



Royal Bank of Scotland Group Plc  
Q3 2018 Results – Analyst Call

Ross McEwan, CEO  
Katie Murray, Interim CFO

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FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our Annual Results announcement published on 23rd February 2018.

OPERATOR: This is Conference # 3892346

Operator: Good morning, ladies and gentlemen. Today's conference will be hosted by Ross McEwan, Chief Executive. Please go ahead, Ross.

Ross McEwan: Thanks, Joanna. Good morning, everyone. Today, I'll give you an overview of the group's performance in the third quarter, and then Katie Murray, our interim CFO, and I'll be happy to take your questions.

In the third quarter, we made a pretax operating profit of GBP 961 million. On the bottom line, attributable profit of GBP 448 million. This up 14 percent or GBP 56 million on the same quarter in 2017. So far this year, we've generated a pretax profit GBP 2.8 billion and a bottom line profit of GBP 1.3 billion.

I think it was a good performance sit against the highly competitive market and an uncertain economic outlook. Our income performance this quarter is impacted by a number of one-offs, so I'd thought I'll just take you through the large ones.

We've given you more detail in the published slides, but the most significant items are, on the positive side, GBP 272 million of insurance recovery that



we did warn you about in the last half-year results, and a GBP 77 million IFRS volatility gain.

On the negative, we've taken additional conduct and litigation charges of GBP 389 million, which does include the top-up of GBP 200 million for PPI.

And we've taken an additional GBP 100 million charge in relation to a more uncertain economic outlook and a further net GBP 60 million impairment charge in our Irish business in relation to ongoing sales from our loan book to further reduce the level of nonperforming loans.

Excluding central items in NatWest markets, income is stable quarter-on-quarter and year-to-date after accounting for one-offs and transfers.

Other expenses declined by GBP 183 million year-to-date and by GBP 50 million compared to the same quarter in 2017, if you exclude that one-off impacts. Strategic costs were GBP 299 million in the quarter, as we continue to invest in our digital transformation.

Our bottom line profitability compared with RWA reduction drove a 60 basis points improvement and a common equity Tier 1 capital ratio taking us up to 16.7 percent at Q3 2018. The third quarter includes the impact of a 1p dividend accrual as we go to the full year.

We also expect the final merger agreement of the Alawwal Bank to be completed in the first half of 2019 and estimate this will create an additional 40 basis points of CET1 capital next year.

Given this, I appreciate that you will be looking for guidance on further capital distributions, and we will update you on returning excess capital at the appropriate time.

We continue to support our customers, and we await further clarity on the Brexit negotiations. We had committed an additional GBP 2 billion of funding to our growth fund to support British business.



This takes the total fund to GBP 3 billion, of which GBP 900 million has already been deployed. The fund is helping businesses based in manufacturing, technology and in development.

In addition, we have received approval from the Dutch regulator for the repurchasing of the existing banking license of NatWest markets based in Amsterdam. This will ensure we are operationally ready to serve our customers based in the European economic area when the U.K. leaves the EU.

Turning to our franchise performance, the figures are impacted by transfers, and I will therefore take you through the financials on like-for-like basis.

Our personal and business banking franchise delivered operating profits of GBP 535 million in the quarter. On lending, personal loans are up GBP 0.5 billion or 7 percent on the same period last year.

U.K. PBB grew new mortgage lending, up GBP 8.2 billion in the quarter. That represents a 12 percent flow share compared to a stock share of around 10. The future pipeline was also strong with approval share of around 13 percent.

Although again margins remained under pressure, excluding conduct and litigation, the personal bank reduced its operating cost by GBP 66 million or 8 percent compared to Q3 2017. Our digital strategy is a key driver of this cost reduction. As we did start the customer journeys, we are taking out cost.

Ulster Bank Republic of Ireland reported a net impairment charge of EUR 68 million. This includes, as I've said, a provision for another nonperforming loan sale, offset by a number of write-banks.

Operating expenses increased by EUR 47 million or 33 percent compared to Q3 '17 due to higher remediation, litigation and conduct costs. This pushed Ulster Bank Republic into a loss of EUR 87 million in quarter 3.



Commercial Banking delivered an operating profit of GBP 243 million and reduced RWAs by a further GBP 2 billion in Q3 '18.

Looking forward, the vast majority of the plain RWA reduction in our commercial business is now complete. We are now much better placed to grow the book again within our risk credit appetite in the sectors that we do like.

NatWest markets total income increased by GBP 509 million compared with the third quarter of 2017. This reflects disposal losses in the legacy business last year and an indemnity insurance recovery of GBP 165 million this quarter.

Core income was GBP 70 million lower than Q3 '17 due to more muted market trading conditions, although client activity did remain stable. Operating costs decreased by GBP 47 million or 9 percent compared with Q3 '17, and this contribute to an operating profit of GBP 87 million in the third quarter.

Finally, RBS International delivered operating profits of GBP 92 million, while private banking, operating profits were GBP 84 million. Both franchises continue to deliver very good returns on equity.

Overall, our performance on customer advocacy is not where we would like it to be, and our results from the CMA survey earlier this year and our own NPS tracking shows this. But there are signs of encouragement.

Our digital innovations continue to deliver improved customer experiences with our mobile app, paperless mortgage process, new bank line and lending platforms all generating strong customer advocacy. As these channels are used more widely and we continue to develop them, we expect to see our customer service improve.

So in summary, a good performance in the competitive market and with uncertain economic outlook. Pretax operating profit of GBP 961 million in the bottom line, GBP 448 million for the quarter.



For the first 9 months, a pretax operating profit of GBP 2.8 billion and a bottom line profit of GBP 1.3 billion, a very strong capital position with common equity Tier 1 at 16.7. And we are looking to return excess capital. And as I've said, we'll update you at the appropriate time.

We are growing in our target markets, and we continued to focus on digital transformation, innovation and improving customer service. And with that, Katie and I are very happy to take your questions. Thank you Joanna.

Operator: (Operator Instructions). We want to take our first question from Joseph Dickerson from Jefferies.

