Q3 Results Equity Round Table

Thursday 14th November 2019

Katie Murray, CFO, RBS

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Katie Murray: Thank you very much for coming. It is nice to see you around the table so to speak, rather than in the heat of the moment of results as well. I know you know our Q3 results well. I will speak briefly. I look at Q3, there are bits of the results that are more positive than other bits. But the bit I am most pleased about is the numbers of the corp and the retail and commercial, means we really are continuing to form pretty well in the accepting economics and the underlying performance is solid. We are continuing to lend which is really important for us, and it has been pleasing to see some of that lending volume off-setting the margin loss. Also the continued growth that we see down at the smaller end of commercial as well. I'm pleased we are attracting new customers to the bank. That's been a change in trend over the last number of years, it is important in terms of longer term ... [inaudible] and of course the costs are coming down. I understand that you all wrote a miss, I would have said in the boardroom, sitting there, Jonathan, that is my seat for the boardroom for the meetings, I don't know why but it always is, people took their number and doubled it, despite saying we would hit 300. I am happy we will get to the right piece in Q4. Overall, growth, cost take outs we are comfortable where we are on the RWAs and the capital generation, obviously PPI being the number it was it was a disappointment. That is a definitely case of ... when I look at the other banks, I think it was a bad hit and obviously our NatWest markets performance was the other lot on the copy book, Q3 but happy on that to move into questions. When everyone is ready?

>>: Hi there. [inaudible] RBC there was a report by the Treasury Select Committee a couple of weeks ago when push payment fraud came forward. I was wondering if this is a concern to you, if you are considering retrospectively paying back customers, how far this report, will it get traction?

>>: We have had about £25 million impact in the numbers this year. We have shared numbers we have here in. Document it was a Q3 number. It is a concern for us. We have not made provision for retrospective payment on it. It would be relatively difficult. But if things move in a different way, we would be advised that we would. It is not something that we are actively looking at now. I think the challenges on the push payment fraud is that our view is that the FCA is taking a negative view of the responsibility of the banks. In reality it is a mutual responsibility for us to do as much as we can to protect customers and also for customers to have their responsibility for making sure they are not getting scammed. We can all agree that nobody that got scammed by a push payment fraud is volunteering for it. It is a very, in many cases an emotional time. I have friends' parents, interestingly, who have had a few APP scams. For the elderly, it is a massive confidence boost when you can least afford the finances and the loss of confidence. It is how do we work with customers in the right way to do that but at this point we are not taking views on retrospective. It is costing, I mean it is at £25 million this year, it is costing us. From an FCA perspective, there is almost nothing that we can do as a bank to say that we have done enough. in terms of putting forward. We have examples where we refused to pay somebody out. We said to come to the branch. They came to the branch we said that we really believe this is a scam, you should not pay the money over, they have chosen to do so, we have still refunded the money back to the customer. So they have taken a very dim view of it. So we are spending on technology and to use technology as best as we can to help to combat some of the scams.

>>: [inaudible] Do you know the size of the problem?

>>: It is not something we share at this stage but I don't have a particular view on that number. [inaudible]

>>: If I look at NatWest markets, we talk about them aiming for about a billion in costs for next year. That runs at about there. Next year it sees the end of a lot of that replatforming. This would be their last bigger year of the costs. Clearly, with a platform you have to maintain it, it is not that you put it in and not spend anything. The biggest investment comes to an end. The around 1 billion is the right benchmark for the NatWest markets.

>>: When you think about the connectivity of the markets to the rest of the bank ... you know, what are the options on the table, given [inaudible] it doesn't take a lot of capital, what are the options on the table?
>>: I think at the moment, what we are doing in terms of the whole group, you mean Alison, it is, it must be day eight today, maybe. In terms of, or maybe day ten for now, but in terms of her time. She is looking to say, as I look at the business in the round, that there are several questions. Are we doing the right things in digitisation? In Ulster, the right things on customer end-to-end journeys within the core bank and it is time for the next steps for NatWest markets. We believe it is a bank that is strategically important for us with the level of connectivity with the core customer base is impactful, so I don't believe any of us see a world with no NatWest market. So I would definitely put that to bed. But one of the things is to say we can see the returns, we can see where we were on income, in terms of the guidance, if it is Ross' 1.3 high to 1.6, we will not be there this year, honestly, we were not there last year, so what does it look like going forward. If you were to pull the number down, we

haven't, I think giving you a number of absences of the next stage is not helpful, you still get to a business with a great following wind that gets to 4-6% return, so what is the capital allocation question. Probably no more detail than the fact we are looking at it. As you expect us too, given where we are on the strategy cycle. We will talk more about it later.

>>: Do you have off the top of your head how much has been spent on the replatforming?

