Annual Results 2018
Moderator: Howard Davies
15th February 2019

FORWARD-LOOKING STATEMENTS
This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Annual Results announcement published on 15th February 2019.

OPERATOR: This is Conference #: 4088105.

Operator: Ladies and gentleman, you are on hold for the RBS Annual Results Presentation. I would like to remind you that the call today will be recorded. Please press “star”, “zero” if you need operator assistance. Thank you for your patience and please continue to hold.

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

In 2018, the bank delivered, in our view, a good financial performance despite an uncertain economic outlook and a highly competitive environment, especially in the mortgage market. Paying a dividend for the first time in a decade showed the progress we've made in building the strongest safer bank that's capable of delivering improving returns to shareholders.

We also managed a smooth transition from our excellent previous CFO, Ewen Stevenson, to his equally outstanding former deputy, Katie Murray.

Last year, the bank resolved its last remaining major legacy issues, the final settlement with the U.S. Department of Justice relating to RMBS, strengthening the bank's pension fund and the progress we made on alternative solutions and reducing our market share in the small business market, the former Williams & Glyn program, were all important steps in putting the steps in the past behind us.

With both problems resolved, there are now three key areas of focus for the board and management team, cost reduction, improving customer service and continuing capital distributions. They are all vital to the future success of the bank.

The first two, costs and customer service, are closely linked. Customer’s expectations of all service providers are high. And the range of competitors in the market using diverse, mainly digital delivery mechanisms, is as wide as it has ever been. To compete effectively, the bank has to continue to focus on reducing costs, so that we can invest more in delivering better service, and at the same time, continue to simplify processes that are too cumbersome for our customers.

On capital distributions, we're giving more detail today on the proposed dividend payout for 2018. And it was good to receive approval from our shareholders last week to participate in share buybacks should the Treasury deem that appropriate. We are grateful for the support we've received from all our shareholders and are pleased we are now in a position to reward them tangibly for their support.

The Brexit process continues, and we have planned for a range of scenarios associated with exiting the EU. We now have a subsidiary in Amsterdam that will be operational beginning in April and have applied for licenses to operate in Frankfurt, which we expect to be functioning at the same time. These entities will allow us to continue to serve our large corporate and financial customers in Western Europe and continue to clear euro payments.

As a predominately U.K. and Republic of Ireland focused bank, our performance in lending growth in the future will broadly reflect the developments of those economies. U.K. economic growth remained below its long-term average in 2018, and the prospect for this year is of continued below churn growth. The inflationary pressure induced by sterling's depreciation after the EU referendum has subsided, and rate growth has been stronger, but consumer confidence remains fragile. It remains to be seen what fiscal and monetary policy levers the Treasury and the Bank of England will pull in the event of a sharper economic downturn, but lower interest rates the longer would affect the bank's ability to deliver significant income growth.

Overall, the board was pleased with the bank's performance in 2018. We still have more work to do to reach our 2020 ambitions, but we continue to make good progress on improving returns for shareholders and delivering better service for customers.

I'll now hand over to Ross and then subsequently to Katie for more detailed results.

Ross McEwan: Thanks very much, Howard, and good morning, everyone. And welcome to our new presentation room. We will be exiting 280 Bishop's Gate, the building next door, by the end of 2019, with a saving to the bank of GBP 25 million a year. This is just one of the ways that we continue to simplify this bank and make it far more efficient.

It certainly feels like a different bank to the one I took over 5.5 years ago. As I recall, 4.5 – 4 years ago, I spent the majority of these presentations speaking about our past or the problems that we faced. So it's great that today, with the turnaround complete, we can focus on the future, speaking to the simpler, more efficient and digitally focused bank we are building.

In 2018, we've delivered a pretax operating profit of GBP 3.4 billion, which is up 50 percent on the full year 2017, with income resilient and costs down. An attributable full year profit of GBP 1.6 billion more than doubled that we achieved in 2017. A pretax operating profit of GBP 572 million for Q4 2018, and this is our first fourth quarter bottom line profit in 8 years of GBP 286 million. A proposal to pay a final dividend of 3.5p and a special dividend of 7.5p, this will take our total dividend payments to shareholders in 2018 to GBP 1.6 billion, of which around GBP 1 billion will be paid back to the U.K. taxpayer.

We finished with a very strong capital position with a 16.2% common equity Tier 1 post dividend payments. And with our balance sheet reshaping largely complete, we are focused on growing lending in our target markets and continuing to improve the returns to this bank.

This is a good performance in the face of economic and political uncertainty. And we recognize that the potential impacts this uncertainty will have on the delivery of our 2020 sub-50 percent cost to income target ratio.

Now turning to Brexit. As Howard mentioned, we've put in place plans that will enable us to continue to serve our customers. And we stand ready and willing to support customers from a position of capital and liquidity strength.

In 2018, we have delivered GBP 30.4 billion in gross to the U.K. mortgage lending in the U.K. PBB, with mobile renewed commitments for around GBP

30 billion of term lending facilities to mainly U.K. businesses. And our commercial and business banking businesses supported total lending of over GBP 100 billion. Given the Brexit uncertainty, we also made a GBP 3 billion of funding available through our growth fund to help businesses ready their supply chains for the U.K.'s departure from the EU.

But I don't think I'm alone in saying that the political uncertainty around Brexit has gone on far too long. Our corporate clients are pausing before making financial decisions, and this is, of course, damaging the U.K. economy and will affect our income performance.

While our financial performance is more assured, we are aware that there is a significant gap to achieve our ambitions to be the best bank for U.K. customers. Today's CMA scores provide further evidence of that. We must do better, and we will do better. We have taken the difficult but necessary decision to reshape our branch network over the last few years in response to customers shifting to our digital channels.

This continues to have a negative impact on our scores. And the Royal Bank brand also carries a reputational drag from our past legacy issues. We have to get our core services right first time more consistently. And we're investing GBP 1 billion in 2019 to upgrade legacy infrastructure and deliver better products and service for our customers.

There is some positive signs of encouragement in some of the CMA scores, where our mobile and online NatWest has improved by ranking two places. Now looking at the overall financial performance in more detail.

In the highly competitive market, we continued to see unprecedented pressure of across the business. In this context, our income, excluding NatWest Markets and one-offs, is resilient on 2017. Costs are down for the group by GBP 278 million or 3.6 percent against 2017. And in the last five years, we have removed over GBP 4 billion from the operating cost base of this bank. We know we still have much more to do to get the bank's cost base to a more sustainable level, and we'll focus hard on cost control again this year.

Our full year bottom line attributable profit of £1.6bn represents a return on tangible equity of 4.8 percent. But it's worth noting that excluding the conduct litigation and strategic costs, our full year cost to income ratio would been around 54.5% and our return on equity would have been 10.9%.

In recent Bank of England stress test, we obtained a clear pass, a good example of how our strategy of derisking the balance sheet is paying off. And finally, our capital position remains very strong, with a common equity Tier 1 capital position post dividend payments 16.2%.

In our U.K. PBB, gross mortgage lending was GBP 30.4 billion in the year. This represents 11.3 percent mortgage market share, supporting a stock share of around the 10 percent and while maintaining an average stock LTV of circa 56 percent. We are piloting a new innovation in our mobile app, which allows our customers to access preapproved unsecured lending of up to GBP 25,000.

