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FORWARD-LOOKING STATEMENTS

Introduction

Chris Manners
Good morning everyone. Welcome to the Royal Bank of Scotland presentation. We've got Group Chief Executive Ross McEwan who will be giving his presentation on RBS, so Ross, I'll leave it with you.

Presentation

Ross McEwan, Chief Executive Officer
Thanks very much Chris. Anybody interested in cricket? No English people in here obviously, New Zealand has just won the semi-final against South Africa with all of one ball to remain, so it was a stunning match; therefore I was a little bit late getting here listening to that.

But good morning everyone, it's a delight to be here. I join you today encouraged by the progress that we have been making over the last year on behalf of our investors. We delivered against every commitment we made in 2014 and as you can see this has given us the confidence and the financial strength to go further and faster on our strategy.

Importantly I think we've set out that there is a clear net capital benefit to our investors if we accelerate the strategy and we'll arrive far more quickly at our destination; a bank with 12 plus percent returns, from a lower risk franchise, that is trusted by its customers.

Before I launch into the detail I just wanted to start with this triangle, that internally we call our blueprint. It's a demonstration of how clear we are now on what we are trying to achieve at RBS; from our ambition to be number one for customer right at the top right down through our purpose, our values and most recently our priorities. Over the last 18 months or so we have established the what, the why and how we are rebuilding RBS and what it will become.

I think the clarity of this is vital for any business and it is already guiding our progress in more than one way.

The agenda today - I want to outline the progress we made over 2014, in effectively year one of the strategy I set out in February of 2014, before explaining in more detail the acceleration of the strategy between now and 2019.

As I've said the opportunity to go further and faster is built on the work that we've put in over 2014. Over the last 12 months our ability to execute has been very clear, for each of the targets we announced we have done what we said we would do and in some cases we've gone a little bit further.

Our capital - we exceeded our 11% target a year ahead of schedule. On cost we exceeded the targeted reduction of one billion as we cut costs in areas like our property portfolio which just in London alone is down 15%, elsewhere the number of change projects has halved so that we just focus on the areas that are going to make the biggest difference to our customers.

We're offering our customers a more resilient and reliable service, our mirror bank was one key improvement introduced this year, it now ensures customers can still access all of the key services even when our systems do have issues. And we're getting simple, taking just one example of our manual processes in 2013 we manually processed eight million transactions and in 2014 that was sub three million.

Our product set is also getting simpler too. On savings we've gone from 36 products down to now five that all our customers are on.

These are just a few of the examples that have supported the delivery of our targets and last year we added that final piece of the jigsaw with our plans for the next stage of our strategy.

If you flick onto slide three, starting with this slide you can see the kind of groundwork that has enabled the acceleration of our strategy. RWAs are down by 80% in our US ABP business, assets in RCR our so called 'bad bank' are down almost 60% on an RWA equivalent basis and net non-performing loans are well down both in total and excluding RCR. All bring the obvious benefits from the strength of our balance sheet giving us a much more robust capital base from which we can push on.

The reduction in our risk profile is further supported by a number of strategic milestones reached in 2014. As mentioned, and supported by the improving conditions, particularly in the UK, RCR exceeded our expectations running down RWAs by over 50% in 2014. And we achieved the largest IPO in US history, that of Citizens and yesterday announced our intention to get on with the further next tranche. We target partial deconsolidation in 2015, both vital to our capital build.

We exited our US asset backed products business, our Ulster Bank review was completed and we took the decisive action on Coutts International. And we reached the agreement on the retirement of the debt and paid the first instalment of £320m. So I think this all adds up to major achievements in 2014.

If you move on to slide 5, while we've been dealing with the areas which no longer fit our strategy we've also seen some encouraging improvements in the underlying performance of our core businesses. Here are the two big franchises which sit at the heart of RBS now and which will play a huge role in driving our future success, in both personal and business banking and the commercial franchise you'll see positive jaws over 2014 of 7% and 4% respectively. It's encouraging, but in reality we're only just beginning to get these businesses into the shape we want them to be and there's more to come.

These are the early fruits of some of the changes we're making in simplifying the bank and improving our customer offer, both in areas that we intend to go a lot further with.

