# Annual Results 2019

## MEDIA Conference Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
on Friday 14 February 2020

### FORWARD-LOOKING STATEMENTS



**RBS**

**Sir Howard Davies, Chairman**

**Alison Rose, Chief Executive**

**Katie Murray, Chief Finance Officer**

**Introduction**

Good morning, ladies and gentlemen. Today's conference call will be hosted by Chairman Howard Davies. Please go ahead, Howard.

**Howard Davies, Chairman**

Thank you, Joanne. Good morning and thank you for joining us. I will make some very brief opening remarks about the current economic environment and our performance in that context before handing over to Alison who will cover our 2019 performance and then talk about our strategic direction for the future.

First of all, you'll have noticed that today we've announced an intention to rename the parent company NatWest Group plc. As we set out our plans for the future with our legacy issues largely behind us, the Board have agreed that it's the right time to align the parent name with the brand under which the large majority of our business is delivered.

It's important to note that customers will see no change to their products or services and will continue to be served through the brands they recognise today including the Royal Bank of Scotland. Similarly, our employees will see no change to the way they work. We won't be moving any people out of Scotland as a result.

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 our shareholders are all good outcomes. On capital distribution, we are proposing to pay a final ordinary dividend of 3 pence per share and a special dividend of 5 pence per share. Together, with our interim payments, that will represent over £2.7 billion in returns to shareholders for 2019.

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

Alison will set out more detail in a moment, but the plan we are describing represents an important shift for this bank. The Board are fully behind an approach that puts purpose at the core of our strategy and decision-making and are excited by the dynamism and enthusiasm Alison and her evolving team have already brought to the revised strategy.

With that, I'll hand over to Alison.

**Alison Rose, Chief Executive**

Thank you, Howard. Today, I will 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 £4.2 billion, up 26 percent on 2018, in an uncertain economic and low interest rate environment. Our attributable profits, including a number of one-offs, was £3.1 billion, up 93 percent on 2018.

Importantly, we grew lending in attractive segments of the market with net loan growth across the retail and commercial businesses of 3.7 percent, exceeding our 2019 growth target without changing our risk appetite. We remain the biggest supporter of UK business with £19.5 billion in gross new lending to our Commercial Banking customers and £33.3 billion gross new mortgage lending in UK Personal Banking, as we continue to support our customers in a challenging environment.

At the same time, we have reduced costs by £310 million, meaning we have reduced costs by £4.5 billion since 2014, and this will be the foundation on which we will continue to drive further efficiency improvements. As Howard mentioned, we remain committed to returning capital to shareholders, and if our dividend proposals are approved, total dividends will be £2.7 billion for 2019, and this will result in £1.7 billion being returned to the UK taxpayer.

Today marks the start of a new era for our bank. We have announced our intention to change our parent company name to NatWest Group plc, and we are also announcing our new purpose – to champion potential, helping people, families and businesses to thrive. This means recognising that the way people live their lives has changed and that people now task business with a broader set of expectations, looking to companies to deliver not only financial performance, but also benefiting customers and communities, as well as 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, take out cost, inject greater discipline in our approach to capital allocation and refocus 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.

Firstly, we have very strong foundations in place from which to deliver our plans. We're a leading UK and Irish bank with 19 million customers supporting people, families and businesses to achieve their ambitions and keep their assets safe and secure. In the Personal Bank, we're 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 one in four UK businesses and we supported 65,000 new businesses last year. And we have a robust balance sheet and a capital generative business.

Our purpose will create longer-term, deeper relationships with our customers. When our customers succeed, our communities succeed, our economy thrives, and we will succeed as a result. In line with our purpose, we're focusing on three core areas where we believe we can make a unique contribution to the broader issues that are impacting the lives of our customers and our communities which will also have commercial benefits for the bank. These are addressing the 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 are already the largest supporter of UK business and offer a wide range of services to those who either want to start a new business or scale up. We are now setting targets to support more aspiring entrepreneurs, helping to create an additional 50,000 new businesses across the UK by 2023 and supporting over half a million people to consider enterprise as a career option, with a particular focus outside of London and the South East.

