RBS

Investor Seminar - Ulster Bank, Private Banking and RBS International

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RBS

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Introduction

Alexander Holcroft, Investor Relations
Good afternoon and welcome to this the latest in our RBS Investor Seminars.

We'll start off on the agenda, so what will you hear about today. We have three presentations, which will be about 20 minutes each, starting with Ulster Bank, Private Banking, and then RBS International. And then after all three presentations are done we will then have up to an hour for Q&A. And then after that we'll have a drinks reception in the atrium just over there, where we'll be joined by Ross and Ewen and there will be an opportunity to have a much more informal chat, with not only these executives, but with Ross and Ewen.

My short introduction will put these businesses into context of the Group. I will then hand over to the speakers.

You will all be familiar with this slide; it sets out our ambition, values, and priorities, as well as our Group long term targets. These include long term financial targets for minimum capital levels, as well as for ROE, and cost income ratio.

As a reminder we have said that we will come back to the market at the 2016 full year results in February with any revisions to our targets and their timescales.

The three businesses you'll hear from this afternoon have differing returns and efficiency profiles, driven by different business models, market positions, and operating environments, but all of these businesses will play a part in driving us towards those Group targets.

This is a quick reminder of where these businesses sit. Ulster sits within the Personal and Business Bank, while Private and RBSI sit within Commercial and Private Banking.

If you take the three things together, the three businesses together, they account for 21% of core risk weighted asset. Out of interest that is more than either PBB, or CIB as individual standalone businesses.

So how do we think about these businesses? RBSI is part of our Invest to Grow franchise, with both return and cost income ratio above our long term target and we will set out the growth strategy for the business a bit later.

Ulster Bank and Private Banking are two of our franchises that are positioned with the Reposition for Returns category. Two businesses with strong franchises and established market shares that are well positioned to leverage these franchises as well as the potential to reduce costs and drive efficiencies.

Now to the introductions. The first presentation will be by Gerry Mallon, CEO of Ulster Bank, who has been in position since June 2016, fairly new in the post, so thank you very much Gerry for coming up today. Next will be Peter Flavel, who is CEO of the Private Bank, who has been in post since March. And then finally, Andrew McLaughlin, CEO of RBS International, who was appointed in July 2015.

So with that I'll hand over to you Gerry.

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Ulster Bank

Gerry Mallon, CEO, Ulster Bank

Thank you very much Alexander. Good afternoon. I joined Ulster Bank, as Alexander said on the 1st of June this year, so some six months and nine days ago, having run Northern Bank Ltd, which is Danske Bank's UK Retail and Business Banking franchise based in Northern Ireland, for the previous eight years.

So let me start by giving you my first impressions of Ulster Bank from the inside, because I guess I'd known Ulster Bank pretty well as a competitor for a long number of years in the Northern Ireland market. Ulster is a strong franchise, with an established market position and a meaningful presence in the Republic of Ireland. As a former competitor I know it as an organisation which has got a strong customer service ethos and a sticky customer base, because I spent most of my time trying to take those customers.

We do have an opportunity to leverage our position in RBS to a much greater extent than we have done in the past. We've simply been too distant from RBS as an organisation.

Ulster has a very large tracker mortgage book, written pre-crisis at very low margins which is a significant drag on the financial performance of the bank, particularly in a lower for longer environment. Currently the bank has very high capital ratios and this is a legacy issue of the resolution of the crisis and we need to improve our performance and I think we do have both the opportunity and the capability to do that.

Like many things on the Retail banking front there is no quick solution, there is no easy solution, but there are cost efficiency improvements needed on almost every front. We have a plan to do it and I'll share some of those details with you.

In terms of who we are, Ulster is the third largest bank in the Republic of Ireland and it's the only UK bank that has got a full service offering in the Republic. We've got over 1.2 million customers, we've got a retail market share of 12% of current accounts, 14% of small businesses and 16% of larger businesses. We've got an established and mature distribution network, as you would expect for a bank of our age, including 110 branches, telephone, online and mobile services, as well as some basic services which are delivered through the post office. And we have the kind of product range that also you would expect from a full service Retail and Business bank.

We are a subsidiary of RBS, we're incorporated in Ireland and as such we are regulated by the European Central Bank and the Central Bank of Ireland in respect of prudential matter and the Central Bank of Ireland for conduct matters.

Post crisis Ulster has been resolving its problem debt portfolio and has conducted a number of portfolio sales, and this is reflected in what you can see here in the fall in impaired loans in the bottom right. From a peak of €19.2bn in 2013 to €5.6bn at quarter three of 2016. And it is also reflected in the decline in risk weighted assets in the top right here. And further it's reflected in the capital which has accumulated in the legal entity. So progress in resolving our problem debts, the portfolio sales, and the return to profitability have boosted the capital ratios in Ulster Bank Ireland.

The latest portfolio sale was announced earlier this year, it was Project Oyster, and when it's completed in quarter four, the portfolio sale is expected to reduce gross customer loans in Ulster Bank by €1.8bn and reduce risk elements in lending as a percentage of gross customer loans by around six percentage points. A first step has been made in reducing the capital that we hold, and a €1.5bn dividend was announced in November of this year.

Even after we've paid this dividend we'll still hold CET1 ratio of greater than 24%. And you can see from this as well that we are no longer reliant on RBS for funding.

You can see where we sit as part of the RBS core franchises, as Alexander has already illustrated, we are currently a little under 12% of the risk weighted assets of the total core franchises. In terms of the performance of the bank recently net interest margin has seen some improvement, despite headwinds. The reduced cost of deposits and improvement in lending margins have both outweighed the fall in incoming free funds, resulting in a year on year three basis points increase.

Mortgage growth has been good in the first three quarters, with a market share of new business up to 19% in quarter three.

Our net promoter score in Retail, which is an important measure of our success in building customer relationships has also been improving. It's negative, as you can see, all Irish banks score negatively in terms of net promoter score in our surveys, but we see ourselves as currently number two in that market and we're closing the gap on number one. In the Business and Corporate markets we see ourselves as being a strong number one in net promoter score.

We also in quarter three saw continued runoff of our low yielding tracker book, which decreased by another €0.3bn in quarter three.

Adjusted operating profit and ROE saw declines, primarily as a consequence of reducing impairment write backs, as these continue to normalise, reduced income on free funds and some one off items in 2015 which obviously are not repeated in 2016. 2016 also though has seen some positive one offs. The underlying performance of the business has been positive. Cost income ratio has remained stable year on year, there's a 9% reduction in adjusted expenses. That was offset by reduced income and free funds and the non-recurrence of some one off items.

If I turn to the Irish macro conditions, in general Irish macroeconomic indicators are positive, although Brexit does create some uncertainty for the Irish economy. The Republic of Ireland is ahead of both the UK and the Eurozone in terms of PMIs and also in terms of growth forecasts, with around about 3% growth being the consensus forecast for 2017. Unemployment has recovered well from close to 15% at the worst stages of the crisis to just over 9% now.

The housing market has also recovered well, with prices up 47% from the low of the cycle; although the number of transactions remains below historical levels. There is clearly a supply shortage in the Irish market and it is forecast to continue into 2017. We are building less houses than are required. House price growth has been moderated somewhat by the Central Bank's macroprudential rules. Just to elaborate there is now a 90% loan to value ceiling for first time buyers and 80% for other buyers and there's a 3.5 times loan to income cap. Banks are allowed a margin for some exceptions. But overall the macroprudential rules, I think, have been a useful constraint in removing potential for overheating in a market which is supply constrained.

So the bank obviously faces a number of challenges and headwinds and talk you through these. The first one is that we have a low yielding tracker mortgage portfolio, which does diminish over time, albeit a long time, and I'll come back to it.

We have work underway which will run through into 2017 to close out a legacy conduct issue in respect of tracker mortgage examination programme which the Central Bank has initiated and we made a provision for that in the first half of 2016.

The second is a long tail of non-performing loans. Now the non-performing loans are primarily in the Retail customer base and we have a problem debt management unit which is resolving these. Clearly there is a cost of doing that, there is a cost of maintaining that and there is significant regulation around how we handle and treat personal customers who have got problem debt issues.

The Central Bank and the European Central Bank have both stated the desire that Irish banks continue to proactively managing down non-performing loans to sustainable and market normal levels. So clearly there is an imperative for all banks in the market to act there.

Our cost income ratio is too high, it's not sustainable, and we've got activities in hand to address it and I'll return to that point. The current interest rate environment is an issue for all banks, particularly where we've such a large tracker book. And finally Brexit, as mentioned, by consensus and in Ireland it's not at all controversial, it's seen as a net negative impact on the Irish economy, given the close trading links between the two countries. On the other hand our sterling cost base has become lower in euro terms post the referendum and we do have a license in the EU which provides some degree of strategic optionality for RBS in the future.

