



NatWest Group plc

Moderator: Alison Rose
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The results in this presentation relate to The Royal Bank of Scotland Group plc ("RBSG plc"). RBSG plc is intended to be renamed NatWest Group plc later this year.

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OPERATOR: This is Conference # 5394186

Howard Davies: Well, good morning, ladies and gentlemen. Thank you for joining us. I was going to wish you a Happy Valentine's Day, but then I recall that emotion plays no part in the lives of banking analysts. So I'll leave that out.

What I will, however, say is that yesterday morning, Katie Murray was our CFO. And she is still our CFO this morning, just to underline that continuity.

Today, we have a slightly different running order from our usual results presentations, as we set out our plans for the future under Alison's leadership, I will make some brief opening remarks about the current economic environment and our performance in that context. Then Alison and Katie will

cover 2019. And they'll then set out our plans and strategic direction for the coming years, and I'll return and open it up for questions.

First of all, you will have noticed that today we've announced that we are renaming the parent company NatWest Group plc later this year. As we outline our plans for the future and with our legacy issues behind us, the Board have agreed that it's the right time to align the parent company name with the brand under which the large majority of our business is delivered. It's important to note that customers will not see a change in their products or services and will continue to be served through the brands they recognize today, including the Royal Bank of Scotland. Similarly, our employees will see no change to the way they work.

Now looking back to last year, 2019 was another year of positive progress set against ongoing political and economic uncertainty, further cost reduction, increased lending to our personal and business customers and more dividends for shareholders are all good outcomes.

On capital distributions, we are proposing to pay a final ordinary dividend of 3p a share and a special dividend of 5p a share. Taken together with our interim payments, that means GBP 2.7 billion of returns to shareholders in 2019.

The bank's capital ratio remains well above target, with scope for further capital distributions through dividends or buybacks from the U.K. government at the appropriate time. Our private shareholders, whom we've consulted extensively, agree that share buybacks from the government are the best use of surplus capital at this stage.

Turning to the economy. The consensus forecast suggests that U.K. GDP will remain below trend, and there are signs of a wider global slowdown. The continued low interest rate environment also poses a challenge to income growth for all U.K. and European banks.

On the more positive side, the U.K. labor market remains fairly robust, with record low unemployment, helping to keep impairments at low levels. With

our strong market positions, we still see good opportunities for volume growth that is within our risk appetite to offset some of the income pressure.

The future terms of trade between the U.K. and EU remain to be determined. Clarity for our customers is crucial, and we continue to plan for a range of potential outcomes from negotiations on the future relationship. We remain well placed with strong capital and liquidity positions to support our customers as we make the transition.

Looking to the future then, today marks an exciting and important moment for the bank as we explain how our strategy will evolve over the coming years. Alison and Katie will give us more detail in a moment. But the plan we are describing represents an important shift for this bank, with a new focus on the economic and social purpose of our work. It will mean seeking to balance the interest of all our stakeholders and implies building longer-lasting relationships with our customers rather than taking a transaction-based approach. It also means recognizing the need to lend sustainably in an environment of global warming.

All of that will require a shift in how we conduct our business, and it will take many years to implement fully. But we're setting out some clear targets today that will steer us.

By building on solid foundations, putting our focus on purpose at the center of our decision-making and refreshing our approach to delivering a better service for customers, we will create a more sustainable bank, and in return – in turn, more sustainable returns for our shareholders.

The Board is fully behind this approach and excited by the dynamism and enthusiasm that Alison and her evolving team have already brought to the revised strategy. And with that, I'll hand over to her and then subsequently to Katie.

Alison Rose: Thank you, Howard. I'm delighted to be here as Chief Executive and privileged to take on the role. Today, I'm going to start by running through our solid performance in 2019 and then return to set out my long-term vision for the bank.

In 2019, we delivered an operating profit before tax of GBP 4.2 billion, up 26 percent on 2018, in an uncertain economic and low interest rate environment. Our attributable profit, including a number of one-offs was GBP 3.1 billion, up 93 percent on 2018.

Most importantly, however, we grew lending in attractive segments of the market, with net loan growth across our retail and commercial businesses of 3.7 percent, exceeding our 2019 growth targets without changing our risk appetite.

We remain the biggest supporter of U.K. businesses, with GBP 19.5 billion in gross new lending to our commercial banking customers and GBP 33.3 billion gross in mortgage lending in our U.K. personal bank as we continue to support our customers in a challenging environment.

At the same time, we reduced costs by GBP 310 million, meaning we have reduced costs by GBP 4.5 billion in aggregate since 2014. This will be the foundation on which we continue to deliver further efficiency improvements. And as Howard mentioned, we remain committed to returning capital to shareholders. And if our dividend proposals are approved, total dividends will be GBP 2.7 billion this year.

We have significantly strengthened the bank's culture in recent years, and this will be a key strength for the future. We have moved from bottom quartile to top quartile on the independent Banking Standard Board survey, and we are the first bank to be awarded Corporate Chartered status by the Chartered Banker Institute, recognizing our investment in the professional skills of our colleagues.

On customer advocacy, our momentum is encouraging. We performed well in our commercial bank and NatWest was voted Best Mortgage Provider at the British Bank Awards in 2019. However, we do recognize that there is room to improve across our Personal and Business Banking franchises.

We've also continued to up the pace on innovation to the benefit of our customers. We launched our digital banks, Bó for retail, Mettle for business,

and we entered the merchant acquiring space with Tyl. Our rollout of Bankline Mobile continues at pace and we completed over GBP 10 billion of transactions through the channel last year. And we are continually testing and learning inside and outside the bank and taking a disciplined approach to decision-making across our innovation agenda.

In summary, we start from a position of strength but see significant opportunities to deliver more. Today, we have strong customer franchises and market-leading positions in many product categories. We will evolve our propositions to serve more of our customer needs at every life stage, and this will both maximize our customers' potential and deliver returns for the bank.

We have a track record of consistent cost reduction, which we will build upon. We still remain too complex and see further opportunities for reengineering and simplification of our core customer journeys, and this will improve customer experience and reduce costs in key segments.

And we have rapidly launched a broad range of innovation assets to defend our core franchises and enter new spaces. And we will continue to test and learn with customers while scaling these assets as well as leveraging partnerships to accelerate our efforts. And finally, we have a strong balance sheet.

With that, I'll hand over to Katie to discuss the financial results, and I'll return to talk about the vision for the bank and expand on the opportunities I've highlighted here.

Katie Murray: Thank you, Alison. Good morning, everybody. I'm going to give you a brief overview of our financial performance in Q4 and the full year.

As we look at the bank, we feel it was a good result in a tough operating environment. All our targets were met that we laid down at the start of the year. We have been very capital-generative, allowing us to recognize GBP 2.7 billion of distributions to shareholders. So let me talk you through the P&L, and I'm going to focus mainly on Q4 results this morning.

On income, as we had discussed throughout H2, income was going to be noisy, with an FX recycling gain of GBP 1.2 billion in the last quarter, along with other notable items of GBP 74 million. After excluding these items and OCA, Q4 income was GBP 10 million lower than Q4 '18, and GBP 56 million or 2 percent higher than Q3 '19.

This reduction compared to prior years represents 2 main areas. The first, within UKPB, being driven down GBP 51 million, primarily driven by mortgage margin pressure, the representation of our interest in suspense recoveries and lower debt sale gains. And secondly, across the bank, the impact of lower deposit income.

On costs, 2019 was another good performance. Excluding conduct and strategic costs, other operating costs reduced by GBP 117 million in Q4, taking the full year cost reduction to GBP 310 million, ahead of the GBP 300 million target. We had GBP 537 million of strategic costs, GBP 85 million of litigation and conduct costs in Q4, with no changes being made to PPI charge that we took in Q3.

Within impairments, our Q4 charge of GBP 160 million represents 19 basis points of gross loans in the quarter. And while we have experienced more single name charges in Commercial Banking, we have not seen any material signs of a deterioration in trend of our loan books. We maintain our guidance of a through-the-cycle impairment loss rate of 30 to 40 basis points. But note that based on core economic forecast, we do expect to be slightly below that level in the medium term.

Our tax charge includes an GBP 86 million charge relating to reducing the carrying value of the deferred tax assets within NatWest Markets in respect of losses in the U.K., coupled with the tax credit relating to the FX recycling adjustments. Headline Q4 attributable profit was GBP 1.4 billion. Excluding the FX recycling gains, Q4 attributable profit was GBP 176 million.

On returns, the full year headline RoTE was 9.4 percent, which included significant litigation and conduct charges as well as strategic costs. Excluding these recycling gains, the RoTE was 4.7 percent for the year and 2.2 percent

for the quarter. In the appendix, there is a slide that shows you the full year results excluding the FX recycling gains. These are a more sensible base from which you should forecast from.

Q4 NIM was 193 basis points. This was 4 basis points lower than Q3 2019, primarily reflecting competitive pressures in the mortgage business as front book margins naturally remain lower than back book. U.K. PB NIM decreased 12 basis points in Q4, with a very strong mortgage front book volumes of GBP 10.4 billion in the quarter. This clearly has had an impact.

