Annual Results

for the year ended 31 December 2017

Analyst Presentation

FORWARD-LOOKING STATEMENTS
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THE ROYAL BANK OF SCOTLAND

Moderator: Ross McEwan
February 23, 2018
9:30 GMT

Operator: This is Conference # 3294479.

Howard Davies: Well, good morning, ladies and gentlemen. Thank you for coming.

Today, we are announcing our first annual profit since 2008. Achieving profitability is clearly an important milestone on the bank's recovery journey. And the board acknowledges the hard work done by Ross, Ewen and all their colleagues to get us to this point. They deserve much credit for that.

But it's not the moment to declare final victory. We still have costly legacy issues to resolve, in particular, the U.S. Department of Justice's investigation of our historic RMBS activity. We continue to hope to be able to resolve that in the coming months. But as you

know, the timetable and the process are not under our control, and we don't have any further update on that to provide to you today.

We also have work to do to rebuild confidence among customers, both retail and commercial, and especially amongst smaller businesses. The GRG 166 report published in Parliament on Tuesday made uncomfortable reading, and we have apologized to customers who were not well treated. We set up a complaint scheme overseen by an independent former High Court judge, which is working through individual cases, and we've already undertaken an automatic refund of complex fee arrangements. We've provided GBP400 million for that redressed activity in 2016, which is when we first saw the report.

As well as rebuilding trust, we must also accelerate our transition to digital banking. We're making good progress, but there is much more to do on that.

And Brexit presents a challenge to our European business. The regulatory outcome remains uncertain. We have a contingency plan to enlarge our footprint in Amsterdam to allow us to continue to serve our NatWest Markets customers. The timing of its implementation will depend on the nature and length of the transition period, on which we expect to hear more from the government and the European Commission soon.

But in spite of these challenges, we are confident that the bank is now in good shape for the future. Most of the legacy issues have now been resolved. And we've refocused our activity on products and markets in which we have a strong competitive position.

For more detail, I now hand you over to my two digital humans, Ross and Ewen.

Ross McEwan: Thank you, Howard, and good morning, everyone.

I am pleased that today, we're announcing a profit through pre-tax of GBP2.2 billion, and our very first full year bottom line profit in 10 years of GBP752 million. This is a clear indication that the progress we are making and continuing to put the past behind this bank, while at the same time, investing to build a bank which delivers for both our customers and for our shareholders.

This morning's results show that the strategy that we've built for this bank back in 2014 is working. Our costs are down again. Our income is up, and that is driving positive operating JAWS of 12 percent. Our capital position continues to strengthen, as we run down RWAs and make profits. Customers are responding to the investments we've made in product and service improvements, and that is helping us grow in our chosen markets. And lastly, but I think really importantly, our colleague engagement is at a 10-year high despite significant restructuring in all of our businesses.

Our progress over the last few years has given us a strong platform to compete in a rapidly changing marketplace. We are investing now to set ourselves up for future success. This investment and innovation will slow our progress on cost reduction in the medium term before we see the benefits in the latter years. And given this, we are no longer guiding to an absolute 2020 cost base. We are, however, retaining our target cost-to-income ratio of sub-50 percent and a return on equity at or above 12 percent.

Ewen will take you through the details on our restructuring and innovation investment in a moment.

Our performance reflects the economies that we serve. The U.K. mortgage market witnessed a marked slowdown towards the end of 2017, with approvals for new lending hitting a two-year low of 59,000 in December. We're not immune to the slowdown with our pipeline of approvals down 15 percent compared to December in 2016. In January, approvals returned to trend with volumes in line with 2017, but with considerable pressure on new business margins.

Margin pressure in the mortgage market continued throughout 2017. And despite a base rate rise in November, average mortgage rates are at or close to historic lows.

Set against this backdrop, our income and lending growth shows how getting the customer experience right can drive returns despite a very challenging market.

The appetite for new lending in the U.K. businesses were stable across 2017. Again, our lending performance reflects, first, with growth and targeted segments, offset reductions in other areas, as we focus our capital on where we can see scope for sustainable long-term returns.

Business investment decisions were driven by a number of factors. And in line with wider market commentary, we are seeing evidence that uncertainty over the terms of trade between U.K. and the EU post-Brexit are affecting our client's investment decisions.

Given this and the wider macroeconomic environment, we remain cautious in our outlook, while maintaining prudent lending standards and strong relationships with our customers.

We are pleased to report that despite a small number of larger write-offs in 2017, we have seen no significant deterioration in credit quality. To reiterate, we are growing in the markets that we like, and we are within our risk appetite.

So let's turn to the financial highlights.

A pretax profit of GBP2.2 billion for the bottom line profit of GBP752 million. This, combined with continued RWA reduction, has increased our common equity Tier 1 position by 250 basis points, taking us to 15.9 percent at full year 2017.

For the fourth consecutive year, we have exceeded our cost reduction target for the full year of GBP810 million reduction compared to our target of GBP750 million. We have now reduced costs by GBP3.9 billion in four years.

Our focus on customer has enabled us to deliver another year of balance sheet growth and PBB and CPB. Robust capital strengths, costs down and growth in the markets we like are supporting income generation and bottom line profitability. This is the bank that we said we would build for you.

Underpinning this bank are some of the best brands and customer franchises in the marketplace. Looking at each of these in turn.

U.K. PBB delivered GBP31 billion of gross, new mortgage lending in 2017, and took its share of new mortgage market to 12 percent, supporting growth in stock share to 10 percent. We also continued to see positive momentum across business banking lending, with net lending up 3 percent on full year 2016. With a total adjusted profit of GBP3 billion, that's up 18 percent on 2016. U.K. PBB continues to be a key profit driver for the bank.

Ulster Bank continued to reposition itself for better returns in 2017. Exiting legacy exposures, while achieving operating cost reductions delivered an adjusted operating profit of EUR109 million.

Our Commercial Banking. Commercial Banking remains ahead of its main competitors on customer efficacy in 2017 with a Net Promoter Score of plus 21. This unique position allowed commercial to grow lending in targeted segments, offsetting reductions in other lower returning sectors. Commercial Banking delivered an adjusted operating profit of GBP1.3 billion and it's up 2.7 percent on 2016.

Private Banking. Net loans and advances increased by 10.7 percent, and assets under management increased by 14.4 percent, adjusting for transfers. With balance sheet growth and costs down, Private

Banking grew adjusted operating profits by 52 percent on 2016 to GBP227 million.

Excluding the historic Capital Resolution assets, NatWest Markets core business operating profit increased by GBP427 million to GBP41 million. We expect operating costs in the markets division to reduce significantly over the next few years as we wind up the historic Cap Res asset and continue to reshape this business.

In 2017, RBS International also faced cost headwinds associated with ring-fencing. We expect returns to improve as the funds and trustee depository business is transferred in from Commercial Banking. These generated around GBP150 million of income and GBP60 million of costs in 2017.

In 2017, our simplification strategy continued. In the years we removed 1,000 systems and applications, and we exited 28 non-branch properties. We have still more heavy lifting to do this year. And I'm sure many of you know noticed that in January, we announced that we will exit this building, 280 Bishopsgate, over 2018 and 2019. We know that restructuring can affect our colleagues' morale and engagement and possibly impact productivity. However, our most recent engagement scores are the highest in 10 years. That was despite the fact that in 2017, 6,600 of our colleagues left the bank.

Despite our good progress on simplifying the business, we still are far too complex. At the same time, we need to invest to position the bank for the rapid changes we are seeing in customer behavior and provide the platform to exponentially improve our service to customers in the future.

And as a result of this, we will invest in 2018 and 2019, refocusing on really three main areas.

Firstly, maximizing the opportunities presented by digital innovation. We want to dramatically increase the advances we've already made in areas like artificial intelligence. Secondly, developing a nimbler, more flexible operating model. And this indeed, this has already begun with changes to the way that we're working. We're building agile teams around end-to-end customer journeys. And finally, we want to shift our focus away from existing technology and property assets to create a digital first bank.

This will impact our cost reduction in the near term and mean higher restructuring costs, but we retain our sub-50 percent cost-to-income ratio target to 2020. And we're confident that this plan will deliver the kind of flexibility we will need to compete, given the pace of change across this industry.

