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Katie Murray, CFO, RBS

FORWARD-LOOKING STATEMENTS

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Chris Manners, Barclays: Good afternoon, everyone. Thanks for joining us. I think – I know there was a fire alarm. So, we might have one or two people joining a little bit later, but maybe we should get started.

So, it's my pleasure to welcome to the stage Katie Murray, who's Group Finance Director of RBS. Katie joined the bank in 2015 and has a wealth of finance and accounting experience at a number of firms previously.

So, well, good afternoon, Katie.

Katie Murray: Good afternoon.

Chris Manners, Barclays: Good afternoon. Thanks for joining us today at the Barclays Global Financial Services Conference. And I'll start the questioning – sorry to be a little bit predictable – but it's now been three years since the Brexit referendum. It's still unclear how things are going to turn out. For the investors here in the room who may not live and breathe Brexit every day as, unfortunately, I think you and I have to do in the U.K., could you maybe share a little bit about how you're thinking of the potential impact of no-deal exit of the U.K. from the EU on RBS? And have you altered your thinking or your preparations in the last couple of months? Are there any areas of risk that you're concerned or focused on? And how's it affecting your ability to plan and your customers' sort of risk appetite?

Katie Murray: Absolutely. I think one of the things around Brexit which we would all definitely agree this morning, it's a long and winding road in terms of where we're actually going, and actually I'm not sure that anybody really knows the exact trajectory. Personally, I'd probably say that the act that was passed under Queen's Assent today around making it illegal for the U.K. to leave without a deal is very helpful, in one regard, because it makes it very clear that actually we're not willing to leave without a deal.

I think the other thing it does do, though, is it keeps moving the date. And all of us in any of our markets, I think we'd agree that actually the most helpful thing that we can have is certainty, almost irrespective of what that certainty is, because that gives you an envelope within which you can really actually actively plan.

So, as we look at it at RBS it's very much what do you need to do in terms of preparation, and that's all now been in place since before the March referendum in terms of the Netherlands being stood up for our European clients. We're doing all of our payments through Frankfurt. That's all kind of operational. I think we have a very strong balance sheet – I'm sure we'll come on to that, as well – and also very strong liquidity. And the strength in liquidity is not accidental. That's just to really make sure that we're in the right place.

So, then you get to, well, what do you do in terms of your planning, I guess, from your financial perspective. We very much operate with a consensus view. We don't try to predict differently from the markets. But what we can see at the moment is this consensus is not necessarily the best quality and it's moving dramatically week to week. At the moment it's moving on a bit of a downward journey. But with today's news, that might help to make it move up. But it's actually – it just moves around too much. So, for the teams who are then trying to do the numbers it's quite hard to predict.

So, then you have to say, well, actually what can we control? We can control what we've done in terms of preparation and our balance sheet and actually how we interact with our customers. And I think there we've had a really strong narrative with the launch of the Brexit Fund that we did a year ago. In the Brexit Fund, to all of you, it's a conversation to be able to enable the conversation really with the businesses, to actually then sitting down with all of our corporate customers to say, "Look, how are you impacted? What does it mean? This is how we can help you, how we can work with you." Whether that's to make sure – and I always get this wrong – the ERBI, or some mix of those letters, which is basically making sure you've got the right pieces of paper to be able to deal and then how do we help you fund your dealings if you are impacted by the supply chain. We do work from making sure that you can fund it, what could you do with FX, could we use something like invoice financing to help you be ready where you haven't used it before.

We've got one very nice little subsidiary called Mentor, which actually works with an HR capacity and sits and advises our smaller clients. We all work in large corporations, and I think that we forget if you're a small/mid-sized kind of business you don't have those kind of resources. So, those things are really important.

It's really about what can you control, what can you pre-anticipate, and then how best to plan within that and making sure that our customers know the suite of things that we can do to help them, rather than just the specifics in relations to ourselves.

Chris Manners, Barclays: Understood. And when you think about that sort of leading into a macro slowdown, continuing to lend, how do you think about the balance of supporting your customers and forbearance and just making sure you protect the credit risk of the bank in that sort of situation?

Katie Murray: I think sitting where we are at sort of 16% CET1, we're probably not too concerned of the credit risk today. But you know things can – you can do things today that impact you many years down the line.

