



Ross McEwan, CEO
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FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our Annual Results announcement published on 23rd February 2018.

CORPORATE PARTICIPANTS

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PRESENTATION

Alastair Ryan *BofA Merrill Lynch, Research Division - Co-Head of European Banks Equity Research*

I'm now going to invite Ross McEwan to join us on the stage.

And so it's been a decade, but RBS has finally emerged from those challenges. Ross has now got a strong capital base, limited range of litigation outstanding and a dividend. The first half showed the bank with its major issues resolved and some strong progress in its organic business.

I'm guessing, Ross can tell us definitely, that the focus is now on its core business. And you saw the webcast yesterday of the retail business.

The group's talked extensively now about a focus on raising investment in technology both to fend off new competitors and to continue improving operating efficiency. The dividends started just with the interim results and obviously it started much discussion about potential share buybacks in the future.

So Ross, thank you for joining us this morning.

QUESTIONS AND ANSWERS

Alastair Ryan

You're the leading U.K. business bank. Business loan demand is heading in the wrong direction at present. It's slowing down. You might have hoped by this point in the cycle it would be stronger. Now you said you won't change your risk appetite to grow, which sort of suggests growth will be consumer, mortgages. What's the scale of the opportunity? And how would you see the pivot for the bank over the next 12 or 18 months?

Ross McEwan

Yes, thanks, Alastair. It would be fair to say that the business banking side has slowed. If you look back over the last 3 years, the market's grown by about 3% cumulative. We've grown about 7%, so we're actually doing a very good job in the business banking market. That's in

the small-, medium-sized end. At the very large end of town, which [we're also] still very large, strong and -- the growth has not been there. I mean you are seeing, because of some of the issues you've raised on your slides, the big companies have stepped back and are much more cautious about their investments. So you are seeing a -- the larger end of town being a bit more quiet. Retail has consumed a lot. I mean the consumer at the personal level has continued to borrow. And you've seen that, by far, cards, unsecured and mortgages are really very strong growth. The mortgage market, which you talked about, is very competitive. And I'll be interested to see what other banks see -- or say about this, but from where we are sitting, and we are a price taker in this market, we're not large enough to actually set the market pricing. We're a price taker. And we learned that experience at the end of last year when we tried to actually get a bit more margin into the business. And we lost flow shift very, very quickly in the quarter, and we've picked that up since. So it's a very competitive market. I don't think that will change. I think, over the next 12 to 18 months, all things remaining equal, that market will be very competitive. It'll be around refinancing, but we still believe we can grow faster than our market share of stock and flow. It may not be what we had been doing, but I believe, with the capability this bank has around its front-end offer but also its processing capability, I think we're very capable of growing above market. We are not a one-trick pony. Like I say, as you see, we're a very strong business bank, but we've done very well in the unsecured personal lending. And the piece around that -- and I've said to the team, just be very careful in this space because we got burned very badly 10 years ago in the unsecured. So we -- our growth has come from our customer group. And it's the ones that we know and we see their flows of -- and their transaction accounts. So that's where we've been growing, and we've been growing very successfully. Look, we're 10 years into a cycle. And I think I've said to the team, "Be very careful on credit. This is where you get hurt." So a little bit of wisdom inside our bank having gotten very badly hurt last time. We're not putting ourselves out to do it again, so we are selecting the parts of the market we like and we will continue to go after those. We still see there's some growth in the unsecured. We -- and we see good growth in the SME unsecured. We see good growth in parts of the mortgage market that we haven't been in as well that are still nice and, we believe, safe for ourselves. So I'm not giving up on growth, but it's going to be very muted. You're seeing 1.5% GDP growth. If a bank grows faster than that, it's rightly giving money away price-wise, or you are going down the credit curve. So we're not going down the credit side. We're not going to go into that side of the business. So I think we're reasonably comfortable we can continue to grow. It may not be as quick as we were. Les was talking about the mortgage market yesterday. And I think the team has done a very, very good job. We've got a good mortgage business now. And it's about how do you use technology to actually take the cost out and also give your customers a much better proposition. So it's not just about the mortgage. It's about the mortgage and all the things you wrap around it to give good experience, and I think we're doing a pretty good job. On taking new business onto the book, we're sitting at #1 Net Promoter Score. And as you look at the overall mortgage business, I

think we're sitting about #2 for a promoter score. So it's done by service.

