to show the positive trend of Q2. We have attracted 190,000 gross new customers in Q3.

Turning to commercial. We have grown our loans across the whole book by GBP 0.1 billion in Q3. Lending growth across business banking, SME and mid-corporate and specialized businesses was GBP 1.6 billion to-date or 4.1 percent on an annualized basis. We have also seen positive growth trends across Ulster, Private and RBSI.

Looking forward, we continue to target net loan lending growth across U.K. PB, Ulster, Commercial & Private Banking at attractive returns. Q3 year-to-date annualized growth rate was 3.2 percent. This is above the upper end of our 2 percent to 3 percent net loan growth target, which we are clearly on track to achieve.

And on deposits, we have grown these by GBP 8.1 billion or 2 percent in the quarter, though a large portions of this growth was the result of a number of larger corporate clients managing their funds.

While we have grown our lending book, we have not changed our risk appetite. And as is our practice, we continue to actively monitor and manage our exposures. So overall, a strong story of growth across the business.

On capital, we generated 35 basis points of capital from profits in Q3 prior to the PPI provision and RWA increases. We ended the quarter with a CET1 ratio of 15.7 percent, which reflects the PPI charge of 50 basis points. RWAs increased by GBP 1 billion to GBP 189.5 billion, principally reflecting an increase in NatWest Markets.

NatWest Markets' RWAs increased by GBP 2.4 billion primarily due to a need to hold higher capital on derivative assets driven by market moves in Q3. We retain our full year 2019 RWA guidance of GBP 185 billion to GBP 190 billion.

I thought given the week, it would be negligent to not comment on Brexit. We are focusing on controlling the controllables as the Brexit economic and political uncertainty continues. As far as RBS is concerned, our preparations are in place with our Amsterdam and Frankfurt offices totally operational.

Above all and most importantly, we continue to work closely with our customers as they work through their own Brexit preparations.

So to summarize. We have continued to deliver strong net loan growth and delivering this in challenging times without compromising on underwriting standards.

Costs are within our control and we remain committed to taking out GBP 300 million this year, having taken out GBP 193 million to-date. On capital, we're in a very good place to generate and distribute sustainable returns.

And finally, with Alison taking over as the new CEO next week and as we approach the end of our 2020 journey, we look forward to updating you on our priorities in February.

And with that, I'm very happy to take any questions you may have. Thank you, Tracy.

Operator: Thank you, Katie. Ladies and gentlemen, if you would like to ask a question, please press the “star” key followed by the digit “1” on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions.

Katie Murray: So, Tracy, I think we've got a few questions waiting – lining up. I'm just checking, we're not having an issue with the line. Thank you very much, Tracy.

Operator: Your first question comes from Jonathan Pierce of Numis.

Jonathan Pierce: Three questions actually, 2 are just yes or no answers. I'll give you those now. Firstly, is the guidance for NatWest Markets' revenues still the sort of GBP 1.4 billion, GBP 1.5 billion that you've talked about before? The second yes or no question is on PPI. I just want to triple check that the number you've taken today includes everything that you see from the official receiver, because I couldn't see any comments on that in the release.

The third question is on consensus. Because at the interims, you suggested you were pretty comfortable with sort of 9.5 percent ROTE number for 2020. Consensus since then has come down to 8.4 percent. So maybe you could give us an update on your thinking for 2020 return on equity.

Katie Murray: Yes. Jonathan, happy to. And I think, number one, probably slightly more complex than a simple yes or no in terms of NatWest Markets guidance. I think we're not looking to change the guidance at the moment.

But clearly, when you're sitting at GBP 864 million of income year-to-date with a guidance of GBP 1.4 billion to GBP 1.6 billion, we're not going to hit that guidance in this year. And I think I'll leave you to kind of take some views as to how that might evolve over Q4.

In terms of PPI, it includes all foreseeable items that we see that we would need to pay out against that number. It's our best estimate of our ultimate liability. So I guess the simple answer there would be yes.

In terms of consensus, as you all remember, in August, we said we believed we were unlikely to reach the 2020 target of 12 percent plus, and we purposely did not give a new target at the time. But I do recognize, when I was asked in Q&A, that I said I was not uncomfortable with the consensus ROTE of 9.5 percent.

And certainly, at that time, I was not. But I would say, since the 2nd of August, we have seen yield curve and GDP expectation fall quite significantly. We have taken an MES charge today recognizing this increased volatility.

I'm not going to give you an ROE target today and I look forward to talking to you more about it in February, where I think it will be more appropriate to share that with you. So hopefully, that clears up some of the confusion I've caused.

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

Raul Sinha: Maybe the first one just a follow-up on this consensus discussion. I'm not going to ask you for some more color on the ROTE outlook. But I think in one of your recent fireside chats, you did say that you were hoping to do some more cost reduction in the outer years.

And when I look at consensus as it stands today, obviously, consensus has got cost up in 2022 on 2020. And I guess, where we are tracking towards. So would you reiterate that? Or has even that changed given the (inaudible)?

Katie Murray: No, I absolutely think that maintains the same. As we look at our organization, we talk about GBP 300 million a year of cost-out. And internally, what I talk about a lot is that, guys, you need to think of the GBP 300 million as a cost-out year, a cost number out each and every year. In February, we'll give you what our cost target is for 2020, and I kind of see something that needs to kind of roll through.