So if I take the first of these which is tracker mortgages, on average these mortgages were written at the ECB refile rate plus 1% prior to 2007. And we calculate that the drag on the NIM of the bank is around 1% and the drag on ROE is around 2% from this portfolio. You can see here that the net interest margin on the tracker book is around 60 basis points and it's around 250 basis points on the remainder.

In terms of volume tracker balances peaked at €15bn in 2009, however at that time they only accounted for 31% of the total loans in the bank. Now the balance is €11.1bn, but this is 49% of total loans, given the deleveraging in portfolio sales. Obviously growth in the front book and run off of trackers will decrease the impact of that drag over time. And we have seen net loans begin to stabilise and we expect growth in our loan book from next year.

If I could move to talking a little bit about the future. We've come through the recovery from the banking and economic crisis and this has taken a long time in Ireland. Resizing is still taking place while we repurpose the business.

As a core part of RBS our strategy is fully aligned with that of the rest of the bank. Our ambition is common with the rest of RBS, to be number one for customer service, trust and advocacy. And there remains sizable work for us to do in resolving legacy issues. These include the remediation of regulatory issues, dealing with legacy portfolios and building a sustainable cost base in conjunction with RBS.

But these legacy issues aren't going to distract us from the core business where our strategic and competitive advantage lies in leveraging the strength of RBS in the Irish market. We want to bring the best of RBS into the Irish market. Like the rest of the bank we are simplifying our organisation and simplifying our processes. We are exploiting our Group technology and part of our proposition is having a strong digital offering. So we want to leverage RBS's digital research and investment.

We're sharpening our focus on valuable customer segments, having strong customer propositions that appeal to our target customer segment will ensure that we retain our existing customers and attract new ones. We want to serve these customers through a right sized network and through digital channels. Our 2016 brand revitalisation under the Help for What Matters strapline has already delivered significant net promoter score benefits. Finally, in common with the rest of RBS we are striving to make the bank an attractive place to work.

I mentioned that we have a transformation programme underway and as part of this we completed a top down review, benchmarked our performance against peers, and identified some opportunities for improvement. It's the early stages of delivery but we have a broad portfolio of initiatives aimed at both optimising the income and maximising the cost efficiency of the bank. And I will give you just a few examples.

For a start we're going to have a more disciplined approach to margin and fee management in order to reduce leakage, we haven't been sufficiently well controlled in that area in the past. We're going to leverage existing RBS mobile and digital capability. We rolled our digital product sales via our apps this year, with some particularly good examples where RBS had an existing capability and it was less than four weeks from the initial conversation which we had through to the delivery of the capability onto Ulster Bank's apps and to our customers.

We'll improve sales effectiveness and know our customers better through the use of better analytics and sales tools. We'll improve customer experience via a centralised and faster account opening and on-boarding. We'll transform how we work, creating more time with customers through specialisation of activities, customer segmentation, removing unproductive processes and increased digitisation.

We're going to reduce the duplication of the work within Ulster and between Ulster and RBS, which is significant. We're piloting a process which reduces the timeline for the delivery of a mortgage agreement in principle from 25 days to 90 minutes without any technology spend. This is illustrative of the kind of process improvements which we believe we can bring.

We're introducing centralised remote advice for mortgage sales without visiting the branches. And we're allowing business manager, mortgage managers and so on to connect with customers via video chat. We want to create a culture in addition where our senior leaders will drive innovation and change in the organisation and will devote sufficient attention to doing things differently.

To give a sense of the cost efficiency initiatives in 2017 in particular we're going to be looking for opportunities for a more efficient organisation right across the board. In Retail this means looking at optimising our points of presence in common with the strategy that we have already deployed in the rest of the UK. It means looking at process efficiency gains, everybody in the bank agrees our processes are far too manual, far too bureaucratic and too paper driven. And it looks at promoting better use of digital technology.

In Commercial banking we're focusing our resources on the most valuable customer segments, we are removing unproductive processes and we are restructuring to remove costs. In business support we're eliminating unnecessary activity; we're automating routine tasks, such as report generation. We're centralising and de-duplicating activities and we're simplifying our processes.

In operations we're using Agile and Lean techniques to drive efficiency and we will further utilise RBS's systems and processes.

We are taking a hard focus on all external cost spend items. We will actively renegotiate all relevant contracts and all external cost items are subject to very detailed scrutiny.

In 2017 we will be sweating the IT and property assets much more productively than in the past.

If I can now turn to look at the medium term, so circa three year financial outlook for the bank. We do foresee a return to modest lending growth, based on our market position, based on our Group capabilities and based on the macro conditions in the Republic of Ireland. This is obviously positive for our income and for our margin, which is enhanced by the gradual decline in our low yielding tracker portfolio.

Low interest rates will however compress margins and will reduce the return on free funds. Further cost savings will be delivered progressively and with income growth will support a reduction in the cost income ratio over time. Impairment charges will normalise and the tail off in write backs will continue.

And finally we are working to reduce our risk weighted asset intensity as we implement capital efficiency measures. And perhaps a quick word on our risk weighted asset intensity. We believe that our high RWA intensity relative to peers is largely as a consequence of the approved point in time models which we use, rather than the through the cycle approach to risk models which are used by most of our competitors. We don't believe that our portfolio is in any way fundamentally different from our competitors in terms of the overall credit quality. We therefore we working on a new set of risk models with a view to seeking regulatory approval and an aspiration that we will be able to have those deployed in 2018, subject to regulatory approval and that that will reduce the current disparity that we have with peers.

In conclusion we are focused on delivering the right cost income ratio through our transformation programme. We have the opportunity to bring the best of RBS to Ireland to drive better results and to strengthen Ulster Bank in a strong and growing economy. So our longer term objective is to be in a position to return excess capital, with of course the approval of our regulators. And we are glad to have commenced that with €1.5bn dividend this year.

Thank you very much and I'll now hand over to my colleague Peter Flavel.

Private Banking

Peter Flavel, CEO, Private Bank
Thank you very much Gerry. I'd like to cover three areas today and start with my first impressions of the business, though after eight or nine months in the role, it's really key observations of our Private Banking business, which includes both Coutts and Adam & Company.

I'll then go on to provide some background and some educational context on the Private Bank business. And then lastly move on to the longer term strategic plan and a financial outlook.

We bank the most successful and influential families in the UK. Coutts and Adam & Company in their markets are iconic and aspirational brands. We have a large and attractive client base, and now having had the opportunity to see it first-hand and analyse it, I'd venture to say it's the most attractive private client base in the UK. Yet we know that our clients can do more with us and we talk about, and will talk about in this presentation, wider and deeper needs met.

We've made very good progress over the last few years in rebuilding the business and we're firmly focused now on the UK. We therefore run a much simpler business. As we move towards a sustainable growth path we will create advisor capacity by disciplined client segmentation to achieve a more balanced growth across all three of our client needs, banking, lending and investments.

The most immediate opportunity we have is our existing client base. The next opportunity is strengthening and leveraging the relationship with NatWest and the Royal Bank of Scotland; they remain the largest commercial franchises and every successful business and business person has a wealth management need.

In summary we have aspirational brands; we have a growing wealth market, a unique client base and a strong and clear direction of travel that I will explain to you further in this presentation.

Moving to slide three and as I just touched on our brands and client base are unique and aspirational. They are what our franchise is built on. In my view they are unsurpassed in the UK Private Bank market. So what then do we offer? Why do clients bank with us? And what's our proposition?

We provide a wide range of services across all three of those client needs I talked about. We market to our clients brilliant transactional banking, supported by Coutts 24 and increasingly our digital platform, flexible lending for their dream home, or to help them expand their business, recognising that not all clients fit easily into one box and reliable but dependable investment services, while ensuring that our clients' wealth has its intended consequences.

We provide the opportunity for our clients to connect under the heading of our Coutts Club. And all of this is underpinned by a commitment to first class service.

Our primary client segments include business entrepreneurs and professionals of the leading law and accounting firms, sports, media and entertainment, the top echelon of those people, traditional landowners and estates, and also resident non-domiciles where we work with Andrew in RBSI, to provide non-UK booking when clients require those services.

We are super clear and laser focused that our target client base it high net worth and ultra high net worth, where clients have over £1m of combined business with us. We need to do more with those clients under our internal terminology of deepen and wider needs met, which I seek to reinforce to you as a message here today.

Of our criteria clients today 50% of them invest with us and 40% of them borrow from us.

Moving on to slide four, how then do we face the market, what's our external market positioning? As well as the iconic brands that I referred to and that we offer a broad proposition as this slide shows, there are three key differentiators I'd like to point out to you.

