RBS

Commercial Banking Investor Seminar

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Introduction & Commercial Banking Overview

Alison Rose, Chief Executive Officer, CPB
Good afternoon, everyone. Good afternoon, I'm delighted to have you here, and I'm going to talk you through Commercial Banking, which is the largest Commercial Bank in the UK.

Today, what we want to cover is the progress we've made since 2014 when we set out a very clear strategy for the business, and provide you with an update on specific strategic progress.

I'm joined by a number of the Executive Team, who are going to provide deep-dives into specific areas of progress and activity as well as being available for Q&A at the end.

Not only are we going to touch on our progress to our 2020 goals but we're also going to talk a little bit about how we're preparing the business for the future and beyond, with spotlights on some of our responses to disruption and innovation.

Whilst I lead the Commercial and Private Banking business, and into a recently RBSI, today's presentation is going to be focused solely on Commercial Banking.

This is the team who are going to be joining me, and they'll introduce themselves as they stand up.

So, in terms of Commercial Banking, we support, just to orientate you, businesses from £2m turnover up to multi-national corporates, supporting over 46,000 customers across the UK through a relationship managed model operating in local regions with deep sector and business insight.

This breadth and depth of support for business puts us at the hearts of our communities and makes us one of the leading supporters of the UK economy.

Our focus aligns with the core bank strategy and our ambition to be number one for customer service trust and advocacy.

And, as a core part of the bank, we're central to the success of that strategy, representing 41% of the operating profits and 35% of RWAs as a proportion of RBS Group at Q3 year to date.

Now, I appreciate the definition of Commercial Banking varies to our competitors, both in how we report this segment to the market as well as representing the edge of the ring-fenced bank for RBS. As such, there's been a fair amount of transfers in and out of the business over the last year, which I know provides a challenge for you seeing the underlying performance and also the like-for-like position.

So, what we're going to try to do today is give you insight into that core underlying performance and the fundamentals of the business as well as the key areas of strategic focus.

We've also make some recent changes, just to bring you up to speed. We recently announced that we would be moving Business Banking; currently PBB Retail, into CPB from the start of 2019, and this will bring all of our non-personal businesses together.

And, in addition, as part of our Brexit planning, we'll be looking to migrate our Western European large corporates out of CPB into NatWest Markets NV, in early 2019.

In terms of our strategy, the focus has been to support the business, help it grow and, therefore, help grow the UK economy. We remain integral to the UK business engine, driving that value of the economy whilst creating value for our shareholders.

As I mentioned, we're the largest UK Commercial Bank, and we have leading customer advocacy supporting our customers across the whole of the UK, a broad spectrum of size of business in a diverse range of sectors.

We've had a very significant transformation of our programme underway, really focused on driving that underlying sustainable growth.

We've particularly, robustly, restructured the balance sheet of the business from one which relied historically on commercial real estate and interest rate rises where assets were also held to maturity to one that has now consistently grown quarter on quarter whilst embedding strong capital and risk management as well as disciplined origination.

We've maintained a highly focused relationship-led model, with targeted growth in core sectors, upskilling our RMs, both professionally and as leaders within the business, to deliver solutions and insight to our customers.

We've also focused on ensuring our customers can interact with us as they choose, recognising the use of digital and self-serve whilst also adding value when face-to-face with customers.

We're focused on ensuring our customer journeys are frictionless and as efficient as possible.

And we're also innovating to enhance our business while expanding our insight to support business needs as they grow, extending beyond pure banking needs into identifying new business solutions and building new fee-based revenue streams for the future.

Our customer base is extremely broad, with diverse and evolving needs, but also evolving needs in terms of how they choose to interact with us.

These companies have different growth patterns, from scale-ups to start-ups, through to mature transformational businesses. And our customer needs are also incredibly dynamic, ranging from smaller SMEs looking for support at key moments of truth only, right through to multi-national companies with sophisticated requirements.