I probably wouldn't comment too much on cost targets in 2022, but certainly, for me, the cost base has to be something that continues to come down. And I'm very confident that it will. As we do more and more automated and digitization. This is – a natural way of things is as we touch things less, it becomes a better cost controlled environment. And then so I would continue that being a major priority for us as a bank.

Raul Sinha: And I guess, the lack of progress in Q3 on the cost target probably reflects the lumpiness which is in your cost-out.

Katie Murray: You're absolutely right. I think on Q2, we were a bit ahead of everyone's consensus. And now I would say, privately – accepting this isn't privately and probably was a little bit surprised on the upside myself of the progress that we made up to Q2.

But the other side of that is, of course, Q3 is a little bit worst because you managed to do some things a bit quicker in Q2 than you had originally thought you would. I think the thing is to look at it, rather than quarter by quarter, what's the narrative for the year, and we're very committed to this GBP 300 million number for this year.

Raul Sinha: That's really helpful. I mean if I can you also come back to the mortgage income performance in this quarter. It seems to be that, third quarter, you actually managed to grow the mortgage income top line on a product basis if you look on the supplement. Is that something that is sustainable, you think? Or is it too early to get carried away?

Because, obviously, there is a balance sheet affect driving the NII that is associated with that line. And for a long time, despite you being able to grow the balance sheet, the margin pressure in that business just meant that your top line was still shrinking.

So should we think that given the fact that you've had a good outcome on the front book completion margin in Q3, this is maybe a bit of a blip in terms of being able to grow that top line? Or do you think that's generally a more sustainable performance going forward?

Katie Murray: So look, I think there's a couple of things that go on in that top line. I think one of the things you always remember is the kind of day count that you have. So we did benefit from an extra day in that quarter, so that has a little bit onto that top line as well. But it doesn't really – it doesn't change the message significantly. But I think for me, what I'm very pleased about is that the mortgage income that we're getting is offsetting what we are losing in terms of margins.

Now this is the first quarter we've done that. We know that we've written slightly above the 80 to 100 basis points. We know in terms of applications today, we're still above it. I think it will be quick of me to call that out in terms of having done that in 1 quarter. It's definitely where we were working towards, that that's something that is sustainable for every quarter going forward.

But it's very pleasing first sign. And I think let's all have a look at how it develops into the Q4 numbers and then into Q1. But I think what's really important is our ability to add volume and being able to offset that margin.

I'm very happy to take it in this quarter, and we'll definitely be driving the business towards it.

Raul Sinha: If I can add just one more quickly, because it's so interesting. You've printed a 5.56 percent impairment charge on the cards business in this quarter. I don't know if I'm missing something. But is that reflecting changing the models you talked about or is that sort of a more underlying assumption we should think about going forward?

Katie Murray: There'll be 3 different things going on, Raul, and I know that you're familiar with IFRS 9 as well. So the challenge with IFRS 9 is are you grow your balances, you also start to put impairments from the minute you grow those balances. So you take a little bit of the loss there.

One of the areas cards – we're going back into, we are watching very closely in terms of PD. We kind of manage it around the fringes quite tightly. And so in terms of – we've had a little bit of increase in PD, so we've done a bit of an adjusting of our underwriting in that space.

And then also in card sales, take a look – we'll have taken a little bit of the economic scenario overlay as well, will have hit that book also. I think also in cards you're possibly a little bit as you've got a smaller balance, so you get into a little percentage game of small numbers having sort of bigger impacts.

Operator: Our next question comes from the line of Martin Leitgeb of Goldman Sachs.

Martin Leitgeb: The first question on the deposit. Obviously, you had a very strong performance in terms of deposits during the quarter. And I was just wondering to what extent there is – you see repricing opportunities on certain pockets of deposits if the yield curve were to remain at flat as it currently is? So do you see some scope maybe on the fixed rate deposits to edge lower or within certain pockets of corporate deposits in order to adjust for some of the weakness?

And the second question is with regards to NatWest Markets. And I'm just trying to understand what kind of your levels could be if the revenue

weakness were to persist further in that division. So what would your levels be in terms of both cost and capital consumption for the group?

I think there was a press article over the weekend, which was hinting that the size of NatWest Markets could be reduced. And I was just wondering what kind of levels there could be for that, and obviously trying not to anticipate too much on what might come with an update on February or at some point next year.

Katie Murray: Thanks, Martin. If I just deal with the deposits point first of all. I mean, I think we haven't done any repricing. Traditionally, our stance has always been to only reprice as and when there is a rate movement. I think it's something – as you see what's happening in the yield curve, it's something that you continue to look at. But we don't see any particular repricing going on at the moment.

What we note is that we're a little bit behind in the market share in deposits, which I think is because we're not actually actively trying to chase more deposits given our strong funding position and liquidity position we've got at the moment. If I look at the funding rate, it's 0.38 basis points within PB and 0.43 within commercial. So there's – in that, there's some scope, but there's not obviously a long way that you can go with that.

In terms of NatWest Markets, look, I think as we think of our targets, they're obviously all 2020 numbers. I think it is difficult at this point to sort of see where the year-end may lie. And I think at this stage, it would be overzealous to change the guidance after this 1 quarter, so we're not looking to do that. But certainly, as we look around the group, and I think we will update you more across the whole group as we get to February.