Firstly is our award winning digital platform. It is where we will drive greater client activity and experience going forward. This is testament to the fact that we're very much a modern and contemporary private bank, supported by a rich heritage. We will continue to invest in the digital platform.

Probably what is not so well known is the strong investment performance of our discretionary and unitised investment offerings. The performance of our main funds is included in the appendix and I draw your attention to it. We're top quartile across one and three years and year to date.

The third area I'd draw your attention to is what we call our Coutts Club; this is the network effect where we can offer to connect our influential clients with other Coutts influential clients for mutual benefit. It is a benefit not to be underestimated.

Moving to the next slide shows the rebuilding we have undertaken over the last few years. There are three timeframes shown on this slide, on the left hand side in the period up until the end of last year we were very much focused on fixing the underlying business, and much like other private banks globally, to ensure that we operate the business to the standards required by all our stakeholders.

Moving then to the middle box, 2016 has been a period of completing that fixing of the business and refocusing on the basics of our business and moving into a growth phase on the right hand side in 2017 and '18, while ensuring that our growth path is sustainable.

What then have we achieved in 2016? We have revitalised the management team, we've got a new CFO, a new CRO, a new conduct officer and shortly a chief marketing officer. We've taken action to reduce the cost base through closure of eight offices and lowered headcount as a result and we've increasing the banking tariff.

We have established a new Private client booking centre in Jersey under the governance of RBSI. We have repriced both our deposit book and our lending products and changing the way that we charge for investment advice. We've launched new products including a direct debit multicurrency cards and an investment backed lending product.

As we look forward into 2017 our immediate focus is on the priorities, the five priorities that I'll touch on later. But one of those is the new client investment proposition, which includes a digital direct to client offering.

I will now move to slide six which is the external reported quarterly results, with which you are familiar. We've had a positive nine months year to date results with a return on equity of just under 9%. I'd highlight to you our cost to income ratio of 74%. Our medium term target is to reduce that to under 65%.

In terms of direct takeout we are realigning our operating model through 2017, what we call Right Client, Right Advisor. We continue to consolidate functions and our property footprint and simplifying our products and services. We also continue to manage our share of the indirect cost base and I would expect this trend to be downward.

So overall we are focusing on both income and costs equally to drive the performance I have referred to.

As Alexander mentioned earlier our medium term and long term goals are aligned with the wider bank. We target a sub 65% cost to income ratio medium term, in line with Private Bank best practice globally and substantially added by return on equity over 12%.

The next slide seven shows a little more detail of our year on year performance. Our adjusted operating profit against last year was flat at £126m, with flat jaws. I'm pleased by that performance which has been driven by strong AUM growth, due both to market movements, but also underlying growth, and as discussed earlier our investment returns are strong. We have seen continuing growth in the lending book, in mortgages, in business lending and entrepreneurial lending and with a book that naturally has a high level of repayments each year. So we've seen an uptick of 2% in income driven by strong deposit and lending asset volumes, despite a margin compression.

Moving to slide eight I'd like to now cover the two main opportunities for our business and talk about our strategic plans. The purpose of this slide is to highlight our main opportunities. If you can focus firstly only the middle block, the middle box, the external wealth management market in the UK is attractive, with strong asset pool growth of 4% per annum. It is an attractive market and we're now 100% focused on the UK market.

Our immediate opportunity through within that market is the left hand side box. That is our existing client base. We need to increase and we will increase our share of wallet with our existing client base. And that goes back to the point of deepening and widening needs met. Our business today has 50% of our criteria clients with investments and 40% with lending as you can see on the slide. We will do better. And we aim to become a less banking centric business.

Equally, our next opportunity is on the right hand side of the slide, which is we are very well positioned to leverage the commercial network in particular of Royal Bank of Scotland and NatWest. One of the attractions for me in taking on this role is that our Private Bank is aligned to the Commercial Bank and the Commercial Bank has the strongest market shares in this marketplace. There is a large opportunity to meet more client needs through greater and better quality cross referrals between the Commercial Bank and Private Banking. And as I said earlier every successful business and business person has a wealth management need.

Which leads me to the next slide, slide nine, how are we going to deepen and widen needs met? Well, firstly we need to present the whole of the bank seamlessly to our clients and not be product or proposition led. What does that mean? We know that clients holding more than one proposition generate higher returns and substantially so with three client needs met. We want to move our target clients and those with potential to move up that wealth curve and provide a better balance of business. How will we do that? Primarily by ensuring that our coverage model is team based and that our KPIs for our people are also team based, that we implement robust client segmentation and that we embed our client needs framework.

What's that? That's a planning tool, saying that every client has a plan and every advisor has a plan. It is also supported by a tool that we call Next Best Actions. And it's based on predictive modelling to help the advisor deepen and widen the client relationship.

How are we going to achieve that? What's the strategic plan? Let's move to slide ten; we have a strategic plan which focuses on five key priorities. Firstly, the best client experience, invest in a high performance culture, deepen needs met for sustainable growth, optimise our operating model and simplify our business.

These priorities are built around delivering benefits both to income and cost, while enhancing our client experience. Let me go into a little more detail.

I want to draw your attention to some of the actions we're undertaking. The first is proposition; we are ensuring that our three propositions are more competitive and value generative. On banking we've already introduced the new Private Bank tariff, but that will come into practice in March of next year, multicurrency debit cards and digital concierge.

On lending we have introduced more competitive pricing, some new products already and some new products next year. And on investments establishing our investment capability as the centre of expertise for the whole of the RBS Group in the UK.

We are investing in our people with a mandate across my leadership team to execute clear career path journeys and training programmes led by our MD master classes. And as I've side continuously we need to deepen and widen needs met from the existing clients, while driving a healthy pipeline from those that sit inside the Royal Bank of Scotland and NatWest franchises, both in terms of value and volume.

We will be very disciplined on client segmentation through Right Client and Right Advisor, ensuring that our more experienced advisors are looking after our larger and higher potential clients.

We're accelerating advancements to digital client and advisor experience and simplifying our processes, some of which I'm going to cover off in the following slide. I would like to reaffirm to you that the above is anchored on removing cost and complexity from the business, underpinned by greater use of our digital capabilities which are outlined on the next slide.

We recognise digital as a key enabler of growth to simplify our business and reduce the cost to serve. And that is the lens through which we will run our business going forward and that's what we're investing in. Our clients will receive a more standardised and seamless journey when acquiring new products and services, including auto-decisioning abilities.

We'll deliver simplified advice through the delivery of our direct to client investment proposition, broadening the scope of our investment proposition as well as face to face, both for our Private Banking franchises, but also to the NatWest franchise. And we will enhance our networking platform and direct linkage to other clients under the auspices of our Coutts Club. I'm really excited about our digital agenda and it's going to be a huge focus for our business going forward.

What then is the medium term outlook for our business? The primary points for me here before I conclude are that we will run the business to achieve positive jaws. We will see good incremental balance sheet growth across lending, deposits, and assets under management. We have the management team in place, the management plans in place, to achieve sustainable growth of greater than 12% returns and I repeat a 65% cost to income within three years - the medium term.

So therefore in summary we have long established unique, iconic brands, with an attractive client base. We recognise the opportunity to deepen and widen needs met and maximise clients' income potential. We are aligned on presenting the whole of the bank to our clients, underpinned by investing and leveraging in our three strong client propositions and our leading digital platform. And all of this underpinned by our commitment to a first class service.

We're tackling the cost to income ratio and I'm confident of the takeout timeframe. We have a credible and strong strategic plan in place and a new management team. I hope you can see that I'm passionate about this business; I do believe I have the best job in Private Bank globally. I believe we're on the right path and we are on the right path to achieve our vision to be the best Private Bank in the United Kingdom.

I'm going to now hand over to my colleague Andrew McLaughlin.

RBS International

Andrew McLaughlin, CEO, RBS International
Thank you Peter. Good afternoon ladies and gentlemen. So let's talk about Royal Bank of Scotland International. RBSI is a good bank, it has well established market positions, it delivers consistent earnings from long standing customer relationships and it has been profitable in each of its 20 years as a subsidiary of RBS.

As a management team we believe we've identified good opportunities to grow its earnings and improve its returns. The business is in transition from a franchise whose original purpose was to gather deposits and upstream them to its parents, to one with a more balanced business model using both sides of the balance sheet to support its customers.

I'll follow the same approach as Peter, I'll start by talking a little bit about the business today, then those management actions and then the financial outlook.

Let's start with what RBSI looks like today. The business operates in four microstate jurisdictions, Guernsey, Jersey, Isle of Man and Gibraltar; this will increase to five when we open a new wholesale branch in Luxemburg in 2017.