RBS - Ross McEwan, Chief Executive Officer

It can be easy to overlook the extent of what we're doing to improve our business for customers. This slides shows the transformation we're making in the space of the last couple of years from a static branch based approach to a much more dynamic model based on what we call points of presence for our customers.

As well as our burgeoning digital platforms we will have added over 1500 self-service points by the end of this year and a huge expansion of our access across the Post Office networks, getting us much closer to customers all over the UK. And this is just an example of the investment we're going into and putting into our core business as we utilise the great market positions that we do have.

As well as transforming how and where our customers can bank with us we've also begun to challenge some of the things which make it so frustrating about banking in the UK, that includes shorter account opening times, ending teaser rates on credit cards, quicker lending decisions, simple product ranges and getting our fees and our charges onto one side of an A4 page. I know what can be achieved through delivering operational and customer excellence and over time we will serve our customers better and more cheaply. That would lead to more positive operational performance, which gets us down to the bottom line; it means a better result for our shareholders.

The way we're driving that improvement in customer performance is through our clear focus on getting to number one for our customers by 2020, it's ambitious. And as you can see from our net promoter scores we've still a long way to go. But in reality I don't think there are really any banks in the UK that do a great job for customers, but I think our willingness to put out our numbers and publish them at this level underlines our commitment to getting there.

Looking at the detail here you can see how conduct issues at the end of last year had a negative impact on our personal customer rate, especially under the Royal Bank of Scotland brand. Business banking is seeing some uplift, and in commercial we have a leading position, but we need to improve our service, particularly on lending.

So a long way to go but you do see some momentum in net promoter score uplift and we're getting to grips with what frustrates our customers the most.

One of the biggest frustrations is how complicated banking can be. It's annoying for customers and it gets in the way of our staff delivering the kind of service we'd really like. And that's why simplification is one of our main priorities.

In current accounts and savings we've drastically reduced our product ranges, we've also shifted seven million customers from off sale products to on sale products and we've cut the length of time around processing around things like account opening. And of course as well as a much better customer experience, it is far more efficient for our bank to operate this way.

Another increasingly important aspect of customer experience is technology. RBS has been at the forefront of digital and mobile banking and we are building on that pedigree. As the stats show we've already got a very strong base here, with the majority of our customers active through online and mobile, £48bn in digital payments annually and 35 million digital logons every week with RBS.

Going forward we'll be adding greater integration across our online channels, helping our customers to get online where they need support and offering ways for our personal and business customers to connect.

Our customers want to bank on their terms and at their convenience, so we are investing to meet these demands.

So that was 2014 and I think it gives you a sense, not just of the direction of travel towards a smaller more focused bank with a lower risk profile, but also it gives you a sense of what we were able to achieve in just one year and the platform that it gives us to enter the next phase of our strategy.

So let me now turn to how we will drive value and performance through 2015 and 2019.

This next slide is in effect a straightforward distillation of our plan. It shows in two planks the work we will do between now and 2019, which would be summarised firstly into reducing our risk profile and secondly improving our customer experience. We are very clear that these are not two separate tasks with separate ends; they are two sides of effectively the same coin.

You can see the milestones on there; overall our RWAs will be taken down below 300 billion by the end of 2015. On the Williams and Glynn exit that will be done by 2017, this remains a very high priority for us. And I'd like to make the point on Williams and Glynn, we are creating a full service retail and commercial bank, with its own IT platform capable of going into the market as a very effective competitor with good prospects for growth and no dependency on RBS thereafter.

At the same time across the bottom you see the parallel steps to simplify the bank and sharpen our customer offer. Take current accounts for example where account opening remains far more difficult than it should, we've got great market positions, great distribution and we need to have great products to back that up.

A lot of the improvements you'll see along the bottom here are about simplifying the bank so we improve customer experience and do so much more efficiently than we do today.

Come 2019 we intend to be a smaller bank, with lower costs and more effective customer delivery. In short, good service in core markets that delivers sustainable returns, minus the distractions that currently either weaken our performance or de-stable our risk profile and in many cases both. We think that this is the right franchise profile and the right risk profile for this bank.