I do think it's important to remember that NatWest Markets has been on a 3- or 4-year journey of change and they're in year 3 of their 4-year journey. So I wouldn't go changing those numbers today. It certainly be a disappointing quarter, and that will be an impact to our full year results as it rolls through.

Martin Leitgeb: But with regards to cost in NatWest Markets, would you see flexibility there if the weakness were to persist, that there could be some optionality to adjust – to address some of the underperformance with the cost plan?

Katie Murray: Yes. I mean we're very much targeting a GBP 1 billion cost base target. So I think that they still are on their cost takeout journey. They – if I look at Q3-Q3, it doesn't look like a stronger picture.

They did, last year, benefit a little bit from kind of a write-back. But we do obviously have some more flexibility within our cost base, and we'll certainly be making sure that we focus and deliver the GBP 300 million that we're going to take out this year. Thanks, Martin.

Operator: Your next question comes from the line of Fahed Kunwar, Redburn.

Fahed Kunwar: I had a couple of questions on NatWest Markets. Just on the revenues, obviously we've come through a lot. I'm not looking for guidance. But am I right in thinking that none of the headcount reduction has happened to date, so all the headcount reductions that's coming will come in 2020? And I assume you're still assuming there is no revenue pressure from that headcount reduction.

And then the second question was there's about GBP 2.5 billion of risk-based asset inflation in NatWest Markets. I didn't – there wasn't any obvious volatility in the third quarter, so I'm wondering why market rates are inflated to that extent in the quarter? Was there something specific in your book that led to that?

And just the third question was on – I think just following from Raul's question on economic uncertainty charge of GBP 50-odd million that you've taken. That was over and above IFRS 9. Was that just a further addition to that GBP 100 million that you took last year in terms of Brexit uncertainty and economic uncertainty? Or is there something going on there?

Katie Murray: Thanks, Fahed. Let me try to take them through in a couple places. In terms of the headline point within NatWest Markets, when you look at their

numbers clean, you sort of think to yourself, "Well, that interesting. Their headcount looks like they've have gone up, but they're talking about cost reduction."

What we've been doing throughout the last number of years is to really try to pull together all of NatWest Markets, so they have as much control as possible of the entire end-to-end of their journey. We know that the fewer touch points, the fewer handoffs that you have is very much – it makes for the simplest, least control issue-ridden process that you can create and also naturally has a positive impact on cost.

So that increase you've seen in headcount is actually transferring some people that would have sat historically in NatWest Bank into NatWest Markets. So in terms of the reduction in the management of the front office teams, that's something that goes on actively as you're always trying to kind of manage your book.

In terms of the GBP 2.4 billion, I probably disagree with you a little bit around the volatility. I think we've got a slide in the back of our pack which kind of shows what really has driven a lot of the volatility. And we saw significant volatility in August in terms of the euro rates fall when it fell very quickly in a few days within that euro – those euro rates. And that's really what's driven the result that we see.

And in terms of RWAs, the increase that we can see coming through there. We've had some upward revaluation of the assets and the derivatives, which are a bit more related to some of the legacy assets in relation to that volatility. A couple of back-testing exceptions and relating to the market shift because some of the inflation expectations are putting more of a kind of in the weeds of technical points. And also, we're doing good business with our commercial customers, particularly in the financing space, and that adds on to the RWAs as well. But it really was the movements and some of the volatility and the market risk on some of the derivatives that have caused that increase.

And then lastly, just on IFRS 9. I think I wouldn't characterize the multiple economic scenario as an addition to IFRS 9. It's very much part of IFRS 9...

You obviously have the – what we call the day-to-day impairments, which move along with how much growth you've got in the book, what's happening on your PDs. And then we also have probabilities that we take of different economic scenarios, and that's very much what this maze is.

So as you look at what happened from the end of June to the end of September, we really saw a decrease in growth, we saw increased volatility, we saw yield curve go down across the U.K. and across euro, and that combined together is what's created the GBP 55 million charge.

It's similar to the charge that we took last year. The charge that we took last year is obviously – it's in the model now and it kind of evolves, and this is kind of the next evolution of that number. Hopefully, that answers your question.

Fahed Kunwar: OK. That's great. Can I just have one quick follow-up?

Katie Murray: Yes. Sure, Fahed.

Fahed Kunwar: On the headcount point, I know I guess you'll tackle this a little bit in February, but are you expecting for the cost cuts to come in NatWest Markets, the net headcount now to start coming down in NatWest Markets?

Katie Murray: So I mean, we always talk about headcount. And for our teams, is we talk to our teams before we talk to analysts and – to reflect. But when I look at the cost reductions, there's 3 places you can get it from. One is properties.

And actually, I think the property team has done a superb job in really managing our footprint in terms of our property, particularly in the very expensive Central London and resources. And next is technology. We've talked a lot about the improvements we've got there. And then the reality ultimately is, of course, it comes down to people.

So any cost reduction, you're pulling one of those three levers. You don't have very many more levers in that to pull. So I think we'll continue to talk to the employees first and we'll let you know our development on employee numbers on a quarterly basis as it evolves.

Operator: Our next question comes from Chris Manners of Barclays.

Chris Manners: So just 2 topics, if I may. The first one was just on Ulster. I can see that net interest margins down are down 7 basis points quarter-on-quarter. I guess you've explained that because there's been an IFRS 9 accounting change for interest and expense recoveries.