Like all good banks it reflects that economies it is operating in and I'd encourage you to think that way when you look at what at first blush may seem an unusual collection of customer franchises.

So the first part of the customer franchise shown in the slide here is local Retail and Commercial Banking, we have almost 300,000 citizens across our four jurisdictions. They have the same everyday banking needs as all of you and as people in the UK. And we at RBSI seek to meet those banking needs with the same banking platforms, sales and service approach that we're taking in the UK bank. As Gerry outlined for Ulster we're trying to take the best from the UK bank into our proposition locally. We currently generate around a third of our revenues from these customers.

The second group is Private Banking, our jurisdictions have above average numbers of high net worth and ultra high net worth individuals and we are working very closely with Peter's team to deliver the Coutts Private Banking experience to those customers.

In RBSI this segment also includes a book of expatriates with a connection to the UK who need an offshore multicurrency bank account. An example would be a UK oil engineer who is working overseas, who has earnings and expenses in the currency of his host country. These clients typically have a preference to bank with an established UK brand and we are one of the leading providers in that market.

Our third segment is the FI sector; the FI sector has developed in our jurisdictions over the past 40 years as those jurisdictions themselves have sought to diversify their economies. It includes alternative investment funds, fund administrators, trust companies and intermediaries. We have a real USP in this sector because we built a multicurrency cash management platform at the turn of the millennium to meet the specific needs of these customers and we are reinvesting in that platform today to sharpen our competitive edge in areas such as faster payments, digital banking and account opening.

Our sweet spot in that sector is the owner operated alternative investment funds, mid market funds. We seek to win transaction banking mandates and deepen the relationship from there using our balance sheet. And we've built a very solid loan book in this way. Our competitors in the mid market typically are Lloyds, Nordea, and ING. And you can see from the slides that we're using the brands of the bank everywhere except the Isle of Man where we have the autonomist brand through a historic acquisition.

The funds sector, finally to say on that one is in a strong growth phase, you'll see that in the number later on. We do expect that to continue both because of the macro trends that are driving that sector and also crucially in our case because the needs of the alternative investment funds sector must be met by a bank outside of the UK ring-fence and we will be a bank outside of the UK ring-fence.

RBSI has well established market positions and I've illustrated that on this slide with reference to the local Retail and Commercial business. We have a top three positon in every market where we currently operate. Our current big opportunity in those markets is in Jersey where we think we're capable of banking more of that market and very importantly meeting more of the needs of our existing customers. And we have had very good successful with that recently with residential mortgages.

Our customer advocacy scores in relative terms are very good, in absolute terms they're okay, and we do expect to be able to lift those over the next couple of years as we start to bring some of those good UK customer experiences into our proposition. We aren't able to conduct the same analysis for Gibraltar, but I'd encourage you to think about our market shares in much the same way, we are the main Commercial Bank in Gibraltar.

RBSI is a business that generates consistent profit levels on a consistent basis and it's had a highly creditable performance in this regard since the financial crisis, especially when we think that it's a deposit led bank and we look at the peak to trough fall in interest rates which are shown on this slide and of course the advent of ultra loose monetary policy.

The business is adapting very well to identifying and growing its asset book and also crucially putting that into the DNA of its employees, who are hitherto focused mainly on gathering deposits.

Alexander referenced this slide at the outset, where does RBSI sit within the Group? Well it sits within CPB, and it's fair to describe it as a small growing bank. And if that continues as we plan it will become more important both to the RBS core earnings and the RBS equity story.

Looking at our numbers for the first nine months of the year I think they reflect that consistency that I've reference earlier in the performance of the business. And as a management team we see three clear areas where we can boost performance in the next three years.

Firstly, we think we can improve the cost income ratio in these first two columns on the left. There are some natural diseconomies of scale to operating in four small jurisdictions, however, we think we can be a very effective magpie, taking the best from the UK transformation programmes and bringing them into our business. And in that regard very much following on from what Gerry said about Ulster Bank. For us that work will get underway during the course of next year.

Secondly, we expect to move the loan to deposit ratio up from its current level, we have good opportunities to lend more in our local markets and we have a very significant opportunity to bring good quality assets into our balance sheet from the UK bank when the ring-fence comes down.

Thirdly, you can see from the numbers that we still have a large book of deposits and in particular on call deposits in the FI sector, which are currently being up-streamed to RBS with little gain to the P&L and a capital drag to the balance sheet. We think we can tackle both of those issues to the benefit of the shareholder and I'll say more about that in a moment.

Strategy - a very busy slide but I will be brief. We don't have a different aspiration or vision from RBS; we don't really have a different strategy. What we have are different management actions to make that vision become a reality. So our focus in RBSI is on execution to grow the earnings and enhance the multiple those earnings can attract. And the management actions we're specifically focused on are shown in the second from bottom layer of that triangle. In the next couple of slides I'll talk through the first three of these.

RBSI is at the sharp end of Lower for Longer because it's a deposit gathering franchise. And we're taking actions in the liability side of the balance sheet to ensure that we get the right balance between the customer and the shareholder. If you look at the first box on the left hand side we've already sent a clear signal to our customers that they must pay us for overnight liquidity. We were early to invest in the capability to charge negative interest rates, that is now live across Euro and Scandi deposits and if the UK ever heads down the monetary path our systems would be ready to respond. This has already prevented significant losses to the P&L.

Secondly, it's important to remind ourselves that up-streaming in its current form, in fact up-streaming at all ends under ring-fencing. It's already pretty un-remunerative for RBSI to up-stream these deposits because RBS has less needed them as its repaired its own liquidity position since the financial crisis. So RBSI we think may be able to improve its income a little by investing some of the surplus in a high quality liquid asset portfolio, as well as depositing directly with the Central Bank. It also produces our counterparty risk and brings a more substantial capital benefit to RBSI.

Finally on the third box on this slide we're taking steps to improve the quality of the deposits, by that I mean their funding value. In appendix three of the presentation I've given you a schedule of the funding profile of these deposits currently. Our main action here is to invest in notice account capability, so that customers can start to move to longer term maturities. We think this will be a win-win for us, customers should get a better rate and we should get better income because these deposits will be available for lending.

In particular towards the end of the planned period we think there will be strong demand for 30 plus day money from UK non-ring-fenced banking entities, just as there was 20 years ago before we and other clean banks bought investment banks. That's one of the things that's meant to happen under ring fencing and we see it as an opportunity for us.

The second priority growth area is meeting more of our customers' financial needs, the exact same theme that Peter and Gerry outlined earlier. This slide builds on the one I showed you at the outset. The long standing focus in our business in gathering deposits meant that in some places, Jersey being the best example on here, we did not focus enough on meeting the credit needs of customers. That's something that we are starting to address and we're making good progress in the mortgage market as we speak.

What we're going to do is essentially overhaul all of those key customer experience on the credit side of our business in an effort to bring our product shares in line with our share of the main banking relationship. And you can see in mortgages alone in Jersey the balance opportunity there is over half a billion pounds.

We've spoken about opportunities in the liability side from ring-fencing, and there's also substantial opportunity for RBSI on the asset side from ring-fencing. As I outlined earlier we have a very strong foothold in the mid-market funds sector offshore. There is a substantial book of these clients onshore who cannot be banked inside the ring-fence and they are currently sitting in CPB. We think we can give them a great transaction banking experience on our multicurrency platform, whilst retaining the coverage, bankers they already know and trust and the debt advisory services that they depend on.

Our preference, as you see on the slide, is to do this through a London wholesale branch, as opposed to a fly drive model, and we are working to that plan over the course of this winter. If we can retain and migrate these clients from CPB, it will increase value for our shareholder.

The same thinking has prompted us to open a branch in Luxemburg. There is in fact a small book of funds clients already there; we will take those from the capital resolution team. But in reality for us this is close to a start up. It's the fastest growing jurisdiction for funds banking in Europe. Many of our existing clients are either there or they are headed there and we think it will be attractive to them to have our service model in that jurisdiction and that's what our market research is telling us. For our clients and for RBSI it's also an important hedge against Brexit.

Hopefully you get an idea of the proposition that we're trying to develop in the funds space, whether our client chooses to be onshore or offshore, whether they choose to be inside the EU or outside the EU we can offer them the same banking platform, service culture, products and services from a bank that they know and trust.

Finally at the bottom here I mentioned earlier that we're working very closely with Peter and his team to develop that new contemporary digital Coutts proposition offshore. We have completed the first two phases of the investment, the booking centre for the international client group has moved from Zurich to Jersey and we are now targeting the local markets with a much improved investment offering.

I want to touch briefly on risk. You will have gathered by now that RBSI in some sense is a banking entity within a bank, we therefore have a similar risk register to just about any other bank. However, our jurisdictions attract political scrutiny and attention from time to time and low tax jurisdictions have to find ways to be both nimble and compliant when managing some of those pressures from larger nations and international regulators.