Joseph Dickerson: I guess I'm getting a couple of circular references here when I consider your results and action. So I guess when I see the NIM contraction in the U.K. PBB on the back of the competition, which seems to be generating stable at best income versus the credit backdrop that you say is uncertain, and you've taken GBP 100 million provision for it.

If you could help me square that circle in terms of the trade off that you seem to be taking there. And then secondly, just on that GBP 100 million provision that you talked. I mean it seems like the backdrop is stable from in terms of corporates and consumer.

So are you seeing any signs of either stress or reduced growth or delayed projects, what have you, that have led you to take this GBP 100 million charge? But some color on all of that will be helpful.

Ross McEwan: Yes, no, thanks. And look, I'll lead in the NIM here and hand over to Katie. Look, I was keen that we were very transparent about that GBP 100 million.

We know that other banks have taken that and some have shown this, but some have not, but my view was we should show it to you, because you take the GBP 100 million and you take the Irish provision out of the numbers, we'd end to about an 11 percent -- I'm sorry, 11 basis point provisioning for Q3 and about a 10 basis points for the 9 months to '18, which is incredibly low.



So I thought we just explain -- Katie, could you explain why we've taken the GBP 100 million under IFRS 9 why we've don't that might be a bit helpful.

Katie Murray: Yes, no, sure. Thanks. Joseph, you'll be familiar with IFRS9, so when you look standard, it require us to look a range of economic scenarios of the standard that its forward-looking, but it uses a backward experience in kind of help inform that.

And when we know and we look backwards sitting a 16 bps before this charge for the year-to-date, we're not really seeing a lot coming through the book. What we can see is consensus is widening and it is broadening, so you'd feel that there is more kind of uncertainty in the environment.

So we will look at scenarios are based on consensus and also other scenarios are now based on consensus and multiple different levels of scenarios. During the quarter, I think that you probably agree with me that the risk of Brexit has increased. We are not at a stage we want to be at as a nation.

So as we kind of look and we run those scenarios, we've taken throughout an extra GBP 100 million. And as we said, we repeat what Ross has already said, in terms of that, we're still 11 bps year-to-date, so 10 bps year-to-date is excluding that amount, we're still at a very, very low levels of guidance.

You will recall that our guidance through the cycle was 30 to 40 bps, and then we're just not getting close to touching that. So I think it's important but it's not certainly a big number in terms of our portfolio or anything like that.

If you look to the NIM and the competition that we see within in PBB, I think that we continue to see a competitive market across the business within a number of parties still continuing to push significant liquidity into the mortgage base, and so that's coming through on our NIM.

Ross McEwan: And when you look at it, we are holding very, very high liquidity positions.

Joseph Dickerson: I know. I ask you about it every quarter.



Ross McEwan: And I got to tell you, for the sake of fixing NIM for you guys, I am not going to change it until we've gone through Brexit. We've got some moves we probably make in the next quarter.

But we're holding onto it, and it's interesting, Sam Woods has mentioned in his speech last night calling that the industry should be holding liquidity and uncertain times, we would certainly get that, we don't have to build it. And it is I think it is impairing our NIM. We know that. We told you that at the last time.

I'm very reluctant to give it away in big doses just fix to an issue, so that's what I'm thinking behind it and now it's interesting. On the NIM, but we were writing good profitable business. We haven't reduced our credit standards in our mortgage book.

We are still doing good flow. Les and the team who run the personal business are fixing what I think it's one of the big issues in the year is as you come to 2 to 5 year roll of, too much of it was rolling off.

They're working very hard on that. That improved over the last quarter. So I think we're in pretty good shape, and the profitability of that business is still very good even at the lower margin.

So I think it's going to remain very competitive for quite some time here. Early signs of a couple players moving their pricing in the last few weeks, which is good to see, and that was also interesting seeing some payers not pass all of the 25 basis points through to the customers. We pass through what about 40 percent of them.

Katie Murray: Yes.

Ross McEwan: So it is a balancing act, but I am going to hold high liquidity levels and you can criticize us for our NIM on that basis. I don't mind. We fell over 10 years ago, and this bank wants to go into whatever happens in a very strong position going forward.



Joseph Dickerson: Totally understand. Just if I can, because you mentioned about the uncertainty around Brexit picking up over the recent political shenanigans. Could you help us dimension the first quarter and next year there's no deal what an impairment charge might look like? Is there a way to come to quantify that?

Katie Murray: No.

Ross McEwan: I don't think there is.

Katie Murray: No, I mean there isn't a way to quantify that. I think as we have a looked at our NIM, I think we previously had guided you that we will be flat to kind of slightly up.

I think what we would say is we go just into the last quarter, we'll probably be flat to somewhere slightly down is probably where we're looking at the moment, but I wouldn't take that as really cross into further disruption or what might happen as we get into 2019.

Ross McEwan: I think the economy has been incredibly robust given the uncertainty. And let's see what happens with the negotiations. I was on a call with a number of CEOs with the Prime Minister last week.

Well, I'm not going to comment on her comments there. It was more I think optimistic, then what people have gone onto it on. But let's see with the negotiations in, we have to do something on the scenarios and to look forward towards IFRS 9. We should be positioned there accordingly.

Operator: We will take our next question from Claire Kane from Credit Suisse.

Claire Kane: Two questions. Firstly, a follow-up on the margin. And obviously U.K. PBB seminar where you said you're happy with consensus forecasts for revenue to top line. And I know you seemed a bit more cautious actually on volume rather than NIM.

So can you just tell us given the 5 bps quarter-on-quarter decline in U.K. PBB, which I don't think really is a liquidity issue, whether that guidance is still fair. And then the second one is on non-interest income.





I think it's a disposal of this quarter. Can you just update us on whether you think you'll reach the GBP 2 billion cumulative loss by year-end '18 about another GBP 260 million loss in Q4 implied?

Katie Murray: Yes, sure. And so I think if we go first to your first question in terms of the PBB. And if I look to the revenue, we wouldn't be changing that guidance that we had at that stage.