Our focus, as we've evolved our strategy, has been to be ensure we're responding to the rapidly changing demands of our customer segments and sectors as well as ensuring our services and solutions are able to compete effectively in an ever-changing marketplace.

As such, we will increasingly focus our insight through the sectors and the economies in which these customers operate, and ensure our RMs are qualified to deliver, and our channels and propositions are appropriate and effective, to meet the needs of customers as well driving increased productivity.

Our transformation programme that we've undertaken in this business has been extremely wide-ranging, and we've delivered this through a focus on five core areas which a number of you will recognise.

When we took this business over in 2014, it was characterised with a lagging NPS, net promotor score, from our customers, inconsistent levels of service and delivery, significant amounts of complexity and proliferation of products, and a lack of capital and pricing discipline across the business. It also had a balance sheet concentrated in commercial real estate, and a hold to maturity asset model.

With a clear customer focus vision, we've repositioned this business right across the five building blocks that you see here.

We've invested in our people to ensure we have a better qualified and professional workforce where we've seen significant improvements in both productivity and engagement of our staff.

We've invested in their professional skills as well as creating the right culture across the business.

Trust between our relationship managers and our customers is vital, and I think increasingly important and distinctive in a digital age, and our RMs are at the heart of this.

That's not to say that our customers don't expect great digital service, and we need to ensure that we continue to evolve this from hygiene to value service.

We've seen a step change in digital utilisation, and we will continue to evolve those services now to add value to our customers.

In terms of simplification, this business was very complex. Our interactions with our customers have changed significantly, and delivered with greater efficiency and much simpler processes.

We focused also on fewer products and services that our customers really value, and that's resulted in us driving greater penetration of the customer wallet, more product cross-sell and faster delivery.

Our times to deliver the basics have reduced significantly with lots of automation and technology support, but also increased banker productivity and experience.

We've made it simpler not just for our customers to deal with us, but for our RMs to deal with our customers.

And, as a business, we've really focused on generating growth, but sustainable growth, far removed from the on the old levers.

We're growing sustainability to be a real partner through the business and economic lifecycle of our customers, but also proactively ensuring our balance sheet is structured to withstand the economic and business cycle.

We're ensuring our capital is deployed at the right level, and driving the right returns.

We have a strong sector appetite and focus, and have improved our risk metrics, and are actively managing our balance sheet and risk.

And we're ensuring that we grow with our customers in the right way to support their broader business needs.

As a result, we have consistently grown the business with underlying growth rates ahead of M4 data, which we'll talk a little more about later.

And, finally, we're making sure we're building for the future, making the most of innovation and tech trends in the market, with a real focus on delivering needs for our customers. It's not just about clever tech, but it's about developing new revenue streams, innovating at the core as well as embracing the disruption to learn as well for ourselves and drive simplification and better solution for our customers. It's a bold vision of where we go from here, but it will, I think, continue to drive the best bank for our customers.

So, I'm going to deep-dive into each of those five sectors to give you a little bit more of a feel for what's underlying these areas of focus.

A critical part has been to build on the strength of our relationship managers, embedded locally in the communities with the businesses they work with. They have a deep understanding of the sectors and the local economies and are integral to the ecosystems in which businesses operate.

We've deepened our investment in our people, creating a professionally qualified set of relationship managers across the UK sector specialists, delivering insight and solutions to our business clients from start-ups to our most sophisticated customers.

Our relationship manager model has evolved very significantly, from largely managing the traditional processes of banking to deepening of specialism and insight supported by technology and data to provide real solutions to customers, and what we describe as wraparound care for their businesses.

We've developed local partnerships, professional engagement to bring knowledge of sectors, innovation trends, family business insight, from our depth of experience to all of our customers, as well as ensuring our wraparound care supports the position and risk appetite of the customer depending on their position in the lifecycle, whether they wish to scale, invest or grow.

For example, in our manufacturing sector, we've partnered to bring insight around leadership challenges for manufacturing companies to scale-up and to innovate.