Personal loan growth in U.K. PBB was up 7 percent, and that was of GBP 500 million, and it's compared to our full year in 2017. Our exposure in the credit card market remains low at GBP 4 billion or 2 percent of U.K. PBB's gross lending. Supported by the launch of RBS and NatWest FX-free credit card in May 2018, new business account volume increased 31 percent compared to 2017.

The new management team in Ulster Bank are taking tough but necessary actions to continue to drive change in their business. In the past two years, Ulster has reduced its portfolio of nonperforming loans by 41 percent. At full year 2018, both NPLs and tracker portfolio taken together now represent less than half of the total loans and advances. Ulster also achieved good lending growth in 2018, with new mortgage lending up 13 percent compared to the full year 2017.

In Commercial Banking, we have reshaped the balance sheet through capital initiatives. We have removed lending which under stress and grown lending with a lower RWA intensity. We have achieved strong underlying net growth with GBP 3.5 billion increase in 2018. Our Private Banking continued to improve its performance and delivered financial targets a year ahead of schedule, delivering return on equity of 15.4 percent and net lending growth of GBP 900 million. This is a really strong business.

2018 was an important year for NatWest Markets as it became a standalone ring fenced bank. In line with competitors, performance was impacted by tough market conditions, particularly in Fixed Income in Q4 2018. NatWest Markets is now nearly at the end of its legacy portfolio rundown and continues to reduces cost and invest in the core business as it delivers its transformation plan that we set out back in 2015.

I know many of you became to understand more on our capital distribution strategy. We paid our first dividend in a decade of 2p per share at our interim results. And we're pleased today we can deliver further returns to shareholders. We are proposing to pay a final dividend of 3.5p per share and a special dividend of 7.5p. Looking ahead, we intend to progress towards a circa 14 percent common equity Tier 1 capital ratio by the end of 2021. We are committed to returning more capital to shareholders in 2019, and we'll update the market at the appropriate time.

In 2018, we continued to invest in our infrastructure, improving systems resilience and migrating to the latest in cloud technologies. In 2018, we experienced 19 critical one incidents compared to 318 four years ago. You can see on the slide examples of how customers continued to shift to our digital channels. We are building a high-tech, high-touch customer proposition.

In U.K. PBB, we now have 6.4 million regular mobile app users. That's up 16 percent on 2017. Today, close to 3/4 of active current account customers in the U.K. PBB are regular digital users. Sales through our digital channels in U.K. PBB are up 19 percent on last year and now represent almost half of all product sales. And four years ago, this figure was 26 percent.

In 2018, our U.K. PBB customers sent 57 million more payments through the mobile app. That's up 43 percent on 2017 volumes. This channel has the lowest marginal cost to serve our customers. It's the fastest and has the Net Promoter Score of plus 41 percent for NatWest.

We are the first U.K. bank to take the paper out of mortgage applications. Customers like the speed and efficiency, generating Net Promoter Scores of plus 57. It has helped us maintain our market share despite the competitive rate environment that we operate in.

And it is a similar story in our commercial bank for our commercial customers. We have upgraded bank loan with improvements including the reduction of the time to make a payment circa 30 percent. And this is proving popular with our customers. Not only are we improving our products, we're also investing in our colleagues. Our NatWest relationship managers have market-leading customer satisfaction scores. The engaged colleagues are also more productive. Income per RM has increased from GBP 1 million in 2014 to GBP 1.4 million in 2018.

Customers expectations continue to rise. They want a proactive, easy and personal service which is available to them when they need it. We've taken a dual approach to our innovation strategies. Firstly, we are looking at our customer journeys in the core bank and seeing how we can simplify, automate and digitize these to improve the customers. I've already mentioned paperless mortgages as one example, but we have many more. Cora is our artificial intelligence chatbot which we launched in partnership with IBM Watson. She now handles an average of 83,000 queries per week. Our innovations are focusing on making our customers lives easier. NatWest Mimo is a good example of this. It's a new app we're piloting that complements our main app, giving our customers peace of mind when they it comes to finances by providing personal insights around income and things like day-to-day spending, subscriptions and utilities.

For commercial customers, we've taken the great services from bankline and put them into a mobile app. Bankline mobile offers core bank loan services, but with convenience and accessibility of the mobile phone. Although early days, this is proving very popular with customers with a 4.7 out of 5 rating in the Apple App Store.

In NatWest Markets, FXmicropay makes up simpler for businesses operating globally to accept payments in multi-currencies, reducing costs and increasing revenues. And we now have made it available on SOP's commerce cloud, a business-to-business e-commerce platform, to support their customers with multicurrency payments.

Secondly, we're innovating outside the core business to meet more customer needs, so I'd like to share a few of those with you today. Last year, we launched – we purchased FreeAgent. This provides cost-effective cloud-based accounting software to our business customers. FreeAgent are the U.K.'s first accounting software platform to offer open banking feeds.

And it's proving really popular to all and enables RMs to broaden the range of services we can offer, with 15,000 NatWest and Royal Bank of Scotland customers choosing to take out the service since acquisition. It's also driving positive advocacy. For example, following adoption of FreeAgent, the average customer Net Promoter Score is 25 points higher than customers without FreeAgent. Our digital lending platform ESME shows again that when we get a product and service offering right, we can generate strong customer advocacy. We've taken the learnings from ESME and applied this to the core.

For instance, over half of all business in commercial banking accounts are now opened within five days. We can also now offer pre-assessed loans to existing customers up to GBP 750,000. This is the largest value offered by a U.K. commercial bank, giving customers rapid digital access to funding decisions, with close to 50 percent of the loan applications given a decision in principle under 24 hours.

In the Personal Bank, we are piloting home agent in partnership with Zoopla. This innovation focuses not just on mortgages, but the wider home-buying process. For instance, Home Agent helps customers set a budget, find it next home and apply for mortgage. We also strengthened post-purchase customer loyalty to the latest pricing information and helping customers manage their new mortgage.

We're also piloting Bo and mettle as two standalone digital banks. Bo is our digital personal bank targeted at helping people to manage their money better.

And Mettle is our digital bank for business customers. We are taking key learnings and applying them back into the core bank. And I want to be clear that not everything we pilot will be a complete success. But as long as we learn as we go, we are very comfortable with this approach.

I'm sure many of you recognize this triangle. It's our plan on a page and has served bank well for the last five years. Focusing on priorities for specific 2019 goals, this will help us deliver on our ambition.

In 2019, we want to do the following, move closer to a greater than 12 percent return on tangible equity; progress towards our circa 14 percent common equity Tier 1 capital ratio; close the gap to #1 for service, trust and advocacy by achieving a two-place improvement in CMA rankings for both NatWest and Royal Bank brands; take a further circa GBP 300 million out of our operating cost base; grow net lending in CPB and PBB by 2 percent to 3 percent; and of course, continue to improve our colleague engagement.

Taken together, this represent a strong investment case for this bank. We are building a leading U.K. retail and commercial bank with strong non-ring fenced banks in NatWest Markets and RBS International, strong brands, supporting growth in key markets, a lower cost, customer-led digitally-enabled model. All of this is underpinned by the strong financial targets that I've outlined.

I'd like to echo Howard's thanks to shareholders for their continued support. And it's pleasing to be able to repay their patience with further capital returns.