Since 2008 that has typically meant that our jurisdictions seek to demonstrate regulatory equivalence in key areas in return for market access. And I have tried to depict that on this slide. What concerns our jurisdictions most is a single event risk which bleeds into reputation risk and affects their licence to operate. So in recent years our jurisdictions have placed a heavy burden on banks around KYC and AML screening, we, and the other banks in these places are investing heavily to make sure that we and our jurisdictions meet their end of that international bargain.

Perhaps the simplest way to think about this is that every existing customer file we have needs to be brought up to the standard we would hit if a customer walked in tomorrow and opened a bank account. Easy to say, but quite a lot of heavy lifting to us there; it means quite a lot of remediation, our remediation of all pre-2008 files will complete at the end of 2017 and it's our expectation that there will be some cost savings thereafter as we move into more business as usual pattern.

Turning now to the medium term financial outlook for the business, we have one overriding message in this slide which is that we are aiming to deliver positive jaws in RBSI. This year we saw volume growth offset margin pressure, we would expect the same thing to happen in 2017. The management actions I have highlighted should lead to higher income, the growth in income is projected to outstrip the growth in costs, which in our case are related to that risk agenda and our preparations to enter two new jurisdictions. We also, very importantly hope for an improvement in returns if we achieve equivalence with the rest of RBS on the capital treatment of our FI book, and reduce the capital drag from up-streaming to RBS.

In conclusion I will go back to where I started. RBSI is a very good bank, it has grown with its jurisdictions, its customer metrics reflect the activities that take place in its jurisdictions. It has consistent earnings from long standing customer relationships. And with prudent investment and the management actions outlined today we believe we can raise those earnings without diluting their quality.

I will now hand you back to Alexander for the Q&A.

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Questions and Answers

Alexander Holcroft, Investor Relations
Well, thank you very much indeed everybody and thank you to the three presenters. So we're now open and happy to take your Qs.

Chintan Joshi, Mediobanca
Good afternoon. Can I start with Ulster please? I've got two questions there. What drives the release of the 24% CET1 that you have in Ulster, does it have a current strap requirement and what other factors should we think about in terms of KPIs that you need to get it more towards kind of where the Group capital requirements are?

Then secondly, can you give us the RWAs behind the tracker book and give us some sense of what the front book RWAs - sorry risk density is so that we can kind of think of what risk density is going out, what's coming in, and how does that improve capital returns over time - sorry return on equity over time? Thank you.

Gerry Mallon, CEO, Ulster Bank
The first one in relation to are there any KPIs or triggers which will trigger further dividends? I think no there are no explicit measures. I think that effectively this initial dividend is more a significant statement of principle in terms of our agreement and acknowledgement with the joint supervisory team of the two central banks, that we have a very strong capital position, we're over capitalised and there is a justification for repatriating some of that excess.

It's an acknowledgement of the fact that they see us, at the very least, in a stable position, where our capital is not being atrophied to any extent and that we're in a positon to add to that over a period of time.

I think directionally we will look for a continuation of a strong relationship with our regulators, a strong sense of confidence from them that the business is not just sustainable but flourishing so that they can see a future stream of profits which are coming into to grow capital even further. But the most significant thing for us as a Group is the fact that there's that acknowledgement that it's time to release and unlock more of that. And we're all clear of the direction that we want to head over time, there's no particular aspiration or any hard and fast numbers about when that is done and what triggers we hit.

Alexander Holcroft, Investor Relations
There's €11bn of loans and €10bn of RWAs.

Chintan Joshi, Mediobanca
And on the front book what would the risk density be, just so you're writing about maybe €1.5bn new business and you're losing about €800m from the tracker books, I'm just trying to get a sense of that €1.5bn …?

Gerry Mallon, CEO, Ulster Bank
So our Finance Director, Richard Harding is here, so maybe I'll ask Richard to give that specific number?

Richard Harding, Finance Director
Sure, of course it depends, but on average it's around 40%.

Chintan Joshi, Mediobanca
Great, thank you.

John Cronin, Goodbody
Hi, just two questions on Ulster Bank while we're on that theme. Firstly, in relation to your - you've picked up in terms of mortgage market share recently in the market, so is 19% or thereabouts now what you see as your sweet spot in terms of share over the medium term?

Secondly, just to get back to the RWA point and I don't want to labour this, but you've expressed your ambition in terms of moving away from the PIT model in 2018, is there anything you can say about the potential capital release associated - what kind of benefit that could bring? And I say that in the context of observing the numbers coming down very slowly, but they have been coming down over recent years, is there a big bang in 2018, or is it you know - anything you can say on quantity would help?

Gerry Mallon, CEO, Ulster Bank
No, on that particularly point I think we're still too far away from finalising models going into the discussion with the ECB. Then having the models tested, validated and then coming to a conclusion. We don't have a particular target in mind, this is about having the right models and the right amount of capital in our business to make our business appropriate, so there are no targets there.

In relation to mortgage market share I know again 19% feels like a comfortable number for us at the minute, it's not a hard and fast number. I think that number will go up and down depending on the ebb and flow of competition in the market and so on. But I think the most important thing for us we do aspire to grow, we do aspire to grow our mortgage book and it will depend on the opportunities in the market and where competition goes. We're always looking for a good balance between sustainable returns and competitive proposition. And you know if we want to continue to grow then we need that kind of number which is above our stock in order for our book to grow overall, it doesn't feel like an uncomfortable number and I don't think we would be looking to grow it hugely from there, but nevertheless I think just a positive number above our stock is still what we're aiming for.

John Cronin, Goodbody
Thank you. And I may I just have one on the Private Banking business, any possibilities in the medium term to scale up, whether through acquisition or otherwise in the UK market?

Peter Flavel, CEO, Private Bank
There's no current plan for that. Hopefully I outlined to you that I think we have two significant opportunities, the existing client base can do a lot more with us and I mean I risk overstating how attractive I really do think the existing client base is and then we have the largest Commercial Bank up the road here in Bishopsgate. And when you go get the Private Bank and the Commercial Bank working together, recognising - I know I'm repeating myself, that every successful business person has a wealth management need, not just for the business, but for their family, they are two huge opportunities. So the focus right now is on organic growth.

John Cronin, Goodbody

Thank you.

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Raul Sinha, JP Morgan
Hi, maybe one for Gerry and then one for Peter. Just on Ulster, about 35% of your operating profit this year has come through impairment releases, so I was a little bit surprised to see the strong uptick direction of the future evolution of that operating profit, given your commentary that we should start to expect, or continue to expect a tail off of the impairment releases. And that would imply to me that you are expecting a very strong uptick in revenue growth, or a very strong reduction in costs. And can see from so far the performances here - revenues are down 4% on last year. So I'm not able to understand where this big inflection - has this inflection point already happened that your revenue growth or cost takeout is going to be so strong that you will be able to offset these impairment releases as the tail offs - is the question?

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Gerry Mallon, CEO, Ulster Bank
Well I mean I guess we're looking at the medium to long term approach okay, and we've already stated that our aspiration is around a 60% cost income ratio in that kind of medium to long term. I do think there's opportunity for both - you know it's not like we just have a cost issue, you know there is an income issue as well, quite clearly particularly with the …

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Raul Sinha, JP Morgan
But you are talking about revenues going up from here, so I was just trying to understand what is driving that delta? What has changed in the business?

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Gerry Mallon, CEO, Ulster Bank
I do think there's an opportunity for growth, if you look at our mortgage market share, you look at the growth in the Irish macro economy, you look at the fact that we're probably underpenetrated in a number of key product lines in both personal and the business side. I think there an opportunity for growth, but it's a balanced cost and revenue play to take us to a 60% figure. It's not going to be one or the other.

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Raul Sinha, JP Morgan
And the impairment releases, should we expect that to continue, maybe be a bit more sticky?

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Gerry Mallon, CEO, Ulster Bank
For the medium term they will continue to normalise, and I think you know again in the medium to long term they will be back to a regular level of impairment charges.

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Raul Sinha, JP Morgan
And do you have a sense of what the normalised impairment charge might be in the medium term?

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Gerry Mallon, CEO, Ulster Bank

I think our figure is around 40 bps.

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Raul Sinha, JP Morgan
That's really helpful Gerry.

Peter, just to go back to the slide where you showed the size of the potential market in the UK in terms of the liquid assets, and then I put that against the AUM that Coutts has which is about £16bn, something seems very off, you know there's a number in trillions and then you've got £16bn of AUM and I think you're the largest player. So can you help us understand what's the size of the addressable market really for your products when you think about growth?

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Peter Flavel, CEO, Private Bank
On the investment side?