Importantly I should add, it also sets out a model that would be ring-fence ready. So that's the longer term view but we'll get there in steps just like we did last year. And we've set out what we want to achieve in 2015, just to keep us on track and allow you to measure our performance throughout the year. Reducing RWAs below 300 billion, taking out the excessive complexity in our business and further cuts in our costs, they are all there.

We'll also be focusing on growing our lending in line with GDP. On customer it is a long road of steady improvement and we're targeting a rise in net promoter score in every UK customer franchise.

It would be fair to say and I've said it before, RBS has been a pretty bruising place for our people to work at times. And that doesn't sit well with me and I want to make sure that our people are very connected to our business and able to contribute and enjoy working for RBS.

I have to say that this slide caused a bit of excitement when we showed it to your fellow analysts last month, the famous slide 28 it became. And as you can see it gives a very clear and transparent view of the bank we're building, as well as parts of the business that no longer fit in with our plans. As I've already indicated we're working towards a much leaner, less volatile and high returning business. This core banking group across PBB, CPB and the go forward parts of Corporate and Institutional bank represent around half of our RWAs at the end of 2014. We like this collection of businesses and we're committed to growing them where the risk adjusted returns make sense for us to do so.

For the other half of the RWAs we expect to make further material progress in reducing these during 2015. I'll come into CIB in more detail shortly, but we've already started the run off of parts of CIB that are not core to our future franchise, representing more than £60bn of RWAs. We expect to take Williams & Glyn public by the second half of 2016 and be fully exited by the end of '17, and we're making very good progress in the sales process for our international private banking business. And we're seeking to achieve the partial deconsolidation as I've said of Citizens this year and moves are afoot to make that happen. And we expect to exit Citizens by the end of 2016.

We expected to achieve the rundown of the RCR to 15% of its original funded assets by the end of this year, representing the effective end of its rundown programme. The residual RCR assets will then be managed for value alongside the new legacy CIB portfolios. And we're continuing to focus on seeking to exit other holdings we acquired pre-crisis.

Even in what we describe as our core go forward businesses; we have material pools of legacy assets that we intend to more actively manage for value. We believe that the end result of this restructuring delivers an attractive mix of strong core bank and compelling cash distributions.

This next slide is a walk through the RWA reduction and the exit group for 2015, and you can see that we've made substantial reductions in this area last year down £65bn. This year we'll remove another £45bn for the partial deconsolidation of Citizen, another £25bn for CIB and £12bn from RCR, ending 2015 circa £90bn, almost half of where we were at the full year of 2014.

The reduction in our risk profile will also have clear benefits for our capital position over the coming years. In 2014 we registered a 260 basis points increase in our capital ratio, and revised our core tier one ratio target to 13% for the period of the CIB restructuring. We're also at pains to register an unambiguous statement of our intent to return surplus common equity tier one capital to shareholders. Once we've reached the 13% ratio our ability to distribute will clearly depend upon the support and consent of the PRA at that point. Such consent is likely to be based on us having achieved a number of milestones which include our ability to demonstrate stable profitability, a track record of better stress test outcomes relative to the 2014 stress test results, and need to have passed the peak of the conduct and litigation issues, particularly in the ongoing uncertainty on potential US owned RMBS settlements which having started our AT1 issuance programme we've said we're looking to issue £2bn of AT1 during 2015. And of course we've got the £1.18bn of payment to remove the DAS.

That said we are clear that while uncertainties may continue to exist on when we may be able to distribute surplus capital, we have no interest on sitting on it beyond the point where we can return it to our shareholders.

Moving onto our wholesale bank now, local banks we know that the market had been waiting for answers on this part of our business and the last month we set out the decisive plans, and there are two aspects of this plan. Firstly we need to tackle our wholesale bank's historic cost base and resize it to suit the business it will become. At the moment CIB still carries the cost of a past ambition to be a global investment bank, with much of that cost fixed and embedded in systems and structure we created many, many years ago. Moreover the regulatory and capital cost of the bank doing business in this part of the industry has risen in parallel. The result is a business that has no hope of holding its head above water until we remove the cost burden, and this requires us to re-platform large parts of this business.