We're still pretty much guiding you to flat to slightly up in terms of their revenue over the medium term. And so we're also very comfortable with what we had said. If we go around to the noninterest income, we had guided to GBP 2 billion losses.

We are sitting at GBP 1.744 billion at this stage. I wouldn't change any of that guidance at this point. I mean these things come through and they're relatively lumpy, so I think I would probably stick with it for the time being.

Ross McEwan: Even though Claire I think in the last quarter was only about GBP 14 million of disposal losses, the things on the assets and positions we're taking off the books, so I believe at GBP 2 billion at this point in time even though we're seeing at (inaudible)

Operator: We will now take our next question from David Lock from Deutsche Bank.

David Lock: And just following up again on the margin. I just wanted to slightly unpack this, because it feels certainly like it's gone a little bit worse, the guidance over the last quarter. I appreciate the comments around liquidity Ross.

And presumably, you were intending to hold liquidity as pretty high through this period anyway. So I just wondered if you could talk a little bit about the pressure in the mortgage markets.

You've been very, very clear for some time about the pressure being have things got significantly worse in the last month or so? Because I recall, Ewen saying NIM flat to slightly up at first half results.



And then Katie, I think you said flat to slightly down in September. But obviously, today, it feels a little bit worse than that. And then a second question from that would be just, would you caution us on extrapolating the 60-odd -- GBP 60 million, GBP 70 million NII miss going forward?

Or do you think is there something that will come back obviously liquidity apart of that? Would you caution us on rolling that forward? And obviously, consensus has NII rising in future years.

Katie Murray: Yes, sure. So I for, you can jump in. So David, I think if we look, first of all, to the liquidity piece, and let me kind of unpack it for you a little bit around the whole. So I mean as we look to our liquidity, we talked about there were 2 points that we -- 2 bps in terms of the impact on NIM. Now you will be aware obviously that we paid out the DOJ.

We only actually that quite late in the quarter we're doing some of our early guidance and a flow of that amount on has a fairly big impact, so that certainly has a little bit of an impact in terms of that piece.

We then paid repaid our pension payment, which we paid to the early part of October as well. So you would see the NIM pressures kind of starting to ease off a little bit.

But as you look into this next quarter, we still a lot of liquidity items that we'd be considering around some of our debt hold. Certainly, as you look at the margin piece, I mean that accounted for 3 bps in terms of overall for the competitive pressure that we're under.

And I think that, that has really continued and it feels very counterintuitive that if you have something like a rate rise actually what we released our some pricing continuing to come down.

And so the competitiveness that we see in the marketplace is still very much there. And then we had a couple of one-off coming through as well in terms of that margin.



So I mean I can we hold to what I said in September and kind of repeated now. I think at year it's kind of flattish number as we move forward from here. But some of the liquidity decisions that we'll make will clearly be to be impactful on that.

David Lock: Sorry, just on that, just to be very clear. So when you say flattish at the end of the year, you're talking about the full year NIM or you're talking about the fourth quarter? Just so we're very clear.

Katie Murray: So as we look to the full year.

David Lock: So the full year on the previous year.

Katie Murray: Yes. And then if we go on to your next point around income. So we as we look at income, there's a couple of things going on there and I'll work my way through the various franchises.

We gave you guidance in September that that the medium-term income for PBB would be flat to slightly up. We maintain that guidance. Within CPB, you'll be aware that we've been doing quite a lot management of our RWAs.

In that business, we're more or less substantially done on that. There will be a couple of little bits that will continue to kind of come through in Q4, but the kind of the real work of resizing that portfolio is complete.

And so now we're kind of well positioned for growth. And what we can see within the RWA numbers today is that we're growing in sectors that we want to grow already.

So kind of comfortable on that income side. You then look to NatWest markets, we've always guided you on 1.4 to 1.6 of income. We've never changed that whether when we were roughly at the kind 1.7, so I think that's something you can kind of continue with.

And what we know is we still have more benefits to come through on the structural hedge. We have had 2 rate rises. We're kind of at the end of year one on one of them, and just in year 2 on the other.



So what we know is on a 25 bps rate rise by year 3, you're getting GBP 350 million, and then by year 2, GBP 276 million of income coming through in terms of the structural hedge activity. So I think that for us, that kind of gives us some comfort on where income is heading.

Operator: We will now take our next question from Chris Manners From Barclays.

Christopher Manners: Yes. So 2 questions, if I may. Sorry to sort of belabor the point a little bit just on the net interest margin. Just working out kind of into sort of new normal here that we're going to be sub 200 basis points on that.

And maybe I could just ask about the rate hike. I guess from the managed margin piece, you should be getting the GBP 153 million a year, so call it roughly GBP 38 million a quarter of extra net interest income.

Given the sort of lag before that comes in from the rate hike that we've just had, how much would be that sort of GBP 40 million extra revenue or extra NII will be in the Q3 numbers versus what we might get in our Q4 run rate.

And that was the first piece, just on that, deposit piece there. And the second one maybe to move it on a little bit. The capital being 16.7 percent, is obviously way through your targets I mean you're looking to hold about 14 percent steady-state, it gives about GBP 5.3 billion on surplus.

Obviously, you're accruing your dividends. You talked about the 5 percent of ordinary share capital that you might do as a direct to buy back off you KGI get out the stake. But it actually leaves you with a pretty substantial surplus.

So could you maybe sort of run through your thinking about how and when that surplus would come back will be after we rate after Brexit or just after stress test? And would special dividends would make sense to avoid reducing the free flows? And so maybe just some thoughts around will be really appreciated.

Ross McEwan: Maybe if I just start with the last one, then Katie, you can come back to the...

Katie Murray: On the NIM.



Ross McEwan: Look, Chris, we had got surplus capital, and we've been very clear about last quarter and this quarter that we do want to get it back to shareholders. First, we are just through a dividend which we've done and as Katie said we are accruing now for a full year. But as you know, 40 percent is just not enough to get -- we build to get that level.