This slide represents the key elements of our digital strategy. In short, we want to be high tech and high touch as an organization, simple and easy to use, but there with the best expertise in the market when our customers need them.

But what does it really mean in practice? Safety and security. This underpins everything we do for customers. Research shows that our customers trust us with their information, and they rely on us to deliver for them day in and day out.

Unlike many new entrants to the market, we have millions of customers relying on this bank every day. Since 2014, we have been investing to improve the safety and resilience of our operating systems, and our progress is stark. In 2014, we had 318 critical one incidents in this bank. Incidents that actually impacts customers. By comparison, in 2017, we had just 20. November and December are often our busiest months for retail customers, obviously given the festive period, and we had no critical one incidents in the bank in these months in 2017, and only four in the last six months of 2017.

We have a significant responsibility to help keep our millions of customers safe and secure when it comes to their banking.

Simplified and automated. I've mentioned before that we are transforming our main end-to-end processes and making them much easier for customers. This remains one of our most significant opportunities in the bank.

Despite growing in the mortgage market over the last few years, we recognize that our customer experience should be significantly better than it is today. In 2017, we introduced paperless mortgages, a U.K. first. This is better and quicker for customers. It reduces costs. And it improves our control environment.

More than 90 percent of our new commercial customers can now access our self-service account opening processes. On average, this saves customers 30 minutes compared to applying over the telephone. And since launch, more than 85 percent of new customers have opened an account themselves. I'll repeat that. Since launch, more than 85 percent of our customers, the new customers, have opened the account themselves. A clear indication that the empowering our customers through technological change can both reduce costs and improve the customer experience.

We've also transformed our business lending approvals process. Business customers can now self-serve and get a loan up to GBP50,000 unsecured within a risk appetite within 24 hours.

These are just a few of the examples, but we're looking at all of our core processes in the same way, front to back, end-to-end, investing now to make our customer experience simpler and more automated.

And finally, our digital strategy. It will be innovative. Since 2014, we have seen total payment volumes grow by 5 percent. Yet during this time, branch transactions are down 36 percent, ATM transactions are down 35 percent and checks are down 39 percent.

All of the growth in our payment volumes has come from our digital platforms, where volumes are up 14 percent. Customers are using our digital channels at an unprecedented rate. And increasingly, digital no longer means online, it's all about mobile. A few years ago, we had no mobile app. Today, we have 5.5 million personal customers who are logging on and sending close to four payments per second.

We're a supporter of the shift. Mobile is simple. It's safe. It's secure, and customers like it. And our mobile app has a Net Promoter Score of plus 51 percent. We do expect more customers to move to mobile as we increase the app's functionality. Today, 68 percent of everyday banking tasks are available via the app. That's up from 50 percent just 12 months ago, and we plan to increase this to 85 percent by the end of 2018.

Customers are also turning to digital channels to purchase our products. Digital sales volumes increased 11 percent in 2017, with personal loans up 20 percent. That's representing half of all sales through mobile.

We know this is an area where we can't stand still. Our customers and our competitors certainly aren't.

Currently, 90,000 of our commercial customers are active users of Bankline, and we have migrated 14,000 customers to the New Bankline platform. New Bankline provides simpler payment journeys, improved search capabilities and is a more efficient and intuitive system. But we'll go further in 2018 with the launch of Bankline Mobile for our larger commercial customers. This is a new service, will act as a companion to our Bankline technology. And these are just some of the new products and services that will help customers with their needs on a day-to-day basis.

Over the last few years, we have invested in building our global partnership and scouting network. One area we believe we have

real benefits of collaborating is in artificial intelligence. In partnership with IBM, we have developed our own chatbot called Cora. Cora will be a key part of the future operating model of the bank, releasing colleagues to focus on more value-added activities and improving our control environment through consistent recorded advice.

Since the first quarter of 2017, Cora has handled over 414,000 customer interactions, answering 228 different questions. We are investing now to build on our next evolution of Cora. In partnership with Soul Machines, we're giving Cora a visual avatar acting as the interface with customers. We are currently trialing the new avatar Cora with customers. The feedback so far has been excellent. The possibilities of this technology are very, very exciting.

Who knows? In a few years, you might be having the avatar Howard, Ewen or myself delivering these results for you. It's probably going to be a much better experience than the real thing.

We're taking what we've learned from our customer innovation and applying these internally as well. On AI, we have our own internal chatbot called Archie, which we launched in September and so far have had 23,000 conversations internally with Archie.

A more fundamental shift is in moving our internal processes onto the Workday platform. This means that 500 processes that are currently manual will soon be done on mobile. So colleagues can work more flexibly across a range of locations. More data storage will transfer to the cloud, reducing the need for large data centers. Productivity will increase significantly, as other support functions go through a similar transformation.

I'd like to finish by returning to our strategy. You'll be familiar with this slide. It's our plan on a page. And we've deliberately stayed consistent on how we've talked about our strategy over the last five years.

As we look to 2020, we've again set ourselves some ambitious targets centered on our strategic priorities.

Before I hand over to Ewen to take you through the numbers in a bit more detail, I'd like to leave you with just some key takeaways.

Firstly, our strategic plan is working, and we've delivered an operating profit before tax of GBP2.2 billion, and the first time in 10 years we've delivered a full year attributable profit of GBP752 million. We have a lot more to do. We know that, but we are making good progress.

Secondly, costs are down. Income is up. Our capital position is stronger. We are growing in the markets we like. And really, importantly, our colleague engagement is very high.

Thirdly, as we continue to put the past behind us, we're giving ourselves a great platform to become a much safer, simpler and innovative bank for our customers.

Fourthly, customer behavior is changing, and it's changing rapidly. And the market is more competitive than ever. We are responding proactively by investing in digital innovation.

And finally, as the number of our legacy issues reduces and our business performance improves, the investment case for this bank is clearer, and the prospect of us rewarding our shareholders is getting closer.

Thank you, all. And I'll hand over to Ewen for the details.

Ewen Stevenson: Thanks, Ross. Morning, all. In summary, a good set of results. Our best set of full year results for many years.

Operating profits and returns are up materially. We achieved a bottom line profit, and we had a very strong core capital ratio build.

As Ross and I set out a year ago, we had four objectives for last year – to grow income, to cut costs, to reduce risk-weighted assets and to substantially resolve legacy issues.

On income, adjusted income was up 4 percent, more than offsetting the pressure we saw on NIM, down 5 basis points over the full year. We like how we're achieving our growth, a mix heavily weighted towards secured lending.

On adjusted costs, GBP810 million of further costs out, that's an 8 percent reduction in nominal terms. We saw operating jaws of 12 percent. Our adjusted cost income ratio fell from 66 percent to 58 percent.

On RWAs, they were down GBP27 billion, a 12 percent reduction. And that included a GBP21 billion reduction or 11 percent in our core business. As you recall, we set us over a target of a GBP20 billion gross reduction now to the end of 2018, so we're a year ahead of schedule on that. This helped drive a 250 basis point improvement in our core Tier 1 ratio. And adjusting for the 30 basis points of pro forma benefit from IFRS 9 on the 1st of January, we'd be at 16.2 percent.

With good jaws delivery, adjusted operating profits were up 31 percent. And coupled with good discipline on RWA reduction, adjusted return on equity improved by 7 percentage points to 8.8 percent.

On our legacy issue, we continue to make substantial progress. Three years ago, when I stood up to talk about how our capital was allocated, for every GBP1 we had allocated in the core, we also had GBP1 allocated towards legacy. Today, we have eight times more capital invested in the core relative to legacy.

A significant event for us last year was agreeing the alternative remedy for Williams & Glyn. That's now fully reincorporated back into our U.K. personal and business banking numbers.

Risk elements in lending are down to 2.7 percent of total lending. That's down three-quarters from where that ratio stood just four years ago.

Most major litigation is now resolved, including settling with FHFA on U.S. RMBS and with the claimants in relation to our 2008 rights issues.

And as you can see from today's results, we are continuing to also resolve other legacy conduct issues.

Another key milestone in 2017, all 3 agencies now have a HoldCo senior ratings as investment grade. That helped our credit spreads strongly outperform peers last year.

On our Q4 results, relative to other quarters, Q4 was weaker, a GBP579 million attributable loss. That was driven by GBP1.3 billion of restructuring and conduct costs.