Just trying work out is that 155 bps, is that a good run rate for Ulster and how we should think about the Ulster margin going forward? And so linked to that, when we look at the cost/income ratio, it's in the 90s. What are you going to try and do it with Ulster? Are you going to actually try and take some cost out there? Or do you think you can try and grow into that cost base and sort of hope that would be really useful?

The second point was just on PPI. I know I was looking at your sort of sensitivity table that you put. If I understand that rightly, does that mean that you – up until June 2019, you received 4.1 million total complaints and then you received an additional 20 percent versus the total base of complaints received or another 800 million in, basically, the first 2 months of Q3? I mean that seems like an awfully big step-up rate?

And then when I look at lower in the table, you've actually got – the amount of no PPI seems to be roughly 30 percent for all your clients year-to-date and in the last block. So is it fair to say that the complaints in the last block, 70 percent of them do have PPIs, so the quality is not actually so much different from those complaints, the ones received before the deadline?

Katie Murray: Sure. Thanks. Let's deal with Ulster one first. In terms of NIM, I think NIM can move from many different kind of sort of reasons. And I think where they are now it's not a kind of bad guide for the future. But one thing obviously to bear in mind is that the ECB rate cuts that came through in NIM in Q3 will obviously start to impact a little bit from Q4. So you might see a little bit of pressure still to come from that. I think that's important not to forget.

In terms of the cost-to-income ratio, it's not a question of growing into that cost base. If we look at Ulster, we talked about this a lot is that – when Jane joined, what we have said that she should do is to say, "Look, in your first year, let's focus on some of the regulatory and control issues. Let's focus on your nonperforming loans and let's focus on some capital extraction."

I think on the first regulatory and control, she's done a tremendous job to nonperforming loans. We've recently announced our second big drawdown of that, which will get us down to the kind of 5 percent level. And in terms of the dividend, we continue to work on that.

And then the focus for next year is really to, look, how to right-size that kind of cost base. They've already started on that, you'll see some movement in some of the buildings and see changes in technology and things of that going on. So I would hope that it will be one of slow, steady and kind of continuous improvement.

If I look at PPI, which is your Page 20 of the IMS, it's – in terms of the volumes received, yes, it really is as remarkable as you suggest in terms of what came in. I mean it was truly unexpected for all of us. And I think it's one of the things that we have looked at time and time again, is how could we not realize there was such of volume heading towards. I think it's something that's an absolutely industry piece, so it really is as dramatic as you think.

In terms of the lower PPI rate, look, it's obviously – these rates are kind of – they're a blended rate of many claims which got huge levels of no or very little validity and others that are more. What we see at the moment is we're kind of comfortable to hold that sort of rate of the 32 percent as we go forward.

Early in the day, one of the journalists was asking me, "Have you seen this big step-up from 28 percent to 32 percent?" What I would say is that 32 percent has been much more in line with what we have done more recently and what we have seen with our customers. So it's really – it's quite consistent in terms of where we are. But when we did our earlier estimate, we did certainly try to aim to make sure we were consistent in our calculation of that range.

Chris Manners: Got you. When I look at that, that means that you have 800,000 claims, 70 percent or 68 percent of them do have PPI, which probably means there are quite actually a lot of people who've missed the deadline who would have had a valid claim.

I'd assume that when you had that huge spike in claims rate, that the quality would be quite a lot lower than what you'd had in the sort of proceeding, I guess, 8 years, and it actually doesn't seem to be too different. Is that a fair characterization?

Katie Murray: So I think in terms of – I probably won't comment on people that didn't claim and what their status is. Obviously, they had plenty opportunity to do so. But I think at the moment, as I look at the provision we've got, we're kind of comfortable with what we're provided.

Operator: Our next question comes from Tom Rayner of Numis.

Tom Rayner: Can I just come back to NatWest Markets, please, just to ask a little bit detail on the Rates performance in the third quarter. Because obviously, it was a quite big hit. And I don't think the sort of hit was obvious in the U.S. investment banking results we've had. So you mentioned sort of curve flattening in the text.

I mean can I assume that in August that you were positioned for steepening or some such or other explanation? Because just want to get a sense of what is the risk a similar sort of performance is repeated sort of going forward. And also, what's the – is there any impact on sort of bonus accrual in the third quarter reflecting the way Rates have performed?

Katie Murray: Lovely. Thanks very much, indeed. So I'm probably not going to comment on any bonus accrual impacts at this stage, I would say, so I'll deal with that one quite quickly. Look, as I look to the NatWest Markets' revenues, I think you want to kind of cast your mind a little bit to what we decided to do with NatWest Markets.

We took a decision that we would concentrate on euro and sterling rates. So that means that while you haven't seen this impact in the U.S. banks, they also have very significant U.S. exposures as well. And if I look at our U.S. business, which is a very small in comparison to the rest of the business, we would see that it did perform better. But obviously, it's not of our size, it would be able to offset any of the issues within the euro business.

What we saw was that Rates – the Rates business on an extremely fast and significant move in the long end of the euro rate curve. And the reality was that they were kind of one-way directional trades that were going on, with widening kind of bid offer spreads. And that's really what's coming into the numbers.

But for me, the important thing is the fact that we're focused on sterling and euro, and that there isn't that natural setoff that you get if you have a wider range of currencies. That's kind of, I think, why you see some the differences with the other banks. Thanks, Tom.