The positive revenue impact of this additional volume offsetting margin pressures that we saw in Q3 has continued into Q4. As we've talked about previously, our front book new-to-bank mortgage margins have been in the range of 80 to 100 basis points this year. In both Q3 and Q4, we were slightly above that and we would expect to continue to operate within that range into 2020.

Within one-offs, we have 2 compensating items that you should understand at business level – a 4 basis points negative in relation to the customer behavior or life adjustment in Personal Banking that we spoke about at Q3; and coincidentally, a 4 basis points positive in Commercial in relation to customer repayment charges. So while the impact is 0 at group, the numbers are, of course, important at a business level.

Leaving the P&L and moving on to balance sheet growth. Our lending across UKPB, Ulster, Commercial and Private was 3.7 percent in 2019. This is comfortably ahead of our 2 percent to 3 percent target.

Ulster had a strong performance, reflecting good lending in both retail and commercial sectors, partially offset by concluding the sale of a portfolio of nonperforming loans and the continued reduction of the tracker book mortgage of GBP 0.7 billion – EUR 0.7 billion, forgive me, in the year.

Private net lending increased by GBP 1.2 billion or an impressive 8.4 percent, mainly due to growth in mortgage lending. And finally, on RBSI, net lending increased by GBP 0.8 billion or 6 percent. This includes a business transfer of

GBP 0.5 billion from NatWest Markets, along with higher volumes in the institutional and local banking.

Looking at U.K. Personal and Commercial Banking loan growth in more detail. Mortgage new business market share increased to approximately 12.5 percent in 2019, supporting a stock share of 10.2 percent, up from 9.8 percent in 2018. Q4 represented the strongest mortgage lending in 2019 and the best growth in the quarter in many years. Gross new mortgage lending was GBP 10.4 billion or in Q4, representing approximately 15 percent new business market share.

While we saw a slight movement in new mortgage front book loan to values, which were 70 percent in Q4 2019 versus 69 percent in 2018, we are very comfortable with the level of risk that we are taking as we grow the book. Momentum also continued in personal advances and credit cards, increasing by 11.8 percent and 7.5 percent, respectively.

We're attracting new customers to the bank. In 2019, we added 60,000 personal current accounts in net terms. Commercial lending remained broadly stable as planned reductions were offset by growth across the business.

Within Business Banking, SME, mid-corporate and specialized business lending increased by GBP 1.1 billion during 2019 or 2.1 percent, and we have done that without compromising on risk appetite or lending margins and with commercial RWA intensity down from 76 percent at the full year to 71 percent currently.

Looking forward, we continue to target net lending growth across our retail and commercial businesses at attractive returns. Crucially, we are writing new business within our risk appetite and focusing on intelligent risk taking.

Overall, we believe that this is a good performance in lending growth as we continue to deal with a range of uncertainties in the economic and regulatory environment, and it is a testament to the strength of our customer businesses.

Let me spend some time on capital. We have ended the year with a robust 16.2 percent CET1 capital ratio. This was partially driven by lower RWAs of

GBP 179.2 billion, below the guided range of GBP 185 billion to GBP 190 billion, which is a result of continued strong capital management and modeling improvements in our commercial business, and a reduction of market and counterparty risk in our NatWest Markets positions during the quarter.

Excluding the impact of the Alawwal merger and PPI, we generated 110 basis points of capital from profits in 2019 and 60 basis points from a reduction in RWAs and other capital movements. Our diluted year-end TNAV was 267p, down 19p on 2018, which is largely as a result of the capital distributions we have made during the year.

So to summarize the full year 2019 results, we continue to execute against the key pillars of our plan. This year, we have grown our lending by 3.7 percent, exceeding our 2 percent to 3 percent target. We have reduced costs by a further GBP 310 million versus a GBP 300 million target. We've generated 110 basis points of capital from profits, excluding Alawwal and PPI. And we have reduced RWAs by GBP 9.5 billion, reflecting continued capital optimization.

And finally, as you know, we are well placed to participate in any future government sell-down in 2020, and we would hope that this is the start of a multiyear buyback program.

And with that, let me hand over to Alison to talk more about the future.

Alison Rose: Thank you, Katie. Today marks the start of a new era for our bank. As Howard mentioned, we have announced our intention to change our parent company name to NatWest Group plc. And we're also announcing our new purpose: To champion potential, helping people, families and businesses to thrive. This means recognizing that the way people live their lives has changed and that people now task business with a broader set of expectations, looking to companies not only to deliver financial performance but also benefiting customers, communities and shareholders.

At the same time, and to ensure the bank is well placed for the future, we are taking action to improve our customer proposition, taking out cost, injecting

greater discipline in our approach to capital allocation and refocusing NatWest Markets to reduce RWAs by almost half. Taken together, this will result in a safe, simple and smart bank that will generate sustainable returns for our shareholders. And let me take you through some of the details behind our plan.

Firstly, we have a very strong foundation in place from which to deliver our plans. We are a leading U.K. and Irish Bank with 19 million customers, supporting people, families and businesses to achieve their ambitions to grow and to keep their assets safe and secure.

In the personal bank, we are proud to have supported over 40,000 first-time homebuyers. And indeed, our 2019 mortgage performance was the best in many years. Our commercial bank supports 1 in 4 U.K. businesses, and we supported over 65,000 new businesses last year. We have a robust balance sheet and a capital-accretive business. This broad customer base, good market positions, strong culture and a strong balance sheet provides a clear springboard for our strategy – A bank that is safe, simple and smart.

In every area of the country, our professionally qualified staff in branches, call centers and delivering specialist support are working hard to meet the needs of customers and regional economies. Indeed, GBP 6 in every GBP 10 we lent to U.K. mortgage and SME customers was to regions outside of London and the Southeast. We are the biggest supporter of manufacturing with 29,000 customers in this sector. And we provide support to all businesses, from start-ups to the largest corporates, to help them thrive, contributing to economic growth across the country.

Our 12 accelerator hubs deliver market-leading advice and support to entrepreneurs. And our regional board network ensures we are well connected to the local market, listening, learning and reacting to the key customer needs and issues in the local economy.

Put together, our deep relevance across the U.K. and Republic of Ireland provides a powerful local platform for serving customers and meeting their changing needs. And there is no doubt that the coming years will bring

sweeping changes to the way our customers live their lives and radically reshape their communities.

We are actively getting ahead of these structural long-term shifts to ensure we stay relevant to our customers and position the bank for the future. For example, demographic trends show an aging population, with over half of potential future retirement income locked in properties. The number of private renters under 45 years of age are expected to overtake mortgage holders by 2029, which will have a knock-on impact on the mortgage market.

The nature of work is being reshaped with up to 16 percent of U.K. adults expected to be self-employed by 2025 and almost 3 in 10 jobs at risk from automation. Upskilling and reskilling will be critical. And climate change is a profound threat, with 85 percent of Britons concerned by it.

Communities and families expect organizations like ours to react and take a leading role in addressing these changes and the impact it will have on their lives and communities. Against this backdrop, we see clear commercial opportunities for us as a bank if we stay close to our customers' changing needs and are at the forefront of helping them navigate these complex issues that face us all.

Our success in the long term requires us to embrace these challenges, which will be good for our business, good for our customers and good for our shareholders. We do not exist simply to deliver financial products, our actions have an impact on all our stakeholders and our ongoing license to operate requires us to take a broad view.

We will support our customers more effectively through their lives. We will use our insights about customers at each life stage to adapt our propositions and preempt their needs. And we believe this will unlock significant growth opportunities.

We will reengineer our systems and processes to become a simpler bank to deal with. This will result in improved customer and colleague experience as well as boosting efficiency.

And we will use our innovation assets and leverage partnerships to power our strategy. We recognize we can accelerate our execution and create better solutions if we look beyond our own boundaries.

And we will take a much sharper approach to capital allocation, focusing our franchises more tightly against our customer priorities. The actions we lay out for NatWest Markets are a good example of this.

Getting this right will ensure we are well positioned strategically, operationally and financially, enabling us to deliver on our RoTE targets of 9 percent to 11 percent and CET1 ratio of 13 percent to 14 percent in the medium to long term.

Our purpose will create longer-term, deeper relationships with our customers. And when our customers succeed, our economy thrives and we will succeed as a result.

We have looked externally and worked closely with a blueprint for better business as we've shaped our purpose, directly connecting our purpose with our core values. And this will sit at the heart of our core decision-making, and we will aspire to live by it every day. We build on a rich heritage of embedding these values in our day-to-day actions, and we are amplifying them and holding ourselves to a higher standard today and into the future.

We've also embedded purpose into remuneration, starting for myself, for my leadership team and for our broader organization, and we will be held accountable for delivering it. As Howard mentioned, this is the start of a longer journey, and we commit to moving the whole organization forward in this way.

In line with our purpose, we are focusing on 3 core areas where we believe we can make a unique contribution to the broader issues that are impacting the lives of our customers and communities. These are addressing barriers to enterprise and business creation; skill building, particularly around financial confidence; and climate change and supporting the necessary transition to a low-carbon economy.