Structurally, Q4, as you know, will always be weaker for us. We've got the annual bank levy to pay, some GBP215 million last year. And it's seasonally normally the weakest quarter for NatWest Markets, as it was again in 2017.

On the positive side, income held up relative to our expectations in the quarter, and that's despite lower business volumes than we planned. At 204 basis points, NIM was slightly better than expected, in part due to the base rate rise in November, but also due to pricing discipline in mortgages that impacted our application share in the quarter.

There were a number of larger one-offs in our Q4 income – GBP173 million IFRS volatility charge, GBP112 million of Capital Resolution

disposable losses, and the previously disclosed GBP161 million gain on sale from us selling our stake in Euroclear.

Excluding the impact of the bank levy, adjusted costs in the quarter were up GBP122 million. That included the non-repeat of GBP55 million of VAT and other releases that were in Q3, together with increased investment innovation and marketing spend in the quarter.

Cost reduction for us is very closely correlated to headcount reduction, and this continues to fall, down 2,400 FTEs or 3.3 percent in the quarter and an 8 percent reduction over the full year.

Impairments were higher in the quarter, sub GBP234 million or 29 basis points. Really, that reflected 2 things. Firstly, higher impairments in Commercial Banking, with a very few specific large off -- one-off items, responsible for nearly all of the total provision. And secondly, we've taken a decision to accelerate out some of our NPLs in Ireland where we're reviewing a larger portfolio sale for later on in the year. That would reduce our nonperforming loans by around a third in Ireland.

There were GBP531 million of restructuring charges in the quarter and GBP764 million of conduct costs. The three largest conduct items were an additional GBP175 million for PPI, $584 million of additional U.S. RMBS provisions and EUR153 million in Ulster Bank. And on current trading, we had a positive start to 2018.

As Ross raised earlier, and as you can read in our outlook statement, we are making some changes to our guidance today. We are sticking to our 2020 targets on cost income and returns, a sub-50 percent cost income ratio and a 12-plus percent return on tangible equity, but we're removing guidance for both near-term cost reduction and our previously hard GBP6.4 billion target for all-in costs in 2020. We also now expect restructuring charges to be

around GBP1.5 billion higher over 2018 and '19 relative to previous guidance.

To give you some color on why we're adjusting guidance and how our latest views sit against current consensus, there were five points I wanted to make.

Firstly, we continue to be confident about our income growth potential. That's a combination of targeting lending volumes above market growth rates in segments we want to grow in and a much better rate environment than a few months ago, that in turn materially improves our structural hedging unwind. You should note, due to the steepening of the yield curve, we're now much more optimistic on NIM than we would have been a few months ago.

So as you model forward, we see some modest income growth across personal and business banking and commercial and private banking as a core part of delivering our 2020 sub 50 percent cost income ratio.

Secondly, operating costs will be down this year, but the rate of reduction will be lower than last year. Various things will push costs up for us in 2018. Accelerated investment and innovation spend, we're planning to be up about 30 percent on the spend relative to last year. There's ongoing costs of remediation on certain items. There's higher operating costs, driven by ring-fencing, and Brexit and some higher inflation than previous assumptions.

So while the gross costs take out this year will still be significant, the overall cost reduction from 2017 to 2018 will be materially lower. We think though we did a very strong track record on costs, just as a reminder, GBP4 billion of costs out in the last four years, that's over a third of our cost base. Ross and I remain very focused on taking costs out as quickly as we can without damaging our customer franchises or our controlled environment. By 2020, we are committing to reduce our all-in cost income ratio below 50 percent.

And we're not at this point seeking to adjust consensus views on adjusted costs for 2020, which stood at GBP6.4 billion.

Thirdly, on restructuring costs, we are guiding for these to be materially higher, but we think, largely for the right reasons, that should be viewed as helping deliver much lower operating costs by 2020 and beyond.

Of the extra GBP1.5 billion we've announced today, GBP300 million relates to Williams & Glyn, both the remedy and reintegration. Restructuring costs for this were not on the previous guidance. We think this will help drive a significant cost take out opportunity for us and is very value accretive restructuring spend.

Of the remaining GBP1.2 billion of additional restructuring costs, around two-thirds of that is for accelerated transformation. We do believe this is in the long-term interest of shareholders and the bank. And we expect it will deliver over the longer term a much more flexible and lower cost base.

For the remainder, we are guiding to some higher costs on existing restructuring. These primarily relate to higher costs associated with the implementation of ring-fencing and preparations for Brexit and higher costs in relation to some of the countries and properties we are exiting.

Fourthly, we continue to be cautious on how quickly higher conduct costs will tail off, as evidenced by a number of smaller conduct costs we saw in our Q4 results. Away from the DOJ settlement, we expect there still to be ongoing significant conduct costs in 2018 and 2019, before tailing off in 2020 to a lower level.

And lastly, as I'll now turn to, we think RWAs through 2020 will be lower than currently modeled in consensus.

For our core Tier 1 generation and RWA trajectory, we've still got some complexity ahead of us on both. On core Tier 1, as you can

see on the slide, we think we've given you most of the inputs you need with our 2020 financial targets and our restructuring cost guidance.

There is really just two large items for you to be modeling away from this, in addition to some further smaller conduct costs – firstly, the eventual final costs of any DOJ settlement; and secondly, the impact on our core Tier 1 of continuing to meet our defined benefit pension obligations. We've given you more disclosures today in the annual report and accounts to help you model this.

On risk weighted assets, it's a near term positive story, but with longer-term headwinds starting in the second half of 2020.

We expect RWAs to be GBP5 billion to GBP10 billion lower by this year-end. In Q1 2019, there's a modest uplift as a result of IFRS 16, some GBP2 billion to GBP3 billion. In the second half of 2020, there is the impact of the mortgage floors. As we previously guided, our best estimate for that at the moment is a GBP12 billion uplift. And from end 2021 onwards, the impact of the new Basel III reforms. For us, we think that represents a combination of higher credit and operational risk RWAs, and depending on the combined impact of those two, potentially the impact of the outlook floor. We're still working through the Basel III reforms. And as part of this, we obviously need to make a number of assumptions, but our working estimate for planning purposes continues to be a 10 percent uplift in RWAs from the end of 2021 onwards.

And as per our outlook, given the number of material parts, I've just -- moving parts I've just covered, and greater CET1 stress volatility that's caused as a result of IFRS 9. Until we have additional clarity on some of the items I've just gone through, we do intend to run our core Tier 1 ratio above our 13 percent target.

So to conclude, we consider these to be our best annual results for many years.

Our first best bottom line profit in a decade. Our bank is back doing what it's supposed to be doing. We're growing volumes. We're growing income. We're not stretching risk appetite. We're continuing to drive absolute costs down. This in turn is driving significant operating leverage. JAWS of 12 percent. Our adjusted cost income ratio fell from 66 percent to 58 percent last year. And our adjusted operating profits were up 31 percent.

Together with materially lower RWAs, adjusted returns grew to 8.8 percent, but we still recognize we've got a lot to do over the coming years. Our return on equity in 2017 was 2 percent. Our 2020 target is to exceed 12 percent.

We're now accelerating investment in transforming the bank. Successful banks in the future will be data-driven and digital first, active embracers of the power of new technology to deliver exponentially better customer experiences. But the cost of this transformation resulting in a more flexible and lower longer-term cost base will be higher investment and restructuring costs in the near term.

And finally, on capital distributions, we do want to return to paying these. You know the issues that we've got ahead of us. But in the interim, the operating performance of the bank is much stronger, and our core capital ratio is increasingly robust.

With that, I'll now pass back to Howard.

As a reminder, we have various members of our executive team in the first row who are also delighted to take some of your questions.

Howard Davies: Thanks very much, both Ross and Ewen. Let's move straight to questions. I warn you, we will have some on the web probably, but we'll go in the hall first. Thanks. Can you -- the most eager hand was there. Thank you.

Michael Helsby: Thank you. It's Michael Helsby from Bank of America Merrill Lynch. Two questions, please. One for Ross-bot and one for Ewen-bot.

Ross McEwan: It has to be within the 228 questions then, Michael, and I'll give you 414,000 answers.