We as a bank have worked really hard over the last number of years to make sure that we took risks off our balance sheet that we felt fared badly under stress. And so, you'll be aware, Chris, we took £30 billion of RWAs off over the last few years, very much for this kind of moment.

You then have to actually just keep monitoring what's happening on your credit quality to make sure you're writing the right business. And sometimes the right business – sorry, the wrong business could be nothing to do with Brexit. But actually, we're not as focused on things like real estate, we're not focused on things like retail. We much prefer kind of the mid-corp. Because actually, those others, they've got other issues that are going on in that industry which are independent of what's happening within the larger macro situation.

And I think also, Chris, it's really important that you don't talk yourself into a bad place. And you know, actually, if you look at it, consensus growth for the U.K. is 1.2% over the next number of years; 1.2% growth is not a bad place to find yourself, and I would say it's actually quite some distance away from a recession. The numbers that came out today were 0.3% growth. So, it exceeded the kind of expectation. And I think one of the things we all need to do is to make sure that we talk to customers, that we don't actually talk ourselves into a bad place. Because as you look at the macro situation in the U.K., actually, growth is muted but it's okay. Employment is the lowest it has been in sort of four decades, which is superb. And you've got real wage growth.

Okay. Yes, I'm a banking CFO, and actually the yield curve being as low as it is is painful and we need to work at how we deal with that, but actually the overall macro I think is sometimes not as bad as the headlines would suggest. It could be better, I think we could all agree, but it's not as poor as it could be.

Chris Manners, Barclays: Thank you. And I think that gives us a nice segue onto the next question. So, if we do look at the shape of the yield curve at the moment, it does look like the market is pricing at least one base rate cut in the U.K. by this time next year, maybe more. What is your expectation of the future U.K. interest rate pathway for planning purposes? And can you help us think through it a little bit how this impacts your business in terms of potential margin pressure, impact on loan demand, asset quality, and also how you're trying to mitigate it?

Katie Murray: Perfect. I'm happy to. So, if I were sitting here a year ago, which I was, what I would have been saying to you then is actually we'd expected interest rate rallies in Q3 of this year, which just shows we can all be wrong. And at the moment the consensus that I was looking at over the weekend – we're looking at it very closely – the consensus as at the end of August was showing actually two rate cuts, which is not a great position to be in.

What we look at and what we published a lot in terms of the impact on our business is that we know within one year of a rate cut it has about between £150 million to £200 million impact on our income. So that obviously then feeds directly to the bottom line. If we have two, then that's also quite a difficult situation.

And I think what you see just now, though, is there's a real anticipation, particularly in the longer end of the curve, as if that rate cut has already happened. So, there's an element of, as anything, certainty. Either make it happen or allow the curve kind of to recover. So, then looking at that, you then just have to kind of make sure that you're looking at bringing on the right policy of credit as you kind of try to support what might be happening in that basis.

But we do our plans in Q4, but certainly we have always been a consensus-led house and will continue to be so. So, I guess if I was cutting it to bear, we'd be looking at two, and that certainly makes income a little bit more of a challenge.

Chris Manners, Barclays: Understood. And if we think about some of the offsets you might have, is there anything you can do in terms of widening mortgage spreads, for example, that can help? If we look at it, the swap rates dropped very strongly. Banks have reacted in a muted fashion. Front book margins have expanded a little bit. Do you think that position is sustainable? And is that something that could help offset that change in curve shape […]?

Katie Murray: Well, I think if we look at the mortgages – and we talked a lot about that today with investors – we find ourselves in quite an interesting position. Actually, we brought down prices a little bit over the last number of months, but the curve has moved faster than we have. So, therefore, we've a slightly improved range.

And what we talk about within RBS is that we write our kind of new-to-bank business in a corridor of kind of 80 to 100 basis points. Now, what I would say is we're actually writing even slightly ahead of that. So that is giving certainly some benefits. But it's important to realise there's new-to-bank and then there's switching. So that improves the number a little bit. But actually, in terms of the whole mortgage book, it's repricing from 160 basis points average to above 100 but below 160. So that is a quite difficult thing to kind of offset.

So then you have to make sure you're just controlling what you can, which is actually doing the right lending to the right people. And in H1 we grew our book within NatWest Holdngs by 2.5% or 2.6%. And what was really pleasing was, well, our target for the year is 2% to 3%. So, you can kind of say, well, they're comfortably on track. And actually there was growth everywhere. There was growth in your mortgages, your personal lending, your main customer current accounts, your business banking, your small/medium-sized businesses, and then also in your specialised lending. The place where we're not seeing growth is in the large corporates.