Secondly we have to reconfigure the front office to align with our strategy, and over the last six months we reviewed every product, every market and every business line for CIB. We did not go into it thinking of the goal of being less bad, we set out to find the right business mix that delivers value for customers and for our shareholders and aligns with our strategic intent. The result of that was a plan to refocus CIB, substantially reducing its size and its risk profile. We intend to reduce RWAs in the business by another two thirds by 2019, and as I've said by over £25bn this year. We intend to further reduce the third party assets by around 70% by 2019.

And on our country footprint we will sell or run off operations in 25 countries, a shift from 51 countries in 2009 down to 13. Under a new management team the approach for CIB going forward is to manage for value and build on the many strengths that we do have.

So I've been decisive on what is needed to be sustainable, but the challenge is not to throw the baby out with the proverbial bathwater. We know that in the UK and Western Europe we have some great market positions. We're well placed to excel at risk management, debt financing and transaction services in these markets, supported by a more focused international capability with trading desks in the UK, US and in Asia. With any business with the scale of CIB there are questions that still need to be answered, but nothing that will change the course of the plan that we're setting out. The end result would be a business with RWAs between £35bn and £40bn, and strong market positions in the areas where we are capable of creating value.

As we exit non-strategic businesses and we tighten the focus of our CIB business, at the same time we want to do much more with the great core franchises that we have here in the UK and in Ireland. In Personal & Business Banking we're number two in GB current accounts, we're the main bank for almost a quarter of GB small businesses, and in Ireland we hold strong positions on both sides of the border. In Commercial & Private Banking we remain the number one UK commercial bank with the market leading share of relationships. We're also the number one UK private bank. These are fantastic market positions and very good businesses, but we think there is much more we can do with them.

I said that in these core businesses we're seeing our progress beginning to show through. You can see the growth last year in our mortgage book. We've done a lot of work in retraining and growing the number of advisers that we have, along with developing and improving our product set. It's allowed us to target further growth in the coming years. We've also seen balanced growth in UK commercial, and with the investment we're making in this part of the bank we think we can further improve our service and credit provision and grow profitable lending into the real economy of the UK. A capital and risk appetite is in place to support this balance sheet growth across the different customer segments. We know where the opportunities are and we have the leading franchises, it's a case of us sharpening what we do.

Just to show you in mortgages, just taking a closer look at the growth. In mortgages in 2014 we saw a growth of net 40% increase in new lending to £19.7bn. Our share of new mortgages business also went up from 8% to 10%. In commercial lending, gross lending to SMEs was up 24% over £10bn, with a healthy increase in loan applications as well. And at the same time we've signalled our intent to be the UK's leading supporter of enterprise with our announcement that we're opening eight enterprise hubs across the UK where we will provide support for hundreds of start up businesses, many within our own buildings.

So how will we look come 2019? Right across our franchises we now have clear sight of the future that will set us apart from other UK banks. As I said when we outlined the strategy last year, we will substantially be a UK focused bank and by far the biggest part of our business, around 85% of our RWAs, will be in the retail and commercial parts of our business. As I've explained today we already have extremely strong market positions in both these areas which have endured throughout the years since the crisis. We now need to justify them by bringing operational and customer excellence to bear on them. In corporate and institutional banking we'll build on these strengths. It will be a smaller part of RBS with clear parameters, but one we think we can make attractive for customers, for staff and for shareholders. Come 2019 we still anticipate some legacy asset drag on our ROE of just under 2%. But overall, as we increasingly wave goodbye to some of the hangovers from our past, a new model will emerge that is set up to deliver sustainable returns from a much lower risk profile.

In conclusion let me just summarise what I've been through this morning. RBS is in much better shape than it was a year ago. Our ambition to be number one for customers remains at the forefront of all we do and all our efforts. Everything I have set out actually aligns to that goal. The proven ability to execute in 2014 means we can now accelerate our strategy by building on our strengths and core markets while taking decisive action on the areas where returns are not sustainable long term. We've set new targets to keep us on track through 2015 that you can measure us against. For shareholders we've announced our intention to redistribute capital, and finally let me repeat our destination. We are confident the plans we have outlined will produce a bank that will deliver a 12% return or better, and from a lower risk franchise than the one we have today. Thank you.

Applause

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Chris Manners
Thank you very much Ross for your presentation and we'll be hosting a question and answer session with Ross and Richard from the IR team just next door so if you can make your way there if you'd like to participate in that. Thank you.

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