And with that, I'll hand over to Katie for the detailed run-through of the financials. Thank you.

Katie Murray: Thanks, Ross. Good morning, everybody. It's a good set of results. The last time we had a Q4 operating profit was eight years ago, and we've achieved that today. Not only that, we've achieved it in a highly competitive market and against the backdrop of continued economic uncertainty.

Our operating profit was up. Our return was up. Our bottom line profit more than doubled versus last year. And we delivered a strong build in our core capital ratio. We have sorted our key legacy issues, and we passed the BOE stress test. That has allowed us to pay our first dividend in 10 years. Today, we are clarifying our medium-term CET1 guidance to circa 14 percent, and we aim to reach this in 2021.

We expect to get there through capital distributions over the coming years. And we'll do this using the most appropriate method that the board sees fit at that time. Our 2020 targets are below 50 percent cost income ratio and a return on tangible equity of more than 12 percent as we progress towards a circa 14 percent level in 2021 (CET1).

There are growing risks to income, as Brexit, global trade issues and economic uncertainties continue. And we now carry additional costs to deal with the ongoing operational costs of Brexit and ring fencing. And we also need to continue to innovate and invest in our business to meet our customers' needs. We are, however, comfortable on our 12 percent-plus ROTE target, but in the around, these are challenging targets to achieve.

Having given you the overview, let me take you into some detail. We continued to execute against our four priorities during 2018, resilient income, continuing costs reduction, actively managing capital and delivering capital returns.

If I look at income first. Excluding notable items, NatWest Markets and central items, income was broadly stable. And this was despite the challenging markets. We are growing in the areas that we like, with the mix heavily weighted toward secured lending.

Looking at costs. Cost reduction continues. Excluding the VAT recoveries, we have taken GBP 278 million out in 2018. This makes GBP 4.2 billion over the last five years. This is an ongoing significant change in our cost base by any standards.

If I focus on capital. Our RWAs are down GBP 12 billion or 6 percent in 2018 at GBP 189 billion. This is ahead of our guidance. And we have come to the end of this phase of active capital management. We are comfortable that we have exited the areas that we wanted to.

We have entered the year on a CET1 ratio of 16.2 percent. And you'll be aware that we are subject to IFRS 16, which deals with the according treatment for leases. It requires us to bring our lease commitments onto our balance sheet as at 1 January 2019. This will take our CET1 ratio to a pro forma of 16 percent.

As a result of our strong capital build, we've been able to propose a final dividend of 3.5p, supplemented by a special dividend of 7.5p. Of course, both subject to shareholder approval. That's a distribution of over GBP 1 billion – GBP 1.3 billion to taxpayers and shareholders, or GBP 1.6 billion if you include the interim dividend, or looking at it another way, 97 percent payout ratio for the year.

Following last week's general meeting, we are in a position to do a direct buyback of shares from the government of up to 4.99 percent of our market cap over a 12-month rolling period should the opportunity arise. And finally, as we previously outlined, we intend to target a regular payout ratio of around 40 percent of attributable profits by ordinary dividends.

So let me get into our financials in a line-by-line basis. Our income was 2 percent higher than 2017. Although to be fair, the comparison is impacted by a number of positive one-off items. In reality, underlying income was down 5 percent. This was largely driven by NatWest Markets. Excluding this and central items, underlying income was, in fact, flat. But this was despite a very competitive environment and uncertain economic times. In short, I believe that this is a real testament to the resilience of our franchises.

Q4 NIM was a little better than when we last discussed it, as the management of our excess liquidity helped to offset ongoing competitive pressures in the market. And as I mentioned, excluding VAT recoveries, our costs reduced by a further 3.6 percent or GBP 278 million, bringing our other costs down to GBP 7.4 billion. As a result, our all-in cost income ratio fell from 79 percent in 2017 to 72 percent in 2018.

Looking at impairments, they're still at historically low levels, only 13 bps in 2018. And to finish on the P&L. There was GBP 1 billion of strategic costs in the year, GBP 1.3 billion of conduct and litigation, which was primarily related to the DOJ. But taking all of this together, we produced a very strong operating profit of GBP 3.4 billion, up 50 percent on the prior year.

Let me spend a few minutes looking at Q4 income by franchise. U.K. PBB's total income decreased by GBP 7 million versus Q3, primarily due to a charge of GBP 18 million following the annual review of mortgage customer behavior. This was combined with lower credit card fee income and partially offset by a date sale of GBP 35 million.

On lending, we maintained our prudent risk approach and price into a very competitive market. Q4 mortgage flow share was approximately 12 percent, supporting a stable stock share of 10 percent, and our Q4 approval share was 14 percent. Our momentum continued in Personal Advances, which were up 7 percent in 2018. This increase was largely driven by our investment in technology, making it easier for our customers to do business with us.

Ulster's total income decreased by GBP 4 million as a result of a reduction in NPL income following a portfolio sale. This was also combined with reduced fees. In Commercial, after adjusting for transfers, total income increased by GBP (18) million, primarily reflecting higher fee income, fair value gains and lower disposal losses. As you know, we've been actively managing our capital at the same time as reshaping this portfolio.

Excluding the planned capital initiatives, underlying lending growth was strong, up GBP 3.5 billion in 2018 or 3.8 percent. Private Banking is a great improvement story. It generated a 12.3 percent ROE in Q4 and 15.4 percent for the full year, that's up from 6.4 percent in 2017. Income was broadly stable, reflecting higher deposit income. This was offset by asset margin pressure and lower investment income from AUMs, driven by the market volatility we all saw in Q4.

RBSI has seen its business changed significantly this year as we completed restructuring as a result of ring fencing. However, during this time, income has remained broadly stable versus Q3. And RBSI generated a 20 percent ROE in Q4 '18 and a 24.4 percent for the full year.

NatWest Markets had a challenging Q4, driven by market conditions in the credits and rates business, which similarly affected our peers. Total Q4 income decreased by GBP 470 million versus Q3, which you will recall, benefited from GBP 165 million of insurance indemnity recovery.

Overall for the franchise, in 2018, income increased from GBP 1.1 billion to GBP 1.4 billion due to lower legacy disposals and the insurance gain, which offset the reduction in the core business.

If we turn our attention to NIM. Q4 2018 net interest margin was 195 bps, or 197 bps excluding one-offs, up two bps compared with Q3 2018. This was the result of the management of our excess liquidity, which more than offset competitive pressures. Going forward, there are a number of factors presenting both tailwinds and headwinds to NIM.

To name some, we are very sensitive to interest rate rises. These benefit us via the managed margin, as well as the structural hedge. The hedge income benefit will depend on the market rate movements and the reinvestment of historical hedges. We will continue to manage our liquidity position in response to market conditions, as we have done this quarter. And furthermore, the mortgage market, of course, continues to be very competitive, and we do not expect that to change in the near term.

Costs continued to come down. We've taken GBP 4.2 billion of other operating costs out over the last five years, with FTE down 11,000 in the last two years. Conduct and litigation have also materially reduced.

As we put the larger legacy issues behind us, the GBP 1.3 billion full year charge includes GBP 1 billion for the DOJ and an offset for the GBP 241 million RMBS litigation indemnity release, as well as a GBP 200 million PPI top-up that you will recall we took in Q3.