Operator: Your next question comes from Charmsol Yoon of UBS.

Jason Napier: It's actually Jason Napier.

Katie Murray: I thought, Jason, that sounded more like you.

Jason Napier: Two questions, please. The first, just on the outlook for net interest income. I wonder whether you might be able to unpack the sort of various headwinds around things like the evolution of the hedge. You've spoken several times about the front book/back book, debt and mortgages, and then the consequences of debt that's been issued and retired.

And I guess, in summary, consensus basically has next year's NII at – in line with the third quarter annualized. Is that – can you hold NII flat into next year, might be the sort of a summary question there?

And then secondly, just coming back to NatWest Markets. Again, 2 things. The first is, this is a business that ex strategic costs and litigation is not making any money, either in the third quarter or year-to-date. And I just

wonder what consequences that has for its cost of funding, its funding structure.

It runs less capital than the group average at this stage, and I wonder if there's any relevance there? And then secondly, its linkages with the rest of the group. Year-to-date, 16 percent of its core income was paid to other divisions. Is that a decent proxy for how dependent it is on the other divisions as far as customers are concerned? Do we just double that and say about 1/3 of it is corporate and non-institutional? Does the institutional side actually make any money?

Katie Murray: OK. Lovely. Let me try to work through that. And Jason, how lovely it is to get to question 7 before anybody asks me about NIM. So thank you for that.

I think if I look at it, there's a number of different things going on in NIM, so let's kind of sort of talk through them. So if I think of the kind of the headwind, you're all very well versed in the mortgage front book/back book story. So we – Q3 – sorry, Q2, our back book was 158 basis points. It's now 155.

We talk about writing in this corridor of 80 to 100 basis points, so writing slightly above that, and that's true for our kind of ongoing applications. But the reality is that the fall in the 2- and the 5-year swap rate is benefiting that margin. But it's good to see the income that's offsetting the margin fall, so that does kind of help.

Now front book margin is only one side of things, obviously, within that 155 basis points we have for the whole group. There's higher things around the SVR, buy-to-let and switchers, and which we don't talk about those rates so much.

In terms of structural hedge, what we see within there, we – it is rolling off at 101 at Q2. It's now moved to 100. You'd expect it to move quite slowly because it is, obviously, a long hedge, and the purpose of it is very much just to move the income stream.

I think when we were at Q2, I was talking about that it was going back on about 47. Today, it's going back on at roundabout 70 basis points. So there's been a bit of a recovery. But I think you know as well as I do that been a dance of kind of up and down in terms of that recovery piece. So we're still comfortable in that. But it's definitely a headwind. Definitely a headwind.

One of the things – I think to give you guidance going forward, it still does remain kind of difficult. What do I think about is what's going on in the rate sensitivity, and I think the applications rate really kind of demonstrates that. Where are we in terms of the level of liquidity we're holding?

While we're a little bit low in liquidity this quarter, it's not something that particularly impacts NIM and we're not looking to lower that particularly fast in this sort of coming – the coming months, and obviously the economic uncertainty.

I think one thing to remember just in Q4, you'll be familiar that we normally take a behavioral life adjustment on the mortgage book in Q4, and that's something that will through in our hedge – sorry, on our NIM number in Q4. I won't give you the exact numbers. But I would tell you is behavioral lives are shortening and so people are staying on SVR for less time.

Now that's good. We're working hard with them to make sure that they're staying on SVR for less time because what we're doing switching them into new longer-term products, and it's good to get them locked in at that rate. So you'll see a little bit of a dent in Q4 on that piece. But how all these things come together, obviously, as ever, Jason, I kind of leave it up to you to kind of see to how they get – they go, kind of tied together.

Then in NatWest Markets, look, I think your proxy on the income is fairly accurate. If you take what we distribute then to other businesses and actually you kind of double that, half of it stays in NatWest Markets, half of it goes to the other businesses. I think that is a good kind of proxy.

At this point, obviously, it's a Q3 call, we're not making any kind of big conversations on NatWest Markets. It will be foolish to react to one quarter

and then kind of take it down. But we recognize and we have talked many times about even when we get to the targets, we have talked about this, at those numbers, it's a business that deliver 6 percent ROE.

Obviously, I think the confidence of the income has taken a bit of a dent in this last quarter. I think 6 percent ROE is definitely below our cost of capital. They're finishing this stage of the work they've done, we obviously need to – and we'll update you more on what the next stage is, to how we continue to work to improve that – those ROEs that they're making. Thanks, Jason.

Operator: Your next question comes from Jennifer Cook of Exane.

Jennifer Cook: Firstly, I want to ask a question on fee income. Not looking to preempt any actions you might announce at full year results. But if you were to lose the income contribution of NatWest Markets, your revenues would be roughly 75 percent NII weighed. That will put you amongst the top end of your peers in Europe.

If there's one thing that last year has taught us it's that being overly geared to the rate cycle is not necessarily the best idea. So I want to understand what options you had for growing fee income elsewhere. And also, what your ideal NII fees/revenues mix would look like?

Secondly, just on Ireland. Following your portfolio sales a few weeks ago, back of the envelope suggests you're losing on an 8 percent NPL ratio. So quite close to the 5 percent target. I want to understand if there are any implications we should be thinking about for 2020 as we've typically seen an impairment charge following the sale.

