THE ROYAL BANK OF SCOTLAND

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

Ross McEwan: Thanks very much, (Jenny). And good morning to everyone and welcome to our Q3 results call. Look, I'm pleased that we're joined today by our new Chairman, Howard Davies. So I'd like to start just by handing over to Howard to say a few words. And then it will be back to myself and Ewen to take you through the results. Howard?

Howard Davies: Thanks very much, Ross. These are the first earnings to be published since I became Chairman at the beginning of September, so I thought I'd come on this call just to show that I existed. But in the normal way, I think I would do the half-yearly and the annual as a matter of course.

The background, of course, to my appointment is that since 2008, since the Government rescue, RBS has gone through a very difficult period. And there are still obstacles to be overcome before we are back to full health. And I mean particularly conduct and litigation issues in the US related to mortgage-backed securities, but other things as well.

But getting back into a position where it's in the private sector and serving the British economy is an extremely worthwhile task to take on. And that's the aim I have.

There are a lot of strengths in this Bank. As you will see from the results today, we have strong brands, we have strong positions here in the UK and Ireland and we have strengths in all our customer businesses. So there's clearly the core here of a successful business and one, furthermore, that can perform a crucial role for the UK economy.

Ross has, in the past, set out a very clear strategy to create the number 1 bank in the UK for trust, customer service and advocacy. Before I joined as Chairman, I satisfied myself that this strategy is one that I can wholeheartedly support. And I want to emphasise that I have confidence in the management team here to deliver on it. And I look forward to working closely with Ross and his team to achieve our ambitions.

And, with that, I'll hand back to the two All Blacks, Ross and Ewen, who will take you through the results today.

Ross McEwan: Thanks very much, Howard, and all the best for the All Blacks this weekend. Look, I'll say a few words about our progress before I hand over to Ewen to take you through a lot more of the financial detail.

I said in February we'd go further and faster on our strategy. And today's results, again, show that we're doing just that.

At the top of the year I laid out our plans for 2015, with five very clear goals. And I can report today that we are making good progress against achieving them.

You've heard me speak before about our three-phased plan to build the number 1 bank in the UK, and that we are currently in phase 2 of that plan.

Last year we worked through the first phase, simplifying the Bank and strengthening our balance sheet. And this year we are going further and faster to exit non-performing businesses while, at the same time, growing our strongest franchises and working through the remaining conduct issues that Howard talked about. And we'll do that as quickly as we possibly can.

Looking ahead at phase 3 of the plan, we'll push ahead towards the number 1 position as the market leader for customer service, trust and advocacy, delivered through the strong customer brands across the whole of our portfolio.

You'll be very familiar by now with our blueprint. And, as I've done each quarter this year, I'll take a minute to quickly run you through the improvements we're seeing against each of our five goals.

On strength and sustainability we're continuing to reduce risk, while making good progress towards our capital target. The capital ratio is up to 12.7 percent. Total RWAs are down by GBP40 billion over the year. We're making excellent progress in the RBS Capital Resolution business and expect to see an 85 percent reduction in that business's assets at the end of this year. And that's one year ahead of the schedule.

And this quarter saw the further sale of Citizens, where we now own 21 percent. You've seen the results from last night that Ewen will take you through. We have notified the market of our intention to sell our remaining stake in Citizens.

We're also working ahead very hard to actively manage down the remaining conduct issues that face this Bank.

On customer experience we continue to build a bank that supports our customers' needs now and for the future. This quarter saw the initial launch of a new Reward account, which enables our customers to get 3 percent cashback on their household bills. This is a major competitive step for this business.

In the commercial space we've made further improvements in account opening, making us faster and simpler for our customers. And the reshaping of our CIB business is on track to better deliver for our largest customers. You'll certainly hear more on that on our Investor Day on November 12.

We're also seeing year on year a significant improvement in NatWest and RBS Business Banking and Ulster Bank Personal Banking net promoter scores. And on mobile banking our internal data shows we're joint number 1 on net promoter score here.

When it comes to simplifying the Bank, we've exceeded our target for the year that we originally set at GBP800 million and are now tracking to reduce costs by at least GBP900 million for the year, despite bank levy headwinds. And that's on top of the GBP1.1 billion we delivered in 2014.

We're also supporting growth, with our lending growth tracking to be at our above normal GDP for 2015. And this quarter saw over GBP5.3 billion of net new lending in UK Personal and Business Banking and Commercial Banking, with lending balances growing at 4.6 percent in the nine months on an annualised basis.

Our performance in mortgages was particularly encouraging. The third quarter was our strongest performance since the crisis and we are punching above our weight.

Our share of the new business is 12 percent versus a stock share of 8.5 percent and gross lending was 42 percent higher than the same period last year. We are seeing encouraging signs for the next quarter, with approvals currently at 15 percent of market.

With that, we do know that income will remain under some pressure in the short term. This is a very competitive environment and consumers continue to switch from standard variable rates to fixed rates. However, we believe that this is a good market to be in for the long term and will deliver good returns. And Ewen will touch more on this shortly.

We're also doing more for UK corporates and small businesses. Net lending in Commercial Banking totaled GBP1.5 billion for the quarter, with growth across most of our customer segments. And I was very pleased to see this.

And finally, on employee engagement, colleague engagement is up 6 points compared to last year. This means that we are within the 3 points of our industry peers; ahead of our 2015 goals we set to be within 7 points.

You may remember when I set out our strategy in 2014 I said then that the better customer service and loyalty comes from more engaged employees. And this ultimately leads to sustainable returns for shareholders.

I've seen this work when I was at the CBA and the improvements we're now seeing here at RBS is teeing us up to be the number 1 bank for customers in the UK.

So, to sum up, operating costs are down, capital ratio is up and we're making good progress on our 2015 goals.

Today's results show that we're still delivering well on our plan to be stronger, simpler and a fairer Bank for our customers and our shareholders. We delivered against our plan last year. We're going to deliver against the plan again this year and you'll see some clear goals for the business set in 2016.