Alastair Ryan

Now one of the things -- and I guess this is how it has worked elsewhere in the past, but certainly it's been something you've driven at RBS. The group used to have one of the biggest wholesale funding needs of any bank globally, now sitting with a big deposit surplus. And we've seen a rate hike in the U.K., that sort of rarest of things. Has that been helpful to the group? I mean one would hope it would be, but...

Ross McEwan

Well, we -- look, we had in our plan only 3 rate rises through to 2021, I think it was. And we've already had 2 in this planning cycle. So the last one was very welcome, but not -- we didn't expect that till next year. Every 25 basis points over a 3-year period of time is worth about 325 million, 350 million, so it is very good. So whilst you're seeing a lot of pressure on the mortgage margin, you're seeing a little bit of an uptick in the deposit margin, which is helpful. I don't think it'll balance off completely, but it is actually very helpful. And we have got a very large deposit book, and that deposit book has continued to grow. If you look back on the last 12 months just in the -- both the savings grew by about 4 billion. And the transaction accounts grew, I think, by about 2 billion even though interest rates were low. So the franchise has still got very strong pulling power and very loyal customers to the brand, which is helpful as you're losing the margin on the other side. So it is a balancing act. I'm not going to say it's going to balance out completely, but those 25 basis point movements are very good for banks. Do we expect a lot more? No, we don't. We haven't changed that. We just run on economic forecasts, economic consensus. And we don't change our planning accordingly. Because what I tend to find is that senior executives love to have a hockey curve of -- that the stick goes right up in the last 2 or 3 years of their plan and particularly if you allow them to put whatever assumptions you -- they think are right. So we don't let them do that. We say, "Here's the gross factors that we are putting through the plans. Now tell us how you're going to run the business accordingly." And that's worked quite successfully for us for the last 5 years. It's not always welcome internally because everyone likes to see the big returns at the end of the 5 years, but I think it's going to be much more realistic in a low interest rate environment, and that's not going to go away.

Alastair Ryan

Now technology. So in your previous role on a previous continent, you were running one of the biggest technology upgrades anyone has tried in a bank. You talked a lot about the opportunities at RBS. Could you talk about how you pace? How fast the group can absorb technology versus what the P&L can take, versus what the opportunities are to change how you deal (inaudible)?

Ross McEwan

Look, if we're brutally honest, we wouldn't have wanted to start where we started 5 years ago with what we had in our technology stack. 5,500 systems and applications is not where you would want to start from. But having started from that and had a catastrophe in 2012 with our technology just stopping for 3 days, we have put a lot of investment into our core underlying technology. And not just in the personal or commercial bank, but you're seeing a complete re-platforming of NatWest Markets at the moment as well. Because digital activity of customer usage is happening across the entire bank. It's not just happening in one segment. It's happening everywhere. We have been spending quite a bit of money on our technology by cleaning up the old business systems and applications. We're now down to something like about 2,300. Our aspiration over the next couple of years is to get to 1,500. And I believe we'll get to that number, 1,500 systems and applications across the bank, which is a big drop from 5,500 5 years ago. But why we did that? Because every time you connect technology together, you have this chance of there being failure. And the more systems and the spaghetti you have in an organization, the more the chance of things going wrong. And I was saying to [Jim] just before over coffee, we started with 144 payment structures. So you plug 144 payment structures, and you are pretty sure that something, over time, will go wrong with those because it's just the complexity. So one, you've got to get -- take out the complexity, which does help with cost. And two, you need to move on the other side, which is giving instantaneous experiences to customers. And in the middle of that, taking the cost out. And we've shifted from a very, very heavy bricks-and-mortar type operation and we're moving much more toward digital. Les showed that experience in personal. I think it surprised a number of people how far this bank has come, and we've done that quietly over a period of time. We've got a long way to go. So we are moving bricks and mortars. We are spending, I think, as much as this bank can spend. We said to the market we'd spend GBP 2.5 billion on what we called restructuring or strategic cost. Reason for that, things that we have to do from a conduct -- sorry, from a regulatory perspective, like ICB and ring-fencing the bank, but there's also a lot of costs that we've declared to you about taking branch networks out and reducing that from -- basically halved it over the last 5 years. It's now down onto a shape we're very comfortable with, but that's a lot of costs that have come out of some very large head office buildings, which I just see are fixed costs that you need to remove. And we have started spending a lot more money on our -- what we call our core systems. Now please don't run around saying that we're replacing our core banking system. We did that 5 years ago. And instead of putting in a real-time banking system, we put a batch process overnight but it spins 4 times, as opposed to what it did was it spun once and fell over. So we run it 4 times at night. But we are replacing 7 of our core banking systems inside the bank, and that was approved by the board earlier in the year. We're also going end-to-end on all of our processes, and to do that, you need a lot of digital activity. We're using artificial intelligence. We took the board into Manchester the other day and showed