>>: I don't have that off the top of my head. It is probably something we shared really earlier on. I don't think we are a million miles from the numbers. Alexander?

>>: We said in '18 it would be about 160 to 180. This year would be about 160, then in 2020 we would fall to around 60 is what we said at the time.

>>: Thanks, Alexander.

>>: Can I have a follow-up up on the NatWest markets, please. Can you give us a sense of the size of the rates business within NatWest markets within the context of risk weighted assets with regards to revenue? And connected to that, that the customers that are introduced by the commercial business, based on the volatility of that line versus rates most of that business is being done in FX and financing as opposed to rates, is that correct?

>>: If I deal with the second bit first. What we, when you look at it, there are various profit shares that go through. Certainly the majority of the business is

FX and rates without a doubt. You can see that by the relatively stability of the revenue share line. In terms of the revenue share, the revenue share for the rates business is smaller. The reason is they have been because the rates business they have to hold a lot more capital, the cost of them doing that business for the bank is that much more expensive, so therefore you, while there is rates income in that revenue share it is relatively diminished in terms of in that number because of the revenue share being so much smaller and because of the predominant part of the rates business is with external financial institutions rather than the corporate base. There is some overlap but it is more significant than the revenue share we suggest but as the revenue share being so much more expensive to write you cannot see the impact of volatility but the business is certainly predominantly FI with some connectivity back to the corporate book. We don't split out the RWAs in terms of what is in each different bits of the business. There is 30 million in there, you know better than in terms of the level we have in terms of currencies, it is low level capital financing, you can go up and down a bit depending on what loan underwriting or bond issuance we are doing but it is all short-term. Although there may be extra RWAs on for an over wright they are not there for a long time. So a significant poser of RWAs you consider for the rates business.

>>: Relatively short, we can see the maturity profile in the subsidiary counts in pillar three. So a lot of it will come away within a year of that?

>>: Quite a lot of it would, and there is the less than 12 months and the over 12 months, there is parts of which are longer tail but a lot of it would come off quite quickly.

>>: Thank you.

>>: Can I come back on the costs for NatWest markets. We have talked about this but in terms of indirect expenses they look like they are running 350 to 400 million this year with the NatWest markets, how much if you rescale, how much of that indirect cost is scalable?

>>: Shame you were not a fly on the wall this morning. We were having the exact conversation. I think the interesting thing, I think of the sausage machine of indirect, how much leaves the building or you just spray over another business. That is something we are working through in terms of the numbers now. But there are, a decent amount of those indirects are not costs that would exit. We will talk more about that in February. It depends on the option, how much they scale, and what you have then done and then how much exits the group rather than just exits NatWest markets.

>>: Based on the current plans for the 1 billion cost base for next year, is that assuming an ongoing decline in the indirects?

>>: Definitely. I would say the finance team that charges out your indirects and the finance team that receives them in the NatWest markets would have been in arm to arm combat looking to get that number down. The reason we put so much in was to get the real visibility on their direct costs. When you have something end-to-end you can out the costs of the hand offs, so I expect to see that number come down a good chunk next year as well.

>>: OK. In terms of direct cost, looking at the staff costs relative to revenue, I think 65% in 2018, down to, sorry, they were 65% a couple of years ago, down

to 40 this year, and this year to date they are up to 65% again as there was not much cost flex in the Q3 numbers relative to the revenue. How much scope is there for a true-up in that in Q4 going forward, or is that sticky now?

>>: There is certainly scope for that. I would say that this year, if you were to look at the FTE numbers it has been one of our, looking at the total FTE numbers it is year lesser FTE out of the door but in a way that is difficult to penetrate. We have had to add quite a lot of extra people in terms of things like PPI and more in terms of the whole, what do you call them, the GRG closing those down. Those are people that come into the FTE numbers but not coming to the cost base as we do those provisions you provision the cost of doing the project. I think some of that FTE in terms of the, it doesn't hit the staff costs, so the FTE number moves more. I think you will see a bit of impact on the run-rate into the Q4 but I would still see the FTE number coming down. I think next year would be a year, given you get PPI out of the way, you should see more FTEs coming out next year as well.

>>: Coming back to the main business, retail banking.

>>: Yes.

>>: If you think about the mortgage business there. There is discussion on growth in the prior years. What kind of condition would you have in terms of stock share? What would be the right number [inaudible]?

>>: As we look at it our share of main current accounts is 15%. They are, our stock share is about 10%. It is a 1.4 trillion-pound market. So it is hard to move that 10 to 11 to 12, you are making huge movements in there. What we

have worked really hard to do this year is to make sure we taking as much volume as we can, to ensure that the processes can process the level of volume. We are pleased you can see the applications at 14, 15% and completions at 12%. I hope that we trend the 10% number upwards. In terms of getting that 10% to 15%, that, you are adding £70 billion at that point. It takes such a long time.