On enterprise, we're already the largest supporter of U.K. business and offer a wide range of services to those who either want to start a new business or scale up. Indeed, almost 19,000 entrepreneurs have benefited from our various programs, and we have launched a GBP 1 billion fund focused on female entrepreneurs.

We are now setting targets to support more aspiring entrepreneurs, helping to create an additional 50,000 new businesses across the U.K. by 2023 and supporting over 0.5 million people to consider entrepreneurship as a career opportunity, with a particular focus outside of London and the Southeast.

On learning, we will continue to take a leading role in helping people improve their financial confidence and well-being. We have set targets to reach 2.5 million people each year to build capability and are committed to helping our customers increase their savings. And we will also continue to build skills in our front line and ensure young people have better access to opportunities. And to do so, we are extending our digital apprenticeship program across the country.

And finally, on climate change. This is the defining issue of our generation. We have a responsibility to play an active role in helping find solutions. We know this is increasingly important for our colleagues and our shareholders. And as a bank, that also means helping our customers make the necessary transitions.

Today, I'm setting a bold new ambition to be a leading bank helping to address the climate challenge by making our own operations climate-positive by 2025 and driving a material shift in our financing activity over the next 10 years as we support the transition to a low-carbon economy.

I want to be absolutely clear, I'm setting this bank up to take the 10-year view and matching our ambitions accordingly. We are setting ourselves the challenge to at least halve the climate impact of our financing activity by 2030.

We are also determined to lead on the industry-wide collaboration that will be so critical to influencing and financing the transition to a low-carbon

economy. We know that there will be significant investment required to support this transition. The International Energy Agency estimates a doubling of the annual global energy sector investment, and we want to be at the forefront of making that happen.

There is a clear market appetite to shift to more energy-efficient buildings as well as for greater use of renewables and electric vehicles. However, demand is not being met with supply. Our strong market positions and expertise in these sectors, requiring transitional investments, be it agriculture or transport, means we are well placed to play a leading role in this transformation and the financing requirements.

As we set our bold ambition in the short term, we have put in place the following targets, which we will evolve as solutions develop.

In order to help accelerate the speed of transition, we will contribute by moving away from coal financing activity, engaging with our customers as we do so to help them. We will also support 50 percent of our mortgage customers to achieve an EPC band C rating for their properties by 2030. To champion climate solutions by 2022, we will double our funding and financing support to sustainable energy to GBP 20 billion. And we will transform the impact of our own operations with a commitment to be climate-positive by 2025.

In the context of the structural shifts I discussed earlier, we must be better for our customers at every life stage. By acting purposely and taking a life cycle view, we will better preempt our customers' needs.

For instance, it is notable that 85 percent of businesses in the U.K. are family businesses. These are customers who interact with both our personal and commercial businesses, and we need to be able to serve them seamlessly. We also recognize the growing number of self-employed and gig economy workers and the different ways they want to access short-term borrowing, and we are working to reflect that in our propositions.

In addition, people are living longer, requiring more income in retirement, creating opportunities for decumulation propositions to help unlock wealth

tied in property. And we also see growing demand for investment products from our mass affluent customers, and we are enhancing our digital wealth propositions and evolving our premier proposition to meet these needs.

Our scale customer franchises in Personal, Private and Commercial enable us to capture the value of these customer insights. We see a number of areas of opportunity, for instance, across short-term borrowing and investments for our personal customers, and in fee-based products and adjacent services, for our business customers. We believe these opportunities allow us over time to protect and diversify our income in the face of ongoing economic uncertainties and disruption.

Consumers also want their bank to be simple to deal with, and this is reflected by the growth in digital, which is now the predominant channel for our customers. However, helping our customers means being there when they need us, both in the digital world but also to evolve our physical interactions. In 2019, more than 70 percent of our personal customers were digitally active. And in the commercial bank, this was more like 90 percent.

For many customers, speaking to an adviser will always be required in certain situations. We have over 16,000 physical points of service, be it branches, post offices, community bankers or our mobile brands, and we will continue to evolve our physical footprint and how we use it.

We're also improving our support to vulnerable customers through better use of data, sensitive expertise and human support networks. And our strategic partnerships, for example, SafeLives, to help tackle financial abuse, financial hardship and later-life learning.

We do, however, remain too complex, and this negatively impacts the experience of our customers and our colleagues and it is highly inefficient. We are going to focus on simplifying and reengineering our processes, which will make us a simpler bank to deal with for our customers, reduce costs and, over time, support income growth.

We're driving great reduction of our digital tools and equipping our colleagues to support customers in successfully changing how they interact with us. We

are continuing to invest in our systems and using predictive analytics to reduce handoffs and eliminate stalling points that drive complexity and costs that can also result in lost income. These actions will help ongoing operating cost reductions in our business and contribute to our GBP 250 million cost reduction target in 2020.

We will also continue to innovate and look to partner with third parties to develop solutions for our customers in this period of uncertainty and disruption. We're starting to build a good track record in innovation delivery. Over the past 2 years, we have launched to market a digital lender, Esme; a business bank, Mettle; a personal bank, Bó; and a digital HR adviser, Path, amongst many others.

We're also very proud of our reentry into the merchant acquiring by our new proposition Tyl, which is an innovation that is already making a difference to our customers. Working with partners, we identify the customer need and design Tyl to make it easier for customers to run their business, straightforward onboarding, simple pricing, smart data insights and next-working-day settlement recently launched. There is positive customer advocacy, over 1 million transactions processed and over 1,000 merchants onboarded, and this is a really positive start.

At the same time, however, we will remain highly disciplined in how we approach both innovation and partnering. It must be matched by the financial discipline to call time on ventures that aren't delivering sufficient impact for our customers and our shareholders.

Turning to NatWest Markets. We have taken the decision to refocus this business. We'll provide solutions for our core customers, which will result in markets having a sustainable future within the group. We assessed various options and arrived at this decision to reflect our customers' needs and the challenging returns in this business.

As a result, we plan to half the size of the business by RWAs to circa GBP 20 billion over the medium term. Once the restructuring is complete, the business is expected to comprise of around 10 percent of the group's RWAs from its

current level of 21 percent. Our current plan assumes CET1 capital allocated to NatWest Markets will reduce by circa GBP 3 billion. And we've also seen this reduction to capital will be capital ratio accretive in year 1 and through the transition plan. And we will continue to refine the plan over the transition period.

Sharpening our capital discipline and focus means we need to be much smarter in how we run our businesses across the group, and this is broader than NatWest Markets and includes parts of our commercial bank and how we get the best out of Ulster Bank.

The restructuring of NatWest markets has been centered around the needs of our corporate and institutional customers. We want to remove complexity and be a simpler bank to deal with. A slimmer product suite will serve our focused set of core customers across financing and risk management, an operating model that is better integrated with our core banking infrastructure and better aligned with the group, less duplication and better service.

This is a multiyear restructuring plan, but we have a strong track record of execution and a robust balance sheet that puts us in a position to make these decisions. We expect illustrative returns for our corporate and institutional customers to be around 8 percent in the medium to long term.

In summary, we are putting purpose at the core of everything we do. And doing so will create a sustainable and resilient long-term future, with medium to long-term RoTE of 9 percent to 11 percent on a CET1 capital ratio of 13 percent to 14 percent. We will support our customers at every stage of their lives, thereby building deeper, longer-lasting relationships and greater revenue opportunities to counteract a low rate environment and continuing disruption.

In 2020, we'll target greater than 3 percent lending across our retail and commercial businesses. We commit to being a simpler bank, resulting in a cost reduction target of GBP 250 million in 2020. And we will continue to invest to create future revenue opportunities through innovation and partnership to open up the bank and bring the best solutions to our customers.

And we are refocusing our NatWest markets business to meet the needs of our customers and to optimize group capital and returns.

We will be a safe, simple, smart bank that will help all of our stakeholders succeed.

And I'll now hand over to Katie to talk through some of the key financials to support our strategy.

Katie Murray: Thank you, Alison. Alison has reminded you of the solid foundations of our customer businesses and we will start the next chapter of our journey from. Over the next couple of slides, I will cover the financial aspects of our future plans.

We have a sound balance sheet. We continue to invest in transforming the bank. We have a proven track record of cost reduction. We will refocus NatWest Markets on serving our corporate customer needs. And finally, we will continue to generate and distribute capital from a financially and operationally resilient bank, targeting a medium- to long-term RoTE of 9 percent to 11 percent, supported by a capital ratio of 13 percent to 14 percent, again, in the medium to long term.

We start the year with a solid set of balance sheet metrics. Our CET1 ratio is 16.2 percent, comfortably above our end 2021 target of 14 percent, supported by our strong organic capital build. Our LCR for the year was 152 percent and a total liquidity pool of GBP 199 billion. Our LDR remains a healthy 89 percent, with our customer lending supported by a solid core deposit base. And we will continue to manage our liquidity position in response to market conditions.

This is a strong balance sheet by any measure, which has also been well demonstrated in the recent Bank of England stress test.