Our strategic focus has firmly taken hold, meaning we are now banking more of Britain and Ireland, and we remain determined to win our customers' trust and build a strong Bank that delivers attractive, balanced and sustainable returns for our shareholders.

And, with that, I'll hand over to Ewen to go through the results in a more detailed fashion.

Ewen Stevenson: Thanks, Ross. In Q3 we made an attributable profit of GBP952 million. This was driven by our previously disclosed GBP1.1 billion gain in the quarter from the accounting deconsolidation of Citizens.

Away from the Citizens' gain, while core volume growth was very positive in Q3, income was down GBP596 million on Q3 a year ago. This reflected a GBP394 million reduction in CIB income from the reshaping of the business, as well as the impact of margin and fee income pressure across PBB and CPB.

Like-for-like operating costs were down 6 percent on Q3 2014. Restructuring costs in the quarter were GBP847 million, as we go further and faster with the pace of transforming the Bank, conduct costs were GBP129 million and we had modest impairment releases of GBP79 million.

Turning to our franchises, we're very pleased with the core growth we're now achieving. A real proof of concept, I think, for the enhanced service offering we believe we're now delivering to our customers.

Annualised net lending growth across UK PBB and Commercial was 4.6 percent in the first nine months on an annualised basis, which represented 5.6 percent annualised growth in UK PBB and 3.1 percent in Commercial.

With this accelerated growth in Q3, we're on track to achieve our net loan growth target of at least nominal UK GDP growth this year.

Mortgage lending in UK PBB had an excellent quarter, with our Q3 new business flow market share at 12 percent. Our Q4 pipeline looks equally promising, with our Q3 share of mortgage approvals at some 15 percent; a key leading indicator of potential mortgage origination volumes.

UK PBB's margin declined by 4 basis points in the quarter, driven by continuing SVR mortgage switching to fixed rate and more competitive front-book pricing on new business. SVR mortgages are now just 15 percent of our UK PBB mortgage book; down from 18 percent last quarter and over 23 percent a year ago.

We do expect continued mortgage margin pressure in Q4, reflecting the impact of new business, further SVR switching and the mix effect we're seeing from the shift in our book towards a lower percentage of high-margin unsecured lending towards secured mortgage lending.

Commercial Banking saw net loan growth of GBP1.5 billion in the quarter, with growth across most of the customer segments we're targeting for growth. And this is despite the continued accelerated run off of certain parts of the Commercial book that we're managing for value.

On income, income across UK PBB and Commercial was broadly stable quarter on quarter, after adjusting for the Q2 one-off gain on an asset sale we had in Commercial.

CIB go-forward's revenue performance was in line with plan and that's despite more volatile markets in Q3. Revenues were broadly stable in CIB on Q2 at GBP306 million, reflecting a better quarterly performance from the rates business.

With over GBP1 billion of CIB Go-Forward revenues year to date, we reiterate our 2015 guidance for CIB Go-Forward of GBP1.3 billion of revenues.

When comparing Q3 with Q2 overall for income, you should note the negative movement of GBP331 million, due to IFRS volatility.

On costs, we continue to deliver against our cost-reduction agenda and our target of reducing our 2019 cost-income ratio to below 50 percent.

Excluding restructuring and conduct costs, operating costs were down 6 percent on Q3 last year. For the first nine months, and excluding Williams & Glyn and intangibles, our costs are down over GBP900 million versus the same period last year. So we're already in excess of our full-year cost-reduction target of GBP800 million and have reduced costs in the Bank by some GBP2 billion over the last two years.

However, we don't expect to see further material headline cost-reduction progress in Q4, as the fourth quarter will be a tougher comparator, with both GBP190 million of accrual releases in Q4 2014 and the fourth-quarter bank levy charge being some GBP30 million higher this year at around GBP280 million.

We do intend to give you a full-year 2016 cost take-out target at the full-year results, as we've done for the last two years.

Total restructuring costs for the first nine months were GBP2.3 billion, approaching almost half of our targeted GBP5 billion of total restructuring charges from 2015 to 2019. And, as we've previously signaled, we expect restructuring charges to remain high over the next three quarters.

Conduct and litigation costs in the quarter were GBP129 million, including resolution of one of the three RMBS cases brought by the NCUA. And, as you'll see in our IMS, we've got nothing to update at this point on either US RMBS relating to the FHFA and Department of Justice or the recent FCA statement on PPI and Plevin.

On impairments, we had write-backs of a net GBP79 million in Q3, driven by both Ulster Bank and RCR. Net write-backs now total GBP400 million for the first nine months of this year.

Non-performing loans have declined 48 percent year to date as we continue to reduce RCR and asset quality in our core loan books further improves.

Risk elements and lending as a percentage of gross loans has fallen to 4.5 percent in the quarter versus 7.6 percent at the end of 2014 and 10.4 percent at the end of 2013.

Turning to the businesses and portfolios we're seeking to exit. In short, we continue to make good progress, despite less supportive market conditions in recent months.

RCR saw further good progress in the quarter, with funded assets falling to GBP6.5 billion. That's now down 83 percent since inception and we remain on track to reach our GBP5.8 billion completion target by this yearend; 12 months ahead of original plan.

For CIB Capital Resolution, Q3 asset reduction continues ahead of plan, with a further GBP7 billion of RWAs taken off our balance sheet. And for CIB overall, RWAs are down GBP26 billion year to date. So we've already achieved our full-year target of a GBP25 billion reduction one quarter early.

On RWAs, capital and leverage, we've achieved a further significant RWA reduction in the quarter, with RWAs reducing by some GBP10 billion, or GBP15 billion in constant currency terms.

Total RWAs for the Bank at the end of Q3 were down to GBP316 billion. We expect to be comfortably below our full-year target of GBP300 billion with the now-expected regulatory deconsolidation of Citizens.