Michael Helsby: Yes. First Ross-bot. Just under your digital presentation, I was wondering if you could take a step back and just give us a view on where you think you are relative to the other big banks in the whole process. And with open banking clearly now upon us, whether you think that's going to lead to a reduction in pricing across the industry, and whether you can offset that potentially by gaining market share in places? That's question one.

And Ewen, for you, I think you gave some good explanations about why maybe revenues could be better. But clearly, you pushed your costs up a bit. Your cost-to-income ratio is -- your guidance stayed the same. So I was just wondering, is it margin that's changed? Is that the big delta? And also, if you still got the same conviction on your GBP0.30 earnings or greater than GBP0.30 earnings? Thank you.

Ross McEwan: Maybe if I start. It's been quite interesting watching the other banks do their presentations over the last week around technology and innovation. And the market is moving very quickly. As you've seen from our statistics, the customers are moving to mobile very, very quickly. And what's happening on the mobile, they're doing more and more.

I mean, the other day, I took out a credit card, I said to Les, as soon as you can populate everything on my digital device, I'll take a credit card out with you. I did it all myself the other day, and you know I'm a Luddite on technology, but I did the whole thing myself in about 1.5 minutes, credit card delivered in two days. But I did the whole thing using a mobile device. That was just not possible some time ago.

One of the things -- and the reason why I put up the critical one incidents for you, I think, was really important that you started to understand, this is not the same bank, technology-wise, as had the problems back in 2012, and we've never talked it up. I've always said to the team, don't worry about it, we'll quietly build it. But the underlying platforms that we operate now that Simon and his team have built are completely different to what we had. We've reduced the platforms from over 5,500 down to 2,500, that makes an incredible difference to how quickly this bank spends then. And we still got a lot of work to do with another 1,000 to 1,500 to come out.

I think people have underestimated the work that was done to put in the platform that you can build off the top that we did not have four years ago. And I think what I'm starting to see in the marketplace, others have stripped the costs out, but they haven't put the effort into the base underlying technology. And while we were one of the first banks in the market to have open banking ready, up and going because of what we did over the last four years, and as a compliment to Simon, but we spend the money, you see nothing until you actually – how quickly can you move in the market.

Maybe it's worthwhile, Simon, just talking about where open banking goes because we've prepared ourselves for that. I think there will be some challenges for those banks that aren't ready for it, but I think it will be a slow build or a slow drop off because customers are very reluctant to move their details. And remember, the ones with all the money are the ones that won't move it quickly.

So maybe, Simon, just if you want to give a quick update?

Simon McNamara: No. So we had to deliver on a set of regulatory obligations, right? So that was the first thing. And it's proved quite challenging. So I think the beginning of January was when everybody was supposed to be ready, and it's a bit of a sort of a rolling start. So

we're definitely ahead of the pack in terms of the delivery of those. We've actually completed everything we had to do. And we're also working with a bunch of third parties, so actually testing out new capabilities. I do think it would be a bit of slow burn, but we have got the staff up and running, and actually working with third-parties as they develop capabilities that will be to the advantage of our customers.

And one of the nice things about it, I mean you can see there's a threat, it's actually other people are building services for our customers that reinforce the fact that they bank with us. And we intend to have our services working as well, and if not better than others.

And I think, as Ross said earlier, the investment has been made over the last four, five years has given us a solid foundation where we once had one that was very fragile. You don't go from over 300 criticality one outages to a period of 120 days without one without engineering in some capabilities. So we've literally refreshed the entirety of this infrastructure.

And one of the things that I've observed historically is that the cost is often taken out of organizations through, actually, the underinvestment in the infrastructure. It's an easy place to go for a lot of organizations. And that's essentially what we took on board here, which was an underinvested set of infrastructure.

You'll see that our investment through this cycle has actually increased rather than decreased, as we've taken GBP4 billion out of the cost base of the organization, not being for the expense of investment. In fact, the investment has increased. So those are sort of the things to look for. But I think it's a very solid foundation to actually deliver a bunch of very good competitive capabilities in the open banking world.

Howard Davies: Thanks. Ewen, do you want to do the second?

Ewen Stevenson: Yes. So well, without sounding excessively defensive, we're still -- we are undertaking to take out GBP1.2 billion of costs over the next three years to get to the GBP6.4 billion consensus, which is still significantly more than other U.K. peers are committing to. But on the income side, firstly, on NatWest Markets, I mean I think we've previously guided to GBP1.5 billion of income. I think our confidence in that continues to build. This is the third year in a row we've grown GBP1.4 billion, GBP1.5 billion, GBP1.6 billion. So I think people were skeptical a couple of years ago about our ability to continue to deliver that. I think it's our third year in a row, so people should take some comfort from that.

You may or may not have got to our IFRS 9 transition report that was out today. But on Page 24 of that, you'll see what our five-year planning assumptions were. It was based on two base rate rises really from 2018 through 2022. As of last night, current consensus was sitting at five. We've also put in some additional disclosure into the annual report on the multi-year impact of base rate rises.

So I think, as I said earlier, I think we're a lot more confident today that we will see significant income benefits coming as a result of a much better yield environment and a much better swap curve.

Howard Davies: Thanks. The woman next to -- thank you.

Claire Kane: Hi, it's Claire Kane from Credit Suisse. Two questions, please. Just to clarify on the costs. The GBP6.4 billion versus your previous GBP6.1 billion, is that just the extra investment spend that you think in 2020? And then versus your original GBP6.7 billion, you have said you thought around GBP300 million of below-the-line items. I just wondered how that's changed based on your assumption of the conduct cost moderation plan?

And then secondly, on the new disclosure on the pension sensitivity, 25 bps, GBP2.4 billion, would it be additive of 50 bps change? And also, what's your planning assumption there on the potential discount rate change under the triennial review? And are you factoring any of that in the TNAV for this 12 percent RET? Thanks.

Ewen Stevenson: OK. So on the – current consensus, this is sitting about GBP6.4 billion for adjusted operating costs, a couple of hundred million for conduct, and well under GBP100 million for restructuring charges. So I would think the restructuring charge number looks very light to us. On the GBP6.4 billion, that does compare to the GBP6.1 billion previously. So I think when you put all that together, you get to high 6s probably.

On the disclosure that we've put on our pensions, for those of you who haven't got to it yet, the last time the trustee gave some guidance on what the actuarial surplus was, was in June last year, at about GBP1.7 billion surplus. On an actuarial basis, markets have been good since then, so you should assume probably there has been some benefit in terms of investment outperformance.

The pension plan is currently being discounted, the main fund is 150 basis points over swap. I think most trustees would be targeting something over the long-term of about 100 basis points below that. We've got some benefit from mortality assumptions, some benefit probably from high or earlier redemptions than we previously would have anticipated. Some of the residual deficit you get to, we're assuming does get met through investment return, and some of it will be made up of additional contributions. So we think you've got enough there to sort of come up with a reasonable estimate now.

Howard Davies: Thanks. Yes. So directly behind -- yes. Thank you.

Ewen Stevenson: So we're not going to say we're trying to negotiate with the trustee till Q1 2020, but you can …

Howard Davies: Sure, go ahead.

David Lock: It's David Lock, from Deutsche Bank. I've got a question on Slide 29, please. So just looking on the right-hand side, the balance sheet growth. You were targeting 3 percent for 2017. You've come in at 2.2 percent. Just wondered if you could talk a little bit about which areas you are looking in 2018, to be growing in. Because although NIM has obviously stabilized in the fourth quarter, it was like loan growth is a little bit weaker.

I also just want you to clarify, in the second question. The NPL sale in Ireland, are there any risk-weighted assets associated with that? And are they included in the GBP5 billion to GBP10 billion? Thank you.

Ross McEwan: Just on the RWA reduction, Page 29.

Ewen Stevenson: This was on income growth.

Ross McEwan: Yes, income growth. We might actually just get Alison, to actually have the chat and then Les, just about where they're seeing in the market and their businesses to give you that indication, based on mortgages on the growth, and same with Alison, because we are -- as we said, we are cycling through, from a capital perspective, a lot of what's going on, on the commercial business and concentrating on some segments.

So Les, do you want to start on mortgages or do you want Alison to start on?

Les Matheson: Yes, I mean I think as far as mortgage is concerned, you saw us growing at 7 percent last year with the market at about 3 percent. We've got a stock share of 10. Forward flow share was a bit lower in Q4 at about 12. We're aiming to be at around 12, maybe a little bit more through 2018.