You will see in our financial statements that we have a number of smaller legacy issues we are dealing with, so we continue to inspect – expect to incur conduct costs that would not represent our long-term expectations of these costs on a normalized basis.

On strategic costs this year, we have utilized GBP 1 billion out of the GBP 2.5 billion guidance for 2018 and '19. On RWAs, we are down GBP 12 billion from last year at GBP 189 billion, ahead of our target range of GBP 191 billion to GBP 196 billion.

And this is without the benefit of the Alawwal RWAs coming off. This reflected reductions in NatWest Markets, the impact of the actions in Commercial Banking and the asset sale in Ulster Bank. And as I said, we are comfortable we have exited the areas we wanted to.

Turning to capital generation. 2018 was another strong year, a very healthy CET1 ratio of 16.2 percent, or 16 percent following the pro forma IFRS 16 impact. This strong capital position is after we have taken account of GBP 4.1 billion of payments in relation to pensions, dividends and the DOJ settlements in the year. Excluding these items, the CET1 ratio increased by 240 bps in 2018, driven by profits of 130 bps and reduced RWAs of 110 bps.

This confirms again the inherent capital-generating nature of our franchises. It is quite clear that we have built a very strong capital position through organic capital build and optimizing our capital usage. We are in a very good place to generate and distribute sustainable returns. We have achieved a 40 percent ordinary payout ratio in 2018, but that won't be enough to distribute capital down to a level we think is appropriate for this bank. Therefore, as we have done this year-end, we will look to other ways of giving capital back. We also want to help the government reduce its stake should the opportunity presents itself to do so.

I thought it might be helpful if we put all of our current guidance on one page. Our 2020 targets, a cost income ratio of less than 50 percent and a return on tangible equity of more than 12 percent as we progress towards a circa 14 percent CET1 level in 2021. There are growing risks on the downside on this, as the lack of ongoing certainty on the Brexit way forward continues to elude us.

While we are not seeing issues occurring in our financials today, what we do see is our customers seeking approval for funding and then delaying actually using these facilities as they await for certainty. This clearly impacts on us as well. On other costs, we plan to reduce other expenses by a further GBP 300 million in 2019. And we will see this growing into 2020 as the actions we are taking today bear fruit.

We are now also required to carry additional extra costs which are around GBP 100 million per annum as a result of Brexit and ring fencing. And of course, we continue to innovate and invest in our business. All together, these are challenging targets for the business, and we do continue to drive the organization towards these targets aggressively, but the current environment does make them ambitious.

On strategic costs, we expect these to be around GBP 1.2 billion to GBP 1.5 billion in 2019. On RWAs, as we move into 2019, you will see further reduction as a result of the Alawwal transaction being completed. And we would expect to see a gentle rise in RWAs from that point, such that we end the year in the GBP 185 billion to GBP 190 billion range.

Specifically on the NatWest Markets franchise, we guided you to RWAs of GBP 35 billion, with GBP 30 billion in the core and GBP 5 billion in legacy. However, given our Brexit plans, this has increased to GBP 39 billion going forward, as we transfer our Western European business into NatWest Markets over time. This, of course, has no impact on the total RWAs of the group.

Our previous guidance on RWAs beyond 2020 was an estimated 10 percent increase in 2021 relating to the Basel III amendments. In addition to RWA inflation as a result of IFRS 16 of GBP 1.3 billion in 2019 and the Bank of England mortgage floors, which we know estimate to be GBP 10.5 billion in 2020. We now expect the overall impact of Basel III amendments to be in the range of 5 percent to 10 percent and phased across 2021 to 2023. The details are still subject to a significant regulatory uncertainty.

And finally, on capital. Today, we clarified our medium-term CET1 ratio guidance to circa 14 percent, which we aim to reach in 2021. And we remain comfortable on our 12-plus percentage return on total equity target by 2020.

So to summarize. We are pleased with our full year results, a doubling of profits in the year, continuing cost reduction, very strong capital generation and a substantial cleanup of our balance sheet being complete. We have started the process of significant capital return to our loyal shareholders, and we remain grateful for your years of support. We are driving towards our 2020 financial targets, recognizing the challenges existing in the economic and political landscape, and the inherent ambition of these targets.

And with that, ladies and gentlemen, I will now hand back to Howard to host some Q&A. Thank you.

Howard Davies: Thank you very much, Katie, and indeed, Ross. We now come to your questions which is always the most interesting part of the morning. Yes, you've just about won with the – on the hands up competition. Go for it. Yes. it's coming to you.

Martin Leitgeb: It's Martin Leitgeb from Goldman Sachs. I would like to ask you a first question, if you could elaborate a bit on your earlier comments on Brexit and what Brexit – how Brexit is impacting customer behavior. You mentioned – you touched on commercial clients holding on with some investment decision. I was wondering, do you also see some change in behavior on the consumer side at this stage or no overbook of the bank.

And the second question is related a little bit in terms of risk costs. I was just wondering, risk cost obviously historically low in 2018. And I was just wondering if there is pockets of risk, whether it's within consumer, whether it's within select corporates, where you have seen a deterioration over the last couple of weeks or months?

Howard Davies: Thanks. On the first question, both core corporate and retail, so I'm going to ask Alison to say briefly about what she's seeing on the corporate side and then Les on the personal side.

Alison Rose: Thank you. On the commercial side, as Howard and Ross mentioned, what we're seeing is a pause in investment. And we've seen that slowdown really since post the summer last year. So inevitably, with the uncertainty, people can't make investment decisions, and so we're seeing a lot of pausing. What we're seeing on the other side is, however, a drawdown of funds which are not yet being sort of committed funds, but not being drawn down as people prepare.

So there is a sort of bubble of lots of investment pools. And I think that's an inevitable action given the uncertainty of people waiting to make investment decisions. And that's really accelerated over the last three months. In some pockets, we've also seen people divesting assets and sitting on cash rather than reinvesting it. And we've seen that particularly in the large commercial real estate side of the market.

Howard Davies: I'm not sure we've seen a huge impact on the personal side, but Les can say in a more interesting way.

Les Matheson: Well, that's a bit of a tough ask, obviously. Yes, Look, as Howard says, we have really not seen very much impact. If I look even at the first 1.5 months or so, we're seeing largely the markets staying the same. Mortgages are slightly subdued, but really not that different from where we've been coming from. Maybe to make it look slightly more interesting, although actually probably not. If I take your second question, in terms of any pockets of pressure on the portfolio, the answer is no. We're not seeing anything really in an area. Whether it's secured or unsecured, we're not seeing pressure right now.

Martin Leitgeb: On the risk point?

Katie Murray: I mean, certainly, as we look at impairments for the year, 13 bps charge compared to the 16 bps in last year. I mean last year, you'll recall we had a couple of tall trees that come through, and we haven't had them to the same extent this year. We are one of the biggest lenders in the country, and so we know that as things happen, we will ultimately get a thing on one of them at some stage, but we have done such huge amount of work in the capital management of that portfolio that we think that, that sets us in quite good stead in terms of where we are just now. We were not seeing anything particularly flaring in any part of the portfolio.

Howard Davies: Thanks. Could you come back, the next question, right immediately next door.

Raul Sinha: It's Raul Sinha from JPMorgan. If I can have two areas, please. Just the first one on – obviously, you flagged that 50 percent cost to income ratio target is increasingly challenging for the business to deliver. And I was wondering if you could maybe talk about whether the challenges come predominantly from the income side or from the cost side. And if you could give us some sense of how much additional costs you think the business might have to put through because of what you're flagging.