And given that the loans won't come off or your balance sheet until 2020, could this push you towards the higher end of your GBP 185 billion to GBP 190 billion guided RWA range for the year? I mean that the green light for all excess capital repatriation won't occur until next year.

Katie Murray: Great. Jennifer, if I miss any of your points as I go, don't feel embarrassed to kind of come back to me. Look, in terms of – as I kind of look at fee income,

I would agree with you. We – nobody wants to be overly dependent on the rate cycle. And I think that's really why you see us do a lot of work at the moment in terms of some of our new initiatives around tyl and APptimize and things like that, because those are fee income-based businesses.

So I think it's how do you kind of manage that fee income piece and really try to kind of move the bank so that your fee income is a far more kind of sustainable number. And I think that's a challenge that we all have. I'm probably not going to give you a range of we want this percentage or that percentage, but certainly not noninterest income is a big focus for us.

In terms of the NPL sale, look, on – I obviously have the benefit of knowing more about the transaction. I think by the time we get to 2020, we'll be around that 5 percent number. Now what's interesting in there is that it kind of depends how – what cures in the interim, but obviously that helps you get to the 5 percent, and how big things currently go out.

Interestingly, I was interested by your comment to say that normally when the transaction finishes, you'd see a larger kind of impairment charge. I mean we have been definitely benefited from write-backs as we've taken these impairments off the books. There was a bit of a write-back this quarter, and that was the kind of the end of the previous transaction coming through. I mean, I think Ireland has benefited from a kind of level of write-back as the transactions kind of complete out. And we'll wait to see, in terms of the second transaction, how it evolves, but you'll definitely see a little bit of, as I'm sure, fluidity around that number.

I don't see them as a threat to our RWA guidance. Particularly, our RWA guidance is – the GBP 185 billion to GBP 190 billion for this year. We're very comfortable with the GBP 10.5 billion in terms of mortgage floors, obviously that's the U.K., not Ulster.

And at the moment, our 5 percent to 10 percent guidance on BAU is kind of unchanged. But I'm not concerned particularly that Ulster will be something that will be changing that guidance. The 5 percent of the RWAs, at this stage

anyway, it's not a significant part of the group. Hopefully, I've picked them all up. If I didn't, let me know.

Jennifer Cook: Yes. No, it's just interesting because last portfolio sale, you had some more. I think you had around GBP 60 million impairment charge that came through subsequent to that, related to that sale. So just interested to know if there could be anything like that that we could see again? But it sounds like not.

Katie Murray: Yes. Jennifer, I'm going to ask Alexander to follow up with you the offline because our view is more that we actually have some more write-backs from that sale, and I think it could be well timing of different things happening. But we can take you through the last kind of quarters on that.

But when we do these sales, we try to make sure that we make the right kind of assumptions in terms of their value so we don't have that. And my view is that we've had more write-backs filed in additional charges, but Alexander will give you a shout after the call and kind of dig into that with you a little bit more.

Operator: Our next question comes from Joseph Dickerson from Jefferies.

Joseph Dickerson: Katie, you've answered most of my questions. I guess just this project fear overlay or the uncertainty impairments that you've been taking. What would it take for those to reverse back out?

Katie Murray: So I mean the best place really think to kind of have a look at is almost in terms of – I think it's Page 121 of the financial statements, where we give you kind of the sensitivities. Now, clearly, life has moved on since we did those sensitivities. And we published them in February and the economics are a bit different.

But what you can see there is that this is the base case, what we'd assumed around growth, what we assumed around yield. And this is where – then what's our downside 2 scenario. So while they – if I did downside 2 and I run it today, it would be a different number because the group will be different, things have evolved.

It's going to be in the round in terms of the quantum. So it's almost it's the only thing. Well, if you've now put a kind of 50 percent probability on that downside 2, you need to move back to base and then you start to see them kind of revolve out.

Your history and my own would say that it will never flow out neatly as it flowed in, in terms of talking about 55 and 101 sort of last year, but you will also see things go up. I think for me, as you look at it, what I need to believe externally is that you've got a good Brexit and consensus economic move improves, and then you'd see the mains kind of start to unwind at that stage. I mean that's kind of the bottom line. Thanks, Joe.

Joseph Dickerson: So it's somewhat beholden to them a consensual – a consensus, I guess, economics?

Katie Murray: Very much so. Very much so, yes.

Joseph Dickerson: They're minor basically than the weighting that you would apply to the different scenarios on top of that?

Katie Murray: Yes. And the weighting is definitely more art than science. So I think that what we look at is to say what do we – where is consensus economics. I mean we talked very much that we run things by consensus economics. And so that – as you start to see that really improve, then you'll start to – you would start to see it kind of reverse back out. And look, if – let's hope we all get to see those reversals. I would be as delighted as the rest of you, because at that time, I'd like – we'll certainly talk about them as and when they happen.

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

Katie Murray: Thanks, operator. Operator, after this, I got one question on the web, so I'll take that after Chris and then come back to the phone line.

Christopher Cant: Two if I may, please. Your remarks at a recent conference pointed to GBP 6.1 billion as a revenue run won for the second half of this year. I presume given the NatWest Markets print, that's very incorrect for the second half of '19. But do you see that as the right source of run won going into 2020? I think at the

time you gave those remarks, the market was expecting rate cuts in the U.K. Obviously, there's been a bit of a change in the interim. So just want to get your thoughts on that, please.