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 finally, on climate change. This is the defining issue of our generation and we have a responsibility to play an active role in helping find solutions, and we know that this is increasingly important for our colleagues, our shareholders, and as a bank, that also means helping our customers make the necessary transition. Today, I'm setting a bold ambition to be a leading bank in 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 clear on this. I'm setting the bank up to take the 10-year view and matching our ambitions accordingly. We are setting ourselves the challenge to at least half the climate impact of our financing activity by 2030, and 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. We will move away from coal financing activity; we will support 50 percent of our mortgage customers to achieve an EPC Band C rating for their properties by 2030 and we will double our funding and financing support to sustainable energy to £20 billion by 2022.

Turning to NatWest Markets, we have taken the decision to refocus this business. We will provide solutions for our core corporate and institutional 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 customer needs and the challenging returns in this business.

In summary, we're putting purpose at the core of everything we do and doing so will create a sustainable and resilient long-term future with a medium to long term ROTE of 9-11% on a CET1 capital ratio of 13-14% 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% lending across our retail and commercial businesses, and we commit to being a simpler bank, resulting in a cost reduction target of £250 million in 2020. We will also continue to invest to create further revenue opportunities through innovation and partnership to open up the bank and bring the best solutions to our customers, and we will refocus NatWest Markets to meet the needs of our customers and optimize group capital and returns, and we will be a safe, simple, smart bank that will help all our stakeholders succeed.

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**Howard Davies, Chairman**

Thank you, Alison. That concludes the formal remarks we wanted to make, so over to you for questions.

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**Operator**

Thank you, Howard. Ladies and gentlemen, if you would like to ask a question, please press the "star" key, followed by the digit "1" on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions. We will now take our first –

we will now take our first question from the line of Stefania Spezzati from Bloomberg News. Please go ahead. Your line is now open.

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**Stefania Spezzati, Bloomberg News**

Hi. Good morning.

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**Howard Davies, Chairman**

Good morning.

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**Stefania Spezzati, Bloomberg News**

I was wondering if you could please give us a bit more colour on the restructuring on NatWest Markets. So which activities are you planning to keep– and which activities you are planning to dispose? Because I understand there are like £600 million costs in the statement from NatWest Markets. So, if you could please clarify the restructuring there.

And then also I think the share price has opened lower today because I understand the Chancellor is probably a bit disappointed on the capital repatriation. So, I was wondering if you can give us a bit more guidance on what you expect to do with the excessive capital that you have. Thank you.

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**Alison Rose, Chief Executive**

Thank you. So, on NatWest Markets, obviously this was one of the key areas I focused on when I took over and undertook a strategic review of that business. We're announcing that we're going to reduce the RWAs in that business by almost half and refocus the business much more on our corporate and institutional customers, supporting their needs as they need to access financing and risk management.

It's clearly a restructuring that will take a period of time, but I'm comfortable that by aligning it much more to our corporate and institutional customers, we will have more sustainable returns, and it is the right shape and size. As we transition and execute that plan, we'll give you more detail.

**Stefania Spezzati, Bloomberg News**

Thank).

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**Katie Murray, Chief Finance Officer**

Shall I take the capital point? Hi, Stefania. It's Katie.

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**Stefania Spezzati, Bloomberg News**

Hello.

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**Katie Murray, Chief Finance Officer**

In terms of the capital, we're 16.2% CET1. I mean, this year you, of course, realise there's dividends we've announced today, £2.7 billion of capital being returned to the market. So, I mean, it's certainly a sizable amount of capital returned today. We've always been very open that our aim is to get to 14% by the end of 2021 and that people should view that as a – as a non-linear journey.

You also heard the remarks that Howard made earlier that, in talking with our shareholders, their preference is very much to do – to participate in a directed buyback as part of that capital return.

So, I would say that we continue on that journey to the end of 2021 target. And today, the purpose of giving the sort of 13-14% range in the medium to long term is really to signal to our investors that we don't see 14% as the end point for our capital levels, and we'll continue to migrate from there over time.

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**Howard Davies, Chairman**

Thank you.

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**Stefania Spezzati, Bloomberg News**

Thanks.

**Howard Davies, Chairman**

Next.

**Operator**

Thank you. Your next question comes from the line of Iain Withers from Reuters. Please go ahead. Your line is now open.

**Katie Murray, Chief Finance Officer**

Hi, Iain.

**Iain Withers, Reuters**

Hi. Good morning. Just one quick one on capital, just related to Stefania's. Is your priority to buy government stock back just because analysts are saying this morning that it looks like you've held quite a lot back today. And another quick one on just job cuts. You cut 3,000 people last year. You're reducing the pace of cost cutting slightly, but can we expect around 2,500 this year? Thanks.