The direct buyback is really going to be getting ourselves ready for that, but that's going to be in the hands of when the government wants to sell stock then there's about the pricing we're sitting at today, they will probably find a major difficulty doing so.

So I think what we have to prepare ourselves for is if they get ourselves ready for a direct buyback, first priority. Second thing is that there is not going to be a direct to buyback in a reasonable period of time, and I'm not going to tell you what that is, we have to pay a special.

Otherwise, this capital build becomes very difficult even get a return on because we are holding very high levels of rate today and it just keeps building. So we are considering all options.

We got to get through a stress test first -- beginning of December, and I don't think you'll be hearing from us on the capital distribution position until we have had our full board meeting in February with our full year results.

But be aware, we are very aware of the issue in fact too much capital that we're holding and we're having a look at all the options.

Katie Murray: Thanks, Ross. And I think Chris, I don't think you'd expect me to comment on whether this is a new normal or give you a forecast for your margin as we go into kind of next year.

I think that what I would say -- would share in terms of the specific points around the managed margin, you probably saw about half of that coming through in this quarter in terms of your GBP 40 million number. But I think as we look at the margin overall, I would kind of reiterate that the reason for the fall is very much a 3 component parts.



A couple of bps on one-off, 2 bps in terms of liquidity and then the 3 bps that we're seeing in terms of the competitive pressure, but comfortable with your guidance, our guidance for the consensus in terms of where we're going on on income as we move forward.

Christopher Manners: Got you. And with this that 2 basis points of one-off that we've had in Q3, should that reverse in Q4?

Katie Murray: So there was one other thing with some funding that we got in terms of the telro activity in Ulster peak, and I don't expect that won't reverse that going to the next quarter.

Operator: We will now take our next question from Jason Napier from UBS.

Jason Napier: I've got 3, please. The first, just looking at Ulster, aside from the provisioning for MPE sales, just conscious that costs are running ahead of where we thought they'd be, and have got a pretty meaningful improvement in operating efficiency into next year in our numbers.

Just perhaps ask for an update on the outlook for delivering a sort of better cost income in that business because aside from the actions that you've taken, it's obviously a tough market for all banks and it's looking pretty tough from the incumbents too from a margin standpoint.

Secondly, just an update please on the front to back book spread and retention rate in the mortgage business in the U.K. PBB in the past year, give us the sort of delta? And then thirdly, just the top up to the reserves.

I appreciate in a IFRS 9 world, we're sort of expecting kind of tweaking the sort of around as the figure, so I suggests you're looking to sort of run more cautiously into that uncertainty rather than shifting a particular indicator. So if there are indicators that have driven that, perhaps you wouldn't mind sharing a sensitivity with us.

We're all very interested in helping investors cope what it means if GBP expectations move unemployment and so on, so any kind of clarity on how it



is you came to the GBP 100 million I think would be welcome. And then lastly, just a point effect. Can you let us know your...

Jason Napier: It's a part the 3, not having to answer all of it yet. Just lastly, can you give us a sense of your exposure to High Street retail? How would you choose to define it in terms of loan exposure?

Ross McEwan: That's great. But I'll take the first 2 and Katie can take 3 plus 3b. Just on Ireland. It is a tough market over there. We've got a lot of remediation we're doing, and we're going through that remediation.

It doesn't matter whether it's in the old mortgage book, tracker book. We're getting through. We've got SME remediation onstage. so I think we had about 14 remediations going on in that business.

So we are getting through. So the cost of those, Jason, starts to drop off midway through next year, but it will be, I think quite a difficult year for our Irish business next year as we get through those. And that's why you're seeing the cost position staying up where normally it would be coming down.

But I would think you should anticipate that the cost of that business will stay up in 2019 before starting to coming off in 2020, because mainly because of the remediation and change we're going through there. We've got a new CEO, Jane Howard, over there. Jane has been with us for 37 years.

She is a fantastic leader and operator, and she chatted to the board just last week and she's got a grip of this business very strongly. There's a lot of things that we need to tidy up there. The big issue for me in Ireland, yes is definitely costs, but it's also capital.

And we got some things that we have to do to resolve for the regulator, which we believe I fear that we should be doing before we can start getting capital out of that business. But as you've seen, it got about 23 percent common equity Tier 1 by end of year with one of the books coming off more 27 percent. So there is 2 issues, cost and capital.



And we work very hard on that business, so I'm a bit cautious about our margins getting knocked around, but we still very strong, but yes, we haven't got a lot of effort into our Irish business and we take all that if than I ever anticipated it.

On the mortgage book, front to back, it's still about 80 basis points. The thing the team have been working on, the retention rates from mortgage through the Broker community we're sitting at about 65 percent which is nowhere where it should be. The team has been working strongly on that.

In September, it was up 71 percent. That starts making a difference to us over a year. If you can hold onto another 6 percent of the book as it turns from book 2 year to 2 year or 2 to 5, so it's good work going on there, but not finished at all, but front to back is still at about 80.

We've seen 2 players move there rates up a little bit over the last couple of weeks, which is pleasing, but I think you should anticipate very strong competition in the mortgage market through into 2019. Katie?

Katie Murray: Yes, sure. I'll go to 3a and 3B. So I think, Jason, If you look at the sensitivity of buying I think this is something that all the banks we share with the other far more details at the year end is one of the disclosures that we will be sharing and putting forwards at that time. I'd love to be able to say to you now, mortgage is the best, and rates did this and as an industry, we're not there yet, we're still kind of getting used to the behavior of it.

One of the things that I is 100 on the nose, you get very frustrated and one of the questions you get that if a little bit too accurate, so in terms of it, you shouldn't read anything into that.

As we do any of our scenario work and any of the calculations under IFRS9, we are look at range and a various range of economic scenarios.

We look at what's in consensus and outside of what's in consensus. I think we can all agree that the kind of risk of Brexit has risen which is why we look to take the GBP 100 million and it's kind of a point number because it starts only built up over that way.





In terms of kind of exposure to high Street retail, I would kind of guide you there and a direct exposure of commercial lending somewhere probably between the 5 percent to 10 percent range kind of looking at the give you exact number, and that's obviously commercial exposure.