And then the second question is on the income outlook. I think you talked about 2 percent to 3 percent loan growth for 2019. But when I look at the outlook for NIM, I think we've talked a lot about NIM in the past, but it's fair to assume that liquidity management probably doesn't help NII going forward. So what will remain within the business as a competitive pressure was just the rate outlook. And so I was wondering if you think that the NII outlook is actually still upward tilted for the business in 2019. And is there any other sort of moving parts in the income line will you or anything else that we need to be aware of?

Katie Murray: I think that was about six questions in there, but I'll do my best.

Ross McEwan: Go through it.

Katie Murray: Shall I go, and you pile in, if I head off and lose myself in this selection. So if I start off the 50 percent income ratio. The income – the cost to income ratio, there are two halves to it. I think we can all see the challenges in the market at the moment, and we'll continue to sort of deal with them as we go through, making sure that we're able to adapt. On costs, we as a bank have delivered GBP 4.2 billion of cost savings. It's something that we drive, have driven very aggressively.

We will continue to drive that. What I think of I'm flagging today, as you know, that, structurally, we continue to have to add extra costs into the organization. We've estimated them it's about an additional kind of GBP 100 million. That doesn't mean to say we're not going to go after that GBP 100 million, but it's hard. The more hundreds that you added on, it is increasingly challenged, but we have a great reputation in this space, but it is a reality.

If I look to loan growth, we've talked to 2 percent to 3 percent in net lending growth in 2019. We've got comfort in that number. If we look at the mortgage number, it has grown by 2 plus percent for the last few years. On secured lending, we grew at 7 percent last year. Underlying growth in the commercial book was 3.8 percent. We've grown well in our private banking. Overall together, that gives us really a lot of comfort in that 2 percent to 3 percent guidance. We're comfortable in that space.

Ross McEwan: And I think this difference between the 2 percent to 3 percent is net lending growth, at least you're going to get some contraction across the book in some areas and maybe some expansion. But that's so the net lending growth we see is 2 percent to 3 for us as realistic. We've been doing that in the past and we continue to do so, but the NIM pressure is the one I won't give you any projections and who knows what's going on.

We'll ask you. We'll ask Les. On the cost to income ratio, we're still going after that. But we are signaling, we set that target back in 2014, and it stood at pretty good stead as is the 12-plus percent return on tangible. But we've taken on board – we've now got two Treasury systems. Because of ring fencing, we've got an operation in Amsterdam that we were getting rid of under the old structure.

We've got two branch structures now up in Frankfurt. We've got 6 branches across Europe. Passporting was a wonderful thing for the U.K. and we no longer have that likely so. We are having to get ready for this, and there's probably an embedded GBP 100 million, that's just been those two measures alone. So we'll go hard at it, as you know, we've done in the past, and we're signaling a circa GBP 300 million take out this year, which when you look across the marketplace, a pretty good considering wage inflation, all the other things going on. So we're OK at that.

Ross McEwan: We'll take the third of this triumvirate.

Joseph Dickerson: It's Joe Dickerson from Jefferies. You had in Q4 about a four basis point tailwind at the net interest margin from liquidity management. And when I look at the liquidity bucket, actually grew by GBP 3 billion. So I'm wondering if – what's the ability to actually bring down that portfolio over time?

Or what explains the current levels of liquidity you're holding? And so as these tailwinds just the start of something more once we get past Brexit or whatever else you need to hold liquidity for?

Howard Davies: Katie?

Katie Murray: Yes, absolutely. So as I look at liquidity, I mean you're absolutely right. We had liquidity coverage ratio of 158 at the end of Q3 and we're at the same place at the end of Q4. And in fact, our spot liquidity has grown by GBP 3 billion in that time. I mean in that time, we took a number of actions. So we paid back GBP 5 billion of TFS. We paid back GBP 2.5 billion in terms of the – some of our legacy preferent securities. And we also paid GBP 2 billion to the pension scheme. So we are managing it.

The reality is that we're also generating quite a lot of liquidity. We'll continue to manage it. The small matter of the dividend we declared today will obviously have a bit of an impact of that as we kind of continue to pay it out. But it is a number that we continue to manage down, but we were pleased with those actions that we took, it helped NIM a little bit this quarter, but we are much more interested in balancing the entire book out than just focusing on the NIM number.

Ross McEwan: The other point that we are holding high liquidity levels, let's see happens with Brexit. We've put this bank over the last five years I think we're in a fantastic position for whatever comes, good or bad. And we're not about to give that away, going into probably one of the most uncertain times in four years with Brexit. So let's see what comes out of that before we start giving liquidity back, but our intention is to reduce liquidity and the NIM against that factor will move up. So I think that we're going to be cautious over the next three to four months and see what happens.

Howard Davies: On the left.

Alvaro Serrano: Alvaro Serrano from Morgan Stanley. Two questions for me, please. You've paid out 97 percent payout, GBP 1.6 billion, which was higher than you had expected despite the Brexit uncertainty. That's not going away. But on that 97 percent, that GBP 1.6 billion, I would actually add the GBP 700 billion of the costs to buy back the prefs. So which – on my numbers comes to, give or take, 140 percent payout.

Is that something doable when we look forward with all the caveats of we don't know if when and if the government will place, et cetera, et cetera. But is that a reasonable outcome going forward? And the second question is on the mortgage market competition. If you could give us a bit more color about front book spreads. And in the PBB presentations in September, I think you gave a back book margin of – I think it was around 1.8 percent, I don't know if you can maybe share with us how that's come down in the second half.

Howard Davies: Just one brief comment from me before I hand it over to Katie. From the board's perspective, up to last June when we settled our RMBS, we were sitting with a very difficult to quantify obligation there. And therefore, our bias was, let's keep the firepower so that we can survive whatever the outcome of that turns out to be.

As you know, it was $4.9 billion, which was not the occasion to third-parties. It's a huge figure, but it could have been considerably worse. So we were in a position where we had retained a very high capital ratio in potential expectation of a very large penalty. So we were in an unusual position, and therefore, I think that explains why we can do what we've done now. But as for the future, I think that's a rather different method. Katie.

Katie Murray: Yes. And also, I'll try to give you a relatively full answer on capital returns. I dare say it's going to crop up a few times as we go this morning. So we're sitting at 16 percent today after taking account of the impact of IFRS 16. We're guiding you that we're seeking to get to 14 percent in 2021.

We know just looking at this year that we're very naturally generative and business in terms of additional CET1, 130 bps this year in terms of what we've added from that. We've highlighted relatively small amounts of RWA progression in 2019, a little bit more in 2020 as we get to the mortgage floors. So what I would say is as we look at it, it's very, very hard to get tied up in what payout ratio you should expect here and there.

We know that the actions we want to take will be lumpy by their very nature. If we managed to execute on the direct buyback, that's important, but it will be a transaction that will naturally be lumpy in the way it comes out. So I think you need to look at the round of where we are, what we produced, what Alawwal will give us back, which we know is an extra 40 bps that will come back through, and then sort of think what might look like a reasonable end capital payout ratio. I think the really important thing today is at Q3, we said to you we'd look at specials, and we'd look to get our position in direct buybacks. We've done both of those things. And actually, I think we've really said our intent very strongly today, so I think we're in a good position on that side of things.