>>: No. I was just trying to get a sense of how to think of revenue progressions to blend out NatWest markets from retail to commercial only the head winds deflect yield curve. The additional mortgages ...

>>: One of the things I talked about around Q3 is the fact income growth was off setting margin. Talking to Les I wanted to make the statement, I cannot make it yet. That it is sustainable. What I would like to say, it is not just off setting, all that is doing is keeping me flat, but can we get it so it is additive, that is at this stage not a statement I would pin my hat on. If I look at where we are, in terms of obviously we are starting to look a lot at the 2020 roll off, and we know there are big market-wide roll offs in October in Q4 this year, so we have worked really hard to ensure we are in the right position to take a good share of those and we are will share in February if we have managed that. So a bit of a growth of that number. It is a challenge to get to, you would like think to head you can head towards the application level but the percentage point movement is massive in terms of growing that book as well. It will take time to bleed that through. What is important is are we managing to maintain the completions, so that you are completing at a slightly greater level.

>>: [inaudible] the systems are set up [inaudible] talking around 12% of the book is around SVR, would you say that the rate is moving lower given people are switching faster?

>>: We are about the 10% level but they are moving faster. I would say it stepped up this year to last year but not to the year before. It depends in terms of how the book is rolling at one time in terms of roll-offs that have been happening in the year. So looking at that behaviour, it is something that we talked about in Q4, although last year there was no particular impact from it but the year before it was more impactful. We and the other banks are working hard to ensure that we capture you for the longer term rather than leave you on SVR but it is the 10% number. There are reasons for that as people want the flexibility or they will struggle to get a new mortgage because of their personal situation. They know they will pay it off, or whatever, I'm not sure we see it getting below the 10% number. I think have worked hard with our customers to get it to that level. For those that naturally move, we work hard to ensure you are renewing with us, not getting relaxed and renewing with somebody else.

>>: Sticking with that for a second, the proposals around mortgage prisoners and that they be treated in a different way going forward, does it change that dynamic and how in practice does it work? If they ask for a loan, do you proactively contact them, what is that?

>>: Can you help me out with mortgage prisoners, I am conscious I talked about it the last quarter. I have not updated myself recently, where are we?

>>: On that point I don't think we have anything to update today on where we are with what that but it is clearly something, we have to go on looking at.

>>: Can I ask a broader question. I mean, I guess when you started the restructuring programme, we were dreaming at 12%.

>>: We were. Lovely wasn't it? Happy days.

>>: Yet, it is difficult a find any banks, I guess, ...

>>: Commerce bank at 4%. He set a nice benchmark for everybody else.
>>: But if I look at the deltas, they are going another way. Should we, are we now approaching a stage where we accept that UK retail banking in a 50 to 75 basis point environment is a 7-8% return business and we can complain and moan about it and dream of history when we made 20% but that is now the reality and actually probably not a bad return when money is pretty much free for the consumer?

>>: It is interesting. We had that debate yesterday as well. The interesting challenge is that analysts, investors, ourselves, in fact, we are caught on to the idea that the cost of capital is 10%. The question is, is that the right number? If you accept that is the right number, then you're 7-8% maybe a place where people will scur up and down and roundabout, it is still below the cost of capital, which does not feel right in a long-term basis, it could be right in any one year but not throughout the cycle. So the question is why do we as an industry seem fixed to a cost of capital that is 10% when the cost of money has come down so far. It is interesting in terms of where it might go. I think, we

like everybody else, are in the process of saying what does it look like and do we really believe this is what money is going to cost more for the next number of years. In which case, the 10% is an impossible dream. But is there a path up to double digits at some stage, even if they are low double-digits for others and ourselves.

>>: The danger is if you keep pursuing a goal that is unattainable, you cut a lot of businesses that perhaps you should not be cutting as one day they may be attractive and profitable, and secondly you end up focusing on things like charging mortgage customers over 4%, which is just extraordinary. And in a sense penalising the few lazy or the slow people, rather than building a proper franchise that is inherently profitable.

>>: I would like to suggest that we don't charge customers 4% nor shut things down. But in terms of the capital, if you accept it is 8%, rather than 10 or 12, you still need businesses that are earning 8. Some of the debates we have internally is in terms of the conversations we have had on things like NatWest markets, can you get to that and what most of the global investment banks that are earning at the moment, they would say no, you can’t, so how to deal with those businesses. But it is one of the things, Ross has said many times internally over the years, be careful you don't shrink yourself to greatness. If you cannot take the costs out when you are shrinking the income line you have a far worse problem, so you get into a world of where is your margin or returns. That is important as well.