Our Core Tier 1 ratio strengthened by a further 40 basis points to 12.7 percent and, pro forma for the announced full divestment of our remaining 20.9 percent stake in Citizens at the end of the third quarter, our Core Tier 1 ratio would have been over 16 percent.

Our leverage ratio improved by a further 40 basis points to 5 percent in the quarter. And this was assisted by both the successful placement of GBP2 billion of AT1 capital notes in August and an active focus on reducing our leverage exposure across the Bank. Pro forma for the divestment of Citizens, our third-quarter leverage ratio would have been 5.6 percent.

And our TNAV per share improved modestly by 4p to 384p during Q3. And this is despite absorbing a further GBP1 billion in restructuring and conduct costs during the quarter.

So, overall, a solid quarter for us. Good core volume growth but income was impacted by ongoing margin pressure and a decline in several non-interest income streams.

Cost reduction is ahead of our annual target. We continue to see benign impairment trends. Our restructuring is rapidly progressing, with the consequential impact on our P&L. And we've achieved further improvements in our capital strength, leverage position and balance sheet resilience.

On the outlook, we continue to see the potential for good core volume growth in Q4 but we also believe income growth will continue to be weak, given the ongoing interest margin and non-interest income trends we're seeing. And, as per previous quarters, we continue to advise caution on various potential conduct and litigation outcomes.

And, with that, I'll pass back to Ross to host Q&A.

Ross McEwan: Thanks, Ewen. (Jenny), let's open the lines up for questions and we'll take those as they come, please.

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

And your first question today comes from the line of Andrew Coombs from Citigroup.

Ross McEwan: OK, Andrew. How are you?

Andrew Coombs: Good morning, both. Just a – I've got three questions, actually. The first question would be just a bit on clarity on the central items. Quite a big swing in profitability there. I'd be intrigued if you could just say a bit more on the volatile items under IFRS in particular, given that has been booked above the line.

The second question would be a broader question on structural reform costs. Obviously one of your competitors came out with GBP1 billion of costs yesterday. You're in a very fundamental different position in that you don't have a US holding company, you're planning for broad ring fence, but perhaps you could give us some idea of what the incremental costs might be for yourself relating to ring fencing?

And then the final question, which would be on the SVR mortgage book. Obviously, it dropped from 23 percent to 18 percent to 15 percent. You talked about more further SVR switching. What proportion of your overall mortgage book do you think that will end up as in the long term? Thank you.

Ross McEwan: Look, I'll take the latter two and then I'll give you the first one, Ewen, just on the central items. Let's start with SVR.

It has moved down from 23 percent, 18 percent to 15 percent, as you said. I think there'll be a core group of clients who will want to stay on an SVR purely for the flexibility they get out of it. And I think we'll get down to probably a 10 percent to 12 percent SVR book.

Of course, the impact on the book getting down to 15 percent quite quickly is because we're putting a lot of business on the front end of this, which is all going on to fixed rate. There are very, very few people now going on to standard variable because the rates aren't fixed. If you're on a two year with a bit of equity in the house, you're at around 1.6 percent. So you're getting a much bigger swing as percentage of the book as it grows.

It gets it by two things. People moving, but also all the business coming on is going on to fixed rate. So that's the reason why. And I think we'll get down to probably 10 percent to 12 percent. But we'll keep giving you guidance or some views on that on a quarterly basis.

And it is just clear that customers' preferences are to fixed. They've been frightened about rates moving up, but getting on to the lower rates.

On the restructuring reform costs, particularly around ring fencing, we see it that taking Williams & Glyn out and ring fencing was GBP2 billion out of the GBP5 billion that we've talked about. We still stay with that as being about right. They're both costs that bear no value, unfortunately, for the shareholder and costs we just have to bear as a business. That's why we lump them together and we'd stay will GBP2 billion costs.

Ewen, unless you've got any other further update, which I don't think we have?

Ewen Stevenson: No. That's part of the overall GBP5 billion of total restructuring charges that we said we would take from 2015 through 2019, of which we've taken GBP2.3 billion to date.

Andrew Coombs: And so there's – given the recent change or the recent Bank of England paper on this, the consultation paper, there's no change in your minds that you still think that GBP2 billion covers all the eventualities.

Ross McEwan: No, I think we're staying with that at this point in time. There are still some rules to come out on it that we won't see until midway through next year. But we're building against a structure that we set ourselves probably six to 12 months ago, and no real change.

One of the great things about RBS, because it has chased itself so much, we're quite good at this. It's a skill we have built up over about six years.

Ewen Stevenson: But in terms of the recent paper that came out, I think it was helpful at clarifying some of the arrangements between the non-ring-fenced bank and the ring-fenced bank. But there was nothing fundamental in there that causes us to change our views on anything.

And on the last question, on central items. I think we've just said consistently over the last few quarters assume zero and assume some volatility around zero, quarter in, quarter out. But for modeling purpose I would just assume zero.

Andrew Coombs: Thank you very much.

Operator: And your next question today comes from the line of Rohith Chandra-Rajan from Barclays. Please go ahead.

Rohith Chandra-Rajan: Good morning. A couple from me, please. One just following up on the SVR question and then a second one on capital.

So just on the SVR, of the 4 basis points q-on-q margin decline in PBB, are you able to quantify how much of that was due to the SVR switching?

And then secondly, on capital. You highlight the 16.2 percent CET 1 and 5.6 percent leverage ex Citizens; clearly very strong. You talked a lot at the half-year results about the timing of potential capital return. Wondered if there was any update on that at all, if the progress has changed things. And I appreciate there's no progress on FHFA or DoJ, but if you have any indication on timing on those issues, please.

Ross McEwan: I'll do the quick one on SVR, because it is quite quick. Look, most of it is to do with the switch towards fixed rate of that 4 percent. We haven't adjusted our pricing much at all in the quarter, so it's all to do with the movement of customer. And, to be quite honest, if it's good for the customer that's where we should be. And that's where most of it's gone. That's just about all of it.