For agriculture, around renewable energy of where we are one of the largest lenders in the UK, partnering insight with research and universities, and our market-leading entrepreneur programme across the UK where we offer full support for entrepreneurs.

We've invested in the evolution of the relationship manager also to investing in the future skills that they will need going forward, such as data, coding and disruption through to agile working and co-creation of solutions for our customers, engaging in the ecosystem.

We've ensured that not only do our teams have the best qualifications to support our customers, we're also looking to build up their own personal and professional development, creating an environment where our staff can feel supported and able to invest in themselves, as well as creating an environment of wellbeing and engagement, and a culture of good customer outcomes, establishing, for example, our CPB Academy and mapping personal and professional journeys for all of our teams.

Across the board, we can the outcome of this investment, with the highest rated satisfaction scores for our relationship managers, reflected of the service they provide front to back, leading customer advocacy scores - our customers telling us we're doing the right things - as well as our highest ever staff engagement scores for our people, well above the GFS norm.

Our bankers are focused on delivering right outcomes for customers, deploying the resources, such as capital and product, to drive the right value for the customer and the shareholder.

However brilliant RMs are not enough. This is accompanied by providing a connected seamless and always on customer experience across channel and customer journeys.

To date, we've worked incredibly hard to transform our digital channels. We've rebuilt an improved Bankline, our leading client banking platform, saving our customers time and money, providing a service which meets their growing online needs to deliver the best experience for businesses. It's working and we currently are the number one rated for online satisfaction.

This year, we've also opened up a new digital channel, creating with our customers to develop Bankline Mobile, stood up in nine months, helping customers view their transactions and make payments on the go. That will be a first in the Commercial Banking market, and Keith, our Head of Digital, will show more of that a little later.

And we're also seeking to increase our focus on digital customer journeys, moving quickly to improve our customer experience across all segments. For example, over 90% of account opening applications, previously a purely analogue paper-based process, is now able to be undertaken through self-serve, our end-to-end lending journey from application to approval, which used to take weeks, if not months, takes just four minutes. And we have recently increased the value of pre-assessed and readily available loans to £750,000, which is market leading.

We've also created an online quoting tool for our Lombard Asset Financing business, with an overwhelmingly positive customer reaction and NPS. And our AI chatbot, Cora, which you will have heard about in our Retail business, is also being deployed for our business customers and doing more to support them, tackling queries out-of-hours and processing over 5,000 queries a month.

We continue to work harder in this area, moving to focus on digital sales and distribution, which will be a key feature of growth going forward.

And underpinning the prompt position is simplification. Our business was highly complex and very paper-driven.

There's been a significant amount of work to simplify the business for our customers and our people, upgrading the journeys, improving experience and driving efficiencies behind our segments.

We started this work very early on by making things simply, eliminating what we can, simplifying what we can't and automating wherever possible.

We have completed a radical wholesale product rationalisation, reducing the product suite from 250 plus to less than 95 whilst reducing pricing models from 10 to 1. This has resulted in increased productivity and revenues as well as better customer and conduct experience. Previously, it would take over a month for customers to open a new account, today the majority of our customers can do this in under five days, and, for our simplest customers, in a matter of minutes.

Our transparent and competitive pricing and simplified product suite ensure our customers receive the right products for their needs at the right price.

And we're now broadening the simplification programme with accelerator labs, using new agile techniques to systematically look at individual customer journeys end-to-end to drive improvements. There remains a lot of process efficiency to be done but significant benefits as we simplify.

We are also deploying artificial intelligence across the business into the core. We've built a dedicated capability to launch, and then scale, proof of concepts, automating customer on-boarding and enhancing RM effectiveness.

And onto growth. We've radically transformed both how we originate, deploy and manage the capital of the Commercial Bank, changing both how we incentivise and target our bankers as well as measure our use of capital and actively manage the book to ensure we're driving deeper and more sustainable returns to manage the balance sheet and capital at both the portfolio and at the individual client level.