So, actually having – kind of growing in that space, I think that's actually the best offset to the kind of compressing of the margin.

Chris Manners, Barclays: Okay. Understood. And it's something that we'd heard from Antonio Horta-Osorio, who was here this morning, which was what they're trying to do at Lloyds is actually focus a little bit more on higher margin, not maybe higher cost of credit, but high-yielding assets, for example, in the cards. I know that at RBS, when Ross was there...

Katie Murray: Ross is still there.

Chris Manners, Barclays: He's still there.

Katie Murray: He's very much still there.

Chris Manners, Barclays: For the moment.

Katie Murray: My email will testify to that.

Chris Manners, Barclays: Still there. That yes, you've really prioritised mortgages over unsecured. As you look at the sort of margin environment, the front book, back book, and where yields are going, does that still make sense to you?

Katie Murray: So I think that the decision that we took was one, very much a decision of what's the right thing for our customers, particularly in that credit card space. That when you look at the zero balance transfer, what happens is someone moves their balance for three years and at the end of that their balance generally hasn't decreased. It's in fact increased, and they've not touched the principal, at all. So, actually, they end up in a worse situation.

So, we as a bank took a view that actually that wasn't a business that we wanted to be in. And we gave the challenge to the personal business to say, look, find us a product, work out a product that actually at the end of the product period, the standard period, the customer is going to be in a better position. So, we know that came at a cost of earnings for us. You can see that in terms of the size of our book.

What's happened in this first half of the year is that we entered that market, but very much with a product that as you pay it down you're paying down your principal, rather than just continuing to grow it, and I think something that's quite exciting.

So, both there and in our personal loans we've had significant growth over the last half-year and also from last year. And what's kind of enabled us to do that quite well is around the investments we've made in technology. So, we're lending to our own customers. We can understand the data that they're doing. The application for the business is quite frictionless. So, therefore, there has been nice uptake in it. But the reality is the size of the book is small. It's about £12 billion, compared to ours of £140 billion of mortgages. So, there's a natural mismatch, but we're pleased with the growth that we're seeing within there, and it will certainly have a bit of an effect coming through.

Chris Manners, Barclays: Thank you. I think that leads us neatly to the next topic that I have here, which is just a bit about digitalisation and also how that feeds into the cost base. You said that you're unlikely to hit your cost-to-income ratio target of less than 50% next year, and that's actually predominantly driven by the revenue environment, as we've been talking about. I imagine you're still very focused on the cost base. How do you see the trade-off of making investments now versus cutting future costs? Because I guess there's tactical things you could do to slow down – the pace of branch closures or some of the investment spend – to show better cost now, but it might be painful in the future. And also, how much do you sort of think about cloud computing, branch network reduction, and this...?

Katie Murray: So, there's a lot in that question. I think one of the really important things to remember is that we a couple of years ago talked about the level of investment we were going to make in strategic change, which was £2.5 billion. We spent £1 billion last year, and we said we'll be £1.2 billion to £1.5 billion this year. We're likely to come out at the kind of £1.2 billion sort of level of that.

But what that investment was very much to do was to really actually transform some of the kind of in-house. If I think of the £1.2 billion that we're taking out this year, about £500 million of that is around reshaping the property portfolio. We used to have in central London three or four big, big buildings, and now we will have one. So, those are big investments to make. They're painful when you make them, but I think because of the way that we approached it was a strategic cost, it meant that you'll actually have space to kind of make those things. So, I think that kind of helped on the cost side.

If you then go into actually the whole digitisation and the automation piece, for me what we can see is the money that we spent there, we can get paid back relatively quickly on it. And so, it's not something I think you think about delaying. We spend about £1 billion a year in terms of in-house kind of investments.

And we can see the benefits of many of those things quite quickly. Just to give a couple of examples in the personal space, we know that our mortgage lending is going up, not just because we're in the right price, which is the most important part, but actually that we're able to do service, we're able to do it really quickly. And in terms of when people are renewing their mortgages, they can do it all by the click of a button. We know that we grew personal loans and credit cards because actually you can do it all on your mobile phone.