Looking at our customer businesses. They have performed well in a challenging environment, and we enter this new strategic phase from a position of strength. UK PB delivered a solid ROE of 21 percent, excluding

PPI, driven by strong lending growth, offsetting margin pressures, particularly in the latter part of the year.

Ulster's operating performance is improving. We are seeing good lending growth and front book margins. Legacy trackers continue to reduce, and costs are coming down. NPLs continue to decline and we're on track to be at the – around 5 percent level, in line with the EBA guidelines by the end of this year.

We will build returns from here. However, as we have said, Ulster's repositioning will take time. But we are pleased with the progress that Jane and her team are making, including the return of a further EUR 500 million dividend that was delivered in December to the group.

We are the leading commercial business in the U.K., banking 1 in 4 of all U.K. businesses. Our lending remained stable this year against the backdrop of increased uncertainty. We are growing in the areas we like. Business banking, SME, mid-corp and specialized lending were together up GBP 1.1 billion or 2.1 percent this year.

Private continues to be a very successful business. 15 percent ROE in 2019, income is up, other expenses are down and both lending and assets under management are growing and present further opportunities for growth.

Turning to RBSI. This is a small part of the group but it is a business with excellent returns, 26 percent ROE in 2019. We have made strong progress in the funds business over the last year, and we see more opportunities to continue to grow.

I will cover NatWest Markets in more detail on the following slides. But together, we have a strong set of connected businesses from which to build and grow.

Turning to investments. We have consistently invested over GBP 1 billion in our business. What has changed is the mix of the spend. Over the last few years, our spend has been dominated by mandatory and regulatory programs, including things like ring-fencing. We are now investing more in new

technology and to really change our focus through innovation in our core businesses.

If you look at something like mortgages, back in 2014 it was all about the mortgage margin – mortgage market review and getting ready to fix our GMS system. What we're now spending resources on in mortgages is new capability and improving our customer experiences. We've talked a lot about the paperless mortgage journey before, we have now also automated the way that more of our customers get their property valuations, making it quicker and easier for them to get their mortgage offers.

Looking at how this business is changing. Back in 2014, only 26 percent of UKPB sales were digital. Today, it's 53 percent. 63 percent of personal unsecured loan sales, 66 percent of credit card accounts and 56 percent of current accounts were opened by the digital channel.

Going forward, our investment will be directed towards our strategic priorities where they can have the most impact, focusing on growth to future-proof the business and on reducing costs to offer shareholders and customers better value.

We've built a very strong track record on costs. GBP 4.5 billion out since 2014. That's over 1/3 of our starting cost base. We're very focused on taking costs out as quickly as we can without damaging either our customer businesses or our control environment.

When we talk about cost takeout going forward, we will be looking at other operating expenses, excluding operating lease depreciation. So this year, we will take out a further \$250 million or 3.6 percent of our cost base, reducing our other operating expenses to GBP 6.7 billion, excluding the operating lease depreciation. If we were to look at our 2019 reduction on a comparable basis, the 2019 cost takeout would have been GBP 327 million.

Going forward, cost takeout will mostly be about process reengineering. That's a much better quality cost reduction. It reduces the run rate much more immediately versus the large-scale property reductions, which take time to

pay back. But of course, it is also a kind of cost reduction that's more difficult to achieve. We will focus on transforming our top customer journeys.

We will deliver this by building on our successes to date and enhancing the way we work to accelerate delivery. Importantly, this process reengineering will allow us to take costs out and result in better and simpler customer experiences and improve satisfaction.

We're also, today, updating our guidance on strategic costs. These will be GBP 0.8 billion to GBP 1 billion for the group, including NatWest Markets in 2020. And we expect these to trend to around GBP 300 million over time. Our focus is on and will continue to be on reducing the cost base of this business.

So let me walk you through the details around the NatWest Markets refocusing Alison has talked about. This business will be going from 21 percent to around 10 percent of the group's RWAs. It will be refocused on activities which are directly supporting our core customers, significantly reducing the capital allocated to our Rates business.

Importantly, the areas that we are reducing are where we have experienced higher volatility, as proven by the 2019 performance. So at the end of this, we will have a customer-focused business with a more stable and consistent income stream which supports our position as the leading supporter of British businesses.

So to give you the numbers. We have previously guided you to NatWest Markets RWAs to be up to GBP 39 billion. Our current plan assumes that the NatWest markets in the medium term will be around GBP 20 billion of RWAs, utilizing half of the GBP 6 billion of capital it does today. We expect this capital reduction to be CET1 capital ratio-accretive in year 1 and over the course of the transition period. And we will, of course, continue to refine our plan over this period.

NatWest Markets' restructuring and disposal costs will be GBP 0.6 billion in 2020. We estimate GBP 0.4 billion of these costs will come through as disposal losses in the income line and GBP 0.2 billion as strategic cost within the cost line. As some of you may have seen this morning already, NatWest

Markets legal entity has a CET1 ratio of 17.3 percent at year-end 2019 or GBP 6.1 billion of capital, which is above its 15 percent target. So it is well capitalized as we start this process of change.

You also heard Alison talk to our view of customer via a corporate and institutional customer lens. This view takes our large and mid-corporate customers, combined with the NatWest Markets product suite that they use. We target an illustrative ROE of this customer view in the medium to long term of around 8 percent, excluding strategic and conduct costs.

It is important to understand the results we get from servicing our customers across the bank and not just by individual businesses. And so I will share this view with you periodically. We will, however, continue to report the businesses of Commercial and NatWest Markets to you as the business view.

Turning to capital generation and distributions. We have ended the year with a robust 16.2 percent CET1 ratio, proposed an ordinary dividend of 3p and a special dividend of 5p. We are today updating our medium- to long-term CET1 ratio target to 13 percent to 14 percent as key uncertainties have reduced and reflecting a more normal retail and commercial focused bank with a smaller and less volatile NatWest Markets.

That's a medium to long-term target, and we will get there first by getting our capital down to 14 percent at the end of 2021. To achieve this, we will use a combination of distributions, as the Board, Alison and myself feel appropriate at the time, all using at their base the continuation of an ordinary dividend payout ratio of around 40 percent of attributable profits.

As you are aware, there are a number of capital headwinds in the next couple of years. These include things like RWA inflation, we said we expect the Bank of England mortgage floors to increase RWAs by GBP 10.5 billion at the end of 2020; pension contributions linked to dividends, with payments starting from 2020, which are capped at GBP 500 million per year up to a total of GBP 1.5 billion, noting that we have reflected year 1 in our 2019 CET1 ending position with a capital impact of 20 basis points.

Basel 3 amendments, which we anticipate to be at the lower end of the 5 percent to 10 percent range we have talked about and phased across '21 to '23, with the timing and details still subject to regulatory uncertainty. And as we have discussed, we aim to take around GBP 18 billion of RWAs out of NatWest Markets after consideration of the Basel 3 amendments.

I am conscious we've given you a lot of numbers today, so I thought it might be helpful to put all of our financial targets and outlook on one page based on the economic outlook as we see it today.

Starting with costs. We are targeting to take another GBP 250 million or 3.6 percent out in 2020, excluding the operating lease depreciation. And we would expect ongoing cost takeouts in the medium to long term.

We will do this while continuing to invest around GBP 1 billion in the business per annum, which as we go forward becomes more and more allocated to long-term value investment spend versus mandatory, remediation and regulatory spend.

On lending, we are targeting over 3 percent across our retail and commercial businesses in 2020. On capital, we're targeting to get to 14 percent by end 2021, on our way to our updated medium- to long-term target of 13 percent to 14 percent.

Looking at returns. In the current economic and low rate environment, we believe that in the medium to long term, NatWest Markets group – NatWest Group, forgive me, will be generating a return of tangible equity in the range of 9 percent to 11 percent.

There are also a few items in our outlook statement I want to ensure that I have landed as well. Throughout last year, we talked much about the regulatory changes in Personal Banking and their expected impact on income in 2020. You should think of this number as around GBP 200 million in 2020 and growing to a full year run rate of GBP 300 million in 2021, depending on customer volumes and behaviors and responses to the change.

We expect to incur GBP 0.8 billion to GBP 1 billion of strategic cost during the full year 2020, resulting from the refocusing of NatWest Markets and the continued resizing of the group's cost base.

On impairments, we maintain our guidance of a normalized long-term loss rate of 30 to 40 basis points. However, the potential impact on the real economy and broader uncertainty could, of course, affect our loss – our credit loss outcome. And this rate from single-name and sector-driven events always remains.

Turning to capital. We expect to end 2020 with RWAs in the range of GBP 185 billion to GBP 190 billion. And in the medium term, within NatWest Markets, we anticipate that RWAs will reduce by around GBP 18 billion.

Finally, the key points of our investment case. Our purpose will lead to a long-term sustainable business. We have solid customer businesses with an ability to grow. We will become simpler to deal with. Our business model is powered by innovation and partnerships. We have a robust balance sheet with strong capital generation and returns to our shareholders.

And with that, I will now hand back to Howard to host some Q&A.

Howard Davies: Thank you very much, Katie. You've been very patient through a rather long set of presentations, but we can now move straight to questions. And you have – equally in the past, if you can give your name and institution, that would be helpful. It could be camera B.