**Howard Davies, Chairman**

On the first point on the capital, yes, our preference would be, at the moment, to participate in directed buybacks. We've got shareholder permission to deploy up to 5 percent of our outstanding capital in any one year for the buyback, and the government has said very clearly that it is their intention to sell, and therefore, we think that in present circumstances it's prudent to ensure that we have the capital to participate in such a buyback as and when it occurs.

The timing of that of course is down to the treasury, but specifically, in answer to your question, yes, that is what we think is the best route for redeploying capital, and indeed, from conversations with shareholders, pretty well everybody agrees that that is the best option ...

**Alison Rose, Chief Executive**
On job losses, clearly, we've announced today that we are targeting £250 million cost reduction this year. We're going to continue to invest in our customer journeys and create greater efficiency on the end-to-end journeys which will improve the experience. Clearly as we become a smaller and simpler bank, there will be impact, but we will always talk to our colleagues first about the impact for them.

**Howard Davies, Chairman**
Thanks.

**Iain Withers, Reuters**
Thanks.

**Operator**
Thank you. Your next question comes from the line of Kalyeena Makortoff from The Guardian. Please go ahead. Your line is now open.

**Kalyeena Makortoff, The Guardian**
Hi. Good morning. To follow up on sort of where these cost cuts will primarily fall, do you anticipate there will be any impact to branches further, and how do you expect that any anticipated job cuts will disproportionately perhaps affect NatWest Markets? Thanks.

**Alison Rose, Chief Executive**

Thank you. So, as I said, any job cuts, we will speak to our colleagues first, so I won't be making any further comment on that. And in terms of our branch network and really thinking about it in terms of the points of presence that we have, we have over 800 branches. We have our mobile vans, our community bankers and our access to the post office which gives us around 16,000 points of presence up and down the country. We think that's about the right shape and size, but we will continue to review our points of presence and evolve it based on our customer needs and demand.

So, we will – we're not announcing any branch closures, but we will continue to evolve that and you can see the continuing changing behaviour of our customers. We now have – 70% of our personal customers are digitally active. That's around 90% in our commercial bank, and we're continuing to see the use of that channel, but we're also making sure that we invest in our support for vulnerable customers and those customers who need face-to-face support as well.

And you'll have seen we've got partnerships with companies like SafeLives and GamCare and the Citizens Advice Bureau as we continue to support that. So overall, we think we've got the right shape, but we'll continue to evolve that.

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**Howard Davies, Chairman**

Thank you. Next up.

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**Operator**

Thank you. Your next question comes from the line of Jim Armitage from Evening Standard. Please go ahead. Your line is now open.

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**Jim Armitage, Evening Standard**

Hi. Good morning.

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**Howard Davies, Chairman**
Morning.

**Jim Armitage, Evening Standard**
Sorry, just – I know you don't want to answer questions on the job cuts. Can you just give you an idea, though, of how many people are employed in the NatWest Markets business at the moment? And could you also give me an idea about – you were talking about this. It looks like you're going to be saving or freeing up about £3 billion of common equity from this reduction. What happens to that? What are you going to be doing with that extra space that you've got financially?

**Howard Davies, Chairman**
Alison.

**Alison Rose, Chief Executive**
Thank you. So, in NatWest Markets, we have sort of around 5,000 people employed there, and obviously, as we focus on that business, we will keep that under review. On capital, Katie?

**Katie Murray, Chief Finance Officer**
Yes. Sure. Thanks, Alison. So, if you look at the £3 billion that gets freed up, clearly these transactions are quite expensive transactions to actually affect. What we guided you through today is that in this first year, that we'll spend about £400 million in terms of actually moving some of the positions of our balance sheet. So that will come through as losses to deliver that and then also in this first year, we'll have £200 million or restructuring costs that will – that will go through.

Now, that will continue for a couple of years, so that will obviously utilise a fair portion of the £3 billion. Then in addition, this business is loss-making, which will also absorb a little bit, but what we are comfortable with and what we've guided you to today is that as we make this transition from the £38 billion of RWAs down to £20 billion, it will be capital accretive, so the shareholder should expect to see some of that returning to them over time.

**Jim Armitage, Evening Standard**
Thank you.

**Howard Davies, Chairman**
Next please.

**Operator**
Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press the "star" key, followed by digit "1" on your telephone keypad.

Your next question comes from the line of Lucy White from Daily Mail. Please go ahead. Your line is now open.