I think what you can see from the last -- from Q4 is that we're very careful in terms of our pricing. What we don't want to do is pull pricing down in the marketplace. And as the yield curve starts to change, you should see us start to move pricing up. You will have seen that actually in the last week.

So from a PBB perspective, Europe, you're still seeing pretty good volume. On the unsecured side, we're seeing good loan growth, but our credit cards is still an area that we're -- that's relatively flat or slightly down. It's not an area we're pushing. But on personal loans and actually on small business loans, you're seeing growth a little ahead of the market, and that's continuing into the first month or two of this year.

Ross McEwan: Thanks. Deposit growth has also continued to be very strong. And surprisingly, given that the interest rate environment, but it has been very strong. Alison, just on the commercial side?

Alison Rose: Yes. On the commercial side, we're continuing to see growth in targeted segments. So what you've seen through the course of this year is really robust capital discipline, making sure we're growing in the areas we want to. So we've had good like-for-like growth in our commercial areas, so-called small commercial up to mid-corporate. Very disciplined use of capital in our large corporate space, and we'll continue to have that view into this year. And we continue to recycle capital deployed in commercial real estate, which goes from very small to large.

So we expect to continue to grow at or above market in our chosen segments. We're still seeing that momentum. And we are still seeing good confidence in volume growth in that market. So it will be very targeted from that perspective.

In terms of pricing, you've seen through the course of this year good pricing discipline applied across our asset book. That is continuing to attain, and we'll continue to test that going forward.

On our private banking side, obviously, we have seen lending and AUM growth as we pull that business back into a normalized position. That will continue to accelerate within very tight risk appetite areas.

Howard Davies: Thank you. Ewen, there was a second question?

Ewen Stevenson: Yes. On the RWA question, I mean what principally drives -- I mean there are obviously some RWAs associated with the portfolio, so what principally drives the RWA reduction is the continued rundown of the ex-Capital Resolution assets. There was just over GBP20 billion of RWAs, just under GBP7 billion of that relates to of the Alawwal stake. And you should have assumed that we're going to continue to run down those RWAs on the Capital Resolution assets over the next few years.

Within the guidance we've given on NatWest Markets for 2020, we're assuming that sort of GBP21 million of RWAs get to about GBP5 million in 2020.

Howard Davies: Thank you. The one immediately next to – yes. And then I'll (inaudible) here.

Raul Sinha: It's Raul Sinha, from JP Morgan. I've got two, please. And maybe the first one, on NIM, if you can have a discussion about the relative change in stance given -- I think last time we talked, you were relatively bearish about the outlook for NIM, and there seems to be quite a big shift. Thanks very much for the disclosure on Page 31, which shows the big uplift and NIM is coming from the structural hedge sensitivity. So if I was to ask you to talk about NIM outlook for 2018 assuming say one rate hike, would you give us any more clarity on where you think it would trend from here?

Ewen Stevenson: Well, I might stretch as far as Q1. So look, we think we'll be broadly neutral in Q1. And then you can make your own

assumptions at what happens to base rates beyond that. But I think what we are seeing is a combination of actually structural hedging now where we are with the structural hedge and base rate increased expectations that the competitive pressures we are seeing in the mortgage market are largely getting offset by increased spreads in our liability margins.

Raul Sinha: Is that why, on Slide 30, when you say competitive pressure is zero in Q4, despite your commentary that front-book pricing on mortgages is very competitive, net effectively, you've got zero headwind from competition? Is that the reason why?

Ewen Stevenson: It's because of offsets coming through on the liability margins, yes.

Raul Sinha: Right. Thanks very much. And then the second one, I guess a little bit more detail, but also for Ross, is to understand where the incremental restructuring or, let's say, investment is going into within the IT budget. Are you structurally changing your approach to what you previously had in terms of simplifying your IT systems before you really get to upgrading it? Or are you sort of, let's say, becoming a little bit more aggressive in the areas? And if you can talk about the areas where the money is actually going in, that will be helpful.

Ross McEwan: Likely, Simon's talked about them. There are a couple of things that we are looking at that we're comfortable with in the first half of this year, when three, four years ago, when we set out, we didn't anticipate in our planning that as much would go to the cloud as it is, and the price differential you could get from doing that. We are certainly investigating that in a serious way.

That does -- and I alluded to it in my talk, just about the fixed infrastructure that you then need to remove data centers and the likes which are pretty heavy cost items, but also take time to get out. And so to make those moves, you really need to think five years

forward. But if you don't make those moves today and take the hits on them today, in 2023, you've got another five-year lease you've got to get yourselves through.

So there are some of those things that we're doing on the technology side. And it's also taking down some of the heavy fixed infrastructure but, as you fight and you quickly go to a technology drive, you've got some pretty heavy costs to take out. Here is one of them. You're sitting in it. This thing has got a lease on it till 2037, probably over market pricing. To come out of here because we don't need it in 2018, '19 is GBP200 million. Now is that a restructuring or is that a -- because we -- digitized more that we just don't need it, is that balance.

Maybe Simon, if you can talk about it from the technology perspective, just where it's moved in the last four years?

Simon McNamara: Certainly, pretty much covered it, Ross. But I think when we kicked off the transformation of the platforms here, we went to the stuff that we're running for ourselves, and we've talked to little bit to the cloud agenda but we weren't really ready for it. We think we can accelerate the progress of our infrastructure into the cloud, so that's sort of one element, you said that then. Leave some data centers that we won't be needing ourselves, so we'll sort some of that out.

But it's also some investments in some accelerated capabilities. The foundation we now have allows us to build some new capabilities. And so we've got a number of initiatives underway currently which we're looking to exploit that. We've built a pretty decent network to scout new capabilities well so alongside that. So it's sort of combination of acceleration of really the refresh of our underlying infrastructure and the facility it sits in, and then ways of working and the way that we utilize new capabilities to compete. So that's it.

Howard Davies: Thank you. And the one in the …

Ross McEwan: (Inaudible). I think it's quite important, we are thinking about and working on different ways of dealing with customers and how they want to be dealt with as well. And one of those examples we gave last year that's starting to come into fruition and activity this year is around ESME.

So electronic SME sitting on an Israeli platform that will go head-to-head with a peer-to-peer market in the pieces we like, not the bits we don't like, because we actually feed the customers into that platform. But we have allowed the business over the next 12 to 18 months to pick up on a number of those sorts of initiatives that I think will, long-term, add some real value to the business.

Now I know you take that. You take it and you take GBP1 and say it's a negative 10. I get that. But unless this business starts thinking forward on where its customers want to deal, we just don't have the growth going forward. So there are a number of things that this business had to come out of. We had to sell some business. I'm not proposing we go back in the same way. I think that was then. Now is a different thing, but with technology, there are ways we are starting to think about, are there other ways of serving customers using data or connecting data within to make a better offer to them?

We are -- I am allowing the business over the next 12 to 18 months to actually do some work around those, which does take a cost drag on the business. But unless we do those things, I think you'll find that it's a pretty old bank in another five years' time then be disappointed.

Howard Davies: Thanks. In the middle here, yes.

Tom Rayner: Thank you very much. It's Tom Rayner from Exane BNP Paribas. I hear what you're saying, Ross, on the need to invest in technology and everything else. Just on the 2020 cost target there, I think when you drop a high-profile financial target, there is a risk that the

market will now be reluctant maybe to fully believe in any future targets. And I wonder if you could just give a bit more color on some of the things you've talked about in investment and everything else. What that's going to mean to the metrics beyond 2020? So are we eventually going to see that cost income not being below 50, but maybe dropping down to below 45? I mean is there any further color?

And the same for the restructuring charge. I mean we've obviously got big restructuring charges the next couple of years. You would assume that, at some point that's going to lead to an improving cost efficiency or revenue productivity. The targets we have, we're not seeing that in 2020, so again, if you could add some color to beyond that, I think that will be helpful.

Ross McEwan: Well, I'll start with the cost piece, because I know we've -- Ewen and I've driven very hard off giving you fixed numbers to go after every year, and we've done that for four years. And as Ewen said, nearly GBP4 billion has come out and every time I've given you a number we've taken that. What I'm saying to you this time, it's sort of a bit more normal, we want to feel that way. We are going to take cost out of this business. We have to.