Jenny Cook: Jenny Cook, Exane. Could I ask for a little bit more color on the ongoing operating cost takeout? Because if I take your GBP 12 billion revenue base, and I pro forma for a significant loss of the rates income, the regulatory impact both 2020 and 2021, and the fact that you're factoring in a rate cut, it gets me closer to around an GBP 11 billion revenue base.

So in order to kind of reach your – certainly the low end of your rates targets, you're looking at operating cost takeout of around 3x what you have outlined for 2020. So if we could get a little bit more color in terms of kind of that ongoing operating cost takeout, that would be quite useful.

Secondly, just on the phasing. If you give a little bit more color around the phasing of when you would expect to lose those revenues in NatWest Markets takeout – sorry, NatWest Markets. That would be quite useful just to kind of size up the run rate PBT drag that we're going to have coming through over the next few years.

Howard Davies: Katie.

Katie Murray: Yes, sure. Thanks very much, Howard. So if we look at our cost takeout, what we have done in the last couple of years is a number that's been around 4 percent. The GBP 250 million number is 3.6 percent. We would expect to kind of continue those kind of levels as we move forward. We certainly don't see this as the end of the cost journey. So I would continue to kind of take them forward within your model.

In terms of the phasing within NatWest Markets. What we've said today is it will take GBP 6 billion to GBP 8 billion of the revenues out in 2020, with an intention to get down to GBP 20 billion over the medium to longer term.

When you look at the revenues within your financial supplement, and I know we gave you about 1,600 bits of paper this morning, but Page 31 is a really good place to go in the financial supplement when you get back to the office. What it does is it shows you the revenues split out by currency, financing and rates. And what you can see is the currency and financing business is relatively stable over time. We wouldn't expect that to change.

When I look at the Rates business, it's gone from 650 to 450 over the last couple of years. That's the business that we said that we're going to shrink substantially. So I think from there, you kind of – with the takeout this year and the plan when you can – you can kind of estimate what that might mean for revenue in terms of phasing of that business. I think that was it.

Howard Davies: Thank you. Next. Yes, third row, first one.

Joe Dickerson: It's Joe Dickerson from Jefferies. You referenced at the – I believe it was the half year results from recycling of legacy instruments from NatWest coming

through and being a benefit to income. And you referenced also on that commentary that I think Q1 2020, there was a sizable chunk. I mean, how can we expect that to impact the NIM in the near term?

I guess, secondly, a question for Alison, which is, we heard a little bit about repositioning of Ulster. But what's really the strategic future of Ulster?

Alison Rose: OK. Well, why don't I take Ulster and Katie can answer your first question. I mean, Ulster Bank, Jane and her team are doing a very good job there. You can see the progress that we're making. And I think the plan to continue to restructure that business is ongoing. We've seen our tracker books coming down.

We've now started to get capital out of that business with a dividend at the end of last year. And our nonperforming loans are coming down. We're also getting some growth in the mortgage business there. So I think what I would assume on that business is a continuing, steady restructuring of that business, and Jane is – and her team continue to refocus that business.

Katie Murray: Yes, sure. Thanks, Alison. In terms of the recycling of some of the legacy debt. So you'll recall that we – about GBP 1.9 billion of that came off the books at Q3, which was the main portion. At the end of Q1, there's another GBP 1 billion. And then over Q2 and Q3, there's actually another GBP 1.1 billion. And in terms of coupons we pay on that, it's about 5.5 percent. So we'd expect to replace that.

Numbers are kind of half that level within NatWest Markets. The bad news is, Joe, it didn't have any benefit on NIM because you'll recall that last year, I moved the NIM to exclude NatWest Markets because of the fact that it gets its expense and net incomes through NII, but its income comes through in noninterest income. So it will not itself have a direct pick up on the NIM number. Thanks, Joe.

Howard Davies: And next – immediately next to Joe, I think.

Raul Sinha: It's Raul Sinha from JPMorgan. Maybe a couple of these. First, a strategic one. I'm really struggling to understand the NatWest Markets stand-alone

division as a strategy, which is half its size currently. And I wonder if you can talk about the option of kind of merging that with Commercial. It was the only reason that it stands outside the ring fence. And that is why you have to sort of maintain this division because, obviously, it is going to distort the profitability of the group significantly. So that's a strategic question.

And I guess, related to that, what should we think about – I don't know if, Katie, you got your hands on the P&L. As Ross used to give us GBP 1.3 billion of top line, GBP 1 billion of cost. What is the sort of future outlook for NatWest Markets because I think that is something the market would really like to understand to get a sense of your long-term RoTE?

And then I've got a second one, just very quickly on – sorry, maybe a third one. We are supposed to be able to count. On capital. A lot of your excess capital is trapped in Ulster. If I look at – if I assume that GBP 10 billion, GBP 10.5 billion of RWAs is going to eat up most of your surplus capital outside of Ulster, then essentially getting down to 14 percent CET1 requires you to get capital out of Ulster. And what are the risks to that strategy in the next 2 years?

Howard Davies: I think, in a way, you answered your first question yourself on the ring fence. I mean, there are certain products and certain customers with whom we cannot – in which we can't transact or with whom we can't transact within the ring fence. So that requires you to have some of it. But I think as we've said, we are increasingly trying to look at it from a corporate institutional banking perspective, whilst respecting the ring fence, but nonetheless looking at the totality of the business we do with those customers and bringing those teams more closely together than they have been in the past. So that's part – first question. Alison?

Alison Rose: Yes. And what I would just answer to that is, obviously, NatWest markets, when I took over was one of their key strategic areas of focus, which is why I launched a strategic review in that business. And we looked at all of the options. So as Howard said, the ring fencing is key here. But we think the shape and size of that business is really then going to provide the products and services to support our core businesses, and we think that is the right shape

and size going forward. And obviously, that was one of the first things I addressed. Katie, do you want to pick up there?

Katie Murray: Yes. So I'll try and give you a rough look like P&L without actually giving you one, because clearly, I would have given it to you if I was going to – but let me help you...

Alison Rose: Thank you for the questions.

Katie Murray: Thank you for the question, but let me help you a little bit. Look, it is complicated. I do accept that. So if we look at there today, they earned GBP 1.1 billion in terms of core income. As you look at the currency numbers and the financing numbers and the revenue share, I would look at them going forward, modeling what you think economics might do to them and kind of take them forward as you go through. You then expect the Rates business to substantially decline.

When we look at this business in the sort of medium to long term, I guess, we view as – is basically a breakeven type business. Your incomes will reduce accepting the kind of the RWA change, and your costs are more or less going to kind of match it. So if you can kind of crack the income code, you'll get to kind of a cost picture.

And then it's important to see – actually, and this is why the corporate and institutional customer view is really important. The reason we have this business is absolutely, as Alison says, it's so important for the way that our corporate customers interact. In the ring fence, we're not looking to change it, but it makes the view of it a little bit unrealistic.

When we've talked about that, that being an 8 percent returning business after we do the kind of the resizing, the way I would think about that is there's GBP 20 billion of RWAs that sit within NatWest Markets. And it's about GBP 40 billion of the RWAs that are allocated to corporate, which are people that actively use that. And that combined kind of returns are an 8 percent return in these economic kind of conditions. So I'll probably let you kind of build something up.

You also asked about Ireland in the trapped capital. We got EUR 500 million from Ireland in December. And so that was something we're very, very pleased to receive coming back. If I look back to 2018, we also received a significant dividend in 2018. I think the reality in terms of the Irish story, it's slow, but it's delivering.

And so we are getting the capital out. I would expect to get more out later this year. And I probably expect to get more out again into next year. So I think it's a kind of a question of patience rather than deep concern.

Howard Davies: I'm going to take one from – in the ether because it was very much adjacent to what we've just been talking about.

From Gary Greenwood of Shore Capital is if you only expect to achieve an ROE of 8 percent for the C&I business over the medium term to long term, why don't you just close it down?

Alison Rose: So as I – thank you for the question. So as I said, NatWest Markets is – it was the most important thing on my desk when I took over as CEO. And having run the strategic review, I think this is a business that provides key products and services to our very strong commercial, corporate and institutional set of customers.

We think that the products and services reshaped, delivered in a different way, mean that this is the right shape and size for the business. We're obviously moving more of our capital into our retail and commercial franchise, which is a higher-rated, more stable income business. I think 8 percent, based on the current economic outlook and assumptions, is a realistic scenario. And therefore, I'm comfortable that this is the right shape and size to support our core business.

Howard Davies: I think we should go over here. Second row. Thanks.

Martin Leitgeb: It's Martin Leitgeb from Goldman Sachs. First, on capital distribution. Just looking back a year ago, the quarter 1 ratio was 16 percent. The target for '21, 14 percent I think the implicit assumption was a kind of a gradual step down

over the years. Today, the quarter 1 ratio is up. The dividend is slightly less than consensus.