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Raul Sinha, JP Morgan
Yes.

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Peter Flavel, CEO, Private Bank
Oh it's multiples from where we are today. I think as an outsider when I first looked at the business I was surprised to find at that stage AUMs were under £14bn, so we've had £2bn of growth this year. I think it's not unfair to say of the past that there was more of a focus on banking. And there was a time when a bank like Coutts made good margin on relatively small banking accounts. That time has passed. That's part of the reason why we've implemented the banking tariff at £900, which earns out at £500,000 of balances. So if people are going to bank with us they need to have a decent banking relationship with us and not just have a card and a cheque book, that time has passed.

Would I like our AUMs to be significantly ahead of where they are today? Of course I would. But hopefully I got across in the presentation the immediate focus is on the lending book, because we have great expertise in terms of meeting the needs of business entrepreneurs, recognising, and I know it's a bit of marketing speak, but not every clients fits into one box. So it's flexible lending and we've got good growth in that and that it will be - is a focus for next year.

The year after, '18 and '19, I'll be disappointed if we don't see growth in AUMs, but let's not get ahead of ourselves; we've got very good investment performance, year to date, one year, three year, top quartile. But as you know that's just not something you turn on overnight. And getting our KPIs for our advisors to be team based, so that people aren't just thinking about the lending or the deposits, or the investments in isolation, but are thinking about all of those client needs is the direction of travel. So I hesitate to want to get ahead of ourselves on that.

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Raul Sinha, JP Morgan
Just to get a sense of what proportion of the income comes from the lending side, versus the investment side?

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Peter Flavel, CEO, Private Bank
Very approximately 50% on deposits, 30% on lending and 20% on investments.

Raul Sinha, JP Morgan
Great, that's really helpful, thank you.

Alastair Ryan, Bank of America Merrill Lynch
Thank you, I've got two for Gerry if I may as well, welcome, we're giving you a hard time. First loan to deposit ratios is well above the industry, the industry is down to about a hundred, does that matter? Is that something you're comfortable with or that you need to deal with?

And then secondly on the non-performing loans, it's clearly been a very strong performance so far, but as you say the supervisor has been out saying, you know get a shift on you lot. Now, the material part in non-performing loans are mortgages in deep arrears, which it's not really in your gift to move on faster, I know the court system is very slow. So do you just have to sell because the risk of if you have to sell you are sort of crystallising losses that if you could hold for a bit longer you might otherwise be able to recover? Thank you.

Gerry Mallon, CEO, Ulster Bank
I mean on the LDR look we've been comfortable with our level of deposits and we've been managing that for value really for the most recent while, and we've proven to ourselves that when we need to move the dial on deposits we can effectively do it in our markets.

In terms of the strategy for managing non-performing loans, you're quite right the commercial loan portfolio sales were a less intractable problem than the retail mortgages, particularly with the regulation which is built around it. You know we're now at the stage where we're developing a detailed strategy to deal with that next phase and that's something that regulators do want to engage on.

I mean conceptually there are solutions, such as either you get into economic concessions and kind of forbearance, write down, write off, you have portfolio sales which are more problematic for that population but you know there have been a proposition of resi' PDH sales that have taken place. You get into some kind of forbearance in the long term - long term management solutions, where you get into what you've already talked about litigation and repossession over a period of time.

So none of those things are straightforward and none of those things are easy and that's why it's a more difficult process to manage. Nevertheless we've got an obligation to engage around it and we're working hard on it at the moment.

David Lock, Deutsche Bank
Hi, I've got a few more for Gerry I'm afraid. Firstly, just on loan growth I just wondered if you could talk around how you get confidence that you can achieve modest growth from here, because if we look at the sector it's still deleveraging, and it strikes me that there are a number of bottlenecks, in - particularly in the residential market. so how do you expect that to kind of evolve going forward, given the housing supply constraint, given the number of cash purchases that are still going on in that market?

Second one just on the branch network, I think you've got 110 branches you said, if I was just to very back of the envelope scale that to the UK I think you'd have a branch network probably of similar size to Lloyds. So if Lloyds has a multi-brand strategy and you have only a single brand strategy, how low do you think you can get the branch network in Ireland?

And then finally just following up on Alistair's question, and I'll ask this question on the NPLs, is there a specific target that you've been given for NPLs by the regulator to hit at some point in the future? Thank you.

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Gerry Mallon, CEO, Ulster Bank
The straight answer to your third question, no, there isn't any target we've been given.

In relation to branches, look my view is that - first of all we don't have any target and I don't have any idea right size for what our branch number should look like. And look anybody who said that they knew the right number of branches for the retail banking market for the next ten years would be pretty crazy, because it's changed more in the last five years than it did in the 50 years before that.

Customers are voting with their feet, they are going digital and unsurprisingly banks are having to readjust their cost base and are following the customers in terms of doing it. Sometimes controversially and you have to think about how you support other customers and so on, but again I've been fairly frank and on record as saying the direction of travel for branches for every kind of bank is downwards and it will be no different for us. It's just a question of what pace and when and where and so on.

And then your other question in relation to the loan growth, I mean I guess what we're talking about overall is loan growth at the macro level for Ulster. We have clearly seen some growth in terms of our market share of flow in mortgages, so notwithstanding the fact that the overall mortgage market has not been growing massively, one - cash purchases will not go on forever, sooner or later it returns to some degree of normality. I don't think that the Central Bank macroprudential rules have been anything other than helpful. We don't necessarily want to see the loan growth which is driven by unsustainable you know bubble type behaviour again in the Irish market.

So we think we can still manage to grow that mortgage book overall - or the healthy bit of the mortgage book the forward book, through a share of market, which is higher than our stock share. And I think overall we're seeing the corner already being turned in our business lending, where we're now getting to the stage where on a monthly basis we're getting close to the stage where new lending is less than repayments. So I think all of those when you combine them at a macro level give us some optimism that there is growth ahead for us.

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David Lock, Deutsche Bank
If I may, just to follow up on the cost side, are you able to give us a rough split of what costs are in the NPL unit and in the branch network?

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Gerry Mallon, CEO, Ulster Bank
No, but I mean there are a couple of hundred people who are working in that problem debt management, so just to give you a sense - and there are what 3200 people in total in Ulster overall.

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David Lock, Deutsche Bank
Thank you.

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Andrew Coombs, Citigroup

Afternoon, two on Ulster and two on Private Banking from me please. On Ulster, if I could ask your thoughts on the risk around mortgage rate caps? That's the first question.

Second question - any early work or thoughts on IFRS 9 and the potential impact on balance sheet provisioning in the business there as well?

And on the Private Bank, my question would be how much of the £16.5bn of assets under management actually sits in the discretionary mandates that you flagged? And what is the fee structure on those and the size of the discounts that the advisors are allowed to give? Thanks.

Gerry Mallon, CEO, Ulster Bank
So in relation so the SVR cap, or the SVR regulation that you're concerned about, you know obviously this is a somewhat controversial piece of legislation which is going through the Irish political system at the minute to give the Central Bank powers to regulate standard variable rates. And I believe as recently as yesterday you have senior officials from the Central Bank in the Irish Parliamentary Committee saying that they didn't think that it would work, that it wasn't a power that they would want and it may cause a dysfunctional market. So I'm kind of with them on that.

Your other question was in relation to …

Alexander Holcroft, Investor Relations
If I take that, on the IFRS 9, Andrew what we will aim to do is to give you for the Group a qualitative picture at the full year and then probably give you a more quantitative picture at the first half.

Andrew Coombs, Citigroup
Okay, thanks.

Peter Flavel, CEO, Private Bank
So of the £16.5bn of AUM, our two main - actually before I get there, we're changing the way in which we're delivering investment advice, so that £16.5bn is assets under management, not assets under administration. In the past our investment services model has been to have our own internal discretionary unitised and mandated products, as well as a third party panel. And so that their party panel is in the process of being turned off and all of client monies now will be directed into the discretionary portfolios going forward. The average rate in terms of basis points is 60 basis points across the whole portfolio.

Diarmaid Sheridan, Davy Research
Hi there, I'm afraid I have another one Gerry. Just maybe some comments around pricing in your general mortgage market, but also in business lending and how you see maybe trends in those playing out over the next couple of years?

And maybe one more generally for all three, you've all talked about transformation in one form or another in your operating models. Just to what extent would there be investment costs and how material would that be over the period of the transformation to achieve the targets that you envisage? Thank you.

Gerry Mallon, CEO, Ulster Bank
All right, in relation to pricing - look our strategy I think is to be competitive, but not to be the cheapest. And I think that our - we're constantly looking for value, so we want a good compelling customer proposition, but we're also looking to make sure that we maintain value. And I think we're going to keep that strategy.