Ewen Stevenson: And a lot of the new business being put on as well as fixed rate …

(Crosstalk)

Ewen Stevenson: In terms of capital, again, pro forma for the exit of Citizens, as you've noted, 16.2 percent Core Tier 1, 5.6 percent leverage ratio at the end of Q3. It doesn't cause us – we always knew that we were going to get out of Citizens, probably towards the end of this year.

So it doesn't change our guidance in terms of what I said at the end of Q2 on capital distributions. We're still very much centered as a management team of returning to capital distributions in early 2017.

I think there's three things that we're focused on around that. One is conduct and litigation and getting through the bulk of provisions and charges. There really isn't anything new to say around US RMBS. We would hope to have made progress in the next six to 12 months, but that's not within our control.

On restructuring costs, the second thing that we have to deal with, I think we'll be through the bulk that I would hope over the next three quarters or so. And, aligned with that, obviously some disposal losses as we continue to run down Capital Resolution.

And the last thing is we have to have a very good stress test result. We do expect this year to have made progress. But we do expect it's going to take us another year, so towards the end of next year, to have a very good stress test outcome, which we think will be the trigger to allow us to make capital distributions off the back of 2016 full-year results.

I think it's also important, if you think about looking at our capital structure, we have signaled to you that we expect to take GBP1.5 billion of disposal losses out of Capital Resolution. We've taken just over GBP200 million of those to date.

We've told you that we expect further significant conduct and litigation charges. We've still got to pay GBP1.2 billion to take out DAS at some point. And we've still got GBP2.7 billion of cumulative restructuring charges to take.

So the core business is generating capital but – and the last point I'd observe. Obviously, Ross and I have been quite clear, I think, on committing to return capital as and when we can do it above the 13 percent target Core Tier 1 ratio. We're not changing that target and we're not changing that commitment.

Ross McEwan: Correct.

Rohith Chandra-Rajan: OK. Thank you very much.

Operator: Your next question today comes from the line of Jonathan Pierce from Exane. Please go ahead.

Jonathan Pierce: A couple of questions. The first one's on costs. I think your guidance for the year is suggesting we get a bit of inflation, even ex the levy, coming through in the second half versus the first half of the year. Just interested in where that is principally coming from.

And when I think about next year, without preempting what you might say in a couple of months, how should we be thinking about next year? Obviously GBP1.1 billion of costs was taken out last year, GBP900 million of this year. Are we talking the same sort of order of magnitude? Is that what we should be thinking; GBP800 million, GBP900 million for next year? So that's the first question on costs.

Ross McEwan: First off, we'll give you guidance first thing next year. You do know that we do need to take out another GBP2 billion over the next three years. So it's just a matter of when do we take that. Do we take that more front loaded or do we spread it across the years? And that's the guidance we'll give you next year. But we do need to take out GBP2 billion more of cost over a three-year period and we're just working through the numbers on that at the moment.

We've guided that the final quarter of this year will be – the bank levy has gone up and there were some features in the final quarter of last year that will make it more difficult for this year to be over the top of. So our guidance is it will be just over the GBP900 million.

We're already sitting at that number but the fourth quarter is going to be a more difficult one in comparison to the fourth quarter of last year.

Ewen Stevenson: Jonathan, in terms of the cost structure I think there are some beneath the surface and more complexity going on than I think may have been appreciated by consensus.

So when we did guide to the GBP800 million of costs this year it was clear guidance. I think the fact that, I think, on the back of that in second half we knew when we were guiding to that GBP800 million that we were going to see some of these trends coming through.

We are committed to get to the 50 percent cost-income ratio by 2019. And, as Ross said, that requires us from here to take out over GBP2 billion of cost. But I think the shape of it, I think there are a couple of things I would note.

Firstly, in CIB Capital Resolution, as you'll know, it's easier to take out the front office than it is to take out the back and the middle office. We are in 25 countries. It is a multi-year exercise to get out of the back and the middle office and much easier to run down the assets.

And then CIB Go-Forward. We do need to do a significant IT re-platforming. And, again, that means until that IT re-platforming begins to roll through the cost structure, the cost takeout in CIB Go-Forward is likely to be more back ended than some people assume.

And the last thing you'll see going on when you dig through some of the headcount numbers is some elements of the headcount are going up because we have got a very heavy investment program going on at the moment.

You'll see things like us investing in the front office of UK PBB. Some of that you've seen flow through, for example, in the number of mortgage advisors we've got and, hence, why we're getting good growth now into mortgages.

Williams & Glyn is investing in their franchise. We've got quite a bit of investment going on in improving the core process and technology in the back and the middle office.

I think all of that will impact both near-term headcount reduction and near-term P&L as a result.

We've also still got quite a bit of remediation going on in the Bank, which is less obvious to people.

All of that, I think, will flow through and probably indicates a more backend-loaded cost takeout than is in some of the consensus at the moment.

Ross McEwan: But our objective is still very strongly to get to a 50 percent or below by 2019.

Jonathan Pierce: OK. That's really useful. Thank you for that. The second question was on liquidity. Strong metrics across the board, loan-to-deposit ratio, GBP80 billion of cash with central banks. Note the LCR also shot up in the third quarter to 136 percent.

So just two small questions on liquidity of account. Why was that big increase in Q3 seen in the LCR? Was that removal financial deposits or something like that?

And then secondly, more strategically, what are you going to do with all of this liquidity that's sloshing around the balance sheet?

Ewen Stevenson: So on LCR, I think there were two things going on that drove that.

Firstly, in terms of some of the rundown of CIB Capital Resolution, the unsecured credit lines, unsecured commitments that we've had, has reduced substantially.

And, secondly, we've used some of our excess liquidity to help fund the reverse repo book in CIB. And you've seen that in terms of lower leverage assets coming down. It was just a better way to fund that book from a leverage perspective.

In terms of what are we going to do with an 89 percent loan-to-deposit ratio? I think the aim is to increase lending. As you've seen, we had 4.6 percent annualised growth. We had, I think, close to 8 percent annualised growth in mortgages year to date. We think, ultimately, when you look at rolling forward for TLAC, etc., we're going to need to solve for something like 105 percent to 110 percent loan-to-deposit ratio.