>>: You are suggesting that the mortgage business makes mid-20s?

>>: It does do that in terms of mortgage business it still makes that. We know it will go when the extra capital requirements come in, it will be above 15% and relatively comfortable above that number. But the current account business has negative returns, it is only a cost-base. So you, you know, we are not a mono line. You need to have some lines to earn that level to carry the other individual lines, so you can clearly, your logic would tell you to close the current account business, as you would never make money from that but you would never do. So it is about how to look at it as a group. So not let's close everything in its own line to deliver the right returns.

>>: The part you said about [inaudible] why are banks paying customers to switch current accounts? That sounds to me an unusual transfer pricing approach to remunerating a current account business if you say it is just a cost. The structural head of that income ...

>>: If I look at the current account business in terms of costs it goes against that. There is the huge costs of the machine to operate and run it. Significant costs in terms of all of the cyber type things you have to put on it. Few people pay for banking and those that do pay it does not cover the cost of what it costs us to run. What we know in terms of products and when we have engaged customers and they are buying multiple products, that is how we make money and the value of the money that they hold on deposit, that is valuable to us but if you took current accounts stand alone by itself, you would struggle there to turn a profit.

>>: [inaudible]

>>: I would look at a number that is a little more than that. I will tell you the number in February across not just the current accounts but the other things happening in that space.

>>: You think that the [inaudible] … is wrong?

>>: Yes.

>>: [inaudible] is there anything you would like to flag to us ahead of this year?

>>: Other than the fact it is coming out on the 16th of December and I hope that most of you are heading out of the door, or have headed out of the door as in my case, which is personal frustration it has to be said, but I can come back in. We are comfortable with the stress test. If you look at the stress test it is similar to the year before. I think what is interesting is some of the stress tests. Obviously, we are doing the BES aswell in terms of liquidity, that will be interesting when this comes out.   It has been looked forward to what is the next version of the BES in a couple of years' time, that is almost certainly climate. Then you see more long-term views of what can happen with the business. I think that they will be there. But I am not expecting anything, numerically from the stress test. What I am interested in they are going to publish our qualitative comment on the stress tests. And that will be, that will be interesting to see what they say and how far they go and what peer insight is gives all of us but as of yet ... we are not entirely sure. I think there is a bit of ability to perform the stress test. I think it is also a bit of a qualitative of how the stress test compares but at the moment they are holding their cards

relatively closely to their chests in terms of what it includes and it depends as they look at it, what are the right statements to be made.

>>: Do you think [inaudible] do you think you can get anything this time as to how it looks going forward. As far as I can see ... [inaudible]

>>: I am not anticipating anything at this stage but that doesn't mean that we will it is just not a conversation we are been having.

>>: Can you remind us on the stress test, how was your RMBS charge treated last year?

>>: Last year ...

>>: In terms of the stress test ...

>>: It was the value of the cost.

>>: It was the value of what we paid, exactly. And in our own submission for our own conduct we make assumptions in terms of what the stress numbers may mean.

>>: The second question is on, there has been press comment about Bo and how the cost per customer will be half of your current costs. Is that, is that a number that is going to be doing right away. Does it require great scale to get to that level?

>>: It would not be the number we are doing right away but it would start to do it quite quickly in terms of that. But obviously the first batch would be more expensive as we have the set up but it should move quickly. In terms of acquisition, as long as you can acquire then it is not a particularly expensive thing to do.

>>: If it is that cheap, if you keep the existing brand can you move customers from current systems to the Bo system?

>>: For me there are a few different stages on Bo, let's get it up and out, that is imminent in terms of there. It is, I had not realised, I found out yesterday, I say to people it is in the app store, they say they can't find. My email is white-listed. I can always find it on the App Store on my gadget, I can find it, but now it is at the point it is about to be opened up, so that will mean we can really acquire the customer piece. So let's get to the point of critical mass of customers that would be in the tens of thousands. So we know it works, it is operational, and there are a few different reasons we have done it. If we see our customers going to Monzo, that people like having a companion current account. Is it something we can offer? If you get it to the right size and the right scale and then you can start to moving you to a digital only proposition, where there is no branch network, no this, no that. How to move customers there. Those are the decisions to make a move towards it. But once we have it up and running, there are strategic options, can we do that and what is the right way to do that.

>>: From within our own organisation, if you remember the retail day we did a few years ago, we said if you wanted to pay someone news to do it by

telephoney it was £1.39, and by branch it was 86p and on the mobile app, it would be less than 1p, so that gives you an idea.

>>: Maybe to come back to that point, in terms of digital bank versus the existing retail business. Why don't you combine it a bit in case a client has a life changing event and wants the reassurance to come back to a branch a but if it is a Bo only client they would not be able to do that?