them the work that was going on in artificial intelligence. We now have 210, 220 of the most frequently asked questions that our personal customers ask of us when they tap into their iPad or their phone. Those are done through artificial intelligence. There is nobody behind them. We've got people checking that the answers are right, but there is -- they are done and it's learning and growing every day. 340,000 in the first quarter of checks that we had from customers electronically. That doubled in the second quarter to 640,000 in the quarter. We are now doing 0.5 million every month. My view is, by end of the year, December, we'll probably have doubled that again, so you're seeing an exponential growth in artificial intelligence being used inside our business. And if you go into our Indian operation, you can see the team there using technology to actually take out old processes that they inherited from us because it was cheaper to send it there. Now we're using their high intelligence to actually automate. So that's starting to bite into the organization in a positive way. So better experience for customers. Customers love it because it's immediate response and it's not wrong. It's always right. And secondly, it's helping with our cost base, to actually pull out the deadweight cost that sits between the customer and having something processed in your business. Lots of work to do across the bank. And as I said, NatWest Markets is in the last 18 to 24 months of its transformation, the commercial business is exactly the same for lending, and the same with our personal bank. It used to take 4 weeks to get an answer from us on a business banking loan. Today, if you actually are a customer of ours, it's a 4-minute exercise. And you can do it yourself. Now could you tell me another bank in the world that can do it as quick as that? And if you really want to see an experience, if you're a noncustomer, go [and sit on] our platform called Esme, which is electronic SME. You put your own documentation and it is electronically dealt with. We can fund that loan real time in 15 minutes. So I don't think anybody in the world has moved that quickly away from what was a major problem into major opportunity. And we've got a lot more to go.

Alastair Ryan

And just -- and so what's the constraints on you there? Is it the -- is it what the organization will bear? Is it, like, the actual implementation? Is it the restructuring costs because you create legacy assets as you put new stuff in? Or is it the P&L cost? Like what's the...

Ross McEwan

Well, if you consider that we put aside GBP 2.5 billion for 2 years and we spend about GBP 1 billion a year on investment in the bank, there's well over GBP 2 billion a year. I don't think an organization our size can realistically spend any more than GBP 2 billion. It's just physically high on possible. Now I'm sure that some of my executives would tell you, if you gave them another GBP 1 billion, they'd do wonderful things for you, but I'm old enough to understand that an organization can only do so much in any 1 year and you have to pick your marks. And I think my executive team have picked the marks very, very well and invested well in those. But at GBP 2 billion a year of restructuring, moving from bricks and mortar to digital, applying the technology and having the right people in the organization to

do it, I think, is absolutely next. But it comes back to a constraint around people and how much can you dig into the systems and get them replaced in any 1 particular year. And I think we're probably getting pretty close to the maximum this organization can do. From a P&L perspective, that big spend needs to stop by the end of 2019, so we've got another heavy year next year. Of the GBP 2.5 billion, we said we'd put aside for restructuring about GBP 1 billion and a bit will be done this year. And the rest will be done next year, so another very heavy year for us next year that we've been very clear about. And we've still got a lot to do, but I think it's more around constraint of people and the ability to get access to the systems in a structured way that don't create problems for yourself.

Alastair Ryan

Then now, I'm going to ask about open banking, which has been one of those -- if you did one of those Google trends on it, it would have been completely dominant in January and completely disappeared by August. And so it was a revolution, and now it's been forgotten about. What's the real state of play in there in terms of both you as a big bank but without a dominant position everywhere and without all your customers having all their products with you? Do you gain or do you lose as these fintechs eat the incumbents' lunch?