But obviously, there's the focus on the buyback during the year. I was just wondering, is there anything which, according to your plan, has slowed down somewhat the kind of distribution of excess capital, whether that's a Ulster, whether that's something else in terms of headwind? Or is this – should we just think of this as being bulky and the trajectory to the 14 percent 2021 is still pretty much unchanged?

And the second question is just on the exit costs in NatWest Markets. And again, thinking back when you went from, I think, GBP 100 billion or GBP 107 billion, NatWest Market's down to around 30. They kind of implied the exit cost for around 5 percent of risk-weighted assets all in.

What you show now on, I think, it's Slide 40, is that at least the exit cost in year 1 are meaningfully higher. And I was just wondering is that just a kind of a front-loading of some of the exit costs occur earlier and we should think of only similar exit costs overall? What I'm trying to get is, essentially, what is the kind of the net capital freed up from the exercise at NatWest Markets?

Howard Davies: On the first of your questions, and I'll hand over to Alison for the second, I think that the environment – political economic environment has changed somewhat. And that since December, with the election of majority government, and with its stated aim to return the bank to the private sector, we do now see greater potential to take part in share buybacks in the short term. And we also think that, that should become a recurring feature of our distributions over a number of years. I think that is part of the background.

Alison Rose: I mean, and just more broadly on the capital distribution. No, there's nothing that we're struggling with or holding us back. We always said our capital distributions would be nonlinear. And as Katie mentioned, we have a number of positives.

We're generating capital, which is good from our businesses, which are doing that. But we have some headwinds, the mortgage floors that are coming in, their pensions, the Basel III. So we always said it would be nonlinear and

lumpy. And as Howard mentioned, we want to participate in any government sell-down. So that's the answer to that.

Howard Davies: Yes, next ...

Alison Rose: Oh, sorry, we didn't. Katie, let's bring up the exit cost.

Katie Murray: In terms of the exit cost, look, I reduced the guidance we've given you for year 1 as a good indication of what it might take to get kind of down to the GBP 20 billion of assets. We're not giving you anything more specific, and we're not kind of planning, so that would be, I think, a fair proxy. Well, obviously, we will update you, obviously, as we go through that process.

Howard Davies: Yes. Just that one. Thank you. And then (inaudible) behind you.

Alvaro Serrano: Alvaro Serrano, Morgan Stanley. I just wanted to follow up on the cost question. Katie, I think you said during the presentation that reengineering the processes was – has a faster payback. And when I look at the strategic costs, you said GBP 800 million to GBP 1 billion. GBP 200 million of that, presumably, is NatWest Markets.

But you're only expecting kind of a GBP 250 million run rate of takeout – of cost takeout. Can you maybe just give us a bit of color of what you're spending the money in or investing the money in terms of those GBP 800 million and GBP 1 billion. Which areas? And could we expect more? Or why shouldn't we expect more?

Katie Murray: So I mean, as we look at it, GBP 250 million is the target that we've given you. I think our past has said that we really do try to give you honest targets in terms of we said GBP 300 million, we did GBP 310 million. So that certainly is the number. So I wouldn't go back and take my GBP 250 million and double it or anything like that, that would be foolish, so I mean, I think – in terms of the guidance we have.

When you look at the cost, what we've done this year, we spent of the strategic costs, the GBP 1.4 billion, about GBP 500 million of that was on big property exits. We've exited about 13 big buildings around the country this

year. And those are really important things to do. They're important not just because you're exiting the building, but you're also – and you're naturally reducing headcount to enable you to exit those buildings, but they take a long time to pay back.

I mean, it's over GBP 70 million to GBP 80 million run rate we've got into this year from that GBP 500 million of spend that you do get. So there'll still be some – as I look at the kind of the GBP 800 million to GBP 1 billion, you're right, GBP 200 million is NatWest Markets. So of that piece, there's still some portions in relation to properties much more significant than it has been in the past.

Obviously, when you're doing cost reduction, you've got 3 levers. There's properties and the technology and processes within there that you – and people that you can deal with in terms of the – what you – the levers that you can pull.

We've also in our strategic cost – there's still a little bit of leftover of some of the regulatory. I think we're all surprised that the ongoing kind of payments regulation that continues to change, we had felt that we finished that last year. So there's probably – between that and the kind of cost of LIBOR, there's probably about GBP 100 billion – GBP 100 million in there that kind of really focused at some of the regulatory kind of type engagement that we continue to have to kind of deal with as we move forward.

Howard Davies: Thank you. Directly behind. Thank you.

Claire Kane: It's Claire Kane from Credit Suisse. I have 3 questions, please. The first is on NatWest Markets and the P&L development there. The quote you gave or the target to get up to 8 percent return on C&I on a GBP 60 billion base, I think that implies broadly speaking about a GBP 450 million net profit improvement.

And so if we consider the breakeven target for NatWest markets, can we assume the majority really is borne within NatWest Markets in the sense that you will take out a lot of cost there given you'll probably lose half of the GBP

450 million Rates income. You've already got GBP 200 million of surplus costs relative to the existing revenue base. That's my first question.

Katie Murray: That was 3 questions in 1, Claire.

Claire Kane: Sorry, I've got loads. My second one is just broadly speaking on the 9 percent to 11 percent group target. Can you just maybe talk us through why you have a range in there, given you had previously hoped to be above 11 percent? And if we look at your kind of longer-term GBP 200 billion RWA target for the group, that would suggest a range of net profits of about GBP 2.8 billion to GBP 3.5 billion, at 14 percent. So just wondered if that's kind of where you're thinking the group could end up in terms of earnings power.

And my final one is just a really small follow-up on Ulster Bank capital distribution. Good to hear you're expecting a further dividend at the end of the year. Is that really just dependent on delivering the 5 percent NPL? And then going forward, do you think there's any risk to the distribution out of that entity, given the change in political party perhaps in Ireland?

Alison Rose: OK. Thank you. So I'll start, and then Katie can pick up a few of the others. So look, on NatWest markets, as we restructure and refocus that business, we're going to significantly be streamlining the cost base in that businesses as you would expect.

As we make use of leveraging some of the capabilities that we have in the core bank as well in terms of our platforms and our technology, as we reduce our product suite and make it much more focused on our core corporate and institutional customers and as we make use of some of the technology improvements from electronic trading and such like, you will see a much smaller, simpler business in terms of supporting the corporate and institutional customers. So we will be taking quite a lot of cost out of that business as you would expect.

And we will come back and update you later in the year on those developments of those execution plans. And Robert and Paul can talk you through how they're doing on that as the business collaborates more closely together. Katie, do you want to take the next one?

Katie Murray: I'm going to try to go around and circle. And then if I missed something else, please do jump in. So I guess, NatWest Markets in terms of the numbers, certainly, there's going to be cost – significant cost takeout there. We do talk about it as a breakeven business going forward. Just to kind of try to help you on the 8 percent number.

If I look at that business today, it absorbs, with the appropriate portion of the mid- and large corp together, they're about GBP 75 billion of RWAs. They earn about a 2 percent return. By the time you reduce the NatWest Market piece, you'd expect probably a little bit of growth in the mid to large corps as well. You kind of get to a sort of GBP 60 billion type number on the 8 percent piece. So I mean, you're – as you work through the kind of income guidance we've given you what that means for the cost base. I think that will kind of help you hopefully get to some sort of the appropriate kind of answer.

In terms of the range of the 9 percent to 11 percent, we believe that, that's the right range we should be aiming for. There's a lot of things we will do in the short term. And we felt it was more appropriate to give you a range that we were very comfortable. Within there, I think, I'm sure we'll have more conversations around what you might think of income in the medium to long term. We've also tried to give you some guidance on where capital will be going in that space. We've talked about continuing cost reduction beyond this year. So we're kind of comfortable within that range is where you should think of us.

And then in terms of capital distribution. There's no link to a specific kind of transaction. You've heard us as a group a number of years ago talking about before we could deliver capital distributions, we have to – we had these 3 or 4 things that we'd agree with the PRA. We don't have that same situation in Ulster. What – I think we just need to do is continue improvement, continue commitment on our plans, and we'll get there. And in terms of risk from politics, I have to make – I'll leave that to the politicians, and then we'll see where we go.

Howard Davies: Let me just pick up that because – I mean, one, there's a considerable uncertainty about what the government will be. We have no idea at this point. But secondly, just as a factual point, this is a bank regulated by the ECB. It is not regulated for prudential purposes by the Central Bank of Ireland. And so the capital distribution is in the hands of Frankfurt, not of Dublin.

Let's go. I think we should go right to the back actually to be geographically evenhanded. We are doing some leveling up here. Yes.

Andrew Coombs: It's Andrew Coombs from Citi. I actually wanted to touch on the net interest margin. It wouldn't be complete without a question on NIM. So if I look at the decline quarter-on-quarter, you've had on a 4 basis points, actually slightly better than the prior quarter. My question is – it really comes down to 3 elements from this. The first is can you just provide the usual guidance you've given front versus back book spreads for our analysis?

The second was about Q3. You said there might be a one-off IRR adjustment. And I can't see any reference to that. So is that still to come?

I guess, the third part of the NIM is should we read anything into the fact that you've increased your loan growth numbers? What does that mean in terms of your pricing?