While the 3 most recent ones that have been headlined around Patisserie Valerie and Maplan weren't our debts, but we do back 25 percent of the market, so we know that it will come round into us in time, but we were pleased in the last to go that we weren't on that paper. But as you say, with these things at 25 percent, you take care, you will take your turn when it comes.

Operator: Your next question comes from John Cronin from Goodbody.

John Cronin: Just on the PPI. I note your comments that there has been an uptick in complaints volumes this morning. And has -- is that a structural uptake or just a response to the ad campaign? And what are your expectations around volumes over the last 10 months or so? And secondly, just getting back to the net interest margin point.

On mortgages, you have expressed your ambitions to grow your share of stock. And how Do you think about that in terms of capital allocation? And may you slow that down for a period of time given the competitive intensity and in terms of your growth ambitions particularly?

So just trying to get a sense how you think about it from a capital allocation standpoint. And then thirdly, when do you expect that you will make an announcement in relation to the CFO position?

Ross McEwan: OK. Well, I might try all 3 of those, actually.

Katie Murray: Go for homerun.

Ross McEwan: I'll go for a home run on all 3. Firstly, on PPI, the ad campaigning that went in August drive the number of cases up pretty considerably.



We still said stick that the people saw just coming in August and people didn't realize it was August 19, not August 18 which drive August, because they dropped down a wee bit in September but it didn't come down to the run rate that we've been having, then you got another ad campaign running at the moment probably for the next 6 weeks.

So that's applications coming in, and therefore, we our view was that we should take an additional provision to all sorts of levels. That's the frequency of the GBP 200 million. This campaign drops off, what it drops down to again.

So with look, I'm not going to say never again on PPI. We said that a few times and it's the gift that keeps on giving. So I think we're okay at the moment but we'll see how this next sort of 6 week campaign bring without pushing ourselves out there.

On NIM, we had said that we do want to grow beyond our 10 percent stock, and we have doing that we've been around that 12 percent growth mark we should say share the market on growth we're very comfortable on that.

I'm very happy to allocate the capital to it as long as it sits around the volume of the. It's the quality I worry about, not the volume. So you see loan-to-value ratio hasn't moved a lot at all. We do monitor that very strongly.

There are parts in the market that we haven't grown strongly that they haven't been. So I'm very happy to have allocated capital. It's a good return for us. On the CFO, it's an internal external search for its ongoing. I think will be halfway through the process.

So I don't think you'll hear anything over the next couple of months. And with Katie sitting beside me doing a fantastic job, it has to be an inside outside review, and it's running through the governance because of the director role of the bank and the board will get a view.

Operator: We'll take our next question from Guy Stebbings from BNP Paribas.



Guy Stebbings: Just one left from me then. On strategic costs, it picked up a little on the H1 run rate, but it's still running quite low relative to the GBP 2.5 billion guidance and how the Q3 level, you'd get at more like GBP 2.1 billion rather than GBP 2.5 billion.

So if you can update us on the timing there? And is revenue run is proving a little more tricky the one you set out investments within plan, would you consider reducing the total spend at all?

Ross McEwan: Look, I'd stay with GBP 2.5 billion and I would encourage you to stay there this year about GBP 1 billion. Next year will be higher than that. We know we've got our plans for next year and it's higher than that, and I think it will be smattering of leftovers for 2020.

Some of the programs and work will take a bit longer to run through and then we can take strategic costs, things are around for example we've talked about the data centers that will take a number of years and will have to spread those over few years as we get through '22. But now this year will be around GBP 1 billion, next year be more like GBP 1.1 billion -- GBP 1.2 billion to GBP 1.3 billion, I suspect.

Katie Murray: The GBP 2.5 billion guidance for us was certainly how we suspect were going to stick. Looking at the building here, the GBP 200 million charge as we are moving out of this.

So there are big things, the accounting standards are quite strict as to when you can recognize them and when you can take them. So I wouldn't change that number and a lumpiness as the reality of this kind of level of change.

Ross McEwan: And we guided I think GBP 300 million strategic costs in 2020, so that sort of gets you the GBP 2.5 billion.

Katie Murray: Yes, I think we should repeat the comments we said on revenue earlier in terms of as we look at it going forward. NatWest markets, 1.4 to 1.6, the structural hedge on and will repeat the numbers again, you're all familiar with them.



CPB, we have come to really the tail ends of our RWA kind of reallocation and reshaping of that business, and we've got quite a lot in September around PPB in the kind of holding the sort of slightly up from where we are.

At, as of the moment we are comfortable with where our income is different, so there's no suggestion were moving away from the kind of the cost investment numbers.

Operator: Our next question comes from Fahed Kunwar from Redburn.

Fahed Kunwar: I had one question. Unfortunately, on margins and another one just on the U.K., the loan losses. On the margins, you talked about the market being very competitive. From what I can see in the broker market, you guys cut rates, but for the most aggressively of all the large banks in after the rate rise.

I think your rate cuts were 40 to 50 basis points across all your core products look at the banks more like 10 to 15 of the larger banks. So I guess is it very much explicitly because you're still looking for volumes?

So is it more left to do with competition, and more to do with your aspirations around the versus your group return profile? And just up on the clarification, Katie, you have flat margins year-on-year. Does this mean U.K. PBB or did you mean at the group level? I think U.K. PBB.

And on the loan losses, and I think there seem to have come through you come around U.K. commercial rather than personal. I mean my understanding of the U.K. is the worry around Brexit really focused on the personal kind of consumer lending consumer point.

And if you are worried about the wider range of economic consensus, it is inconsistent at that point to also be growing share in mortgages where as you know the market is getting a little riskier and harder to find attractive returns with the lower risk profile. So that consisted in your mind just talking through.



Ross McEwan: On the mortgage one, we have been very clear that we want to grow our share in the mortgage market. We're very clear we have taken another price setter. The changes you're talking about there, I don't see us being the one dragging the mortgage margins down in this business at all.