Howard Davies: Thank you.

Katie Murray: Mortgage market, yes.

Ross McEwan: Yes. Mortgage book. At the moment it's around 80, 85 basis points front book. I know some have been saying it's lower than that in the marketplace but that's where we're at at the moment.

Katie Murray: It's closer to 90, and it's been 100 for the year, so we're not seeing what we've observed in others in recent announcements as well, so we're comfortable where we are and the front to back group margin has remained fairly static since we did the update with Les earlier in the year.

Ross McEwan: It's a very competitive marketplace and we see some of the players broadly staying out its competitive, so I think we're doing a very good job in a competitive market. Our issue in that market is retention. It's not putting on the front book, it's the retention that the team are doing through.

Katie Murray: And we are comfortable at the end of Q4, we ended nicely. We retained about 70 percent of the book and that's what we're interested in. The important thing with our mortgage book is to look at the margin, which is important, but also really important is to look at the ROE. And this is very strong ROE business both today and it will remain very strong once we have the mortgage floors on as well, the business that we like and we do well.

Howard Davies: Back up to on the same row, next, next one.

Christopher Manners: It's Chris Manners from Barclays. Just one question, if I may. You've raised your capital target from sort of greater than 13 percent to circa 14 percent. Could you just explain to us how you get to that 14 percent, how you make that up? And presumably, that is fully loaded for the PRA Mortgage review and fully loaded for Basel III finalization. If there are things that you can jack up intensity, presumably, your capital requirement could actually fall as few add-ons for that. So just understanding how we get to that, that 14 percent.

Katie Murray: Yes, sure. Happy to. And what I would really like the signal as it's not actually a new number. It's much more of a confirmation of the number that we had. When we spoke to you throughout last year, we said, look, for the medium term, we're going to run above 13 percent, and above that 13 percent because of things like IFRS 9, Brexit, the Basel 4 and where was not going to go exactly, the mortgage floors.

And what we felt it will be action helpful this year to clarify to you when you talk about at above 13 percent, what are we actually talking about, and really it's above at circa 14 percent in the medium term. So I don't think we're saying that's where we are forever. It's very much the kind of the guidance to 2021, and we'll continue to update you on that as and when there is something to update. But for the moment, ourselves and the board are very comfortable that feels that's the right place to land.

Christopher Manners: Doesn't that leave you with a pretty chunky management buffer or a stress buffer in any way we think about that, or should we thinking about something in Pillar 2B that is harder for us to observe?

Katie Murray: No. We're not trying to hide anything. We do not I think that we are in a period of uncertainty. We have a lot of capital that we need to return. And there is – while we're also very capital generative, that almost makes it more challenging to return the level of capital. So as much as you look we know there are some things that are coming towards us in terms of changes in rules and regulations. And to give you some guidance of when we talk about above 13 percent, what do we actually mean? And we feel that circa 14 percent gets you to the right kind of number.

Howard Davies: And just along.

Guy Stebbings: Guy Stebbings from Exane BNP Paribas. Two questions if I can, please. The first one, on NatWest Markets, it's obviously quite a tough quarter, mostly so in rates. But we saw market risk, RWAs coming down perhaps more than expected. I'm just trying to understand the extent to which it's – you trying to take actively risk out of that business, which is driving tough revenue performance, or it's just the competitive environment itself? And how we should think about that going forward?

And then secondly, on mortgages. approval share up again in Q4, continued to prioritize secured over other areas. And are you pleased at all by what you're seeing in pricing? Or is it still very difficult environment? And your prioritization towards secured other areas is purely perhaps less appetite elsewhere rather than any changes that you're seeing in the mortgage market itself?

Howard Davies: Thank you. I'm going to go for Chris and then Les. Chris Marks from NatWest Markets.

Chris Marks: Thank you. Yes. So Q4 was a challenging quarter. As Katie and Ross have said about the large part of the businesses in the European fixed income markets, it was very turbulent, particularly in December. We saw some real outside moves in periods of low liquidity. And you've seen that sort of track across a number of our competitors, too. So it come in the pack really in terms of that performance.

In terms of how we're managing the book, we look to hedge it carefully and well. That obviously can have an impact. A lot of our risk obviously is in VAR. And therefore, as we manage the book carefully with turbulent times, we run daily stress tests, we know what the impact could be of foreseen events, as well as foreseen events. We're able to run our capital more efficiently.

And that's sort of built into the plan Katie has talked about. Our plan sees us trending towards the GBP 39 billion of RWAs once we get to 2020. And we've been working to improve the way that we take risk, the way we manage risk, and also, the throughput and velocity of the capital that we employ in the organization. That's what you're seeing play through in terms of the market business.

Howard Davies: Les, on mortgage and unsecured?

Les Matheson: Yes. Look, as far as mortgages are concerned, the pricing is relatively stable compared to the fourth quarter, and we're not really seeing much change. As Ross pointed out, we have seen one or two small competitors actually stopped lending. We take that quite positively. And it may be that there is an opportunity to move pricing up a little bit, but that's not happening yet. But we're not seeing deterioration.

What I will say in mortgages is there are one or two pockets where we haven't been growing as much the last year where we may be able to grow a little more this year in a couple of areas where we are actually underweight. The other thing I'd say is, on unsecured, we're not seeing any dramatic change there. You should expect to see us continuing to grow somewhat above the marketplace.

Howard Davies: Thanks, Les. Yes, one directly behind, then and we'll come back on the other side.

David Lock: It's David Lock from Deutsche. I've got one on capital and one on costs. On capital, I just wondered, and probably, Ross, if you could just give us an update on Ireland. And I think you got a 78 percent risk weight there and even after the NPL sale. And it's clearly very high. I think if you compare it with some of the locals, you're probably holding maybe GBP 5 billion more RWAs. So I just wondered how fast you could perhaps get those risk-weighted assets out.

And to clarify whether that is in your guidance for 2019 and 2020. And then, secondly, just on costs. And I wondered if you could update us on what you see as a normal quarter – or sorry, a normal year for remediation costs and once we've got through PPI for this year? Because I appreciate there's cost pressures, but do you think those remediation costs should come down overtime as the positive lending and the cultural changes that you've getting through at the last few years kind of come through?

Ross McEwan: On Ireland, we've got a new management team, and they're led by Jane Howard, doing a very good job. There are a series of remediation pieces that they're working through that will take, I'd say, most of this year. The big ones probably done by half year. I don't think we'll get capital relief out of that business until we get a lot of those concluded, particularly ones around the mortgage book and SMEs, but we're on track there, working very hard to get those done.

The bank itself, needs to get rid of those are focusing on a go forward bank. You saw it I put I gave you some stats about the mortgage growth there. It's starting to happen, but it's got a long way to go. And I think between us and the regulator up there, they've got a program of work that they want to see us deliver before we get capital out. I would assume for your modeling to think more 2020 than 2019. It's probably safer to think that we'll endeavor to get some out this year, but I would say 2020.

And a lot of that work is in their hands that we need to deliver, but we started well the year. On costs, on conduct and litigation, look, it's a very hard to know what that number is. But if you think about last year, this year and going forward, the number will decline. And I think it's somewhere around the GBP 200 million to GBP 300 million as probably a more normal number. But now you get one, big one.