We think that gives us, therefore, significant capacity to grow UK PBB and Commercial above market growth rates, as we have been doing this year.

We've also selectively, as has been in the press, have been looking at are there portfolios we could buy? We passed on one earlier this year but, again, I think we will selectively look to add volume both organically and inorganically. And I think it does distinguish us from some peers who are not in that liquid position.

Jonathan Pierce: Great. Thank you very much.

Operator: Your next question today is from the line of Michael Helsby from Bank of America. Please go ahead.

Michael Helsby: Thank you very much for those comments on costs. There's been a lot going on this year. So, just for the sake of clarity, can you just tell us the baseline that you're working your GBP900 million off, just so people can fully appreciate that, please? Thank you.

Ewen Stevenson: So the GBP900 million was off the – well, I think it equates to GBP10.4 billion, which is ex Citizens, of cost for 2014.

Michael Helsby: OK, thank you. And then just as a small supplementary, I note in the statement you reference an interest rate, or an interest payment, that you'll start paying on DAS post-Jan 16. I know it's probably in the documentation, but can you just fill us in on how that works, please? Thank you.

Ewen Stevenson: So when DAS was set up there was a coupon cost that became payable from January 1, 2016. It's a 5 percent interest cost. It is payable daily, so we have the option to pay it on relatively short notice, i.e., days of notice, at any point. Given the disposal of Citizens overnight, I think our capital position is obviously extremely healthy at the moment and it is a clear target to try and repay DAS.

We obviously need to consult with the PRA, which we'll do in the coming months. So I think you should expect to see us pay that in the next couple of quarters, if we can.

Michael Helsby: OK. Thanks very much. Thank you.

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

Raul Sinha: Can I have two, please? The first one is on excess capital and capital return. So, obviously, you've got a very healthy capital ratio now. And we've heard everything that you had to say about stress testing and how you need the two years to go by before you're ready to commit. But one of the things that's happened recently is the Bank of England's raised the bar in the stress test scenario to include the G7, the Pillar 2A. So it looks like your bar is going to be 3.5 percentage points higher in the stressed in the normalised long-term scenario.

And I was wondering if that might impact the way you think about how much capital you'd need to run the business. While you still might have an excess but that affects the quantum of excess when you look at it on a three- to five-year view.

Ewen Stevenson: Well, in short, no. We've been running internal analysis that has effectively assumed that we would need to operate the Bank not out of line with where the new Bank of England guidance is. So I think that guidance is only a crystallisation of what we thought was going to happen when we set the 13 percent Core Tier 1 ratio.

But you're right, it will mean that the bar this year has been set higher. The bar next year has been set even higher.

But also, equally, if you look at the progress we're making on Core Tier 1, we started 2014 with a Core Tier 1 ratio of 8.6 percent pro forma for Citizens at the end of (Q3), 16.2 percent.

So we feel pretty good about being able to take that yearend 2015 balance sheet will provide a very good platform for us for the 2016 stress testing.

Ross McEwan: And the other thing we have been doing is forensically going through the business and looking at what are the assets that are stressing the Bank and see if we can't remove those. And I think we're doing a good job.

This all comes back to our strategy two years ago where we clearly said banks should have more capital and let's build a bank that actually can sustain returns on a 12-plus- percent Core Tier 1. And we moved that up to 13 percent at the start of this year. So that's what we're building towards. And I think we're ahead of the curve on it, to be quite honest.

Ewen Stevenson: And I think again I'd just observe that we've got the strongest Core Tier 1 ratio now of any UK bank and other UK banks are paying dividends.

Raul Sinha: Yes, I agree. I hear you loud and clear on that. Can I have maybe just two supplementary follow ups, which are totally unrelated? Firstly on the CMA, any thoughts there, and whether Williams & Glyn is on track?

And then secondly, your commodity exposure is down a lot this year thanks to all that disclosure that you've given us on page 15. But there's a big fall in Q3. And I was just interested, your total committed exposure is – it seems like it's almost halved on oil and gas. Is there something driving that proactively within the business? Or is that a function of the market? I'm just interested to know what's driving that. Thanks.

Ross McEwan: On that page 15 we did think we should disclose that because there has been a real drop. But this mainly comes out from the sale of our US corporate loans book. We sold that off to Mizuho and to TD more recently. So that's accounted for a fair bit of that. And it just does show you our limited exposure now to those sectors.

On Williams & Glyn, on track. I've always been very open and said this is a toughie, an absolutely tough ask to take a bank from inside a bank. It will be right down to the wire but we're getting there. And we've got 4,500-plus people working on that exercise. Still aiming the latter part of next year to have that out ready for an IPO.

On the CMA, look, we participated in the review. We think there's some worthwhile things to create some more competition into the market there.

There's a thing that we have been very firm on is transparency in this industry and we've been probably the leaders in transparency in what we have been doing in our Personal and Business Bank, getting down to one page of A4 so customers understand what we're putting out to them rather than 93 pages of terms and conditions that nobody understood.

And I think it is a hallmark of this industry. It needs at all fronts to be a lot more transparent. And that's what I think the CMA's basically saying here, get with the flow and what customers want. And I think we were pleased to see some of those features. Look, it will be challenging on the industry for some of these areas but I think, if it's good for competition and good for customers, we're there for them.

Raul Sinha: Great. Thanks very much, guys.

Operator: Your next question is from the line of Chintan Joshi from Nomura.

Chintan Joshi: Can I have one on litigation, one on your ROTE target and a follow up on cost?

On litigation can you give us some sense of timing on the mortgage-backed litigation? It seems that there's been slow progress this quarter.

And also quickly on packaged accounts. FCA data shows an increase the trend in complaints. I'm just wondering, you took a provision in Q2 whether that looks sufficient at the moment, given those trends? And then I'll come with a couple more.