And we targeted a sub 50. And once we've got the sub 50, we have to keep going to stay in what will be a change to financial service world, where digital banking has taken over and people are doing it more for themselves. And if we don't do it, well, somebody else is going to do it on their customers' behalf. So I don't think we're walking away from taking costs out of this business, we are. I'm just trying to be a bit more normal and put some more flex into this business at the same time.

On the restructuring, there are some things that we didn't get right when we set out on the price of pulling down the business. Some of the property costs were much higher than what we'd even

anticipated at the start, but the pace with which we've gone through and removed our colleagues out of the businesses, we've reshaped, and it has been quicker as well.

So I think that has been a bit of a surprise. But it is the move from the technology perspective because we now can. I think we need to be considering those issues of getting to the client. We didn't plan on that four years ago. And I don't think you'd have anticipated we should have because there weren't many going that way. But today, we have to really seriously consider. And it's a cost, but that then starts to bite into a good cost position in 2023, which is I know a long way away. But again, we've got five-year leases. So unless I make those decisions with the board this year, you don't get it in '23. You're going to be waiting another five years beyond that because we'll have to roll the leases.

So those are the decisions we brought forward, we're going to make this year. And there are some pretty chunky costs there, but some nice savings we make over that as well.

Ewen Stevenson: The assumption, Tom, is that we're going to have to continue to drive cost down on nominal terms beyond 2020.

Howard Davies: Yes. Directly behind, if you just pass it behind, yes. Thanks.

Andrew Coombs: Thank you. It's Andrew Coombs from Citi. I'll stay on the same theme, please. The first question would be, how do you disaggregate between strategic investment that you do put in your adjusted expenses and the restructuring costs which you strip out of your adjusted expenses?

The second question will then be, you've guided to high restructuring charges in 2018 and '19. You're talking about potentially high 6s for 2020 all-in costs, another give or take GBP0.5 billion restructuring cost in 2020. Does that then -- OK, please correct me if I'm wrong. And did that then drop away in 2021? Or should we think of

restructuring costs more like being a strategic investment and therefore continues?

Ross McEwan: No. Look, I see we have got some purely restructuring costs that are quite heavy on this business still for the next couple of years. I can say this. I don't believe we'll be there because you can only take so many properties out. Once it's gone, it's gone. And once you've taken out data centers, they're gone. So you're in a different cost base position at that point.

The question -- I think the question you asked to start is really how -- what is the strategic cost versus a restructuring cost? As we get to a more digital world, and we do have less people, we've gone to the cloud, most of this, was that restructuring or is that actually a move towards a more digital world? And that's the thing we've sort of questioned ourselves, because if you took it all as we're moving to a digital world, we're probably spending GBP1.5 billion to GBP2 billion a year on the bank moving to digital by taking out physical. And we are taking a lot of physical out of the place.

So it's quite hard, but we are spending a lot on our technology now that we're in much better shape. And we will do some things, allow the business do some things that are much more innovative for the future. Because if we don't, we're left out, losing the customer data, and we lose the ability to then provide services to customers. It's a hard one I would say.

Howard Davies: We're going to go over here now.

Ewen Stevenson: And Andy, I think we also -- we want to sort of -- Ross and I want to move away from trying to distinguish between whether some things are restructuring costs or investment costs. And just talked to you about total costs. I think it's a better way to think about it.

But I think the other thing that we're trying to tell you as part of what we're doing is, we're really trying to shift the cost base, which is quite a heavy fixed cost base today, there's a fixed cost infrastructure that we're dealing within technology and property and people, to a much more flexible variable cost base in the future. But in order to do that, we need to take out a lot of existing technology and property to get there.

Howard Davies: Next one over here.

Chris Cant: Hi, it's Chris Cant from Autonomous. I just wanted to circle back on margins, please. I think in the past, you talked about a 40 basis point differential between your front-book mortgage pricing and your back-book mortgage pricing, creating a 4 to 5 basis point headwind to NIM per quarter from a REIT. In the release, you talk about pricing having got worse by 14 basis points in the fourth quarter alone. So does that mean that now a 50 to 60 bps differential between your front and backward pricing line? Am I interpreting that correctly? And are you then saying you can effectively offset a bigger than 4 to 5 basis point headwind from mortgage pricing going forward because of the other factors you are talking about? So how is that 4 to 5 bps a quarter gone up?

Ross McEwan: I'll give Les that, it's his book. So you can talk about what's happening on the front book, and what's happened to margin on these and how you're planning to make up for it.

Les Matheson: Look, I think, we have seen a -- in the fourth quarter, you have seen a further reduction. But as Ross -- as Ewen was saying, you've seen on the -- and we are seeing as we get into the end of the fourth quarter and beginning of the first quarter, we are seeing an offset from the structural hedge. So when you look at the NIM, we're expecting that to be flat Q1 to Q4. And we don't talk about any further quarters, so.

Ross McEwan: Well trained, Les, well trained. We are starting to see finally -- I mean, I made the comment that we're seeing some of the lowest margins in this business at the moment that have been here for a long period of time, but we are starting to see a couple of the bigger players starting to push the pricing back up again. Because I think everybody is realizing that this is a lose-lose.

Les Matheson: Yes.

Ross McEwan: The other thing that's coming off, TFS finishes in February. And I suspect that people will have to start funding themselves because some players have got very, very high levels of TFS. And if you go through their books and see how the hell are they going to fund that, I think that people will probably start pushing pricing in a different direction.

Howard Davies: Thanks. We've got a few more, so we better keep moving, just -- OK, to the left wing, from my perspective.

Chris Manners: Thanks. Good morning, everyone. It's Chris Manners from Barclays. I had a question for you on NatWest Markets, which was -- thank you for splitting out the legacy and the core business there. But I had a question, just if we look a bit further forward, on the legacy, how much do we think is going to stick around in NatWest Markets? Maybe you got (inaudible) RWAs that's going to be quite durable, maybe some cost, and it might take a little more time to squeeze out. And when we add those back in, obviously that will be a drag on the ROE. I know before, you've been talking about a 10 percent sort of ROE ambition for NatWest Markets. Will that mean that it's going to be depressed for longer? Or is this sort of a revenue tailwind and -- but a business growth that Ewen was speaking about earlier going to offset that? Maybe just a bit of comment on the shape of that business.

Ross McEwan: I think it will be good to hear from Chris on that. I've been very pleased with the results that have started to come out of that

business for the last two years. You know sort of GBP1.3 billion to GBP1.4 billion revenue is produced over GBP1.5 billion, which has been great, but lot of work, so maybe talk about what's coming out from the old Cap Res?

Chris Marks: Sure. I mean I'll try and answer you, directly your question because you talked a bit more broadly about NatWest Markets. But I think Ewen has already mentioned that we're targeting about GBP5 billion of RWAs by the end of 2020. So that's the sort of rundown trajectory.

It's not -- the costs really aren't that high. There's about 100 people transferred in to NatWest Markets from Cap Res, who are managing those positions. The nature of the kind of positions they are, meaning that they are very similar to the kind of the things we're doing at NatWest Markets anyway. So the infrastructure, the middle, back offices is and always was the NatWest Markets infrastructure.

So the cost will go down as we reduce those exposures, including there's some lumpy elements to it, like Alawwal, which Ewen has already mentioned, which is obviously a very significant component part of it.

So yes, it has a drag, but it's in the plan, and always was in the plan within the numbers since we sort of started and did an analyst presentation back in '15, and those numbers really haven't changed. Other than the fact, as Ewen mentioned earlier, we've been increasing revenues year-on-year. So you've seen in the last couple of years that we've been trending above what we said we hope to be able to do. And the costs -- the cost reduction across the businesses is on plan and continues to be so. And it's a very -- pretty detailed plan at this stage because we were working on it for three years and a large component of our cost base still is the amount of investment we are making in transforming it, so not

dissimilar to what you've heard around our personal, non-personal businesses. It's exactly the same approach.

We are investing heavily, spent over GBP200 million in '17, similar kind of number in '18. And once -- and we're expensing all of that investment, as you know. And once that starts to reduce, which it will do pretty significantly after '19, then obviously the cost base comes down. And the delivery of what we're changing actually starts to play through, which is a much simpler, much more efficient, much more automated business with some of the benefits you're seeing already, hence why the costs are coming down anyway, but they will really start to bite once we complete the transformation.