Our capital and risk pricing actions have reduced our exposures to sectors that spike in stressed scenarios, creating a more robust balance sheet as well as ensuring we continue to drive the growth into sectors, geographies and customers that generate the right returns for the capital deployed.

We have, as I mentioned, commercial real estate a number times, reduced our commercial real estate exposure by 68% since 2010. We've released almost £7bn of RWAs in the past three quarters alone using a number of actions such as better data management and risk guiding, active sales of portfolios and individual assets as well as a number of tools to help us spot and manage exposure so both returns and scale of commitments are commensurate with value and sectors.

At the same time, we've also used these disciplines to target the growth using pricing, our disciplined pricing tools to test price elasticity, as well as origination volumes, and an active capital deployment focused to ensure the origination is disciplined and actively managed. This has been built from scratch when we set up the business in 2014, and now it is embedded as a BAU function going forward.

Now, whilst we are in the business of risk and, therefore, not immune to shocks and the impact of challenges for our individual business customers and markets, we can see that the growth in our balance sheet, as well as the reduction in our RWA intensity, signalling that our risk profit is well controlled.

We have also ensured our origination and products are appropriate for the client, and along with the development of a strong conduct and controls environment with a supervisory control regime, this provides clarity and aligns customer needs and product appropriateness. This discipline's important to ensure that we're managing the needs of our customers, deploying products and services that are appropriate for them.

As Rob, my Finance Director will show you in the Financials, we've continued to grow our business within this framework, increasing revenue per customer, productivity of banker, satisfaction of customer whilst maintaining the balance sheet.

And, finally, we are very much focused on the future as well. We've made great progress building out our innovation portfolio to build digital ventures to solve business issues and problems and address adjacent needs of our customers and delivering those ventures directly into the hands of our customers so we are future-focused.

Our origination focus is on the disruptive trends. We're business-led, and we're utilising the extensive scouting capabilities and teams we have in places such as Israel and Silicon Valley, and our partnerships, both with tech and FinTech partners.

We've changed how we work in this space, building strong relationships, partnering with teams who have track records of delivering and have the knowhow from small to large FinTechs, as well as attracting new and different talents into our teams to work in our innovation teams and cross-pollenating with talented people from within our own business.

The focus is not just about learning from them, but also bringing that learning inside the core bank, innovating both inside and on the edge, taking the opportunity to compete and disrupt ourselves as well as identifying and building potential new fee income business streams adjacent to our core banking needs of our customers for the future.

We have, for example, in a very short space of time, and with very little investment, launched a new digital bank, Mettle. We already have customers live and signed up and a waiting list in place. We have our direct leader, Esme, lending almost £5m last month, and we have 5,000 customers active on our digital business advisor Path.

We're being proactive in this space, facing into disruption and seeking to stay ahead as well as learn from our competitors, and we're on the ground learning more about our customer leads and getting our customers to co-create these solutions with us.

The real secret to this has been creating a dedicated innovation team working with world-class partners to solve real business solutions.

And, with this focus, we are continuing to drive solid underlying growth into our business.

We're delivering those needs within the broad transformation programme, recognising the key strengths that we have as the leading Commercial Bank and the position we occupy in supporting UK business.

We're delivering growth in efficiency, productivity and capital deployment.

The core balance sheet has continued to grow. And, after accounting for active portfolio management and transfers out of our business, we have outperformed M4 lending, with CAGR of 5% over the last four years, and revenue growth CAGR over the same period of 4%.

Our underlying ROE has improved from 10 to 12 since 2014, and we continue to compete effectively in a competitive market whilst serving our customers.

The shift from volume growth to driving value can be seen in the improved financial metrics as well as increasing endorsement and support from customers and staff.

And, whilst there have been considerable movements across the book because of ICB, Brexit planning and active management, the quality of the book is rising, the productivity of our customers and our bankers is improving and we have a stable underlying financial performance.

So, in summary, I think we've made good and solid progress to get where we are against a very heavy transformation programme.