Ross McEwan: The timing on the litigation piece, particularly RMBS, is really not in our hands. It's in the hands of the US, both and FHFA. We've got a legal case coming up later next year, early 2017. It is what it is. We'll see whether we can negotiate that far but it's in their hands, not ours. And the same with the DoJ. It's in the DoJ's hands.

So, look, I'm sorry I can't give you any better indication on timing. We gave very full disclosure last quarter and nothing more to update there.

On packaged accounts we did take a provision early on. That provision, we think, is satisfactory. Whilst there were heavy increases in packaged account complaints, those have started to come off again. And that business is starting to run, part of the business is starting to run quite well. So nothing to add there.

Ewen Stevenson: And the two other questions?

Chintan Joshi: Is the mortgage-backed litigation still constrained in doing proper buybacks? Or can you start buybacks even without settling that litigation if you get some visibility there?

Ewen Stevenson: I've consistently said that there's three things that we need to solve for before we can get back to capital distributions and there's some technical points as well. But one is litigation on conduct; two is getting through the bulk of our restructuring; and three is having a good stress test result. So you need to see all three together.

Technically, we need to pay the GBP1.18 billion of final DAS payment. And in order to do buybacks, if they're not general buybacks, if they're directed buybacks, we need to get authorisation from shareholders to be able to do that. I think we do intend to begin a period of engagement with shareholders over the coming months.

We would like to get that authorisation as part of our AGM next year but we do need to get that authorisation before we could do directed buybacks.

But, as I keep saying, we don't expect to make capital distributions, and that includes both dividends and buybacks, before early 2017.

Chintan Joshi: OK. Thank you. On costs you mentioned the GBP900 million was on the GBP10.4 billion base. When I annualise your current quarter and think about the levy, you're looking at about GBP9.4 billion. Another GBP2 billion over the next three years gets you to about GBP7.4 billion. Is that what you're working towards now?

Ross McEwan: Well, if we look at the size of the business and the revenue income streams, it will be about GBP12.5 billion through to GBP13 billion. So you take 50 percent cost-to-income ratio, we're targeting somewhere around the GBP6.5 billon cost of this business that we're working towards into 2019.

Ewen Stevenson: And you also need to take Williams & Glyn off that number as well, when that's deconsolidated. And we give you the numbers on Williams & Glynn. So I think when you do that analysis, you can get there or thereabouts to what we think and, from that, figure out what we think on income as well.

Ross McEwan: Yes, we need to get that GBP7 billion. It's got to be around the GBP6.5 billion based on the income of the business.

Chintan Joshi: OK. And then quickly on your ROTE target. We had the corporate tax rate increase. I'm just wondering whether you're still comfortable with greater than 12 percent or whether it's too early to modify that.

Ross McEwan: Yes, I'm still comfortable it's 12.5 percent. We said that two years ago. We're sticking with it. We said two years ago it's going to be 12-plus percent Core Tier 1. We're sticking with that. We're building a business accordingly. And, given our business mix, we think that's realistic.

Ewen Stevenson: Again, I think, as we've talked about that target, I think it's important to remember that it's a really blend of two things. It's a higher ROE out of the go-forward bank and a continued drag out of the exit bank in the outer years. I think if we sit today, this is where we sat in February, it's more likely that we'll accelerate the exit out of the drag.

There may be some incremental costs around that but there is some very long-dated stuff sitting in Capital Resolution and RCR that I think we'd like to find a solution for ahead of ring fencing.

Chintan Joshi: OK, thanks for that. Good luck with the rugby.

Operator: Your next question is from the line of Chira Barua from Sanford Bernstein. Please go ahead.

Chira Barua: Just two questions and very simple ones. One on your non-interest income line, which has been sharply down in Commercial and in UK PBB. Now Commercial I can understand. Can you just walk me through how do you make money in the non-interest income line in UK PBB? And why is it down 10 percent sequentially? So that is question number one.

And the second thing on cost. There's lots been talked about cost. I'm just struggling to think why would you increase cost sequentially in something like the private bank, which is one of the fattest cost bases, by 4.5 percent in a quarter? Just – or, for that matter, Ulster Bank, which is 7 percent to 8 percent up. I just want to understand because you've taken a lot of restructuring costs below the line, anyway.

So what is this investment going on on a sequential basis? It would be great if you can give us some color.

Ross McEwan: I'll pick up the cost pieces, particularly around Ulster Bank and around the wealth business.

There's a lot of – if we start with wealth, the changes going on and taking out the international business has created quite a bit of cost and concentration for us, both around remediation to get it ready for final disposal but also some costs incurred in actually taking the costs out, because we are having to close down parts of the operation, buildings, separate out the international from the go-forward Coutts business. Next year we should start to see the costs of that business coming down and a much more stable business.

And Ulster, it incurs new levies of GBP50 million of government levies annualised. So even though we're taking the cost out of it by headcount, branch closures closer to our business, we have been hit with other government levies but also higher pension costs as well.

But our aim is to keep those business costs overall coming down over the next three years, which is the plan for both of those businesses. But the Coutts one is really to do with extricating the international business, which I still believe was better in somebody else's hands than our own.

Ewen Stevenson: But one of the – I think we've been quite clear that we think the cost-income ratios in CIB go-forward, Private Bank in Ulster are far higher than what they should and will be. But it will take a few years to get those cost structures to where we think they need to be.

Ross McEwan: I'm comfortable that what's going on in Coutts and the underlying core business is heading in the right direction. But it is being masked by some fairly heavy restructuring and remediation costs in that business at this point in time.

Ewen Stevenson: And then on the non-interest income line, there were about GBP50 million from one equity gain in Commercial in Q2 that was not repeated in Q3. And then in PBB UK you've got a significant impact continuing to flow through from the reduction in interchange fees.

The fact that mix is changing towards mortgages and away from credit cards and unsecured credit means that we're getting a lot lower fees out of our credit card business. And there was lower investment fees because of market volatility in Q3 as well.