So, the investment you do to make things as frictionless as possible hasn't only driven out 9% out of the cost base of personal banking in the last year, but I know it's also helped the income side. So, actually there's real benefits in that whole kind of digitisation piece.

So, at the moment you'll all be going into your own businesses just now, preparing your budgets for the next year. Everybody always asks for more than you want to give them. But actually, what you want to do is to create a bit of tension between the various business cases to work out who's going to really give you the best benefits. And at the moment I think with income being a bit more challenging, actually the focus on costs is more than ever important, because you have to show that you'll take out that number. We will take out about £300 million this year, and that is, quite frankly, a reality I think for every business. The number will be different, but actually it needs to be that kind of level as you move forward.

Chris Manners, Barclays: Thank you. For the next topic I think we'd like to talk a little bit about capital return. So, RBS has obviously come a long way since the bailout back in 2009. You've returned about £3.3 billion to shareholders, including the government.

Katie Murray: In dividends alone.

Chris Manners, Barclays: In dividends.

Katie Murray: We've returned more than that to the government.

Chris Manners, Barclays: [inaudible]

Katie Murray: Yes, exactly. [inaudible] a few more of those things.

Chris Manners, Barclays: So, I guess you've also, though, you've flagged some headwinds on capital due to kind of PPI charge that you've taken; RWA inflation, particularly from the mortgage risk rate review; Basel III finalisation. Can you share with us a little bit about how you and your capital planning team are thinking about capital return potential in the future? Because you're sat at 16%. I guess you pro forma'd for PPI, but you're still making quite a lot of profit. It looks like about 20% to the market cap, to me, is surplus.

Katie Murray: I think the PPI thing, we may or not get into it in more detail. For us, given where we are at the levels of capital that we have, is a frustration probably in relation to second half earnings, rather than an actual impact on our overall excess capital, that it wouldn't grow quite as much in the second half as you have – as you might – as you would have expected it to.

I think as I look at capital I find myself in a great position of we're sitting at 16%. So, were sitting at 16% at the beginning of the year. But that grew up to in excess of 17% by half-year because of what the business is generating and also the Alawwal transaction. And we brought it back down to 16%. What we have said is that we'll aim to take it down to 14% by 2021, and that's very much unchanged.

So, there's a few ways you can take back capital. They're well known to all of you. Our first preference is obviously a directed buyback from the government. I think that is challenging at the moment for reasons that would be well understood. And then, obviously, special dividends, which we've done. We are also open to small, appropriate acquisitions in the market if that's the right thing to do and they can add the right level of shareholder value, as well as appropriate investment within the business.

So, I think what we'll see is that we will continue to progress down to that 14%. We've always said it won't be a straight line, and H1 was a great show of that. We went really up a lot to then kind of come back down again in terms of delivering the numbers.

So, I think that our narrative on capital return is absolutely unchanged. And then once you get to 14%, I think we'll continue to see more activity at that, which we'll talk more about next year.

Chris Manners, Barclays: Understood. And then for the next thing we'd like to talk about – I guess you touched on it a little bit there about the directed buyback – I think people are very aware the government still owns over 60% of RBS shares. How do you see that sellout playing down if, I suppose, given where the share price is? Is there anything else you can do to assist on buying back below book?

Katie Murray: So, I think it's one of the important things. And people ask me this question a lot, Chris. But I'm the buyer; they're the seller. They need to decide if they want to sell, and I'm very happy to buy at this price, obviously, and prices that are above this. But it needs to be something that's appropriate for all of our shareholders, is probably the most important thing.

So, I think the most – what we can do as a management team is actually do our best to deliver the best numbers that we can and the best investor case that we can. There's clearly a lot of things going on in the macro that's impacting us as well as our peer group as well as the U.K. in general, in terms of actually a kind of reticence for people to jump into the U.K. at this stage. So it almost brings us back to where we started. Obviously, some certainty of where Brexit is going in the future I think would help, as well.

Chris Manners, Barclays: Understood. And maybe just to bring it down a little bit on the earnings power at the group, I think in Q2 you said you'd be disappointed if you didn't exceed the 9.5% ROTE that's implied by consensus. I know people have asked you this question a number of times.

Katie Murray: I don't think I used the word "exceed" but okay.