And then the final question. Sorry, I know there's a few here. But on the 200 number you give, the 300 exit run rate for PB, can you just remind us the split of that, the main elements and how it's deviated up between NII and IRR?

Howard Davies: Katie?

Alison Rose: Your favorite topic.

Katie Murray: My favorite topic, yes, absolutely. And I'm delighted to have 22 minutes past 10 to get there. So we look at the NIM number, you're obviously down 4 basis points, I mean, the quarter 3 basis points in terms of the competitive pressure. And 1 basis point because of the one-off that we had in Q3.

When we talked in Q3, we talked much more about the fact that actually that competitive pressure was a real blend of mortgages and also the pressure on deposits. What we didn't see in the fourth quarter was that pressure from deposits, so it really was a mortgage story, which was both the falling of the rate, but also the add-on of the greater volume that we had in that quarter.

We say that we're kind of comfortable to operate in this kind of 80 to 100 basis points corridor. And if I look at the – I think it's a full year number, it was – we roll over the whole year at about 98, 99 basis points, a little bit higher in the last couple of quarters.

When you look at the back book to the front book, our ending – exiting Q4, our back book's about 145 basis points. So obviously, we have got to remember that you don't take the whole book all the way down to 80 to 100 because there's SVR, There's buy to let. There's switchers. I always sort of say to people, think for a number kind of in between the middle of those 2, and you'll probably get a fairly comfortable piece. But not going to give you the specific detail.

In terms of the one-off adjustment, that was in relation to the negative 4 basis points we got within the retail space. So there's not something else to come. That has come through.

Loan growth. Look, I think, Les is doing a tremendous job with his team on loan growth. What's really pleasing is the volume that they've been able to do 15 percent in the last quarter, we talked earlier last year and previously that, actually, if it went to 15 percent, are we in the right place from our system and process as good as a bank?

Could we actually push that much kind of business down the pipe? And it's been really pleasing to see – we saw our NPS scores in that space and actually what we're able to push down without compromising. Not saying that we're targeting 15 percent going forward further. What we've said is our stock share, now at 10.2 percent and our kind of natural share, we're very kind of happy to take the volume. We're happy with the margins that we're earning on it and the

fact that we can get the volume to kind of offset that margin loss. So very pleased to see what that business is delivering.

And then in terms of the GBP 200 million for this year, it was the kind of the basket of differences, whether it be the overdraft, the high cost of credit review, the interchange fees on European payments, we're not really going to split that number down for you. What I would say is that think of the GBP 200 million for the year.

It comes more into impact after April than it is at the beginning of the year. And then by the time you get into 2021, you should think of it as a full year number, so close it to GBP 300 million, probably gets you into the right basis. Undoubtedly, we will call out as we go through the quarters of what we actually see kind of happening in that business.

Howard Davies: Very helpful. And I'm going to just take one – another from the Internet. Jonathan Pierce of Numis. Does the guidance just given of a GBP 250 million reduction in group costs per year going forward include the impact of lower costs in the NatWest Markets businesses being run off?

Katie Murray: Yes.

Alison Rose: Yes.

Howard Davies: Thank you. Yes, third right here, the middle.

Aman Rakkar: It's Aman Rakkar from Barclays. Just had 2 questions, actually. Just one point of clarification on NatWest Markets. You've typically historically talked about the proportion of NatWest Markets revenues that come from the commercial business. I was wondering on the new kind of target GBP 20 billion of RWAs, is it still a kind of 1/3 of revenues coming from commercial? The sense I get is that number is presumably a lot higher now. So if you could clarify, that would be good.

And I guess the second was just on Bó. Just in terms of what your intention is for that business and whether you think there's any repositioning that's required from here.

Alison Rose: Great. Thank you. So NatWest Markets , obviously, as we refocus that business and have it more focused on our corporate and institutional clients, you would expect that to be more strategically aligned. And the whole point of the refocus is we want to make it much more connected to the group and our core customers. So you will expect that to increase.

On Bó, Bó is one of suite of innovations that we have. Our strategy is always on our innovations to buy, build and partner and to test it then with our customers. That is out in the market now relatively recently. We're testing with our customers. We have a minimum viable product out there. And that will continue to evolve as we get feedback from our customers. So we'll apply the same discipline and approach as we do to all of our innovations.

Aman Rakkar: OK. Just – can I just follow up on the NatWest Market revenue then? So if 30 percent of it currently comes from commercial, are we talking about that being a kind of broadly even split now in terms of what's...

Katie Murray: I think I would take you to my favorite page or Page 31 in the financial supplement. So there, you can kind of see just in terms of currencies had GBP 432 million income in the year, financing, GBP 403 million, and the revenue share was about GBP 208 million.

Most of that revenue share comes from those businesses, which are the businesses going forward. And the reason for that is because naturally, the Rates business is so much more capital-intensive, that it doesn't fluctuate the revenue share particularly. So I think those are good kind of a good base from which you could probably get to model forward.

Howard Davies: Yes. Next on the same row. Thanks.

Chris Cant: It's Chris Cant from Autonomous. I wanted to ask about Slide 41 in your capital and RWA guidance. You've given us a GBP 200 billion medium- to long-term RWA number. And you mentioned in discussing that slide, it's – your RWA guidance, at least in relation to markets, has taken into account the Basel III amendments.

Is that GBP 200 billion number your post Basel IV or Basel 3.1 or however we're referring to it these days? Is that post that impact? Because you previously guided for that to be 5 percent to 10 percent inflation, basically, at least as an initial hit. So is that included in there? And if so, is the 13 percent to 14 percent you're now targeting over time, your post Basel IV capital targets? Because the regulator would indicate the Pillar 2A, for instance, should come down in response to the RWA inflation. And if I think about your 13 percent to 14 percent range, that wouldn't seem to take any of that into consideration.

And if I could also ask one on NatWest Markets, please. Back in the annals of history, and I'm talking about the CEO who preceded your predecessor and probably a markets restructuring to one before last, we were told to expect something like \$0.30 to \$0.50 back on the dollar in terms of net capital release from a restructuring of the markets business. So you've given us the GBP 2.7 billion gross capital release figure. I just wondered if you'd like to comment on that historical point of reference.

Alison Rose: So shall I answer the third question first? So I'm probably not going to comment on the CEO before the CEO before the CEO. I think the structure that we've given you in terms of resizing and reshaping that business and the transition plan to bring that down is what we think is a realistic plan and one that will allow us to protect the revenues and the core franchise that we want to support as well as an orderly reduction of the RWAs that are not there for the future. So you wouldn't expect me to comment on previous assumptions.

Katie, do you also want to pick up the capital?

Katie Murray: Yes, we do. Look, the capital number – look, the GBP 200 billion is a guide, it's not a target. Clearly, there's a lot of different things that kind of happen within there. What we're trying to say to you is if you look at what we know is coming, that's a fair place for you to kind of end up. So you should assume it – that does – think of what Basel III – I'm sorry, the risk department tell me it's Basel III, not IV amendments so if that helps. And then 13 percent to 14 percent should also be after those considerations.

We've tried to build all of those in. We accept that the timing may move in terms of whether it comes in from '21, '23 or a little bit later, that would have a bit of an impact on there. So I think you can kind of take it from where we are now building your NatWest Markets and building the mortgage floors and our kind of Basel III guidance. You'll get a bit of growth. You'll get to the right kind of place.

Howard Davies: Yes, second row here.

Fahad Changazi: It's Fahad Changazi from Mediobanca. Could I just ask on your 3 – greater than 3 percent lending growth? Is that primarily related just to mortgages? Or are we now looking for a bit more happening on commercial lending?

And just following on from that. Last year, commercial noninterest income collapsed and went down significantly. I was just wondering, given the election, have you seen some signs of where that might be going or any anecdotal evidence there?

Alison Rose: So in terms of our lending growth, obviously, as you can see, we exceeded our lending growth target for 2019 at 3.6 percent. And we had very strong growth, obviously, in our mortgage business, growing gross lending by GBP 33.3 billion. Our commercial business also grew in the sectors that we wanted to grow it in. We've always said that we will be very targeted in the sectors we want to grow, in the areas we want to grow, but also apply a very strong capital distribution lens to that business.

So we took out a lot of capital from that business as well. So overall, we expect retail and commercial to grow as part of our 3 percent loan growth target that we set this year. We will continue to grow within our risk appetite. And I think that is a very strong message when you look at the growth we contributed last year. The quality of the assets that we're putting on our book are within risk appetite and of a good credit quality. So we are very cognizant of that, so growth across both sides from that perspective.

In terms of pipeline and how the business is performing since the election. We had a very good finish to the year, and we are seeing good volume growth continuing. I think any improvements in business confidence and reduction of

uncertainty helps. And so we certainly had good growth and good pipeline at the start of the year.

There is still quite a lot of uncertainty out there. So whilst there is a degree of improvement in our pipeline, it's too early to say whether you're seeing a significant bounce. Our job is to keep really close to our customers as they're looking at the opportunities, and we're certainly doing that and seeing good momentum. But business confidence was affected by uncertainty, and so we'll continue to keep a close eye on that.