**Alison Rose, Chief Executive**
Hi, Lucy.

**Lucy White, Daily Mail**
Morning. Morning, everyone. I just had a couple of questions. So, I know you said that more detail would come over this over time for this, but the reduction in risk weighted assets, how exactly might that happen practically? And the other thing was obviously the change in name to NatWest, like how much of that was to do with sort of breaking with the past and some of the incidents that have been associated with the RBS brand over recent years? And the third thing was just with the Bó digital bank. So obviously there was some reports around that (Mark Bailie) would be leaving later this year. Is RBS still fully committed to the Bó brand?

**Howard Davies, Chief Executive**

Let me deal with the second one and then back to Alison for one and three. On the – on the name change, the essential reason for this is that as the bank has evolved since the financial crisis and the bailout, we have focused attention primarily on the NatWest brand. So, the markets business was renamed NatWest Markets. We have exited a lot of the international business that was not profitable and all of that was branded RBS, but that's now gone.

So, as we now look at the group, 80% of our customers deal with us as NatWest and the remaining 20% as Royal Bank of Scotland in Scotland, which is what the name is there, and then other small numbers with Coutts and other smaller brands. So, it really makes no sense for us to continue to be called RBS, which was a concept designed for a global group of banks which we don't any longer have.

**Lucy White, Daily Mail**

Right.

**Howard Davies, Chairman**

So essentially, we are realigning the group name with the name under which most people deal with us and that seems to us to make sense. Alison?

**Alison Rose, Chief Executive**

Absolutely. Thank you, Howard. So, turning to NatWest Markets, what we've announced today is the refocus of that business to create a more integrated corporate and institutional customer offering and shrink the RWAs to a smaller, simpler group. What you will expect is that that business will focus on supporting the needs of our corporate and institutional customers, so financing and risk management. We will be reducing the size of our rates business and the management team over there will be working together on the transition of that business and we will keep you updated on that, but there are plans developing very clearly on that.

So, turning to Bó, which was your third question, there is one of a portfolio of innovations that we've been building a very good track record of building and testing and learning with our customers. It's an important part of that agenda and we're continuing to evolve both that plus Mettle plus Tyl and various other different innovations and we will continue to test and learn with our customers and help us develop both new propositions and learn within the core and it's part of our overall portfolio.

**Lucy White, Daily Mail**

Great. Thank you.

**Howard Davies, Chairman**

Thank you.

**Operator**

Your next question comes from the line of Simon Neville from Press Association. Please go ahead. Your line is now open.

**Alison Rose, Chief Executive**

Hi, Simon.

**Simon Neville, Press Association**

Thanks. Morning, everyone. Hi.

**Alison Rose, Chief Executive**

Morning.

**Simon Neville, Press Association**

Just a broader one from me, if I may. Obviously since I think we last all spoke, we've had a general election and we've had a cabinet reshuffle last night. I mean, the impression I think most people have is that the current incumbent Number 10, are keen to take control of anything that they can have power over and that might suggest that they want some sort of control over RBS. Can I just ask what conversations, either Howard or Alison, you've had with the new government and what their intentions are in relation to their involvement with the bank, please?

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**Howard Davies, Chairman**

Well, it won't surprise you to know that we haven't had a conversation with the new chancellor yet.  So, I think he's had a few other things on his mind, but we believe that the government's policy in relation to RBS is clear, which is that they wish to pursue the sell-down and that's built into their budget arithmetic. We would expect that to continue.

Otherwise, the government does not interfere in the commercial decisions of this bank. They haven't done at any point since I've been as Chairman, which is almost five years now, and I would not expect that to change, though, as I say, I would expect enthusiasm and energy to be put behind the divestment of the government's state, which is important to them in economic terms.

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**Simon Neville, Press Association**

What makes you – sorry to interrupt. What makes you think that it won't – that you don't expect there to be change when the last sort of 24 hours have shown that we've got a government that's willing to make lots of changes? Have there been any reassurances from them to make you come to that position?

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**Howard Davies, Chairman**

No. We haven't had any discussions with the government since yesterday, but the terms under which (they can)...

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**Simon Neville, Press Association**

Oh, sorry. I was thinking more since the election. Sorry. Not since just yesterday.

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**Howard Davies, Chairman**

Since the election, certainly and what we have had is a very clear indication, a very clear statement in fact from the government, that they plan to continue with the sell-down and no indication at all that they would wish to get in the way of the realization of the capital value that they have in this bank by interfering with its commercial decision-making. We've had no indication that that is their policy at all.