A follow-up on PPI, a point of detail on PPI as well. You've talked about complaint numbers. Obviously, one of the issues that all of the banks have faced with this in recent months has been information requests. I just wanted to understand how that fits into your disclosure, because I don't see any sensitivity around the assumptions on the conversion of information requests into complaints.

So have all the information requests now being dealt with, and you've established that they are all customers and therefore you've quantified the number? Or are still making an assumption on the conversion rate from information requests? And if so, what has been your experience? What is your assumption on the conversion between information requests into complaints, please?

Katie Murray: Sure. Thanks so much. So let me deal with the rate piece. I think what I would say is we're in Q3, so the 6.1 – the GBP 6.1 billion probably feels a little bit top'y. I think you're right with – in terms of NatWest Markets. So I would probably kind of pull myself back a little bit from that. Not dramatically, but I would certainly take it back a bit.

As I look into 2020, look, we're working really hard to kind of sort of maintain income levels. I think some of the things you need to be mindful of, and I know many of you are, is around the level of regulation that's coming through within UK PB in terms of things like the high cost of credit review, the EU payments agreement, the overdraft fee piece, that would be a little bit of a headwind.

And what we're planning to – when we speak in February, I'll give you some more guidance about what kind of headwind that looks like as we continue to work through our regulation. But it will be a little bit of a headwind on that side of things.

If I look to the complaint numbers, look, we've – in terms of the information requests, we're 50 percent through that number. And then what we do is we've kind of build that into some of the conversion numbers. So we're very comfortable being so far through all of the information requests that we've actually got them pretty well nailed in terms of some of these assumptions. So we haven't given those facts today.

And I don't really feel that they're relevant for now just given how far through we are on all of those conversion of those, and we've built it into the estimate there. So I think if you work with what we've got in the disclosure, you'll be in good shape.

Christopher Cant: If I could just push you a little bit on that last point, Katie. I mean it's – what we've seen from peers suggests that information conversion rates assume they are quite low, and it feels like that could be a sensitivity going forward. So in terms of the 50 percent done, obviously, you've got quite a big sample size there and feel confident in your assumption. But I just need to understand what percentage you've been experiencing so we can think about the potential risk.

Katie Murray: They're – Chris, you're absolutely right. They're very low. I mean, I think in terms of own percentage, they're really in single-digit percentages in terms of that conversion, and very low single digits, if I can kind of guide you to the number of, I'm conscious we haven't given out the past. But the 50 percent, there were significant numbers of these kind of queries. So the 50 percent is a huge number that we have gone through, which is why we have the level of confidence that we have.

And oh, sorry, I'm not paying attention to the instruction there. Forgive me. We've got a question on the web from Gary Greenwood at Shore Cap. And Gary, thanks for popping on. Question one, "How long are you willing to expect improved performance from NatWest Markets before you say enough is enough and seek an alternative strategy?"

Well, I probably said today – we probably talked about that quite a lot, so far, this morning so I don't really have anything further that I would add on that. Please pop something up on the line if you disagree, Gary.

But in terms of question two, "You mentioned the new mortgage business is being written at margins above the 80 to 100 basis points range, do you think the market is therefore becoming less competitive?"

So the way that I would look at that, I don't think it's becoming less competitive. I think the market is as competitive as it was. What we have seen, obviously, is people like Tesco's and Sainsbury's kind of pull out of the market. So those are strong signs. Actually, the competition has 4 smaller players to re kind of think their book.

But if I think of things like pricing, I think what you'll see is the lot of activity where we and others will actually adjust particular points on the loan-to-value curve or particularly in particular tenors, and we tried to kind of seek the conversion piece there.

I mean, I think the important thing that we and everybody all else really benefited from the lower swap rates and curves and in terms of it becoming less competitive. No, I do feel that we've stabilized quite a lot over the last few quarters, and we're kind of sticking more or less in that kind of range, which is helpful, rather than it can be a continuing journey down.

Hopefully, that helped, Gary. And Tracy, do you want to go back to the phones?

Operator: Your next question comes from Ed Firth from KBW.

Ed Firth: Yes. I just want to ask about the restructuring costs, actually. I think you'd said GBP 1.2 billion for this year. You're obviously well below the run rate for that now. So should you be assuming that that's going to coming in well below that, firstly?

And I guess, secondly, I mean, all the mood music sounds to me like we're going to have a lot more restructuring next year and beyond. Is that a fair

assumption to make? And if it is, can you – can I ask you to comment again on your GBP 500 million normalized, what you call it, litigation and restructuring costs? Because we've never seen that, we've never seen anything remotely close to that. So I'm just wondering how we should think about that going forward.

And then, I guess, the final question. Sorry after all this time you must be exhausted. But the final question is on the NatWest Markets. When you actually did the – when you actually launched the whole program, you talked about moving back office to front office staff ratios from 4:1 to 1 – to 2:1, and that was really a big part of the whole drive.

I guess, externally, it's not really clear at all that we've seen that or how well you're doing with that. So could you just tell us where are we on that? I mean what is the ratio today? And how confident are you still that you're going to get down to that sort of – I think you said 1 to 2:1, something like that, back office, front office?