>>: That is my understanding as well, you would not be able to do that. You would not have telephony support. Clearly if you were to walk into a branch to say that you have an event, to talk to us, we are always happy to talk to a customer in that way. But you have to be quite ruthless around how do you, you know, costs perforate as you give the customers lots of choice. If you have a companion account for most people at this stage it is that. So you have had your life event, you have the main account, which hopefully is with us, as that is what we have done with you, you access the branch and the advice in that way.

>>: Can I ask a couple of questions , firstly on Ulster. KBC were laying out a very much digital-focused strategy, exposing much of the back book to maintain a 12% market share. They do. Can I ask you to comment on your strategy for Ulster in respect of contributing to a 2-3% group return consumed, 15 billion of RWAs and the outlook for the margin if everyone is to ramp up competition or are ramping up, so if you can comment on the outlook for the margin in respect of the capital consumed by the business. Then secondly, in terms of the ...

>>: Can I do the first one, rather than me doing a memory test. In terms of Ulster, if I look at our Ulster Bank, it is issues in many ways that is three years behind the main back. Looking to what the main bank were doing three years ago, in the depths of Williams and Glynn, you can understand why Ulster was on the periphery. We put Jane Howard into Ulster. And asked her to sort out the control type issues, you will have seen quite a number of different 15 million, 20 million here, to solve those things out to get to the end of their cycle and that should be complete by the end of the year. Bits and pieces going to Q1 but it is almost done. We also said to sort out the non-performing loans, there is the 5% non-performing loan target for Europe and with the second transaction we have done in terms of disposal, we are on the trajectory, by the time we get to 2020, we are in and around the 5% number. We may do a very small transaction but to be comfortable on it but we know we are heading in the right direction. The third piece was how to return capital to us, as there was 2 billion of excess capital, 2 billion euro, that sits in that business, we would like to get it back. So we, she is in the process of doing that. It will not all come back as one lump sum, I think what is interesting for a regulator who has traditionally kept their banks at high levels of capital over there, so you can see the journey from 27% down to 20% being quite easy to negotiate. I think that the journey from 17% down to 14 or 13% may be more interesting, I don't think it is a debate to have in the next six months but as we move forward. Moving to next year, it is about, OK, we have done those things keep the focus on capital but then to address the cost income line. It is 100%. That is clearly no good. So that is very much the focus of the next couple of years. What we want for the business is in two to three years' time the NPLs are in good shape. The cost control is under control. You have extracted a fair amount if not all of the capital, and then say

what is it now? Why we are happy with Jane going across is her history in the core bank. Her ability to know and to understand the bit of tech and why don't I have it. So how to flip those things over. She is on the same version of Surfboard, you should be able to flip things over more quickly than you have done in the past. I Imagine that the past was difficult. You know for a while, if you were not Williams and Glynn you got nothing. You focused on RBS, more on RBS that we had delayed but she has the familiarity and has the ability to call the right people to say how can I get added into the roll-outs, so I see her digitising faster but we would not be making the KBC type narrative you shared a minute ago.

>>: But you are willing to put cost in for next year?

>>: We are willing to put some costs in. The way that I talked to them about it is I am happy to make some investment by but I expect any investment I am making is paid back in terms of the savings or the outcomes you are delivering, so you would not see significant costs going in. But they do need some investment to move them forward.

>>: So you would want to see pay back on it next year?

>>: In the round. Maybe not exactly. But you would be talking tens of millions of investment, not hundreds of millions of investment. But if I look at Ireland, they would say that is better than the nuns maybe have had in the past. So a little investment but it is not [inaudible]

>>: Do you think that capital consumption of the unit relative to the terms of percentage you get out of it, is relative still? It strikes a low return for the capital.

>>: There is definitely a low return. If I look at the risk rates you have to have there, the comment around how comfortable the regulator gets with taking state capital lower and lower and lower in that business, that is definitely a challenge. What we have to do is to get to say that it absorbs we take out the capital as much as we can, that it is a clean, if low ROE business. And I don't ever see a path in the immediate medium-term sort of that becoming anything other than that a single digit return business.

>>: On the second question, if I may, the SME disposal programme, it was, there was a suggestion recently you would take a fine because of this, the disposal of customers or clients has been too slow. We discussed this before, right. Are you of the view you are happy to take a fine because that is a better result?