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**Simon Neville, Press Association**

And (obviously) that policy is a policy you agree with and you think that that remains the best course of action for the government to leave you guys to get on – get on with your job?

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**Howard Davies, Chairman**

Yes, we absolutely do.

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**Simon Neville, Press Association**

All right. Thank you.

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**Operator**

Once again, ladies and gentlemen, if you would like to ask a question, please press the "star" key, followed by digit "1" on your telephone keypad. Our next question comes from the line of Kalyeena Makortoff, The Guardian. Please go ahead. Your line is now open.

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**Kalyeena Makortoff, The Guardian**

Hi again. I was just wondering on the – on the climate plan, could you – could you detail more what the value of the loan to energy companies and coal companies that you're exposed to that could be at risk as a result of the new policy?

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**Alison Rose, Chief Executive**

So, on the climate strategy, what we've said is we want to work with business across the U.K. to help them transition and that involves – I've put out some targets today where we're going to double our lending to renewable energy up to £20 billion, so increasingly using our financing and our expertise, particularly in the renewable energy sector, in the infrastructure sector and our leading positions in manufacturing and agriculture, for example, to help transition.

What we have said is that we want to make sure that we work with business and we're coming off a very strong track record of how we manage our energy exposure. Today, on our balance sheet, only 1 percent of our lending is to the oil and gas sector and in coal, it's marginal down at 0.3 percent, but for me, the key message here is we're all going to need to work together. No one organisation is going to solve the climate challenge on their own and we're very keen to work with business, with regulators, with industry to help make the plans to transition over the next 10 years.

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**Kalyeena Makortoff, The Guardian**

Great. Thanks. OK. Can I just ask one more? Have you guys disclosed the cost of the FCA's overdraft rule changes?

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**Katie Murray, Chief Finance Officer**

We're giving you some guidance on that in the – in our document, Kalyeena. So, what you would expect to see, there's a raft of three different kind of rule changes that are coming through. Overdraft is one of them. Some European payments as well as the kind of wider, high cost of credit reviews. What we think is that in 2020, that will cost us around £200 million of income. You'll be aware that most of it comes in sort of after Q1 and then that number will grow to £300 million once you get into 2021. Thank you.

**Kalyeena Makortoff, The Guardian**
Can you – but can you isolate just the overdraft rule changes?

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**Katie Murray, Chief Finance Officer**
I'm not going to give you that split out today. I think it's important to look at them all in the round.

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**Kalyeena Makortoff, The Guardian**
OK. Thank you.

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**Katie Murray, Chief Finance Officer**
Thanks very much.

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**Operator**
We have one further question from the line of Scott Wright from The Herald. Please go ahead. Your line is now open.

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**Howard Davies, Chairman**
Hi, Scott.

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**Scott Wright, The Herald**
Hi. Good morning, everyone. Just on the name change, is there any implications for the head office in Edinburgh? And obviously around the independence referendum, there's a lot of talk around moving your brass plaque from Edinburgh to London. Is this coming into – will this be a factor within the name change and will there be any job implications for Edinburgh?

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**Howard Davies, Chairman**

No, there's not. The registered office remains in Edinburgh. We aren't unscrewing any brass plaques at this – at this point and as I say, as a result of this, there is no change in personnel. So no, it doesn't have any of – any of those implications. We've said in the past in relation to referendum which we did in 2014, the policy's not changed, that it would be necessary to look at our location if there were a Scottish independence and a separate Scottish central bank, et cetera, but not before then and we have no plans to change that.

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**Alison Rose, Chief Executive**

The only thing I would add … to there is just to confirm, as Howard said, there is no impact on this for our customers or on jobs and Royal Bank of Scotland brand will remain unchanged.

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**Scott Wright, The Herald**

Thank you.

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**Operator**

There are no further questions at this time. I would now like to hand the call back to Howard for any closing comments.

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**Howard Davies, Chairman**

I think that's fine. Thank you very much for your questions. Alison, do you have anything to add?

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**Alison Rose, Chief Executive**

No. Thank you very much for your time. Clearly, we're very excited about a new era for the bank, working very closely as a new purpose-driven bank, working with our customers, people, family and businesses around the UK and Northern Ireland and excited about the chance to build a long-term, sustainable future with them. Thank you very much for your time.

**Operator**

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

**END**

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