We're responding to markets activity we saw when about 6 months ago, when the first rate rise came through, people pulled the rates down and I think in response there on us in was just response to others in the marketplace we are trying to make sure that we hold the retention rates to get them down with, at 65 percent, that will needed to be into the 70s, and we've achieved that. But it's a piece around pricing to hold onto the business which shows how competitive the market is.

We have not dropped our credit standard. There are parts in the market where I think we can be and you will be in. We have been in the past that I think are still very good pieces bits of business to take.

But we're not dropping our credit standards for our volumes are about 12 percent and I'm pretty comfortable with that. Even if it was around 11% we would not worry. We've got plenty of liquidity. It's really around don't take bad credits into the book is the big piece for our mortgage side.

Katie Murray: And Ross, the thing that I would add onto that is we've guided, 30 to 40 bps through the cycle, and there were such clear daylight from what we're experiencing here today in terms of our kind of guidance. So I think that we're are very comfortable with the quality we're bringing in.

And I think we're really benefiting and the work that we've done over the last number of years to make sure that this is a clean book, so I think that's something as we look at our 60 bps year-to-date, including the model economic scenario and the steps we've taken in for debt and sales within Ireland. That's kind of coming kind of 10 bps year-to-date, it really is continuing it tremendously low levels.

Ross McEwan: I think that just shows the work that the team has done over the last 4 to 5 years to clean the book up, and look, we are very surprised it is that low. We've guided to 30 and -- 30 to 40 basis points. So it doesn't stay good for



that long, maybe I have been around bit long in the cycle, but we'll know that.

Katie Murray: And really on that point. So we're sitting I think on Slide 5 that we've given you kind of give you the breakout already this morning.

So we're kind of ending the quarter at 193 and what we're seeing at the moment, a number really looks very flat or very marginally down if someone were going to in Q4. We're trying not to get in to forecasting NIM because it moves around a lot in terms of the liquidity decisions you make, which is the right decisions you make in that time.

Fahed Kunwar: Sorry, I've got a cold. I think I heard you say year-on-year Q4 '18 will be flat, but I think what you're saying q-on-q it's flat to slightly down.

Katie Murray: Yes, thanks very much for you for asking the clarification.

Operator: We will now take our next question from Chris Cant from Autonomous.

Christopher Cant: Obviously, we've had quite a lot discussion around NIM, and I'm getting a bit confused in terms of the puts and takes of liquidity coming in and going out again. Have you considered reporting a banking NIM equivalent to the one that one your large peers which effectively splits out some of the liquidity impacts?

I know that they are able to glide quite comfortably on NIM trends on a banking basis x things like liquidity because of how they define it. Have you considered whether it'd useful to disclose something like that?

People get a better sense of the actual underlying trend? And if I can sort of round out the discussion on NIM and NII, consensus got 1 percent to 2 percent NII growth then in 2019 versus the 3Q run rate you just printed. Are you comfortable with that?

Katie Murray: Yes, so I mean, Ross, I kind of kick off. I think probably there's lots of different questions on NIM, so let's maybe rephrase it and go to Slide 5.



As we look at where we're sitting, there is we kind of 2 bps down on liquidity. As you know, it's -- NIM is calculated on average and have some large outflows in October and then -- so in September and then in early October as well.

That is the competitive pressure we've talked about, as well as couple of one-offs. As we look to -- as we go forward from here again the 193 on the q-on-q, what I would say there is we expect that to be flattish to very marginally down.

As a bank, we really work hard not to do too much adjusting over numbers and absolutely what is on this it will be okay, in terms of number, we're always looking as the team do to kind of make sure that we have the disclosure.

But we think the liquidity number is a real cost of running the bank and it serves to whole bank, not just the central treasury team. So it feels a little bit disingenuous to kind of strip out the real business. So obviously we'll continue to look.

Ross McEwan: In terms of -- I just think you end up with lots and lots of games with people playing with NIM if you don't do it as a group and allocated all that out. It's funded, then we try to be as transparent as you possibly can and allocated as much of the cost particularly in the liquidity cost out.

So you will see the real value of these businesses are supposed to be holding at group level and allocating it to on because we want to look good. I think the business has to stand on their own.

Katie Murray: And I think just in terms of your question on income, I think I said a couple times on the call so certainly not looking to change consensus.

So again, just for any character, we go through, PBB, we gave some strong guidance in September in terms of flat to slightly up. CPB, we're really at the end of the whole reshaping of the portfolio, and we're growing comfortably in areas that we want to at the moment.



We also have the NatWest Markets guidance and on rate sensitivity we are very rate sensitive, and we see strong pickups as rates continue to rise. So Chris, hopefully, that kind of helps on clarity on the NIM, income and questions.

Christopher Cant: On the banking point, I agree with your approach. I suppose, it would be helpful people understanding of what's going on the to sort of give an underlying view on NIM such as these were we spend an awful lot of the call discussing optical impact of liquidity on NIM, how are you adjusting for those because you're managing the business. I just think it would give people a better sense.

Katie Murray: No, no, no, thanks for clarification, Chris. We do look try to listen to folks other than ourselves and we look at in terms of the Q4.

Operator: We now take our next question from Ed Firth from KBW.

Edward Firth: I just have a question back on Capital and I must have misheard the answer. You mentioned the 3 stages in terms of the -- I guess extraordinary levels of capital you've got now that certainly against peers and I guess certainly is going to get worse.

Just to be clear, if the government don't sell down and you don't get involved in the directed buyback, was I right you do special dividend? Specifically said that share dividend, you won't be doing a share buyback?

Ross McEwan: Look, what I said this 3 parts of trying to get capital back. One of them is obviously the dividend which was started and the other one is getting involved in the direct buyback, and the third is a special. So those are the 3, I think tools that we have to get capital back and we have got it.

This is an amazingly good problem to have, isn't it? Because 5 years ago, we were struggling with capital. Now we've got lots of it. So look, we are considering all phases. The one that we talked to most investors like when we said, would like it back is to get the dividend back.