Howard Davies: I'm going to take a another one from the Internet from Robin Down of HSBC. He says that quarterly rate of reduction in the retail margin, even allowing for the mortgage accounting changes in Q4 of '19, has been relatively rapid. How do you see this shaping up in 2020? And can you give some color on the dynamics. Katie?

Katie Murray: Sure. Thanks very much. Look, I'm conscious, obviously, with the questions on the way we often asked them, and we've answered much of them as we go through. So I think there, the key things to remember are around the 80 to 100 basis points corridor that we're writing at this kind of top end of that and the kind of exit rate of the whole kind of book at the 145.

Just one thing I would add to that, is that in our plans, we do assume that there's a rate fall. I'm not sure if that's something that you've all necessarily picked up on. We're assuming in line with sort of consensus as it was as we struck it. That happens in Q2 of this year. That will have a little bit of an impact naturally on NIM if and when it happens. We'll see what kind of comes forward from there. So that's kind of an important thing to remember.

And one of the ways I kind of work around NIM quite so simply is if you take out a GBP 10 million change in your NII, it's 1 basis point of NIM that you lose in terms of that piece or a GBP 2 billion movement if your average interest in earning assets also has the same piece. So I kind of – as you try to model NIM, bear that in mind and also the rate cuts. And we've given you in the accounts and in the analysis what that kind of does in terms of the various

product margins and things as well which will help you model that piece of NIM going forward.

Howard Davies: Yes. Row 4 there. Just behind you, please? Can you move the mic?

Ben Toms: It's Ben Toms from RBC. You've given a range for the potential strategic costs in the year of GBP 0.8 billion to GBP 1 billion. Is there a range then on the amount of cost-cutting you can do? I.e., is there upside to the GBP 250 million cost you can take out this year?

Alison Rose: So I think you should take the GBP 250 million as the GBP 250 million. We always – we'll always try to outdeliver, but you've got a track record with us as being very transparent. So GBP 250 million is the target we're expecting to deliver this year.

Howard Davies: Then there. Yes, just over there.

John Cronin: It's John Cronin from Goodbody. Just 2 questions from me. One is on the mortgages. I'm not going to ask again about your share development going forward. But if I can ask about the ROEs you're printing when you superimposed the mortgage floors on new flow and how you think about how far you'd be willing to go in terms of price compression from here, perhaps to maintain share at current flow share.

And then secondly, just more broadly on terms of funding conditions. In the year-to-date, what are you experiencing? And how do you think about that in the context of NIM evolution in Q1?

Katie Murray: Yes, sure. Should I – I'll take that, Alison. OK. So as we look at it in terms of the ROEs, and that's exactly the way that we should really look at this business given the repricing in terms of the NIM. So today, we'd say the book is comfortably earning above 20 percent ROE. When you bring in the extra GBP 10.5 billion, we're comfortably above 15 percent. And then you kind of think yourself, well, if you're at the writing closer to the 100 percent, you're a bit higher.

If you're writing closer down to the 80 percent in terms of the corridor, you'll be a bit closer to that 15 percent. But in that corridor that we kind of seek to operate within, we're comfortable that they do write – that we write our business above that kind of level of ROE at that kind of level. And so we're not looking for any particular price compression, but we kind of internally think of the 80 to 100. And you will recall that in the early part of last year, we were much closer to the 80 until the kind of swap curve moved.

In terms of funding for NIM evolution, I've probably said as much as I'll say about NIM evolution as we go into next year. And we'll talk more about it when we get together in a few short weeks time for Q1 results.

Howard Davies: I've got one more on the screen from Edward Firth of KBW. Looking at your presentation from this time last year, you were targeting a 12 percent RoTE for 2020.

We're now looking at mid-single digits. And I guess, the big change is that restructuring never seems to come down as you hope. So I guess my question is what gives you the confidence that this program is the final one and that 2022 will be a promised land?

Alison Rose: So why don't I take that? So we have set our targets based on the current economic conditions and outlook. There is a degree of uncertainty in terms of that outlook. We are in a lower-for-longer-rate- environment. We've all seen what's happened with the yield curve. So we think that the targets that we've given you are a realistic set of assumptions based on the current economic scenarios, and as Katie mentioned, the consensus on which we base our plans. So I'm comfortable that, that is a realistic scenario that we've given you with that condition.

In terms of the restructuring costs, obviously, what I'm focused on is building a bank that can withstand the changes in trends. And I talked a little bit about them at the beginning in terms of how customer behavior is disrupting and also the opportunities that exist within our customer base. So we are not only restructuring our business, we're investing significantly in it, so that we can identify and continue to grow the potential that we see within our business.

So obviously, there are restructuring charges related to NatWest Markets. And I think that was the burning issue in my entry when I took over. And therefore, I think it is appropriate we restructured that business to make it a sustainable part of the group going forward, with more of a focus on retail and commercial which are more stable returns, less volatile.

And obviously, as we reengineer our processes, as we invest in technology, as we invest in new propositions, there are going to be restructuring charges that come with that. So that is about building the bank that is able to deal with the future trends and the future opportunities that we're looking at.

Howard Davies: Thank you. Yes, just over there.

Claire Kane: It's Claire Kane again from Credit Suisse. Just a follow-up on restructuring charges or strategic costs. You say they should trend down to about GBP 300 million over time, which is about the level of underlying cost takeout. So I just wondered, is there a point in time where we should expect that total cost, including those restructuring costs, actually come down and that's not just a perpetual restructuring below the line?

And just on the phasing of NatWest Markets restructuring. Given the large portion of that is through income losses, what's your expectation on those developments? I mean, do you get rid of most of the assets at the beginning? Or I know the RWA takeout is a bit slower on your plan. But really, those losses, is that quite an area of uncertainty, we think forward?

Alison Rose: So let me take that second question. As we've looked at the plan for NatWest Markets, Robin and his team are obviously focused on building that business so it can focus on our core customers. We are very mindful about the phasing of that. And obviously, we've got quite a lot of experience of restructuring businesses of this nature.

And so the challenge is always managing the revenue line and the cost line so that one doesn't run ahead of the other. So in our phasing and transition plan, we're very mindful of how we manage that. What we said to you is it will be capital ratio-accretive in year 1, and you can expect us to bring you updates as

that transition plan goes through. But we're very mindful of the phasing of that.

Katie Murray: Thanks, Alison. Just on the cost piece. Look, we do expect it to trend down over time. I think we have taken the costs down. And we try very hard not to talk about costs on the – an adjusted basis. We do kind of like-to-like to keep you into other operating strategic costs. Many of you sort of said – I talked about it last year that I'd quite like to get rid of that number. But I'm conscious that the year I'll do that, we'll claim great successes on cost takeout, and actually, will have done nothing except a few lines together.

But the intention is to continue cost takeout. What you hope is that in 1 year, the cost you took out that year, you have a great run rate in to the following year, and it just kind of continues to deliver. But that's certainly the mantra that we have in the organization and one that I think Alison I are very strong on. It has to be a continued cost-reduction journey.

Howard Davies: I have another one on screen from Fahad Kunwar from Redburn. I appreciate you don't run the business relative to consensus, but the dividend was lower than expectations. Considering the size of capital surplus, why do you not pay out more today? Also given your surplus capital, why now? I think it means – I think that probably should be net, not – why not set the ordinary dividend on statutory rather than underlying profit?

Alison Rose: So we talked about our capital distribution story a little bit in terms of our capital work. Obviously, we're starting from a very strong base at the 16.2 percent. I think we're very pleased to be able to pay a dividend today, and bearing in mind we only started relatively recently. I think we're starting to distribute that capital back to you. And with our plans for getting to 14 percent and then 13 percent to 14 percent, you have a walk in terms of what we intend to do.

Our intention is to distribute capital. We also know that actually being well prepared to take part in a government sale of RBS shares is a good use of our distribution and plan. And I would certainly hope that we see greater potential

to take part in share buybacks, not just in the short term, but we also hope that will become a recurring feature of our distributions over a multiyear period.

So I think we've declared the dividend, that's GBP 2.7 billion back. There's a capital walk that we've given you. It won't be linear, but our intention is to continue to focus on using all the means that we're comfortable delivering to you between the Board and myself and Katie.

Katie Murray: Shall I just pick up that last point because it is important. In terms of our dividend, we really look to do on attributable profits available to equity and shareholders. So it really is on that statutory profit kind of level. What we had this year was this really odd thing where there was GBP 1.5 billion of FX recycling gains that we basically took out of one line in the reserves and brought it into the income statement.

So we did adjust for that. We made no other adjustments. We didn't try to back out any other cost. So the idea is that we do kind of 40 percent of that bottom line number. But it didn't feel appropriate to do on what was actually a bit of accounting maneuvering of our balance sheet rather than actual real generated profits.

Howard Davies: Yes. Anybody else? I'm not seeing any more hands, and I'm not seeing anything else on the screen. So thank you very much for coming in. Quite a long session, but quite a lot to get through. And we hope that you take all those 16,000 pages we've given you and digest them over the weekend. Have fun.

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