And that gets blown out, and you get nothing. And so it's pretty hard number to pick. But I think we're in the GBP 200 million to GBP 300 million on an annual basis nowadays for a bank our size. And that could be made up of one large one or multiple small ones, but I think that's the world we're in.

Howard Davies: OK. We'll come back on this side, back row, gray sweater. Back row, gray sweater, that's it.

Jonathan Pierce: It's Jonathan Pierce from Numis. I got two questions. The first coming back to liquidity. The four basis point improvement in the group margin in the quarter is a lot in terms of absolute revenue, sort of GBP 150 million a year or something. Moving away from the question on the actual quantum of the liquidity portfolio, it looks like it's quite a big mix shift going on within it. Is that what is driving this improvement in revenue there? And is that an area you will continue to explore moving forwards?

The second question, on the 2020 return on tangible equity target. Clearly, you're still comfortable with that despite challenges on the cost income ratio. Just trying to get a feel for your thinking on impairments next year, these stage three gross charge in the 2018 full year was only about 12 basis points through the cycle, 30 to 40. What are you implicitly baking, I guess, into your numbers for next year on that line? That will be helpful.

Ross McEwan: Can I just have the floor? I'll hand over to Katie when some given that we did get a NIM increase, so I could cheekily 4 percent to 5 percent price decrease you took out of our share price last year – or last quarter. Please, could you give it back now NIM has gone up. But Katie was doing a lot of work on the liquidity of the bank and therefore NIM.

Katie Murray: Sure, absolutely. Look, as we look at the NIM, we will continue to manage our liquidity position. I've talked already about what we have done. And I think we'll continue to look at ways we can manage that to improve the return. We're comfortable at the levels that we're holding today and comfortable with some of the actions we're taking. We'll continue to flow through into the kind of Q1.

But what we know is there is rate sensitivity, reduction in liquidity, as well as the asset and liability pressure in terms of the mix on that. In terms of looking at impairments, I think that we could all say as we look out at 13 bps given we'd end to this whole new IFRS 9 world feels actually lower than I think than we were expecting, but it really is reflecting what's happening in the business today. You wouldn't expect in IFRS 9 to see that massively accelerating because we should be considering everything that's in the book at the moment already, but certainly, in our own plans, we would expect a bit of deterioration in there.

We'd be foolish not to as we move forward. I think the one other item you might want to just think about in your model is around also our preference costs, that's GBP 300 million for next year as we move forward. And that I think is a number, given the repayment that we did, the GBP 140 million of saving, it's quite good just to make sure you got that and locked into your numbers as well.

Howard Davies: There's one just in front, to your front, yes.

Unknown: Just a couple of – one new question and one clarification, Starting the clarification to Chris's previous question. The 14 percent or circa 14 percent core Tier 1 ratio target in the medium term, you will set as a target for 2021. Is that pro forma for the 5 percent to 10 percent RWA inflation or is it as reported?

Second question, just on the point about Net Promoter scores, the CMA table, the trying to talk trying to uplift back up the places, overlapping that with the digital dashboard that you've got in the appendix, you're still seeing branch transactions coming down quite substantially. We've just seen one of your largest competitors announced another series of branch closures.

You previously said you didn't plan to do anymore in part because you wanted to improve your Net Promoter Score. So just trying to tie those two together. What your latest thought process is there, and what that also means for the cost outlook, both in '19, but also 2020?

Howard Davies: Katie, deal with the first and then Ross can.

Katie Murray: Yes. No. The first one, the very simple quick answer is as reported.

Ross McEwan: On the branches, we're pretty comfortable with the branch network we have. It actually does remind we're one the large branch networks in the U.K. which probably showed it was out of shape beforehand. We've taken those steps in the last three years have been very painful, both for our customers and for us to through.

We think we put in place are the moves that are quite good for customers in the sense that we do run the largest fleet of mobile vans around the countryside to 700 sites. We've got more community bankers than anybody else. We're connected with the post office with 11,000 positions, but it was a change for our customers and many of them didn't like it, that's our Net Promoter Score. We have said there will be no more branch closures in 2019. The last ones we announced in 2018 closed in January, so just so we're clear about that, those were the ones that we announced last year and they were to do with the Williams & Glyn changes that were made. So that's happened, and there will be (no) more in 2019.

There will be movements of branches. This – one of the building next door that needs to be moved across here. We're going to see changes. We're not closing anymore. In 2020, we have no plans. So we think we've got a network for the short to medium-term that's fine. But let's see what customers do. And as you've seen, the transfer – the way customers are now doing payments and the likes, these are dramatic shift that we need to be there. Cash is the sign.

Cash is no longer the medium of payment, no longer the #1 medium of payment, but it is clearly a second medium of payment, so we need to be there on cash. 63,500 ATMs out there in the marketplace, in which we've got about 3,200 of them. We have 11,000 post offices. People can get cash in and of supermarkets. We get – people get their cash at the end of the counter.

Those are the things where it's starting to happen now, so we do need to make those shifts. But they have been very painful for our colleagues and also for our customers. And now we're focused pretty much on getting that faith back in the structure that we can maintain.

Howard Davies: Let's go on this side, yes.

Ian Gordon: Ian Gordon, Investec. Two, please. One, capital; one, Williams & Glyn. On the capital, very clear what is in terms of GBP 1.5 billion of directed per annum, and then join the dots for the ordinaries and specials. However, if we get a continued standoff, i.e. if your share price stays low, if the government is a non-willing seller, do you maintain your religious objection to doing accretive buybacks in the market?

And then secondly, just on Williams & Glyn. Can you refresh my memory on how long you think it's going to take to transfer the accounts out, the expectations of some of the would-be acquirers seemed to be a bit quicker than what I understood from your timescales.

Ross McEwan: I'll pick up on the W&G. And Katie, do you want to take on the capital?

Katie Murray: Sure.

Ross McEwan: If I start with Williams & Glyn. My understanding is the program of work that with office go at the customers now at the end of this month. We had thought that it would take probably 12 to 18 months for that to happen, and that – but if the other players, think it will happen faster, we stand really to deliver, nothing nicer for us to get it over and done with, but we suspect it will be an 18 to 24-month timeframe.

We have been communicating strongly with our customers and these changes are coming and that there will be offers being made. We've got tens of thousands of them registered, so I think that could move kind of quickly but haven't registered it becomes a bit more difficult. It's going to be person-to-person contact with them to make offers. So we believe from our end, we're ready to go.

The reintegration of all of the other facilities in Williams & Glyn is pretty much finished, Simon? And the team have done a very good job. Yes, the last one was the branches because it enabled us to close down one of the – one system that was pretty old, so we've done a – I think a superior job on that. And credit to Les, Simon and the team sort of worked on that, all their attention. It's been a big HR exercise as well.

Howard Davies: And the religious question, I'll put to Sister Katie.

Katie Murray: Yes. Thank you for that, Howard. I think – and what I tried to get a little bit in with my script is that we'll return capital in any way that the board sees fit at that time. We haven't ruled anything out. We sort last week in terms of direct buyback to get ourselves much flexibility as we could because I think we can all accept that this is going to be an interesting journey as we wind our way through and will go in that journey merrily seeking the advice and input from all our shareholders as well as we make that transition.