>>: Let me talk you through the process. We are completely committed to do what the EU has asked of us, the feedback from the BRC, the governing body, are happy with what we are doing, we are doing the right things but that they can see from the numbers it is moving slowly. It is taking time. We have various different numbers or hurdles we have to hit. At the moment we are hurdling all of those. But you can question, given it is slow, will you hurdle the later ones? What happens next? It was an 18-month period from the end of February to the end of August next year. After that period then another 12-month period then we have to open up a portion of our Natwest Bank book to

switching, obviously not keen to do that but that is the agreed process. After that, a payment of the fine. Would I rather pay the fine? Absolutely, without a doubt. But we are absolutely committed to the regulator and they are giving the feedback that they are comfortable with what we are doing. That is important as if you get to the very end, you have to pay the fine, that fact we are doing all the right things, it diminishes the size of the fine.

>>: It is not just one fine. It is a 50 million fine, if you don't meet the next hurdle it will is another fine, that could be bigger?

>>: When we pay, if we pay the 50, that is it. We are all finished, we are done again. That is my understanding. We don't get done again. Whatever we have left is absorbed in the strategy moving forward and then we have met our requirements of increasing competition in the SME market. But that, if you think about it, that is now a year, it is almost two years away to get to that point. The first stage does not finish until next August and the next stage the next August, so in terms of quoting of the house view, the preference not to pay the fine but to work as hard as we can to meet the compliance. But maths suggests that you rather keep the income of that lending book.

>>: That's good. Thank you.

>>: A quick word on capital return, the consensus by the number scheme moving to the right, it will continue to do so.

>>: If you say so.

>>: There is no direction by 2020 or 2021, do you still stick by your commitment to manage it down to 14%?

>>: Yes. Our target is to get to 14% by end 2021, using the right, appropriate means. I had my meeting with the UKGI, two young analysts, we were chatting but how frustrating it is, the problem is you go from one closed period to another closed period. I was teasing them to say what do they write in the year-end assessment. And the frustration in that team is tangible in terms of actually, this is what we are trying to do. So under the current government that is absolutely the intention of what they want to do, let's see where we are. But I think the interesting thing is, you know, if there has been nothing in the next two years, actually do our other investors guide us to say we are happy to do in market buy back as the Government clearly does not want to dispose of you, that is an if and a but and maybe in the next two years but the 14% is still there.

>>: So is the implication, the special dividends are to remain elevated?

>>: It is funny being in the room with all of you, Sheila Noakes always sits here and would say not to let the analysts get drunk on the world of special dividends, the guidance is, we return our capital back to you in whichever way is appropriate at that time. In absence of buy back you assume that you get more specials. We are not keen on in market buy backs, that is not the way our shareholder base wants to move the shareholding. We have done well on specials this year already. Sort of thing.

>>: Before Ross left the building he started talking about acquisitions?

>>: Look, we always look at acquisitions. That is one of the things you would look at. It is something that the [inaudible] team, part of my world, the part that they actively look at but there is not a lot out there in terms of purchasing.

>>: Why does buying something like a Monzo bank make sense?

>>: Why would I think it would make sense? I would not think it makes any sense whatsoever. What am I buying? I am buying technology that with Bo that I think I could replicate. You know, I am doing a customer acquisition. I saw something quoted the other day. It was, it would be like £3,000 per customer that I would be acquiring. I am able to acquire customers, I am paying them to come over, £150. That is a good thing. At the moment at the inflated levels a Monzo does not look good. So I am buying neither good quality customers if necessary or technology, so I don't think it would be there.

>>: Why didn't you, maybe you looked at it quickly, we don’t know but for example, Tesco, the mortgage company [inaudible]

>>: We did look at it. It is interesting, so, to bring in a new book of business, almost irrespective of size is disruptive to the organisation. So the Tesco book is a book that is, it is all broker related, now we are 70-80%, broker related. It is not so different. It is all on standardised model. You cannot change that instantly, it is a two year to make the change. We know that the book would roll over within two years. It is the equivalent of six weeks of what we are currently issuing. So the question is, there is a price, the fact it is on small, it is standardised, does it still make sense but it is a low premium at that point, we

were not willing to pay a premium that could bring our NIM down and bring down the ROE of the book for what is six weeks of new business for us, we would have added the size of the Tesco book this year already comfortably, several times. But we did look at it, and looked at others but we are in a really strong position within our mortgage book, we still are growing and we still have real capacity to grow given our relative position in the market. You know, at 10% it is easier to keep going upwards, it is harder when you are up at 15 or 18% of the market. But we will look at all of those things. But it must be something that is really adding capability or it is of a sufficient size to add income without it being distracting. Adding any books of business is enormously distracting for the business as well. So I guess in that one others were willing to pay more.

>>: What dividends again, Ulster Bank, the CEO in the last few weeks suggested that they could get approval by the end of the year. Is that the sort of time frame ...

>>: That is great. There is no reason to have said that without a position of knowledge. I know she is talking about this year. In my plans I had it sometime next year, very happy to get it this year. But it would be logical to get it this year. I was pleased to hear her say that on an external interview. We have a meeting tomorrow morning. I dare say it will be a topic of conversation.