Chira Barua: In terms of the portfolio mix, I asked this in Q2 as well, is this the shape that you want it? Or would you – just in terms of unsecured and basically personal loans and credit cards as a percentage of your book, are you comfortable with the way it is right now? Or would you want to decrease it even further?

Ross McEwan: No, first off, I'm comfortable with the trend towards secured more than the unsecured. I don't think you're getting paid for the risk you take on the unsecured, given that the rates are now down on an unsecured personal business at 3.5 percent to 3.7 percent. We're not playing down there.

Think about the long-term run rate on your impairment on that is pretty much around those numbers. So we're struggling to work out the economics from a profit perspective. So we're far happier with a swing much towards a secured book, which is what you're seeing with us.

It's not that we don't want to play in the unsecured market, but I think you have to innovate and make sure that you're doing it by being much quicker with your decision processes and it's not a price-related issue, where, unfortunately that market's gone at price and it's gone incredibly long; zero balance transfers now at 37 to 40 months. I'm struggling to see where the value is at for customers and for us.

Chira Barua: Totally agree. Thank you.

Ewen Stevenson: And I think the other think relative to others, Chira, is just if you look at our loan – going back to our loan-to-deposit ratio, if you look on the personal side I think mortgages is by far and away the majority of loan volume in Personal Banking. And we have significant lending capacity relative to others who are operating close to target loan-to-deposit ratios at this point and, therefore, somewhat constrained about their ability to grow their mortgage books.

Chira Barua: Yes. Thank you. Thank you. Thanks, guys.

Operator: Your next question today is from the line of Edward Firth from Macquarie.

Edward Firth: I just wanted to ask you, if I could, about customer service, which I guess doesn't come up so often on an analyst call. I see your ambition to be number

1, but I've got the Which? survey from August in front of me and I guess Ulster's bottom, Royal Bank second bottom, NatWest – you're better than Barclays but you're not even in the top half.

And I suppose my question is what do you see that's going to cause the step change that's clearly necessary if you're going to get anywhere near number 1? And, I guess, particularly when you're trying to take GBP2 billion out of the cost base. So I suppose that's my first question. And I've got a somewhat related question afterwards.

Ross McEwan: When we set out this ambition for 2020 nobody said it was going to be easy. This is a task you take on and you have to go at it day in, day out, every customer interaction.

If you go to page 6 in our highlights under customer, you are starting to see, though, in most of our areas, still some issues under The Royal Bank of Scotland Personal Banking, but most of our areas are heading in the right direction. And that's what you should be looking at.

This thing does not leap. If you get a great leap in customer satisfaction, something is either going incredibly right for you or something will go wrong later on. You've either priced yourself madly or done something. It's got to be over a long period of time and that's why we set the 2020.

When we look at our cost structure, it's where you put your costs. And this is why we're focusing more and more on our core franchises here in the UK and in Ireland and making sure that the systems and processes are great for our staff and for our customers. And that's where most of our investment is going, if it's not to do with mandatory. You've just got to make it easier for customers to do business.

But our brands, particularly The Royal Bank, continues to take some hits each time something happens. Each time we get conduct litigation it's all under that branding. That's why it's lagging. NatWest is doing reasonably well.

And then if you do the split down into the channels and you have a look at our mobile net promoter score, it is the best in market. And that's where the future of a fair bit of our banking is. That, with the online, is we're seeing 230 percent growth in our customer usage and we happen to have the best platforms there. So we're in the right areas.

Our Business Banking is up significantly. You're seeing, yes, from negatives, even The Royal Bank and Business Banking minus 26 up to mins 12. Massive moves there we're getting over the last 12, 24 months in the right direction. Not where we want them to be. NatWest, minus 13 to 6.

So you're seeing some big moves because of the work we're doing. Nowhere near where we want to be and we do need to get every part of it up.

And it's challenging because there are some parts that we are repricing that do hit into these things. But, overall, I've been pleased with the progress we're making but we've set ourselves a long-term target here.

The other thing that I think you should really …

(Crosstalk)

Edward Firth: But do you think you can do that without some big step change, some giveaway, some new …

Ross McEwan: As I said, you can do it by giving stuff away, which would make shareholders very unhappy. You've got to actually do it in a balanced measured way over a long period of time.

The thing you should be very pleased about, that we were, is the connectivity between employee engagement, which was well up this time over last year, is a leading indicator of – because if you've got your people much more engaged and committed to the business, the results will come through for customers.

I've seen that in two other organisations. They are directly correlated; employee engagement flowing through to customer. But it's long term. We set this out at 2020. We didn't set this out to become number 1 in 12 months.

Ewen Stevenson: I think the biggest, in addition to what Ross talked about, having engaged employees driving engaged customers, I think the two other things that are actually quite important for us.

Firstly, if you look on that page 6 the difference between NatWest and Royal Bank of Scotland, you'll see quite a sharp differential. And that differential we attribute almost exclusively to the RBS brand and the impact that has on Royal Bank of Scotland. Actually NatWest is one of the higher rated net promoter scores.

I think the other thing is just, as Ross alluded to, if you look on mobile, the net promoter score, Ross, is in the 40s, I think.

Ross McEwan: Yes, it's at 40.

Ewen Stevenson: And that is increasingly the dominant channel and we are currently first equal on that channel.

Edward Firth: OK. That's interesting.

Ross McEwan: None of these things are going to happen quickly. They take lots of interactions with customers. And that's why you're starting to see in Business Banking the move up, because you have a much more direct link with your customers in Business Banking than you do in personal.

And, as Ewen said, under The Royal Bank of Scotland, which takes the hits, it fluctuates around. It hasn't been where want it to be. So there's a lot more work to be done there.

Edward Firth: OK. Could I just – one slightly related question. It's on the SVR book. I know it's only 15 percent of your loan book, so I guess not hugely material for you, but I guess you and industry, on my numbers, are making a return on equity of somewhere around, I don't know, 70 percent, 80 percent on that. It depends how you allocate your costs.