We've increased financial and non-financial performance, getting real momentum into our innovation agenda, and I'm really proud of the track record we're starting to deliver.

We are the largest commercial bank in the UK with real scale, and we've grown sustainably and are the number one in terms of our NPS scores.

We have disciplined and prudent management of our capital and our balance sheet, driving growth in our chosen areas and managing our risks proactively.

And we have a leading relationship-led engagement model supported by strong digital services.

We continue to deliver for our customers, and I think our shareholders, and driving real value into the UK economy.

And, with that, I'd like to hand you over to Andrew Lewis.

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Transforming the Core

Andrew Lewis, MD, Capital & Transaction Management, CPB
Thank you Alison. Good afternoon, I'm Andrew Lewis, I run Capital & Transaction Management. I'm going to spend a bit of time going into the sustainable growth and core performance elements that Alison just covered and put a bit of meat on the bones for you.

When we took this business over in 2014 this was a great franchise, the Commercial business the strongest in the UK, it has a number one market position, it's got a good brand, a stable customer base and a distribution platform. Those are great assets to begin with and our real focus over these last four years has been how do we unlock the latent potential of that great business.

And these are the areas I'm going to cover here and other than cost we've really focused on capital and risk management, pricing and conduct and controls and I'll go into a bit more detail on each of those in turn.

Our focus at the outset was on understanding customer needs, what drives customer value and the commercial opportunity within the market that we were in. Driven by value creation we identified parts of the business where we believed we could gain commercial improvement, with specific focus on resource allocation and managing risk to improve that core performance.

We've proactively managed our lending portfolio through a number of value lenses, one being right sizing the amount of capital deployed versus the opportunity of the customer, but also looking at low returning relationships, non-core assets and assets that performed badly under various scenarios under stress.

All of those led to a series of management actions which I'll go through in a minute - that's managed in the last two years to recycle £20bn of RWAs. That's all gone back into the core business.

We have also been very active from a sector perspective, Alison touched on this earlier, we've evidenced a 68% reduction in CRE since 2010 and a recent sector intervention around Retail 12 months ago off the back of poor trading saw us reduce our exposure. We were able to do this because of the risk management capabilities we've been building over the last few years.

We continue to apply these disciplines on the back book, but we do not expect to see the level of intervention going forward. We continue to use the tools on the front book to ensure that actually we're proactively managing the capital and the risk management in the core business going forward to ensure we have balance sheet efficiency.

A large part of our historical capital problem was driven by concentration risk and through rigorous management of single name concentration, sector concentration, product and asset class and duration we've largely addressed. And we are increasing looking at regular and proactive risk intervention using a number of indicators to really address the body risk of the business.

So some examples of what we use day to day are lag indicators, so this is where we're looking at our height and monitoring book, the risk of credit loss and the provisioning, what are we seeing in those lag indicators that will be feeding through to front book action on the performing book.

Secondly the lead indicators, we have an EWI framework at economy level, sector level and at counterparty level. So we're actively managing events in the market and feeding that into interventions in the core.

We also monitor the market, so we look at shorted stocks, we look at spreads, we look at liquidity, primary, secondary markets and we use those to dictate risk management actions on risks that we take on at the outset.

This gives you an indication of some of the interventions we've made over the last two years. You can see in here a variety of techniques and a variety of asset classes. We have used whole loan sales, we've used synthetic securitisation, we've set up a shelf programme for that. We have been very active in our restructuring book, exiting very capital intensive names. We've continued with our non-core efforts, selling the rail fleet for example and increasingly looking at different risk mitigation techniques like credit insurance.

We have deliberately built multiple distribution capabilities across various sectors and asset classes for maximum agility we're increasingly focused on front book and the body risk. The tail risk is largely resolved and we will continue to use these techniques to run capital; velocity in our business as usual model.

The key focus as well was pricing. We have explored leadership economics and price elasticity. It was evident when we came in that we were not pricing like market leaders, despite our incredibly strong position. Before we had devolved pricing responsibility to the sales force, which has resulted in some good and some bad outcomes. The bad being that in some areas we were displaying defensive behaviour and inconsistent customer experience.