Ross McEwan: Right. I'll just reiterate the other thing Katie said, that it's very likely to be very lumpy, just because the transaction that will happen that our attention is there.

Howard Davies: Third row in the middle. No, well, that's not there, is it? Anyway. Third row.

Katie Murray: Start at the back, Howard. You weren't clear.

Male: Could I just as a follow-up question to commercial? You mentioned that clients are being cautious. Can you just give us an idea of the quantum of drawdown versus actually committing? OK.

And the other question was I just curious to understand in terms of keeping the drive the directed buyback versus doing a special. Going forward, as we go forward, is there any set of level that you're happy that the government is having in which case they can the market themselves, be it 30 percent, 20 percent?

Katie Murray: So I think on the first question, that we won't share where we are in terms of drawdown in facilities. Those are obviously conversations we have with our customers. In terms of the shape that it might take and the level that it might take, I am a willing buyer. The government needs to obviously do what they can to get to position.

They've been very clear that their desire is to sell down over the next four years, and that's been very helpful. And I think, as I said, we'll go through this as we go through the journey with them, so – and with our other shareholders. So I can't unfortunately give you any more guidance or thoughts on percentages. And I don't think it's unfortunately as easy for any of us to be able to give you that level of guidance.

Howard Davies: Yes. That's it. Greg?

John Cronin: Just coming back to your recalibrated RWA intensity uplift expectations, accruing from the Basel III final reforms package – sorry, it's John Cronin from Goodbody, by the way. And that's change in the guidance are slightly more favorable guidance. Is that, in anyway, likely to potentially influence you directionally more towards mortgages in terms of your thinking about new flows from a lending perspective?

And just with reference to your ROE comments on that as well, influencing the question. And then secondly, Katie, I recalled you were calling out newer entrants into the U.K. banking market have resulted in a slight diminution in the average current account balances. And is that trend continuing to play out? Is there anything material to call out there as a consequence of new competition, whether it be outright attrition or just reducing average balances?

Howard Davies: Do you want to deal with the first, then I get Les back in the second.

Katie Murray: Great. Thank you very much. So as we look at the recalibration, the 5 percent to 10 percent from where we were last year is literally just better more understanding and a little bit more on guidance. The item that impacts more on mortgages is actually the BOE mortgage floors which we're pretty comfortable on. There's GBP 10.5 billion, which will come in in 2020.

That's a slight improvement again from where we were a year ago when we said GBP 12 billion. But the reality is it's actually that's kind of beginning to start to flow into our numbers via the economics, so there's no particular change. And so I don't think that will view our changes in our current views on one lending source over another. Here, we're very focused on the ROE, as well as our need of capital consumption of all of these different products. Les.

Les Matheson: Yes. It's a quick answer. There hasn't really been any material impact in on our deposits from the entry of the digital banks. So if you look at our current accounts, our volume is up about 1 percent last year. Savings account, it's up about 2 percent. So it's about in line with the market. What I would say is what you're seeing is that those digital banks that are offering really high rates are attracting the hot money within the market place, if you like, which generally circulates, but it's not really having any impact, at least on us.

Howard Davies: That's not a comment on markets, is it? Not particularly.

Les Matheson: No.

Howard Davies: Yes. The blue.

Edward Firth: It's Ed Firth from KBW. Can I just bring you back to this return on tangible target which I guess I'm struggling a little bit with? If I look at consensus, which I guess is maybe plus or minus 10 percent, but you're pretty predictable these days that is going to be a million miles away. Then in order to get to 12 percent, you need to be starting next year with an equity base of about GBP 28 billion, it seems to me.

Anything much over that, you can't get near the 12 percent. So that implies somewhere around, what, between GBP 5 billion and GBP 7 billion of capital return this year. So I guess my question is, firstly, do you recognize my numbers, or am I – have I picked up something wrong? And secondly, can you just confirm, this 12 percent, it isn't a – we're not going to get thrown a sort of adjusted capital return or adjusted return on tangible halfway through the year or excluding restructuring or with normalized provisions or something.

It's an all in like what everybody considers to be a proper 12 percent. I suppose that was my first question. And forgive me, having covered the banks here for a while, I'm getting a little tired how we hit targets these days. But that was just question 1. The second one was, I think in the past, you talked about NatWest markets having a normalized revenue level of around GBP 1.4 billion.

That might have got it wrong. but I think it's 1.4. You're currently at about GBP 1.2 billion, if I think if I strip out the GBP 165 million indemnity. And but again, tell me if that's wrong. But so are we still looking at GBP 1.4 billion? And are we now therefore saying at NatWest Markets, we're looking at growing revenue and falling costs, which I mean a lot of investment banks tell us that, but I don't think I'll ever seen it so, just is that really what you're expecting in terms of your 12 percent?

Howard Davies: Thanks. Ross, on the first, and then will pick up.

Ross McEwan: First, it is all in, we gave up doing all those excluding's, and adding's and taking always last year when we start doing the accounts. The biggest feature really is making sure that we can get some capital out of the business because that's the piece that does the most rather than costs and the income has to be OK. We will continue to take cost out, but our numbers show that we still can get to that 12 percent or 12 percent plus in 2020, but those are the numbers we're working towards, but it does rely on a capital level lower than we are sitting at at the moment.

Edward Firth: Are my numbers reasonable like, I mean obviously not to the GBP 100 million, but broadly speaking, those sound like the sort of right sort of ballpark?

Ross McEwan: Well, as I said, we've been working on an income level, a cost level and a capital level that gets us to 12 percent plus. As Katie said, just if you follow the dots on particularly on the capital, down to circa 14-odd percent by – in 2021, this gets us to those numbers.

Howard Davies: Chris?

Chris Marks: Yes. Correct your numbers just a little bit, I think our core numbers of GBP 1.3 billion for the year. The writeback was actually in our legacy numbers, so we've got a differentiated franchise and core that obviously play through. I think the key point, we are not moving away from the GBP 1.4 billion, GBP 1.6 billion guidance that we've given historically.

And last year, we made sort of in 2017, we made GBP 1.7 billion. And we continue to improve the businesses we go actually whilst revenues were down in 2018, our customer volumes, the amount of trades and transactions we completed with customers went up by 6 percent, so we're very confident that we can hit that range with the capital that we have. And as we continue to make the refinements that I talked about earlier, we're on a good trajectory.

Howard Davies: Thank you. We're almost out of time. Can I take one more if there is? Otherwise, I'm going to ask Ross to – perhaps we're – in which case, Ross, do you want to just summarize as we close?

Ross McEwan: Yes. Thanks very much. The questions I think have been very good. And we did think that we get lots of questions on the capital position, and thank you for those. I think this has been a very good performance from this bank in really uncertain times, doubling of profit from last year and getting the position on this bank going forward.

Probably the best thing that we saw here was the start of capital returns and the fact that we're putting really close to GBP 1 billion back in the hands of the government for have been, I think, a very, very good shareholder for us. We are a simpler, safer bank, and we will continue to work on how do we continue to make this a much, much better bank for our customers now. That's what we need to focus on in 2019.

But I can say it's a completely different bank to what we started with five years ago. And it's starting to feel like that internally. The conversations are quite different. So I look forward to catching up with you on the quarterly results. Thanks very much for joining us here, and look forward to catching up.

Howard Davies: Thank you.

END