Howard Davies: Thank you. And we'll take a question from the online, there are a couple actually, but quite quick. Gary Greenwood from Shore Capital. One, is the 10 percent increase on RWAs from Basel III reform a spot to Q1 2022 increase or phased in until 2027? And the second, a slightly broader question, do you think the benefits of digital investment can be retained by banks or will they just be competed away in lower prices? Maybe, Ewen can deal with the first one, and then Ross.

Ewen Stevenson: Yes. On the first question of when. Well, we don't know I guess is the answer to that because we don't know how it's going to be implemented. But -- and I guess somewhat cynically the market always asks even if it's a 2027 number, where are you relative to future roll forward RWA requirements. So we just assume for planning purposes it's from the end of 2021. If it's better than that, it will be up so.

Ross McEwan: I think the second question, which is do you think the benefits of digital investment can be retained by banks? Will they be competed away in lower price? I think there is a bit of both. I think some of this will be competed away in lower price, it's just the reality of a very well-functioning market.

On the other hand, as we get better and better with digital and the data, more importantly, the data, and what we do with that data to help customers out, and what other things can we do as a bank that we can make revenues out of that are supportive of customer. Those are the things we're looking at to actually grow our revenue pools as well.

But there was some negative. You all share some of this with customers that the market will make sure that happens. But I think there are some areas that we can – we're investigating that actually can help grow our revenues because of the data we get. It goes back to my investment point, unless we invest, somebody else will have that data. And that's really important.

So you'll see some investments that we'll do that are around the data and retention or getting more data so we can put better propositions to customers as well, because without that data, I think there will be problems. And people have, remember are coming down from the payment structures, that's where they've gone to. And what they get, that grabs a lot of data, and we want to maintain and hold on to as much as that as we can so we can put off those back to customers that are relevant across the board.

Howard Davies: Thank you. Next, just by you there.

Andrew Hollingworth: Good morning, Andrew Hollingworth from Holland Advisors. Just a couple of quick questions. So part of the capital build you've had this year is obviously retained earnings and a part of it is the reduction of risk-weighted assets. So can you just talk about how that might go from now on? Is there much still to be done in terms of the capital build due to risk-weighted assets coming down? Or will it all now be about retained earnings going forward?

And the second thing is, maybe I'm missing something, but in certain parts of the presentation, it talked about ROE. In certain parts, it talked about ROTE. Your target is obviously a return on tangible

equity. Should all of those references be return on tangible equity? For example …

Ross McEwan: Yes.

Andrew Hollingworth: A slide that goes to …

Ross McEwan: Yes.

Andrew Hollingworth: OK, so Slide 34, for example, talks about adjusted ROE by division that should be adjusted ROTE by division, yes?

Ross McEwan: Yes.

Andrew Hollingworth: OK. I'm just kind of like, if some banks use one measure, some use another, so it's worth you know.

Ewen Stevenson: On the RWAs, as we said, assume they're down GBP5 billion to GBP10 billion this year, I think you should assume they're flattish in 2019. When you get into 2020, you've got the impact of the mortgage floors. And at the tail end of the year, plus whatever growth we've got in that year plus when you get into 2021, the Basel III reforms. But certainly, the trajectory through until you get on to mortgage floors should be down and comfortably down from where current consensus is.

Ross McEwan: It comes from two. One, the old (inaudible) – a little bit of cap raise left. We've got Alawwal. We've got some small areas of commercial that we still want to divest. We've got some areas in Ulster Bank that we want to take out as well. So as Ewen said, for the next two years, we can see that path until it starts kicking back up again.

Andrew Hollingworth: I've got one follow-up on the returns target 2020. So you've given a target based on return on tangible, I get that. But in terms of your full tax rate, but your actual cash tax rate in that period of time will likely be what?

Ewen Stevenson: Yes. We'll assume whatever the full tax rate is in terms of the figure.

Andrew Hollingworth: (Inaudible). But do you think your cash tax rates during that period of time when you use unrealized losses will be?

Ewen Stevenson: We don't have a lot of benefit from unrealized losses.

Andrew Hollingworth: OK, fair enough. Thank you.

Howard Davies: Thanks. There's a little forest of cups of hands here in the middle. So if you can hand that over there. Thank you. Yes, first one there. Good. Thanks.

Ian Gordon: Thanks. Ian Gordon, Investec. Just one question, please, and I guess it's a slightly perverse one on capital really. You've given us near-term guidance, yet you still got 13 percent in your Slide 20, 2020 goals. If I assume that when the conversation becomes relevant to your own that has a preference for directed buybacks or rather obvious reasons over dividends, clearly, I could just go (inaudibles) the exceptionals line to get to 13 percent. But what I want to know is how confident you are of getting down to 13 percent by 2020, which presumably drives your maths for the greater than 12 percent ROTE target?

Ewen Stevenson: No, it doesn't. But the -- I mean, there's a number of variables which I talked about earlier that we just don't know today. So we think we're going to see significant RWA inflation, what we've talked about, and that assumes no more risk in the portfolio. So that should allow us, if you go back philosophically to how we think about capital, we want under extreme stress to have a core Tier 1 no less than 9 percent. And then we build out from there in terms of what the appropriate stress buffer is.

So I think we have a lot of RWA inflation with no offset in risk. We have the impact of IFRS 9, which will increase risk volatility. I mean,

my assumption is that as we get to understand IFRS 9 over time, we'll be able to reduce that stress volatility. And we also have, obviously, a period after 2022 where we get the ability for -- where you're not going to get the full impact of the IFRS 9 volatility anyway in your stress testing.

We've also got the interplay on the pension plan, too, where the higher the contributions that we put into the pension plan, the lower the investment risk. Therefore, the lower the buffer we need to hold against investment risk, the less contributions we had put in, the more capital we need to hold to manage that investment risk.

So it's a complex story of which why I've just signaled it, for the time being, we're going to be above 13 percent I think until we understand some of those offsets and trade-offs better.

Howard Davies: Thanks. Next to you, thanks.

James Invine: Hi, good morning. It's James Invine here from SocGen. I've got two, please. The first is on branches. You had some pretty big closures just in the tail end of last year. I think that's driven by your current level of digitalization. So I was just wondering, as you implement the exciting plans you've talked about today, are we going to see more branch closures? Are they already kind of budgeted?

And then the second question was just the fact that you chose to abandon your 2020 cost target rather than revise it. I was just wondering if that means that the 2020 outcome is more variable perhaps than it once was. And if that's just because you don't quite know what the investment costs will be or you don't know whether you can turn off legacy systems. Thanks.

Ross McEwan: I think Ewen gave you pretty good guidance around what 2020 costs would look like. I like that word, "abandoned." Thankfully, I just haven't given you the target this year. I know you're very disappointed, but so be it. We will be taking costs out. We have to

keep taking costs out of this business. And my executive team sitting in the front row know that well and truly clearly. So we will be taking costs out. I just chose not to keep giving the market the number out there and putting the dots on everybody's heads.

But this bank has to keep taking costs out. We have to start growing our revenues at the same time. And it just gives us a different position as we head into 2020, and we're still confident we'll get to those numbers. Otherwise, we wouldn't have given them to you.

Howard Davies: Can you pass it straight behind (inaudible) …

Ewen Stevenson: One other thing I'd say in that too is – I mean I do think we were finding as we were getting closer to 2020, if we were solving for an absolute cost number, we would have taken sub-economic decisions on your behalf, because a number of things we're doing, such as when Ross talked about the data centers, will deliver a lot of value for us in 2022, '23. We could choose not to do them. We could choose to have a lower cost structure in 2020, and a higher cost structure further out. So one of the things we're trying to do is to give us more flexibility to actually manage the bank for value than GBP6.4 billion all-in cost target would have given us.

Ross McEwan: I think we trapped ourselves and we've been into that. Ewen's right, there are some things we want to invest and we think would be good for the bank longer term. And I think we've got to get away from a very short-term approach. I know we do quarterly results, but I'd love to stop doing those. I think they're ridiculous for banks to be doing. We should be just getting to a longer-term approach, which is really good for customers and for our shareholders at the end of the day.