Clearly there has been some intensification of price competition in the Irish mortgage market over the course of the last while. And it's one of those things that you just keep under review, it's not - it's certainly not our intention to do anything other than maintain our existing pricing strategy, looking for a decent return and a good customer proposition being competitive. And it's exactly the same in the business banking market.

In relation to transformation I think RBS spends quite a lot of money in terms of technology development. And I think - I don't think that Ulster's transformation is anything which should cause incremental spend to the overall development budget of the bank. I think all we'd look for is to make sure that we leverage the development which is already underway in the best way possible. I don't think the incremental spend at the Ulster Bank level should necessarily be very high.

In addition I think there are plenty of things that we can do at zero or close to zero cost that we just need to get on with.

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Peter Flavel, CEO, Private Bank
For Private Banking, this year we had the last of the costs of setting up the Jersey booking centre from Zurich, so that was a one off cost. Now ex of that our investment going forward for the next five years and the strategic plan has it about flat of what we've been investing in over these years, so it's within the existing cost base. And of that investment really around a little bit under a third is now mandatory. So the reason I raise that is two thirds is actually now on advisor and client experience, rather than being forced to do regulatory change.

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Andrew McLaughlin, CEO, RBS International
A similar story for RBSI, the investment costs we've had this year, which are in our numbers, that's about as much as we could sensible deploy in any one year anyway, just in terms of our ability to absorb it into the business and to do it well. So you shouldn't be expecting any pick up from current levels in our investment spend.

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Owen Callan, Investec
Hi, just for Gerry again, unfortunately no release on this. Just a quick question on the NIM levels to start with and mortgage lending rates. Obviously as you said there was an intensification this year on competitive pricing, do you think going forward, 2017 given the political pressure has maybe eased a little, given the media pressure has maybe eased a slight bit and given the yield curve is steeping up a little bit in the last few months, do you think there will be less pressure from let's say external forces on that issue which could give you a bit of respite?

And then secondly just on the capital levels within Ulster Bank, obviously extremely high CET1 levels, as well as extremely intense RWA levels, how much of that was an internal decision to overcapitalise the bank and how much of that has been kind of due to whether formal or informal regulatory pressure should we say?

And in terms of how that works, I know you said there wasn't an NPL target to reduce to, but is there a significant NPL level, where you feel the regulatory focus would diminish. And that can be across the industry as a whole as much as Ulster Bank specifically. Do you think there's a significant level if you get below, whether it's 15% or 10% where the regulatory focus would start to diminish materially?

Gerry Mallon, CEO, Ulster Bank
In relation to the capital one, I think the capital position was just the historical result of the accumulation of the output of various different portfolio sales and the return to profitability, so it just built up, I don't think there's anything else behind it other than that.

In relation to NPLs I think the public pronouncements that I've heard is that the European Central Bank and the Central Bank want to see NPLs in Ireland trending towards normal levels, i.e. that in other European markets. That will clearly take some time. They just want to see them coming down and I think they also want to just be satisfied that banks are taking actions and continuing to take action to bring them down. But I don't think that turns into any trigger in terms of release of capital overall.

I'm not going to speculate on mortgage pricing for 2017. I think we've got a competitive market and I think you know you don't know what a competitor is going to do until you see their ads in the paper or whatever. And I think that's the appropriate and healthy dynamic in a functioning competitive market. And I'm not going to sort of give away any of my intentions and spoil that nice competitive dynamic.

Chintan Joshi, Mediobanca
Hi, just a few follow ups. On Ulster, could you give some sense of the front book NIMs, so let's not look forward, but what did you manage in the last six months or so? Thank you for giving the disclosure around the tracker book NIMs and the blends, but it will be interesting just to see where the new business NIMs are.

And then on the Private Bank, you might have touched upon this, apologies if I missed it, but what kind of medium term cost income ratio are you working towards?

And then finally on RBSI, slide 10 you give some interesting balance opportunity in the various markets, if you can also give us some sense of revenue opportunity linked to those volumes, that might help? Thank you.

Gerry Mallon, CEO, Ulster Bank
So in terms of front book NIM, look I'm not exactly sure what is disclosed in the IMS, I think the only thing that I would point you towards is the fact that we've got - and it also depends on what market segment you're looking at as well and so on, so I would just point you to the distinction that we made between the tracker book at 60 bps and the rest at 250 bps, giving us the blend at 1.64% that we've got at the minute.

Chintan Joshi, Mediobanca
I think the new book is significantly below the 250 benefits from the back book, that's kind of what I'm getting towards?

Gerry Mallon, CEO, Ulster Bank

No, what is disclosed Richard, do you want to comment on it?

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Richard Harding, Finance Director
So as you know the announcement is all averages, kind of a front and back book - but what we do see is falling deposit costs, I think you can see that through the disclosures we have in the IMS. Front book pricing - you know broadly as we discussed, mortgages are getting a little bit tighter, but margins in the corporate book are holding pretty stable.

As Gerry mentioned though mix changes a little bit, whether it's SME, or CIB, you know or Lombard asset finance, so it's difficult to generalise to be honest.

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Chintan Joshi, Mediobanca
Fair enough.

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Peter Flavel, CEO, Private Bank
The medium term target is 65%, which is consistent with the earlier question about continuing to invest in the business.

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Andrew McLaughlin, CEO, RBS International
Just checking as a follow up are you referring to those organic opportunities in slide 10, not the London branch and Lux branch?

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Chintan Joshi, Mediobanca
Yes, so slide 10 it says our market research confirms we can be most effective …

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Andrew McLaughlin, CEO, RBS International
Yeah, so income opportunity associated with that at current returns around about £10m to £12m.

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Chintan Joshi, Mediobanca
Across all three?

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Andrew McLaughlin, CEO, RBS International
Yes.

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Chintan Joshi, Mediobanca
Thank you.

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Question, Unidentified Analyst
Just on more on the NPLs and the relationship with the supervisor, I understand that you don't have a target, but it would be helpful if you could give us a bit of colour on how much strategic flexibility you get in defining your strategy for dealing with the tail? So do they get involved at all on what you're doing, what you're selling, how fast?

. . . .

Gerry Mallon, CEO, Ulster Bank
I'm not sure what the metric is for strategic flexibility, what the units are, but we're - I think it's a live discussion at the minute. You know the statements around managing NPL have been made relatively recently by the regulators, you can see the progress that we have made as a bank, you know I guess we didn't have NAMA like the banks in the Irish market, so we've been clearing through the portfolio ourselves. So you can see in Ulster more than in any other bank how the NPL has tracked down.

I think there is still an onus on us to do more, I think kind of the lens of the problem has changed now from dealing with large commercial portfolios to dealing with resi' mortgages primarily. And I think it's time for kind of a refresh of strategy and a rethink in terms of what we do and how we manage it. And I think the Central Bank, or the two central banks, the Joint Supervisory team are fully cognisant of both the progress that we've made and the fact that the challenge has changed. So there's a good relationship between us and there's a good dialogue there. It's not - there's no unhealthy tension there at the moment.

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Question, Unidentified Analyst
So when you say regulatory requirements you're referring to the statement that is being done at system level, not to something that comes from your own …?

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Gerry Mallon, CEO, Ulster Bank
Yeah, there are no RMPs out there on this, so there's not specific directives or anything like that. It's a discussion.

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Question, Unidentified Analyst
Thank you.

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Jason Napier, UBS
Thank you. Two of the three of you are expecting an absolute decline in costs, despite investment in the business. And I wondered whether there was a useful distinction to draw here between indirect and direct costs? For RBSI and the Private Banking business 60% of the costs are indirect and I wondered whether you'd talk about what you thought the trajectory for allocated versus your own was?

And then just more practically how you control that piece, you know where the responsibilities lie and how it is you deliver an absolute fall in costs, given that the majority of them aren't yours? Thank you.

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Peter Flavel, CEO, Private Bank
Well it's not true to say that majority of them aren't ours. So the way those costs work is the direct costs are the costs that report to me directly. And then within the indirects there are demand driven

costs there. So for instance my IT services company, which is based in Zurich which runs the datacentre and our IT that's actually in the indirects. So a good chunk, two thirds ish, maybe a bit more of those indirects are actually demand driven and over which the business has a big say in reducing.

So when we talk about costs on the direct costs side we've still got more to go on headcount and we actually have a VR register open at the moment. We've got more to do on simplifying the product range, which is standing down some historical product, we've got more to do on simplifying processes and part of the investment is to help us simplify those processes. We've got more to do in terms of rationalising the property footprint, although most of that has already been done. But I've got some people in some property here in London which is too expensive, as you probably heard we purchased the head lease of 440 The Strand not that long ago, that gives us greater degrees of freedom to restack that building and to put more people into there, as well as put more people into lower cost locations in Bristol and Manchester. And increasingly we are looking - well not increasingly, we are looking at every opportunity to co-locate with the broader bank. And almost all of my coverage offices now in the regions, so we closed eight this year, the 12 that are left, almost all of those now are co-located with the Corporate.