Katie Murray: OK. So let me take them starting from the top. So in terms of restructuring costs, we talked about GBP 1.2 billion to GBP 1.5 billion. We feel we're a bit closer to the GBP 1.2 billion. What I often find is there's a lot of activity happens in Q4, so I wouldn't bring that number down just yet. And if it we're a little bit above or a little bit under, I would stick to with 1.2 at this stage. In terms of the...

Ed Firth: So that's like a – so just to be clear, that sounds like a GBP 400 million restructuring charge in Q4?

Katie Murray: It's possible. It's possible, I would say, at the moment. So I wouldn't make a big difference on that. I would say stick with that number and we'll be in the round, I would say, on that sort of space.

In terms of restructuring into next year and beyond, look, the GBP 500 million is certainly the best kind of guidance that we – I've got for you. Of course, you're absolutely right, we've not seen that, but you would not have expected

us to see that given the last few years of history with things like the DOJ and the PPI.

But as I look at it, the GBP 200 million a year kind of guidance on conduct doesn't feel inappropriate, which is sort of 2/3 of that number. And I think in terms of what our priorities are in February and as we move forward, we'll talk more about that when Alison and I talk to you more in February. So I think if that guidance needs to be revised, we'll give you that guidance.

Ed Firth: Just to be clear, though, I mean, things like restructuring NatWest Markets would not be within the GBP 300 million charge, would it? Or would it? I suppose that's my question.

Katie Murray: Yes. So look, I think it all depends on what you chose do. I think one of the things I talk a lot about, about restructuring, you can only exit buildings once and that GBP 500 million of the charge today. I can't leave 280 Bishopsgate twice. So savings closing down other buildings. So there's some things you know can't do again.

If you decided to do something that was significant, then you would obviously have other kind of cost that I'd say – but really, I mean say more at this time and I'd be kind of pulling numbers out the air that don't really have the right basis on. So I think if I can ask for patience until February, I'd be really grateful for that.

In terms of NatWest Markets and the staff ratio, I'm sorry, what I would say is I don't have the number to hand at the moment. But I think we're still – it would be fair to say we are still working towards that basis. And that's part of the work that, that business is still continuing to do. I don't think we're yet at the end of that journey. But I can't give you a better number at the moment, sorry.

Operator: Your next question comes from Andrew Coombs of Citi.

Andrew Coombs: If I could have one follow-up on costs and then one on dividends. On the cost, you talked about the property exit. So I think they were mainly at the

end of the quarter. So presumably, that's the main driver of the extra GBP 107 million savings you're looking for in Q4. And is there any reason not to extrapolate or annualize that going into 2020?

Secondly, on dividends, Page 13, you have GBP 362 million accrued for foreseeable ordinary dividends. I just wanted to check what exactly is inclusive within that? Presuming that is the ordinary dividend, is there any AT1 in there? And presumably, there's no accrual for special, that is a Q4 decision alone?

Katie Murray: Yes. No, thanks very much. So in terms of property, in terms of the guidance. So we have spent this year about – we spent about GBP 500 million in terms of property costs and exits. And if I think the run rate of that in terms of savings going into 2020 and beyond, you'd see, I would say, about GBP 70 million to GBP 80 million number kind of saving that would result from that and building, obviously, what we've done in the early years. So that's a probably thing to kind of to look at.

In terms of dividend, I'd say well done. That's a good eyes and good math that you've this morning. Look, you know that one of the things that we need to do in terms of the regulations is we take a percentage of our profits in terms of what we see as our ordinary dividends and policy. So in fact, H1, we actually took 5p off in terms of 40 percent of those results, and then we declared a 2p dividend at that point.

So I wouldn't – it certainly only relates to extraordinary, you're not required to do anything on specials until the Board has actually made the decision. I wouldn't take it necessarily as the guide exactly what we're paying out at the end of the year. We've got our dividend payment policy of around 40 percent of our profits, and it's the conversation that we'll start to have with the Board in December. But I mean, you're absolutely right in terms of that number.

Operator, I've got one more on the telephone, which I'll just – I mean, sorry, on the web, which I'll just take, if that OK. So from Thomas Sanderson at HSBC. "Brexit. Have any considerations been made to prepare for Brexit from a retail perspective, potential customer impacts if any downturns occur?"

I mean, certainly, we've had a huge amount of work going on both in retail and commercial. It's obviously – commercial is more impacted. Obviously, the retail is impacted in as much as if there was a whole market downturn and you start to see these things like unemployment increase and what impact that might have on some of our unsecured lending. So that's something that we very much strive for as we look for that.

We've also done quite a lot of work with customers to operate across border life. So they might as well live in Spain but they operate here, and then we – how do we service them. And we've done a lot of work in terms of – with other regulators to see what servicing we can continue to do with them or if they actually need to do some of their banking relationships more to kind of local countries.

That's not a huge portion of our base. But I guess, for those customers, that it does impact them. It's an important point for them, so we've been having conversations and guidance on that space. So hopefully, Thomas, that answers your question.

Tracy, is there anything else on the line?

Operator: No further questions coming through on the line.

Katie Murray: Lovely. Thank you very much, Tracy. So if I just thank you all very much for joining the call today. I am confident that we're delivering on the levers that we need to do to take this business forward, and Alison and I look forward to updating you all in February.

And with that, we'll sign off. Thanks very much for your time.

END