On the branches, we have made some significant changes, sorry, Howard. And I should put Les on the spot for this, but I'm not going to. But we have made some significant -- we started with a branch

network of probably closer to 1,800 without the Williams & Glyn, what we call the Williams & Glyn, which is Royal Bank of Scotland. They're just not being used, and then we've taken a lot of flak over this, but what the problem was, was as we went out and said we'll close that one, customers went over to this one. And then in the next year, we came in and we closed that one, and they said, "Hold on, why didn't you tell us you we're going to close that one as well?" And that was starting to happen more and more, so we were really upsetting our customers by sending them somewhere only to finally closed on them. So it went through.

What is the structure of the network look like that gives us some certainty for a couple of years? We have still got to deal with the -- what are -- we were going to call Williams & Glyn branches, 275 of them, they were -- (inaudible) to not to drop below 275, so that's why they're on the shape. But we've got 190,000 SME customers we're going to be hopefully making offers to, to go away as part of the mandated program. So we don't need that number. So we're going to have to go through that exercise in 2018 to actually rightsize those branches as well, which we will do, and we'll communicate really well with customers.

Again, our technology now allows our Royal Bank of Scotland customers to go into a NatWest branch and be served and vice versa. For 17 years of fantastic integration of that bank, that was completely impossible, all right? But this team has actually connected them up so that they can be served in a branch that is of a different brand that we own. So we are making quite big changes in there which allows customers to go into other branches and be served, so some pretty big things have been done in the last couple of years.

Howard Davies: We're running tight on time, so straight behind you, thanks.

John Cronin: Hi there, it's John Cronin from Goodbody. Couple of questions. Firstly, getting back to Slide number 25 in terms of the RWA

reduction profile over the coming years. And just on the final point in relation to the 2021 move on the back of the impending Basel III reforms. Do you perceive there to be a risk that, that shift will need to be transitioned in advance of 2021, in the context of your engagement with the PRA?

Second question is, in relation to the Ulster Bank sale process or -- not that one has necessarily begun, but your reference to that as a potential large portfolio sale process later this year. Just getting to understand better what drove that change essentially. Was it in response to ECB engagement or indeed other participating banks and the positive soundings that they've been receiving in terms of buyer interest in their processes?

And then, just finally, in relation to the PPI move, anything to collate on walk-ins would be helpful.

Ross McEwan: I'll do the Ulster Bank one. Look, we started many years ago with 60 percent non-performing, and this is a disaster. It's down to about 16.7 percent non-performing. The ECB want all of European banks to have sub 5 over a period of time. Our view was we wanted to get it back into earnings volatility. And to do that, we needed to get the non-performings down, reworked the cost base of that business, so it was our plan anyway. We do believe there are a couple of portfolios that we can successfully sell. And it's why we took a provision at the end of last year.

Still a lot of work to be done, but we still believe we can get those away this year, which will get it down below 10. And then we'll look and see whether we take out the portfolios, whether it's a value to you to take other portfolios or whether we'll get market increases of growing the good book versus the flow of the others where they'll get us to 5 for the next three to four years, I suspect it would.

But we just want a nice clean bank in Ireland. It's been a long, long haul. It's a pretty tough market over there from a regulatory and government perspective. So we're trying to create a good simple business. But the NPL is getting down. We're around getting into earnings volatility for us as well.

Ewen Stevenson: Yes. On Basel III reforms, there's very little engagement with PRA at this point, because it's still -- I mean, until Brexit is determined, for example, we still don't know what the host -- how this is going to be adopted into the U.K. So we are having to make a number of assumptions as to how it will be adopted and how it impacts us. We do think it's a material number, so we do think it's beneficial to talk about it. I know others have taken a different view on that, but it's our best estimate at the moment.

On PPI, there is a balance sheet provision of about GBP1.05 billion post the 175 top up, about 250 of that relates to Plevin and other provisioning required. So if you look at the Q4 run rate, it was about GBP101 million of cash burn, so it gives us about eight quarters of coverage from here.

The claims inquiry is pretty volatile at the moment. It goes up when the FCA advertises, it comes down again. Which magazine put out some stuff on PPI, it went up again and came down again. So I am loathe to commit to the fact there won't be more PPI provisions, but it's our sort of best estimate today.

Howard Davies: Thank you. We're going to run for another five minutes because -- but we do have a gig after this. So I'm going to take -- yes, you're next. Thanks.

Fahed Kunwar: Hi, it's Fahed Kunwar from Redburn. I just had a question about the kind of health of the U.K. Corporate from the Commercial Banking and business. Comments seem pretty good, but then you mentioned that Brexit has led to some corporates changing behavior. You obviously had a lot of profit warnings in the U.K. as well. I'm just

wondering, things seem fine right now, but how are you thinking about kind of the next six months as you get corporates and how healthy they are and what kind of loan losses you could see.

And the second question, just on the investment. So we think about our investment. Is it more a case of stopping profitability going down in the future? Or is it genuinely all about profitability going up? Because it sounds a lot like the investments just stop, the digitalization process happening at the moment from big banks to losing a lot of their margins, or is that a wrong way to think about it?

Howard Davies: I'm going to ask Alison to talk a little bit about health of corporate sector briefly. And then Ewen can pick up on the other if you can.

Alison Rose: Yes. I mean as we said, when we look at the impairments and health of the book, it is pretty stable, but we are seeing obviously a lot of macro trends. We've seen real pressure in the outsourcing sector and the construction sector, which we're keeping a very close eye on. So we have tweaked our risk appetite in different sectors just beyond high alert to some of the macro trends that we might be seeing.

We're obviously keeping a very close eye on consumer spending behavior and how that might knock into buying power. But overall, we're seeing corporate U.K. in good health with some warning signs in some of the obvious sectors that we've mentioned. We are making sure that when we look at -- obviously, we track very closely all the indicators on early warning and profit warnings.

In terms of Brexit impact and what that's doing to confidence and change of behavior, really, what we're seeing is some of the longer term investment decisions where there is greater uncertainty, maybe a little bit of a pause in that space. But in the short to medium term, investment trends, particularly in commercial and corporate, remain very high and very normalized. We're seeing people actually investing in some of the digital and disruption trends

that we're seeing in our own industry about making sure they are investing in a supply chain, in innovation, in robotics to manage their cost base and sort of real inflation impacts that they're seeing. So that would be how we're looking at the whole sector.

Ross McEwan: On the investment piece, it is both. There are some areas that your margins are under threat, and the volumes are under threat because of other parties having invested and come through. You see that a wee bit under, for example, foreign exchange. And you get to a point where you step into the marketplace and you put your own vehicles in there. We happened to have one of the best FX vehicles in the marketplace through NatWest Markets. So we are monitoring those sort of activity. And at some point in time, we may choose to be a competitor for some of those digital players as well.

And so we do have some opportunities in this marketplace, that now that we're in much better shape, I think we can actually step into the marketplace and do things worth, but it's only because we have invested quite heavily in the platforms that we've got that we can put the little lamps on the top. But open banking will give us some opportunities, because we will be able to get to data as well as anybody else. And with our customer base, I think we can do some pretty good things, but it's going to be a slow burn.

Howard Davies: I think we're probably going to have to call it quits at that point, since it's 5 past 11. Anything you want to say by conclusion?

Ross McEwan: No. Look, thank you very much. I think today is a very symbolic day for this bank. It's been 10 very, very hard years. I'm not saying it's over, but to finally make a profit, you should not underestimate what that means to 71,000 people in this organization. And also, I suspect a lot of the public at large have put a lot of money in.

Our costs are down, our income is up, our capital has been built well. We are going to continue to attack the cost base, but we are going to invest in this business to make sure, beyond 2020, you got a

great business as well. And if we don't start doing that now, as you've seen, there are some things that will take that five years.

I think our strategy is working. We've been very clear that we're going to be a U.K. Republic of Ireland centered business with a markets business, that serves our customers offshore and financial institutions. Digital is taking over faster, and we need to get on top of that. We are building a simple, safe bank.

So also, I think really key to the U.K. economy, GBP30-plus billion of lending and mortgages into this marketplace last year. We have GBP100 billion out to small, medium-sized businesses in this marketplace and are a big part of it. And finally, we're doing our job. So thank you very much.

Howard Davies: Thank you.

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

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