So the purpose of going through all of that is we believe we can decrease the direct client base - not the direct client base - the direct cost base, hopefully not the direct client base [laughter] the direct cost base of the number that you see. Then we've got work to do with our colleagues on what we call the demand driven costs, which are those costs that I do have a say over. And then there's the third chunk that I think your question was directed to, which are those Group costs. And me as a part of Alison's leadership team, we have a role to play to get those Group costs down to where we'd like them to be.

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Andrew McLaughlin, CEO, RBS International
It's a similar answer obviously for RBSI. In terms of our direct costs really until we clear through that remediation I mentioned and bring in some of the transformation slim pickings there is you're looking for savings.

On the indirects, again we have full visibility over what's demand driven, which is about three quarters of our indirects are demand driven. There's then a Group overhead which we all collectively manage and I think Ross has been pretty clear, and Alison on their views on taking that down.

I guess we're a little bit different in that we've got a big indirect cost through treasury allocations. And as outlined in the presentation the steps we will be taking as we become a bank outside of the ring-fence we'll see some of that unwind.

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Evelyne Assamoi, MFS International
How much more flexibility in these three businesses do you still have in reducing risk weighted assets? And at Ulster do you see any interest in your remaining tail NPLs, what flexibility basically do you have in considerably cutting this tail book?

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Gerry Mallon, CEO, Ulster Bank
I mean I guess you know the strategy is live in terms of development at the moment. It's obviously a less attractive portfolio for somebody to buy than perhaps the commercial ones would have been in the past, particularly given the difficulty that there is in for example taking a process of litigation through court and the challenge that there is with that and the implication for individual customers and

so on. So you know they're not an easy sell as a portfolio and they're problematic in relation to how you deal with the difficult customer situations in a sympathetic way.

Sorry your first question was in relation to capacity to reduce risk weighted assets. I mean for us there is a very specific strategy there in relation to our risk weighted asset intensity and the new models that I talked about. So I think there is hopefully some good upside for us there.

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Peter Flavel, CEO, Private Bank
So you would have seen obviously that our asset book as grown, but there has been reductions in RWAs. So there are two things around that. One is we've been through a capital optimisation process, which has been to go through each loan, line by line, and make sure the appropriate capital is allocated against that. And that has led to savings. And we believe there is more opportunity in that going forward.

The second thing is on pricing we don't lead on price, we lead on flexibility and so a lot of the lending that we do is lending that's not available in the high street. So we lend to business entrepreneurs and lots of entrepreneurs don't pay themselves a wage. So you've got to look at different ways of how the loan is going to be repaid and what security that you take and security in different currencies. So we get paid quite well for the lending that we do.

What we have to be very disciplined about though is our bankers understanding what's ROE accretive and what isn't. And so we've put tools out into the field so that we're very aware of what the ROE outcome is for each lend.

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Andrew McLaughlin, CEO, RBS International
In our case there's a couple of opportunities that we have, one of them we touched on briefly in the presentation. The RBSI business is operating on a standardised basis in terms of risk weights and risk weighted assets, specifically in the case of our FI book, we are looking to get equivalence with the advanced treatment of that book that you would have onshore.

Our second opportunity in that regard that I also highlighted was capital benefit as we reduce our counterparty risk and move our surplus from being entirely up-streamed into high quality liquid assets and into other areas, we expect to get a capital benefit from that as well.

Our other big book which is on standardised is the mortgage book and that's not in plan yet and we'll wait to see how that UK debate plays out. But further out there maybe an opportunity for us again to reduce the RWA intensity of those assets.

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Chintan Joshi, Mediobanca
Hi, two more follow ups. On Private Banking I'm just trying to understand your answer to Raul's question on AUMs. You say that it's more like a 2018, 2019 story, you're more focused on lending. But if I look at your AUM growth, even excluding that footnote, £1.6bn, it's 11% AUM growth …

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Peter Flavel, CEO, Private Bank
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Chintan Joshi, Mediobanca

1.4, so why are you - so I'm trying to reconcile those two messages that actually there is already good AUM growth, was that a one off? So then what are we missing, I mean that looks like a decent growth trend?

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Peter Flavel, CEO, Private Bank
Look it's green shoots, I just don't want to over promise is where I am. Is I've come in new, we're making some changes and we're getting good early growth. Let's just not get ahead of ourselves. So when I say lending first and AUMs second, it's not sort of forget about it, we're pushing both you know both strategies equally, it just is the reality is the engine is better tuned to the lending at the moment because we've been doing that day in day out for a long period of time. Whereas the investment story is a relatively new investment story and focus.

So I did say in the presentation we've been focused on some pretty basic stuff to get alignment of objective, that one house view, to get everyone - all the bankers and wealth managers to ring their clients on the day of Brexit, on the day of the US election just to get what you regard as a normal rhythm inside an investment offering. So I just want us to be realistic that we're not saying that the victory has been won simply because we've got some nice early growth.

And of course markets are running with this as well, so Mo and the team, Mo is here, we took the right decision to stay invested in January and February of this year, we've got a lot of clients in deposits, that's sticky, and I'm jaw boning the best I can with our clients to say let's think about this. You know our defensive fund is over 8% return year to date and you're getting zero or 5 basis points on your deposits and this is your long term saving, come on guys what are you thinking about. Now someone who has been investing in deposits for 15, 20 years doesn't go - hey Peter you're right I'll put it all in investments, it's something that happens over time.

Am I confident that we will grow the AUMs over time? Absolutely, I just don't want to over promise where you get to.

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Chintan Joshi, Mediobanca
Okay, if you're under promising what kind of number do you have in mind on say a three year view, we want to …?

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Peter Flavel, CEO, Private Bank
As you know AUMs are very linked to the growth in the market, and so I would be - it would be a fool that would give you a number on that because with Brexit, US election, what's world GDP going to be? What's the growth in the UK economy going to be? Is the way in which markets are running now a honeymoon, a pre-honeymoon for Trump? All those things play into that.

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Chintan Joshi, Mediobanca
So is that …

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Peter Flavel, CEO, Private Bank
… But do I think that we should grow at or about the growth of the overall market? Absolutely.

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Chintan Joshi, Mediobanca
So what was the net new money in the nine months 2016, let me ask it another way …?

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Peter Flavel, CEO, Private Bank
We don't divulge net new money, we look at cal and then balances, which you've seen those numbers.

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Chintan Joshi, Mediobanca
And then just on RBSI, you talked about the FI portion of your three businesses and that's got the highest ROE and there you are indicating that the deposits need to earn more money, but it's already the best of three in terms of ROE as you disclose on your slide. So this is more about getting the right transfer pricing as you move those deposits within the Group, or is it about reducing deposits, I'm just trying to understand exactly …?

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Andrew McLaughlin, CEO, RBS International
… No it's about the - traditionally in that sector they've just put money on call, overnight money on call that has very little funding value, it's treated as 100% outflow as a deposit. We tested that in the crisis and you could argue empirically it wasn't, but it doesn't really matter, that's how it's treated.

So we'd like to improve the value of that both for a customer reason and for our own balance sheet reason. From a customer perspective a bit like Peter was describing there with someone who has invested in deposits for years, the funds have just been used to having that sat on the transaction account, their current account, and until rates collapsed never really had to give much thought to trying to figure out whether they should term it out.

So some of those operational deposits, we believe, from looking at the behaviour of the deposits and what the customer is doing, we believe they'd be capable of being termed out so say 30 plus day money. That would improve the funding value to us and give us an ability to actually go and lend them, we think back into the UK market when the ring-fence comes down because there will be a lot of institutions there and some that we work them who will need that funding just as you did 20 years ago. So we think there's an opportunity there if we can work with those customers to start to term out some of those deposits.

They will also as it happens as the moment of course get a pick up because at the moment they're getting in the case of euro minus 40, and they could be getting minus 25 or minus 15. So we think there's an opportunity there. We haven't really put it in the numbers but it's definitely in our sights to try and create that opportunity with our customers.

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Chintan Joshi, Mediobanca
Thank you.

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Alexander Holcroft, Investor Relations
Any more questions? No. Well first of all I'd like to thank the three speakers very much indeed for coming here today and presenting to you all. And then also importantly I'd like to invite you just across the way here where there will be drinks and as I say we can carry out a more informal discussion and we should be joined by Ross and Ewen shortly. So thank you very much indeed for coming and we look forward to seeing you next door.

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