And, I guess, how does that fit – how comfortable are you with that in a world where you want to be number 1 for customer trust?

Ross McEwan: I don't recognise the numbers but 70 percent would be an amazing number. I've never seen a bank do those.

Edward Firth: Well, you're making 300 basis point spread, I guess, so – you've got no impairments and you've got very little cost.

Ewen Stevenson: But it also depends on what RWAs that you're attributing to that book and what costs you're attributing to that book.

But I think we're extremely transparent with our customers – one of the reasons that we've seen a significant ramp down in the SVR book is because of a very proactive approach from us to contact our customers on SVR to see if they do want to change to fixed rate. And we've actually been accelerating the switch out of SVR.

Edward Firth: From my mind it's not hugely material for you. It's obviously material for some parts of the industry.

Ross McEwan: Well, the other thing, can I say, we've got one of the lowest SVRs in the market and have been at the same rate for the last five years. So probably there's other banks that need to be looking at themselves before us. Some of them are still sitting up at 5.25 percent and it's why our book's growing because we're having a good time in the marketplace with the rates we've got, which we're comfortable with.

Edward Firth: Great. OK. Thanks very much.

Operator: Your next question is from the line of Joseph Dickerson from Jefferies.

Joseph Dickerson: Most of my questions have been answered. Can you just – the last one I had was on Ulster Bank. You had a 20 percent pickup in revenues quarter on quarter to just over GBP200 million. I'm just wondering, can you comment on the growth rate there and what's happening in Ulster? Thanks.

Ewen Stevenson: I think in Ulster you'll see in the document that there were a couple of one-offs in the quarter so I wouldn't look at that 20 percent quarter-on-quarter change as being anything fundamental going on, on the business.

I think overall what you're seeing is a continuation of the trends that we've seen in previous quarters, i.e., we've got about 40 percent of the book is sitting in this very low-margin tracker book that's earning a very, very low return. It's probably still got about an average 20-year duration in that book. As house prices go up and as that book runs off, probably at about GBP500 million a year, and the benefit of lower risk weightings you're getting lower and lower capital consumption and lower drag against that.

We're beginning to see better origination volumes in the front book coming off, frankly, a very, very low base. So we do see, given what's going on in the Irish economy, significant front-book growth.

But, overall, the balance of those two things are likely to set themselves off. But, overall, what you're going to see, I think, is a gradual shift in return towards the core go-forward book.

The other thing, obviously, that's going on is continued impairment write-backs. There's, obviously, I think, still over GBP2 billion of provisions in Ulster Bank balance sheet provisions. You could easily see a few hundred million of that getting written back at probably an increasingly declining rate, but those provision write-backs underpinning higher reported earnings than would be the case in Ulster for the next few years.

But, fundamentally, when we look at the Irish market, we look at our market position. We think we've got the potential for both very good growth potential relative to the big two and we think we've got a significant cost opportunity there. And we do think that returns in that market are probably going to be as attractive as the UK market over time.

Ross McEwan: As Ewen said, there are a couple of one-offs called out in the document. The loan book has been flat but good new business volumes, but also quite high repayments. And we did sell, I think, a buy-to-let book and this is probably reflecting in the numbers. So there was a buy-to-let legacy mortgage book that we sold off, so those are probably the difference in the numbers you're talking about there, Joseph.

Joseph Dickerson: Got it. Thank you.

Operator: Your final question today comes from the line of Claire Kane from RBC.

Claire Kane: Just one question from me regarding your capital targets and capital requirement and, in particular, the Pillar 2A add-on. It's 1.9 percent of Common Equity Tier 1 at the moment and, once you deconsolidate Citizens at yearend, I think it goes up to around 2.7 percent on my forecasts. And, in the absence of a review, which I think is coming next May, and just more longer term, how confident are you that you can reduce the absolute add-on?

And how should we think about the timing of that, since, clearly, as you go towards 2019 and the RWAs continue to come down that requirement will continue to go up as a percentage and it now affects your stress test hurdle rate? So any comments would be appreciated. Thank you.

Ewen Stevenson: Yes, so we're not obviously going to comment on your own internal forecasts but, look, I'd work back and say we are comfortable with the 13 percent Core Tier 1 target that we set. We think that is an appropriate target, given what we have seen in terms of regulatory developments around and including Pillar 2 risks and also what we can see going on in relation to stress test hurdles.

You're right. As the Bank shrinks, there are certain elements of what we have, like capital we hold for conduct and litigation risk and pension risk, that are going up. But all of that has been factored into our thinking in coming up with the 13 percent Core Tier 1 target.

And that also, I think, does explain why you will see some variation amongst the UK banks because some elements that we have, like pension risk, are more idiosyncratic to us than they would be to some other banks.

Ross McEwan: Maybe if I just finish off with a few concluding questions. I think we're making good progress on our plan to build a stronger, simpler and fairer bank that is focused on customers. And, as you know and I'll keep saying, centered here in the UK and Ireland.

I think in each of the areas of the strategy we are delivering. Capital is up. You've seen that. Citizens out last night. Costs are down. And, as we said, there will be just over GBP900 million this year rather than the GBP800 million we signaled early on. And we're backing more businesses than any other bank in the UK and helping more people buy their homes than ever before.

So I think we're starting to see some nice growth coming through our franchises, which is what we wanted. And that's exactly what RBS should be doing.

We clearly have some conduct and litigation hurdles still looming on the horizon and we need to work through those. We need to put those issues behind us and that's a vital part of our plan.

And there's more work to be done but, as you know, this Bank is determined to earn back the trust of our customers, repay the shareholders for their support and fully play our part in supporting this UK economy. And I think these results show good progress towards that. Still lots more to do and we'll give you the update in February at the full year. So looking forward to that as well.

So thank you very much for your time and have a good day. And go the All Blacks this Saturday.

Howard Davies: I'd like to just say that I'm not necessarily supporting that last proposition. I agree with everything else.

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

END