Chris Manners, Barclays: But I suppose – and that's despite the challenging NIM conditions. Do you foresee a challenge to sort of hitting that 9.5% ROTE, especially given the evolving political backdrop?

Katie Murray: As I look at it, there's probably two buckets you need to think of on: earnings and then capital. I think we've probably talked about the capital piece and the capital heading towards the 14%. Where we go and the speed at which that happens, that can kind of have some impact on that, as well.

I think then if I look at the consensus ROTE, we then kind of go into earnings and almost if you work your way down the P&L. If we look at income, we were at £6.1 billion in the half. Some of that doesn't seem unreasonable, and I think that depending what kind of happens in the market it doesn't necessarily feel that we're particularly in a growth at that point, but actually making sure we really continue to deliver at that kind of level.

Then you kind of work your way down to impairments. We talk a lot about 30 to 40 bps through the cycle. I don't at the moment see us getting there particularly quickly. We were at 21 basis points for the first half. That feels appropriate. It had a couple of sort of tall trees in there, but that doesn't seem a kind of unreasonable sort of level.

And then you get into things like, well, what can I do on costs? I've talked already that £300 million and £300 million-plus out a year are reality as we move forward. And then our strategic costs will come to an end, in some regards, this year. That’s a very large level. And then you're at kind of – we've always talked about sort of £500 million, going forward, over conduct and strategic costs. Now, the timing of that conduct is not always as easy to predict as we might like.

But I think also – I'm not naive. I can see what's happening in the world today. And if I looked at where consensus was when we talked then, we had one rate cut. And it's moved around. So I think there's other bigger macro things that will make that challenging.

I guess one of the things I sort of very much bear in mind that every hundred million difference on my income post-tax is another 30 basis points of ROE. So, it can also move – it doesn't take an awful lot to move that number up or down a bit. So, let's see as we move forward into next year where we actually land on that.

Chris Manners, Barclays: Okay. Understood. And I suppose one of the key components of that is the net interest margin. I know that you've, I guess, tried to help us out a little bit by giving us the banking net interest margin as well as the group net interest margin, which can be more volatile. As we look into the sort of second half and into next year, I suppose taking into account that new shape of the yield curve you were talking about, how much of an impact do you think we should expect on the NIM from the sort of Q2 run rate?

Katie Murray: So, as you know, we don't really give forward guidance on NIM. But as I look at it, we've talked a little bit about what's happening in the mortgage book already. That's important.

I think we've also talked about that we're holding excess liquidity in relation to be ready for Brexit. That also has a drawdown on us. So, if you see that – if you were to see that to move in terms of Brexit certainty, you would see some of our excess liquidity move, as well. And certainly, we'd be looking to lend that out more than any other kind of option.

I think those kind of two things are important.

And within there, I would say almost the mortgage repricing is one of the more important. Within the corporate space, actually, we're holding margin up quite nicely, and we're quite comfortable with that.

And the reason really for the move from a group NIM to bank NIM was less about the volatility, but more actually for NatWest Markets NIM is a fairly meaningless kind of measure. So, you end up kind of explaining things that aren't particularly helpful.

Chris Manners, Barclays: Understood. And could I ask you a little bit about maybe broadness of the core U.K. business that you have? If we look at Ulster and we look at NatWest Markets, that's about 30% of the capital allocation of the group, but they seem to be struggling now for very quite a long time, maybe 10 years or so, to beat cost of capital. Do you think the divisions are on track to actually beat cost of capital within your planning horizon? And if not, what sort of – is there anything you can do that's a bit more radical?

Katie Murray: So, let me deal with them separately, because Ulster I think is a very different story. As I look at Ulster and as we as the board look at it, I think what we see is a business that's behind in terms of its own recovery than the rest of the group.

Jane Howard, who has gone in as the CEO, I would say is doing an exceptional job one year into the business. What we very much said to her was, "Jane, this year, sort out some of the regulatory issues and also sort out the NPLs to get down on the trajectory to the 5% which is required and also look to return some of the capital because it's sitting at very high kind of capital level."

I think she's doing a really great job on them. It's a 2% ROE at the half. We need to see that to continue to grow. In my own mind, I think it will be a sort of 2%, 4%, 6%, 8% kind of return. I'm not exactly sure where you end those multiples. But I think what is really important, it will be a slow and steady improvement.

Pleasingly, we started to see some growth in their business. They're doing well on the tasks that we've set out to give to them. And we'd hope to get some capital out of the business quite soon.