>>: On the broader question of special dividends or any other form of capital return, give us insight, it may be too early, we may have to wait for February. What we you are thinking you have had two big specials in a row, the market is expecting more, how are you balancing up in your minds the potential cost of

any restructuring? Restructuring that comes next year gains the risk-weighted asset relief. A reason why I asked the question earlier, and the intention for the special to come down in the next year as you work through the things.

>>: It is something to talk more about year end. It give an answer now it is a half-developed answer. We are weighing all of the things together. Clearly, if there is, and your question is absolutely on point, how quickly do those things roll off? How quickly do I have access to the capital? If I get it rolled off quickly, there is no change needed in terms of how we would move on our very special dividends. That is something to talk more about. At the moment the 14 % by 2021 is something that we, it would take a lot from us for us to move away from that. That is a really an important line in the sand. What we had said it would be, it would be non-linear in the terms of the journey to get to that point.

>>: Can I ask about the 14%. Why is it 14%? If I look at Lloyds it is 13.5, it is a more systemic bank, [inaudible] the stress is worse probably, there is [inaudible] ex-conduct that is dropping out a bit this year and next year. Why are they able to say 13.5%?

>>: We are trying to take you on a journey. We wanted to give you a feel of the 14% as to what the timing is for that to hit that number. That we would like to get Brexit and BAL behind us then, they will be clearer when they are. And to get the first nine behind us as well. We are another year into that basis. I don't think we are saying that 14% is us for the long term forever but it feels the right place to journey to towards 2021.

>>: To check in terms of the uplift of the interest rates of next year [inaudible]

>>: That is the 31st of December. There was a debate it could be the 1st of January. But it is back-ended.

>>: That will not hit you with the stress tests next year and the [inaudible] of RWAs to figure more in the 2021 results?

>>: That would be right it will not have hit the balance sheets by the end of this year. So the next year's stress tests are cut on the 31st of December 2019. As we do the stress test when you are doing the year's stress to hit you, you are mindful of what is happening in terms of those RWA inflations as well. But we cut it at the end of this period.

>>: So thinking about the PRA buffer in [inaudible] years, that will benefit?

>>: You would think so.

>>: Can I ask you about the size of the NatWest markets, you may have mentioned it earlier, I apologise. I seem to remember when you set off on the programme Ross said it was the smallest this could be in terms of being relevant to a UK corporate franchise, has your thinking on that now changed? Or why do you feel you can take more out? If you were going as fast as you could?

>>: What has changed, the world has changed a little bit. They announced the plan in 2015. Since 2015 the rates have gone in a way we did not expect at all.

Brexit arrives, that added a whole other level of cost complexity into an operational complexity into that business. I think that our income assumptions are a bit lower than they may have been. But it is important not to just judge on one year's performance. But looking further back you get more comfortable on the income numbers, so as part of that it is time to sit and go, actually, looking at where it is, what we have done, where the world is, looking at how the other investment banks are behaving and changing the shapes of the books, the dominance of the US players across in reality, it is right to reflect and look at the next best thing. I that I is what we are doing. I am not saying it is definitely going to shrink. But we are looking at it.

>>: Of course. If you look across the space, one could put an argument that banks got scared in that business, which is not necessarily what I would have expected, anyway, they have done what better than those that don't.

>>: I believe it is a scale business.

>>: It seems I can see from a spreadsheet perspective when you are short of returns, you cut the business and hope it gets better but it is back to what we were saying what Ross said about you don't want to be shrinking yourself. How can we think about that, how do you think about that?

>>: As you look at it, you say, fine, actually, to be really effective, I think you do need to have scale. Scale in that business is that we have to increase the RW ratings significantly. So you are stepping away entirely from the idea that actually the reason we have an investment bank is something that is strategically co-gent with our corporate bank, I believe we have that we have

that because of the connection to the corporate bank not as we want to run a large investment bank. So to take from what is a very small UK player and move it up by scale, so you have a rates business that is two or three times the size of what it is, I think it would have to be three times the size of what it is today, that is a completely different strategy for this group to what we are doing going forward. You are a Barclays a… getting to a point more of an investment bank than retail or commercial.

>>: Is the logic to close the whole thing?

>>: What you want me to close the retail and the commercial bank as well? (Laughter)

>>: The investment?