Ross McEwan

I think people assume that fintechs would move a lot faster than the big banks, and I include all the bigger banks and this is not just ourselves, because of [boosted] our technology was that bad. Well, it's not that bad. We have met all the requirements, so far, for open banking. And our view has always been that the activity of customers moving and wanting to open up will not happen in the first year. It'll happen in the second year and the third year. So the developments we're doing, particularly around our core bank, are really geared for next year, as opposed to this year. And for that very reason that you can lay the groundwork and meet all the regulatory requirements this year but then start using that open data. And I think people forgot that big banks also get access to the data that's out there through open banking. And everyone thought we were going to be on the receiving end of a problem, as opposed to being able to put decent propositions for our customers. And I think you'll find next year, the bigger banks, you will see them emerging with using open data to actually do better propositions for customers. And I think that's what it's going to come down to is, what's the proposition you're putting to customers. How can you be helpful to customers? Not use their data to manipulate them. How can you use the data to be really helpful for customers? So we're thinking about that in core, in our core bank. And we're also thinking about that in digital innovation as well is, how can we take data and be helpful to customers using digital mechanisms or using our core banking mobile. I mean we have a very successful mobile offering. We will just keep enhancing that and taking data to help customers with it. So look, I think we'll be good users of it, for the right reason. And I think it'll be more difficult for a lot of these fintech organizations than they actually thought at the start. And as you know, when you've got a banking license, it's an expensive thing to keep up. Just the

regulatory requirements every year of a banking license are -- a lot of fintechs, I suspect, haven't had that sort of overlay on them.

Alastair Ryan

So one more of my questions. We've some come in from the audience. And I'm an analyst. I'm going to ask about capital and distributions. So clearly, we're an impatient lot, so you've...

Ross McEwan

You are.

Alastair Ryan

Yes. You've got a dividend. So now we want you to run up to your 40% payout really quickly and start the buybacks by Tuesday -- next Tuesday, possibly. But realistically, how -- what the constraints on the pace that you go? Because the bank has clearly now got a very low-risk balance sheet and a strong capital base. So the math that the market is looking at is quite powerful, but the regulatory worlds often moving at a different pace than what we might like.

Ross McEwan

Look, I'll just start by saying, I mean, we remember what we did 10 years ago, so we are not going to be rushing around throwing capital all over the place. Then we've also got Brexit that we're heading into. So in 6 months' time, we will know, I think, a lot more about what's really going on -- going to go on in this economy. But having said that, we find ourselves now with the work that the team have done over the last 5 years of going from one of the lowest capital positions to one of the highest capital positions in the marketplace. And I'll be very interested to see the stress test results that come out at the beginning of December this year and to see how we position, having just missed last year, but to being in a much, much better position, with the overlays from DOJ out of the way. With a capital build of about 2.5%, I think my view is we'll be in reasonably good shape. So keep the stress test in mind and our timing. We do have capital we'd like to give back to the shareholder. And our view was start quietly with an interim, build to the 40%. We said we would look at specials and we would look at buybacks. And we said that quite purposefully because, as we continue to build capital, 40% won't take the capital off our balance sheet. But we need to get it off to get ourselves down to something that looks and feels more like 14% for the next couple of years. And Ewen and I, as we've talked about this, still believe that we should longer term be trading down to a 13% common equity Tier 1 when the bank is finally finished its full transformation of its balance sheet, but I don't think we should rush to that point because we've got Basel III plus. We've got risk weightings on the mortgage business coming through. We've got a whole raft of changes coming through, and I think we should let those settle. But coming back to your point. There is a machine that you need to build to do a buyback, and you need to work with

your regulator to make sure they're comfortable with it. And we've still got a lot of work to do there and stress testing will be part of that. We've got to work with UKGI on their timings and how can we work in with them as well. We've got to get shareholder approval, which will come through an EGM if we want to go before the AGM. So there's a lot of machinery we're working through to get the process right, but it's clear. We've got a lot of capital. We'd like to get it back into the hands of our shareholders. And we are working on a buyback, but please, let's not rush ahead of this thing. We've got a lot of work to do. And we've got to get our regulator comfortable, and we've worked very strongly with them. And we've got -- still got some work to do, but it's clearly, we have got a fantastic capital position and some of it needs to go back to you.