So, that's a kind of – it's a small amount. I think it's about £16 billion of RWAs. That will decrease as capital comes out and the NPLs come off, as well. So, actually it's a relatively small part of the group.

I think NatWest Markets is a different story in terms of where we are. They're in Year 3 of a four-year programme of really cleaning out the remainder of the history, really focusing on their three lines of business: currencies, rates, and capital markets. And they have been doing that and automating a huge amount of the work that they have done.

We talk about a £1.4 billion to £1.6 billion income level. It was £1.3 billion last year. If I look at the first half, it doesn't feel we're going to be certainly in that £1.4 billion to £1.6 billion. And I think Ross at the interim said he wished he had never changed it from the sort of £1.3 billion to £1.4 billion kind of level. But over the last number of years we've earned anywhere from £1.3 billion to £1.7 billion. So, the £1.4 doesn't feel a million miles away. Their cost base needs to come down to the £1 billion we're targeting next year and then RWAs of £39 billion.

But you can all do that math the same as me, and you get to about a 6% return on capital. I have to say, if it got to 6% next year we'd be delighted. They're sitting at kind of minus 2% this year. I think what the real focus is, let's get us to a positive return next year, and then I think we need to work out kind of what the next steps are from there.

And it's important I think also to look at their return as you look out across the whole bank. They're not a separate entity. They're part – one-third of their income comes from the other half of our business. And actually how are they co-joined is something that's also important. And not allow ring-fencing to think of you as they're two separate independent entities, because they're not. Their successes, and we're also a little bit tied together.

Chris Manners, Barclays: Understood. So, I think for the next stage what we'll do is we'll move to the audience-response questions. And so, I think everyone in the audience, you should have a digital device in front of you.

Katie Murray: I pre-voted when we came in. So, I pressed a few buttons.

Chris Manners, Barclays: So, what we'll do, we'll have the – I think you're probably familiar if you've been at the other presentations. We'll have the questions come up on the screen. You can then select an answer on the keypad. Then we'll display the responses so that everyone can see what they are.

So, maybe if we can move to the first question, that would be great. So, the first question is: what would cause you to become more positive on RBS shares: positive revenue surprises; greater cost savings; better asset quality; stronger capital or high dividend payouts; or reduction in U.K. government ownership?

Interesting. U.K. government ownership is still quite high upon people's minds.

Okay. If we can move to the next question? So, Question 2. What do you expect to be the biggest influence on RBS revenues in the coming 12 months: 1) volumes; 2) pricing; 3) policy rates; 4) fees and commissions?

Wow. What do you think about that?

Katie Murray: I probably wouldn't disagree.

Chris Manners, Barclays: You wouldn't disagree.

Katie Murray: In the first place, I think we're doing a good job on volume. I think we're doing good jobs on pricing. I think the reality of the impact of policy, of rate movements, it's something that we can't control. We just need to make sure we're doing as much as we can on numbers 1, 2, and 4 to offset it. So, I think that's not, unfortunately, disagreeable with.

Chris Manners, Barclays: Understood. Could we get the next question, please? So, the next question is, how do you think about RBS's cost development versus expectations: 1) likely to beat expectations thanks to cost-saving initiatives; 2) likely to meet expectations; 3) likely to miss expectations due to cost inflation; 4) not sure, but would like to see more cost-saving initiatives?

Okay. You're going to hit the expectations.

Katie Murray: I think if we hit the expectations, I think we'll all be happy with that.

Chris Manners, Barclays: Great. Can we move to the next question, please? The next question is: how do you see RBS positioned on capital and dividends: 1) it will be an upside surprise from regulation clarity; 2) an upside surprise from earnings and restructuring; 3) a downside surprise from earnings and restructuring; or 4) a downside surprise from further increases in regulatory requirements?

Okay. Looks very evenly balanced.

Katie Murray: Very evenly balanced. Slightly weighted to the downside, which we'll hope is not the case.

Chris Manners, Barclays: Yes. Very, very slightly. Could we take the next question, please? Do you expect technology change – FinTech, digital – to be a positive or a negative to RBS: 1) positive because of additional revenue potential; 2) positive because of cost savings; 3) negative because of cost burdens; 4) negative because of pricing pressure; and 5) negative because of new entrants taking away business?