>>: It is interesting, the closing the whole thing argument, you look at it, say you close the whole thing, I no longer offer rates or financial business, so I am struggling now to serve in mid-corp. Mid-corp wants to do a lot of rates business. But I could do that inside of the ring-fence, but maybe a bit of a red herring. But if they want to do debt raising I cannot do that for them, if they want to do a level of complex derivative, I can't do that for them. Now I need a relationship with an external bank to do something that is quite simple banking products. Then when you come as a corporate and you want to do these things and you are rebanking but you can't offer that easily, you damage the core franchise dramatically at that point. So it is never a conversation of there is none, because of the contagion impact is significant on the corporate and the commercial bank. You would basically be closing down large corporates

and closing a lot of mid-corporates as well. Ultimately, you would not be able to attract clients. You would be fine for three years but ten to 15 years out, you will see that is how RBS managed to extend itself into Nationwide Plus.

>>: Following the logic of your argument, therefore we have to accept that the products will be continued to be offered by subscale businesses [inaudible]

>>: Then you have to work out where you draw the line and where is the right place to think about it. I think that is what we are, as you would expect us to, year three of the four-year strategy, what is the right stage? You look externally to see how things evolved in this space.

>>: Yes.

>>: Can I ask about the cost of risk? Terms of what you see on the outlook, obviously customer shall [inaudible] the charge came down slightly but there is a lot of tall tree exposure in there. But even maybe apart from a comment on that, can you also talk about what you are seeing in some of the other ...

>>: It is interesting, I, you know, we are at 22 basis points year to date on our cost of risk. Still coming through below the 30 to the 40 basis points but a bit higher than we were a year ago. As I look at it, there is some tall trees. 2018 was a good impairment year from a commercial perspective, 2017 was not the same. So a you know from different years, the interesting thing about the tall trees, they are not concentrated on any one segment or any one region. There were a couple from the European business that we do. But nothing significant to say that region and that region is in trouble. What I see is the number of

cases that are coming into the restructuring unit they are higher than they were a year ago. They are more consistently arriving. In terms of the underwriting we have to work harder on the more difficult underwriting that is coming through to make it really work. Looking at the modelling changes we have done in the year, half of the changes are just better maths, half of them is because you made adjustments to the probability of default. So expecting things to get a little worse. So for me, there is a bit more strain in the system. It is not dramatic but it is more than it was, you can see it in the cost of risk numbers but I don't think we are hurtling towards to the 30 to 40 basis points but I feel it has moved up a little in terms of where we were at the beginning of the year. Then the question will be: Where might we be by the end of this year, that depends on where we are on who is in power, what is happening. I also think that we, in the UK, we are focused on what is happening in Brexit, what is happening in Downing Street but what we know that globally the markets are struggling everywhere and globally growth is coming down as well, we will be a victim of that along with everybody else.

>>: Some of the other banks are suggesting that the overlays put in could be worse in certain scenarios.
>>: I can give you a set of scenarios where they could be reversed or get a lot worse. So, I would not, I am not, I would not comfortably say to you to start to expect that.

>>: When we look at your first nine assumptions, you are positioned more conservatively on certain aspects, than your peers ...

>>: So this is a conversation that we have a lot, I can look at one line and say I am more conservative there, or look at credit cards and people say, Katie, you are consuming new cards at the end of three years, so being wildly aggressive in how you treat that. I feel in the round that I am not overly conservative but our view as RBS is that you rather draw a line of conservative and aggressive, we would be a little past the middle on the conservative side. So, we would not be uncomfortable if seen as a little bit conservative.

>>: Have you seen feedback from the PRA about the assumptions that you are using?

>>: We, yes, so we do get some feedback. Less around the assumptions. They are trying to hone us in terms of a lot of the disclosures. Some of you work on that, the working committee that is trying to develop a lot of the disclosures as well. So I think it is more how can we aid some of the comparability within there as well. So, but less so on that we don't agree on that assumption or this assumption, it is that we want to understand the shape of it more.

>>: Is there a final question? Anyone?

>>: Can I ask one more on the, I think it is aimed at customers who are really struggling a little bit and usually in terms of high-cost credit. Are you looking to edge into that segment?

>>: Sorry, I would not go as far as it is aimed at those customers. I think one of the strap lines is: Do money better. I think what Mark talks about is how can we help people to nudge them so that they manage their money better. We

have read the studies about the vast population of the UK is about £100 from disaster. So how to manage and help people to save a little on that. In terms of looking at credit, we are growing our personal lending book and our credit card book. Bo, we are not really looking at that to say it is a means to access a higher or a worse or a different credit book particularly. What it does do, it maybe gives us another brand to do something with that is different. The challenge is that we have many brands, some could argue that we have too many but they are very geographic specific. It is hard to do brand testing if it is just doing something in Scotland or just in England. Bo may give you a chance to test things. You are aware that we sometimes use the Northern Ireland entity to test what is the point where people start to move deposits by moving numbers up or down, but it is not a flag to say it is there, it is really about how do we help people to manage their money better.

>>: Thanks.

>>: Lovely, thank you very much.