Secondly, do a directed buyback. If that becomes problematic, we do need to actually start considering specials to get it back in your hands. So that is sort of 3 methods.

Edward Firth: And can you give us some idea of what sort of level that thinking kicks in? Because actually none of us have got any visibility on when the government may or may not be selling down.

So I mean clearly, you could get to 18, 20 in a reasonably order, I mean would you may still be waiting for that or the time that if you look at time, or would you look at levels or what?

Ross McEwan: Levels mainly I mean the time that we can get back to you -- we said we want to get through the stress test which is December and you got a board meeting February. I think will give you much better clarity around this but what they realize is we don't need this level of capital in this business and you'll find risk getting it back to you.

Katie Murray: And we will present any number of different levers in to do that.

Ross McEwan: To do that.

Operator: Your next question comes from Rohith Chandra-Rajan from Bank of America.

Rohith Chandra-Rajan: I just had a couple of quick ones actually on volume and in mortgages and then commercial. And so looking at the mortgage book, stock return gross earnings share was 12 and then approval of share at 13.

Is that an indication that you're willing to take market share in a market where are as you indicated, Ross, pricing is falling. Are you still happy to take additional share there? And then on the commercial book, you talked about the repositioning of that book now being pretty much complete.

I just wonder if you can talk a bit about the underlying trends that you're seeing if you exclude the repositioning of the books? So how much demand are you seeing? How much underlying growth in commercial?



Ross McEwan: Yes. Look, we're happy take -- we do want to grow the mortgage book. We do want to grow greater than the 10 percent stock share. We haven't set Les many targets on that one. He doesn't have to do 12 or 13.

But we have the distribution that gives us I think a decent share of that market at pricing points, and those pricing points are followers, let me be quite clear on that. We haven't been having to tidy up the retention piece, and that's starting to work now.

So anything over the 10, I'm comfortable. We haven't set Les targets. That's what we can get out in the market at a decent return on equity, and that's what we stick with. It is a good return on equity and we should continue to do it.

So that's the only thing guiding us there. We are not the price leader. And if you keep telling me, go back again and again and examine with Les, but that's certainly nothing of the case we have gone in and look at our pricing for us.

We're doing certainly more on the 5 year than we were. That 70 percent of the books is in 5-year now, which is fine, but I think we are certainly a price taker in that market, both very good distribution.

On the commercial book, we are quite right that we have done a lot of restructuring in that book, and I think the Allison Rose and her team who run the commercial business have done a very good job of really getting back to the assets that we want, and therefore we've done a number of asset sales over the last couple of years and what you're calling now is we've got a book that we are comfortable with.

We are now concentrating on where are the profits of growth we want and there are some pockets where we enjoyed being in that we think will be good long term.

So now really no other comment on that either than to signal to you that the reduction in that book is pretty much to within couple very small pieces, near to the end. We've cleaned it up and we're comfortable with it.



You've seen the impairments are very low which you can, you know we're 25 percent of this market. At some point, we will take our share of the impairments, but I think given we've cleaned up the book, probably is an indicator or one of indicators of why our impairments are so low.

Operator: We will now take our next question from Andrew Coombs from Citi.

Andrew Coombs: A couple of points for clarification, please, and come back to NIM firstly. If I take your commentary, you've mentioned there's 3 basis points decline due to competitive pressures q-on-q. I think the guidance for Q4 is essentially that will continue to underlying Q3 195, take up another 3, it's consistent to your guidance.

That seems to be a big increase in competitive pressure given what you've stated previously. So I think when you did the margin walk at the first half '18 stage, year-on-year, you said it was 3 basis points due to competitive pressure.

Now we're seeing 3 bps in a single quarter, and again, next quarter. So specifically, what's driven up that competitive pressure more recently. A lot of the trends we are looking at, and particularly the lower deposit betas, that you have shown seems to suggest the opposite and so that would be my first question.

The second question just clarification and capital return. I think you said the priority as ordinary dividend, then directed buyback and then special dividend. Just on the last one, how have weighed up the options of special dividends versus general buybacks in your consideration?

Ross McEwan: Look, I'll give you the last one again. I'll give you 3 times and obviously not being that clear. There are 3 options around it. The first one is an ordinary dividend which is started and we'll give you clear indications at the circa 40 percent.

Directed buybacks was when we have the conversations for the investors and that was a good thing to be doing, and therefore, we have been working



hard on how do we get about doing that in the real process because it's reliant on a number of things, one, the government actually does want to sell part, 2, we participate with, the 3 that we get regulatory approval to do so and board approval.

So we're working through that, but at 220-odd, I would be very, very surprised if the government was a seller of that sort of pricing.

What I'm saying signaling to you is that we do want to get the capital back, the other way is special or there are other forms of buyback but I would have thought specials is the best way to do it. But we will examine that as a board over the next few months.

It gets through a stress test, and what I'm signaling to you I don't need of capital in the business, so you have that -- it's clear on that one. Katie, back to you to have another go, because we're failing on the name NIM.

Katie Murray: Sorry for that, Ross. We have seen more competitive pressure in this quarter and I think that's what we were kind of changing our guidance very slightly and what we said for June and we agree on that.

I would say if we look we ended Q3 on an underlying basis at 195 and then post one-off at 193. So I think kind of maintains a flat to very slightly down on those basis is the right kind of places to get to.

The reality is you are debating on 1 basis points up or 1 basis point down, a different decision that we might make on liquidity, we'll kind of move that. So I think you've clearly got the message in terms of what we're trying to guide you to.

Andrew Coombs: But rather keep number, I'm especially interested where the competition get up and it's consistent with what your peers are sharing, why you specifically seeing more competitive pressure and in which specific areas?

Ross McEwan: Well, again, somebody made the comment that the peers are allocating we are allocating are the costs down. So I think it's going to have to be careful of that and seeking policies different there. So...



Katie Murray: It's hard for us, will not give any comment on that. We are continuing to see as a competitive environment and that is the reality and we talked about our front book and backward margin which just confirms that.

Operator: We will now take our next question from Martin Leitgeb from Goldman Sachs.