Alastair Ryan

And so there will be mics, if anybody would like to put their hand up. We have a number of questions that have come in. First, you mentioned you expect mortgage competition to stay intense. Is there a spread that is uneconomic for you, or are your fixed costs too high for you to back off?

Ross McEwan

Well, our fixed cost in our overall business is still too high, far too high. We've still got a fair bit to take out over the next 2 years to get to our stated position of 50% cost-to-income ratio. So there's no let up on the costs. And the mortgage business is also working hard on its cost base, but cost base reduction won't take out the NIM reduction that's going on in our business. I think we've openly declared that the difference between front book and back book is about 80 basis points today. We're writing mortgages that are at a NIM of less than 100 basis points. So it's a very competitive marketplace, but we're comfortable still that we are getting a decent return on our equity, at that point. And Les, who spoke yesterday, I think, would have said that they're looking forward to how much capital that business needs to take as risk weightings go up for us by 2020. So you've got to be very careful you're not writing business today that looks profitable and in 2 years' time isn't. So they take that into consideration. But at this stage we're still comfortable we're writing at good profitable levels, as long as you get the credit piece right as well, don't give it away on the credit.

Alastair Ryan

And I think, I mean, I am looking at Matt here, but Les's comment was that some banks write a mortgage business to a portfolio return on equity target, but the RBS target is every mortgage (inaudible).

Ross McEwan

Yes, and that's what -- I mean that's what we push Les for. You shouldn't be really cost subsidizing in a mortgage book or any book, for that matter. Banking has had that history of doing so. And Les and the team don't do so. So -- but we still see it as a good market to be

in. We -- as I said earlier, we are not a price setter in this marketplace. We are a price taker. 70% of it is delivered through the broker market, so you have to be good at service delivery in the broker market. And we enjoy it, but we've got costs to take out and a proposition that is building as well, not just around it's money. Now if you have a look at what Les and the team have done around their connections with Zoopla and the environment they're creating for our customers to be really helpful, I think that helps as well. And a little bit of product innovation going forward will be helpful. There are parts of that market we stepped out of for quite some time, not because we didn't like it. It was just we weren't that good at it. Buy-to-let was one thing we came out of 2 years, and interest only. Now we're back into those markets, having rebuilt our own capability inside the business, but we're not in every part of the buy-to-let market. And we're not in every part of the interest-only market. We're in the bits that we think customers can give us a good return and pay us back. And there are some portions of that market that we have clearly stayed away from.

Alastair Ryan

Any hands? I've got lots of questions.

Unidentified Analyst

Could you comment? There have been quite a lot of the smaller banking institutions and competitors in the last years. How do you see that developing in the future? Do you see consolidation between them? There is obviously some consolidation. And how does that affect you and...

Ross McEwan

Yes. Look, I have always been of the view that the competition in a marketplace is created when you get the big banks fully capitalized and with plenty of liquidity. And right now if you put inside what I'd call the big banks, particular around the mortgage, which is what we've been talking about, there are 6 big players in the marketplace, all fully capitalized with plenty of liquidity. And it's creating the competition. I think it makes it more difficult for the smaller players at that point in time. And I'm not trying to be sort of out of fear or whatever, but for the last 10 years, we've had 2 hands tied behind our back, being bashed up in this marketplace because we've had issues to sort out for ourselves. And all of a sudden, you're seeing players that have had to fix themselves back into this marketplace with really good liquidity. We're not the only one. And I think that is creating a very, very competitive marketplace. And the losers out of that, I suspect, will be those who are smaller banks. If you look at the lending scheme that the reserve bank put in place, boy, some of them took big chunks of lending. I mean we took something like 19 billion, but it was only 7% to 9% of my total book. Others were 40 to 50. So that rolls off in 4 years' time, so they've got to find the money to fund that. So I think there are some pressures coming for a number of banks around that issue. It's competitive, and everyone said that the new challengers will do it. Well, I think the big banks create the competition. And this is probably the most competitive

banking market in the world. You don't pay for having a check sort of worked through. You don't pay for a branch visit. You don't pay for an ATM. You don't pay for just about any transaction that goes through at the personal level. We've talked about the mortgage market at less than 100 basis points. This is a very, very competitive market. And I think scale does have a part to play in that.

Alastair Ryan

There's one more question down the front, and I have a couple more on the iPad.