Okay. Interesting. So, cost saving potential and then maybe some of the FinTech competitors going for margins a little bit.

Katie Murray: I think that the FinTechs have been wildly positive in reality, for many of the big incumbent banks. I think it's given us a real shake-up that we needed. And at the moment you can see certainly in our own numbers where we start to see the turn of we're now acquiring customers in those main transaction accounts again. And that's a result of actually because I think our offering is so much better than it was as a result of what FinTechs have done for us.

So, for me, it will be a long game as the FinTechs turn into challengers and turning into incumbents as to what kind of happens there. But overall, I would – I'm probably far more positive than that would suggest. I think it has been hugely exciting and has really actually held the mirror up to make sure that we evolve in a way that we should have been evolving anyway. But sometimes, you need to be reminded of the possibilities.

Chris Manners, Barclays: Thanks. I think we have one last question. So, the final question, what do you think is likely to be the biggest driver of RBS stock price in the next 12 months: 1) the shape and timing of Brexit; 2) the U.K. government efforts to exit their 62% stake; 3) new business plan announced by the new CEO; 4) regulatory developments – Basel III, stress tests, etc.; and 5) competition in the U.K. banking market?

Gosh. A big skew to Brexit there.

Katie Murray: I don't think any of us would disagree with that. Certainty is something that would be helpful.

Chris Manners, Barclays: Interesting to see where it sets the bar for your new CEO, if it's Alison or if it's another candidate.

Katie Murray: We'll wait and see.

Chris Manners, Barclays: They can hopefully surprise people a little bit more than that with a new plan.

Okay. Well, I think that's what we have for the audience-response questions. I think what we'll try and do is see if there's anyone from the audience who would actually like to ask a question to Katie. If so, please just put your hand up.

Katie Murray: Your questions were so fulsome.

Chris Manners, Barclays: So, I might have one last question while people are thinking then maybe, which is, how do you think about the smaller and challenger banks, not the FinTechs but the sort of smaller incumbent banks, and how they're likely to be able to compete in this lower rate environment? Because if I look at the share prices of Metro Bank or Clydesdale or Tesco exiting the market – Sainsbury's maybe as well – it does look like a challenging environment. So, I'd be just interested to hear a bit of your thoughts. You don't have to name names of your competitors.

Katie Murray: I think it's a hard place to be in at the moment. What we see is with Tesco exiting, to exit their entire mortgage portfolio is that "we're leaving mortgages and we're never coming back" which is a strong statement to say. So then you're obviously thinking, "Well, surely you're not going to just run with the other bits." So, what kind of happens there? I think with Sainsbury's comments, also. We've all read them in the press. They're kind of very interesting.

One of the challenges I think will really be around funding. What we know is if interest rates are going down, you can't keep paying up for deposits. If you look at any of the longer-term money, the best rates you get are from the challengers or a lot of the challenger banks because actually they're needing to raise their deposits. I think TFS repayments, we've repaid £9 billion of our £19 billion. Others, though, have significant amounts to repay.

And I think that kind of balance between actually how do I fund my growth – we hear and see a lot of narrative about people moving out of – they're mainly kind of mortgage houses. How do they move out of that? And it's really – it's difficult.

We were obviously very involved in the whole Williams & Glyn's [inaudible] and the transfer of that. And what we can see is for the challengers, while they're getting a lot of investments from the various funds it's actually hard to move people over and hard to actually get it sort of through the process and things like that.

So, we're heading in the direction we want to go in, but there's a lot of different things going on for those small businesses. And I think it is a kind of challenging time. And we hear the feedback, is mortgages remain a challenge. They are in the front book. If you're having to pay up for your funding, it becomes more and more challenging. So, I think they do have some challenging times ahead of them.

Chris Manners, Barclays: Yes, it does seem to us it just puts them in a situation where their front book margin, the front book customer margin is so thin and they've already started with high cost-income ratios that it's just very difficult for them to.

Katie Murray: There's very little and [inaudible]. And then you're trying to grow into SME and into business, as well, and you're being picked at by the FinTechs as well as by us. So, I think it's a hard place to be.

Chris Manners, Barclays: Understood. Well, if there are no questions from the audience, it just remains for me to say, Katie Murray, CFO of RBS, thank you very much for your time and your presentation.

Katie Murray: Lovely. Thank you very much.