Martin Leitgeb: Could I ask on competition, and I think on both sides, asset side and liabilities side. And then I think you in the call that you'd expect competition and mortgages to remain flat for 2019.

I was wondering if you could shed a bit more colour in terms of market itself, what do you see the overall mortgage market growing in shares, potentially slowing in the next year as you see some of the transaction that was coming down, some of the pricing trends and strong as in recent years, and whether I think a number of banks are now trying to manage the retentions similar to what you indicated earlier in the call.

But you think as a consequence, pricing was likely to fall further from here which you basically make an assumption of pricing probably at current levels.

And the second question is similar just on the deposit side. Obviously, you excess liquidity being in a number of things which are expected competition on the liability and somewhat less pronounced.

And to that extent, I think just give on the pricing data, it seems like some of the pricing points from the deposit side has narrowed and some of the banks have passed on more in some of the banks have less of the last base rate hike.

How sensitive are those deposits to how much you pass on. I'm just trying to understand if we have a further base rate hike next year to what extent are you able to (inaudible)?

Ross McEwan: Look, it this, on both sides, certainly the asset side is very competitive in the mortgage book, slightly less in the unsecured side of the business. It's more around the pace with which you can make a decision and the pricing peers.



On the deposit side, I think different bank seems to be experiencing different things. So certainly no need to take on new deposits and any great rush of them from existing customers, as I think the larger banks are well and truly well positioned for their liquidity.

I suspect that some of the smaller banks as I look towards refinancing the Bank of England funding will have to start thinking about the pricing, and you start -- I think you're starting to see that coming to the market place, we are well-positioned at this point in time with the most -- the deposits to fund our lending, and we did pass on 40 percent, but we were quite strategic about where that went to, products it went to, 96 percent of the customers actually got some benefit out of it, some greater than others, so we were quite clear about where we propped the increases as compared to others because there are some products where it doesn't make much difference. Sorry, question?

Martin Leitgeb: Just a follow-up. If you look at (inaudible) less than the 40 percent (inaudible) balances and your book to (inaudible) so the mortgage side of the very high margins on the space and you see deposit side and (inaudible)

Ross McEwan: I'm saying we are seeing less competition on the deposit side than we are on the asset side because everybody the bigger players have got the liquidity and I have the ability to get hold of the deposits.

So I think there's less competition in that side of that. Deposits in the U.K. PBB are up 3 percent year-to-date. Current accounts up 3.9 percent. And savings were up 2.8 percent. So we're doing very, very well on the deposit side of this business. My understanding is it's better than the market growth itself.

So we have the capacity to bring on deposits, but we are -- we were quite careful about where we did put the pricing changes from a strategic perspective. But as I said, there are -- players will not be in the same position as ourselves. The market actually was just under the 3 percent, so we grew pretty well across those areas.



So look, there will be competition over time, but I think the main competition is in the lending side around mortgages. And yes, you're right, at the risk and people are trying to hold onto the business, and the pricing does get again become very competitive but to hold on the business.

Katie Murray: I think what we are always clear about Ross is we make sure to stick with the risk profile and any business that you write for cost return of capital program and it's a really important forecast. Have to look at the back door and the front door to make sure that you always do that within your wider metrics and not just focus on NIM.

Operator: We will now take our last question from Robin Down from HSBC.

Robin Down: Slight cheeky one this, but given you've said that you're comfortable with consensus on the revenue side, to comment on the costs side as well.

I'm just conscious, I think strategic costs, I think you kind of give us the sort of guidance and look at where consensus is, but in my head, I think Ewen had been talking about litigation and conduct being elevated in 2019, and that doesn't seem to be reflected in consensus.

But I think going the other way, the other expenses line doesn't seem to drop away exactly as perhaps previously have been guided. So I just wonder if you could just give a comment on the cost side as well of consensus.

Ross McEwan: Look, Robin, thank you very much for a different question away from NIM, so that's good because we're staying very much with our 2020 guidance, around the sub 50 percent cost to income ratio, which we did say at the start of this year that we would spend more money this year on a number of innovative type activities inside the business, and there will be less cost take out this year.

You've seen we've taken another 50 out in the quarter. Next year, we will be stepping up the costs take out again in the business and certainly into 2020 to position us well for that 50 percent cost to income ratio.



We have been doing a lot of work around end to end processing, restructured many parts of the businesses and want we call domains where all of the front to back activity is put into one area, example being is the home buying journey, the other one is around everyday banking which is your current accounts and deposit accounts and saving accounts. And the other one in Les's area around unsecured lending or short-term lending.

And what we've been doing this year is putting all of the people associated with those parts of the business in one area front to back, including parts of our Indian operation. So next year, we do expect to see, and we're planning to see better cost takeout and better use of digital activity that we've been spending money on across the bank.

But I mean in this industry, there needs to be relentless focus on your cost structure and more of that is going to be a digital journey, and that's what we have been spending money on, and the results will start showing again in 2019 and through into 2020. So cost is a big focus for us, again, it has been this year, but we have been spending a lot some other things as well.

Katie Murray: And I think we'll see kind of reconfirm your mentioned around the litigation piece. We have a long but shrinking number of pages in our account, we continue to kind of pick them off. We expect some of that to continue into 2019 as well.

Ross McEwan: Yes. There will be some activities that we're trying to clear again next year especially...

Katie Murray: Continuation of a journey, yes.

Operator: Thank you.

Ross McEwan: I think that's the last call. Can I just thank everyone for joining us. Look, I'm pleased with the quarter's performance given the current economic outlook and the competition that we are seeing and we've discussed on this call.

We're also aware that there's a lot more for us to do, and fully focused improving this business, particularly around our customer service delivery.





And as we discussed in the last call just around the cost takeout in this business, we haven't taken our update at all, but the business is in pretty good shape.

We've got great capital levels, which we do want to distribute back. We say that again and again. And we'll find ways of getting it to you, and we will continue to make this a very good bank. Thanks for joining us on the call. And thanks, Joanna, for running it for us.

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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