Unidentified Analyst

There is a low-growth environment, and projections for revenue growth and volume growths are somewhat limited. Your cost is pretty good at 1% of average total assets. There doesn't seem to be a lot of low-hanging fruit in there. We have heard from other competitors, Lloyds, especially, 3 billion CapEx plan to -- for digitalization. I just wonder if that investment is going to come into better costs. Or it's going to be completed out through competition. The first question. The second question, very briefly. Your defined benefit pension, can you give us an update there? Do we -- should we expect more big contributions for that?

Ross McEwan

I'll take the last one first, on the pension. We're about to put GBP 2 billion more into the fund that we've committed to. That's been announced 3-odd months ago. And then we've got commitments of GBP 0.5 billion for the next 3 years. Those commitments are out there. We believe that, that is the right amount to make sure that this fund is well funded and shouldn't create a problem for the bank going forward. Without any 100-year incidents happening to us, we think we've done the funding on that scheme, so we're pretty comfortable with it, but it has come at a massive cost to us. There's been about GBP 7-plus billion that have gone into that fund over the last few years to get it into a really good state. So I think you never say job done, but I don't anticipate to be putting any more money into the fund other than what our commitments have been. Your other question was related to -- sorry?

Unidentified Analyst

Costs...

Ross McEwan

Costs. Look, we've still got a big chunk of costs to take out over the next couple of years to get to our 50% cost-to-income ratio. And I don't think it's right to say -- well, it's right to say that the easy pickings have been done. I mean we've taken well over 4 billion out of this business because we've had to, because we've been driving our revenues down coming out of businesses. But our core costs are still too high. And they need to come out of those end-to-end processes that are still very labor intensive and laborious and using old technology.

And what we've shown is, when customers get the opportunity to do it themselves simply, they will do it. And you don't have to get involved in it as long as you've got an end-to-end process. So our next 2 to 3 years is very much end-to-end journeys, letting customers do what they want to do under -- using our technology, do it for themselves and make sure it goes through without really being touched. That's our big opportunity. We are investing in that -- those journeys right now. And I think we're behind other -- at least 1 or 2 players in the market in that area, so we've got a lot to catch up on, but I think we can do that over the next 3 years to 4 years, of which we've got about GBP 1 billion to take out in the next 2.25 years. So it's still a lot, but it's going to be in a different way to what we've taken out before. Some of that, the cost of doing so, is in the GBP 2.5 billion of strategic cost. We've got a big building here in London, 280 Bishopsgate, that's gone by the end of next year. We've been taking a number of the -- we've got a big building in Manchester that will go by end of this year. We've got buildings all over the place that are costing us a lot to get out of, but each one of those is a continual saving for us going forward. We have announced we're coming out of a couple of data centers by 2022. We've taken the hit on that early on because we've planned it. So that those sort of costs still to come out of this bank. And as you come out of fixed distribution and go into digital much, much more, you have to take the cost out on the way through, but it is allowing customers do that work for themselves. Not easy, not saying this is easy, but it's things that our team have to work on every month and keep the momentum going in the business. And I'd say, as soon as the CEO takes their eye off the ball for a month, the easiest thing to do is forget about costs, but we can't. Revenue growth is going to be low. We are a recipient of a -- the U.K. market GDP growth. And if that's going to be 1% to 1.5% next year, that's probably what our income will grow by. That's a reality. So costs are a big feature of what we have to do, unpalatable as it is. It's the reality of the job we've got. I don't think any bank is any different.

Alastair Ryan

Running a bit short on time, so two, one backward looking, one forward looking. Can you give please update on Williams & Glyn? When does it start? What it's still to cost you? More forward looking, where is cyber risk in the U.K. banking industry, and how do you think about that?

Ross McEwan

Well, first off, on Williams & Glyn, we're ready to go when the independent body is ready to take the offers from the other participating companies and get on to it. We've been going out to customers and registering them for a get ready to take offers. And successfully, I think we're well over 50,000 of our business banking customers under what was going to be Williams & Glyn registered to take offers. So I think we're pretty well ready to go. So that's the, how do you take customers off the book, but I need an offer to give them, so that little piece, we're waiting for. And I know there are a number of banks that are very keen to participate in that, which is good. On the actual reintegration of Williams & Glyn, good

progress. That building I talked about in Manchester was going to be a Williams & Glyn building. That one will be gone by the end of the year, and we'll move everybody in that building into our other large building in Manchester. So we're not deserting Manchester, but I don't need 2 big buildings when I'm not going to have a business called Williams & Glyn to set up. So that building will go. The integration of all the office and tech and HR and risk, that is pretty well -- by the end of this year, I think, we'll have done most of it. You saw the last round of branch closure announcements, that were going to be Williams & Glyn, announced about a month ago. That'll leave us with 51 Royal Bank of Scotland branches in England and Wales and 4 or 5 NatWest up in Scotland. That to me is the end of the branch closure program for the next 18 to 24 months. And what does that mean for our colleagues? It means that they can get on and talk to customers knowing that they've still got a job. And it means for our customers that they know that they've got a branch that they can go into or they know how to deal with us online or mobile. So I think we've done a very good job of reintegrating. Not finished, but by the end of this year, most of the heavy work will be done. And we are ready to participate in the option of letting customers go. So I think a pretty good job done. Cyber is our #1 risk for the bank. And I put cyber and sort of fraud together, but that's the thing that the board spent a lot of time on, my executive committee spent a lot of time on. And you can just see what's happened in the U.K. in the last month with another very large institution getting knocked around by this. This is not going to go away, so -- and my concern is, yes, banks have to be incredibly vigilant and always have their guard up against cyber, but we need to make sure that anybody who holds payment data has the same vigilance and has the same technology and systems that prevent people getting in. And that's every utility. That's all the telcos. That's anybody who holds customer payment data. Because I can only be as good as somebody else is, because they have the similar data to what I hold on behalf of a customer, and that's the piece that I think we as an industry need to work with across other industries who hold payment data. And we're very open to that and starting those conversations, but cyber is a big one. You can see the damage that it could do to an organization if you lose customer data because they trust us to be holding it for them. It's huge. Fraud is not going away. I mean you used to steal cash off people. Then you went and if you redid -- reworked their check before it got presented. Then they started blowing up the ATMs and pulling the ATMs out of their positioning. And now it went into online, and now it's moved to mobile. So I mean it's a transition of people are no longer doing physical damage. They are doing it using online. And cyber is another one of it, where you can take hundreds of thousands of customers' pieces of data in the aim of actually damaging a business. So it's right on #1 for us as a bank across the organization. It's #1.

Alastair Ryan

Final question, in less than 2 minutes, including the answer...

Ross McEwan

Okay, I'll be very quick and be...

Alastair Ryan

It's the question I'm worried about.

Unidentified Analyst

What are you solving for with NatWest Markets? Is it actually meant to be stand-alone business that makes money? Is it just a tool for the rest of the business, so therefore it's okay to make losses?

Ross McEwan

I don't like any business that's making losses, so let's start with that one. I want all of our portfolio of 6 businesses making money and giving a decent return to shareholders. You'll recall that NatWest Markets was a massive business, 150 billion of risk-weighted assets it trades now. If you take out what's left of Cap Res, about 30 billion to 35 billion, we believe it can get to a hurdle sort of around the 8% to 10%. It does add facilitation into my commercial corporate business, which is very important to us. And I think we're going to be very careful pulling a business down that actually could open us up to a lot more competition. Because we do use NatWest Markets because of the separation under ring-fencing that carries all of our debt, capital markets operation, a lot of the big FX for corporates. And also of course, it's a big rates business. So you got to be a bit careful about pulling -- we'd hate to pull them apart, but they operate very strongly together, particularly with our corporates. But I don't like businesses losing money. It's in a final couple of years of restructuring. Team have done what we asked them to do and they've got another couple of years to do some pretty hard lifting in that business. But it's not consuming the capital it used to and it's funding itself well. I think it's getting into a much better place. It's got -- still got work to do. I've got another business of the same ilk. Ireland is another one that actually has a lot of work to do to get itself into a decent-returning position. The rest of them are in pretty good shape. Probably a good way to finish, 4 going well and 2, work in progress.

Alastair Ryan

Ross, that's been great. Thank you very much, good start to the conference. Ross McEwan, thank you for your time this morning.

Ross McEwan *The Royal Bank of Scotland Group plc - CEO & Executive Director*

Thanks, Alastair.



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