We've now instilled pricing discipline, we've aligned risk and returns going back to first principles and we've introduced consistency and transparency of pricing. We have introduced pricing grids that are linked to returns and deployed to the sales force and this has resulted in better centralised control. It's resulted in improved commercials for the business, a real focus on ROE in terms of bottom line value creation and a consistency of pricing which is a key conduct outcome for us.

Having this degree of control also allows us to be able to reprice very quickly if required. So that dexterity that we've been seeking is now in built.

Pricing has only been one aspect of what we were seeking to achieve. Commercial is book ended by the Personal Bank and NatWest Markets, which means that we serve customers from sole traders all the way through to multinational corporations. And our challenge with such a diverse customer base is evidencing needs based sales, that we've sold the right product, to the right need, at the right price, every time. This is a huge challenge.

We have leveraged our learnings of the past to support introspection of conduct going forward. We have focused on evidenced based sales through need and outcome focused journeys and RMs that truly understand their customer.

We have therefore created a systematic link between customer sophistication and product complexity, so that any given customer, product, channel combination has a prescribed sales process and evidential standard. This, combined with the pricing control and product rationalisation has given us a systematic approach to de-risking, whist managing for value, which is the real tension between the conduct and the potential agendas.

In parallel we have introduced a strong supervisory control framework that's improved first line supervision. It has created a much strong risk culture and it's provided a bit uptake in RM and sales training and online collateral for customers to understand our products better. This is an example of us investing in our existing USP, the relationship manager.

Our focus on these areas, plus cost, has seen improvement in that core business from both the balance sheet and earnings perspective and it provides us with a platform for sustainable growth. It has also provided us with the commercial dexterity to respond quickly to market conditions and competition as we look to grow sustainable.

I'll hand over to Keith now who will take us through our digital agenda.

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Digitising Customer Experience

Keith Middlemass, Chief Digital Officer, CPB
Thank you Andrew. My name is Keith Middlemass; I'm the Chief Digital Officer for Commercial. I'm the new one in the team having joined this year. But background in Retail and Commercial banking, mostly Commercial, coming from the consulting space and focused mostly in digital and strategic transformation.

So over the next ten minutes I'm going to cover off what we do, how we do it, and then touch on the way that we're reinventing the way we work.

To set the context it's worth emphasising that as the UK's leading Commercial Bank we are experienced at running complex digital capabilities at scale. We are doing this with a very diverse set of customers.

The businesses we serve range from micro businesses right up to FTSE 100 companies and the users within these businesses have very differing needs, ranging from payroll clerks, through to treasury managers and FDs. And we have five primary online channels to serve these customers.

We have Bankline, which is our secure online banking service to manage every day banking for Commercial customers. It has differing controls for users across organisations; it includes access permissions and payment approvals and has the ability to manage multiple types of accounts and payments. It's a sophisticated system.

We have Bankline Mobile, our latest addition, which offers core Bankline services but with the convenience and the accessibility of mobile.

Bankline Direct, our system to system payments and reporting solution, it supports large corporates and financial institutions.

The Public Web, which is important for information and origination.

And then finally Web Chat, which is our online customer servicing channel, which we are increasingly automating through the use of AI.

These digital channels are established and operating at scale, with millions of visits and handling over £200bn of transactions every month. And we're doing this well, we are number one for online customer satisfaction.

But we realise that we need to continuously improve. Using the wealth of data we hold and making the most of new technologies and ways of working. We are doing this by improving our customers' digital experience front to back. We are improving our digital channels to better service customers and originate new business, providing 24/7. We are improving our end to end journeys to create an efficient and effective customer experience.

We are also enabling our relationship managers to be more consistent, capable and proactive than ever, combining the online and offline experience. The results are clear. Our customers are using our channels more and more and are more engaged. And this is shown in the increase in digital utilisation and Bankline visits.

And we're improving income per relationship management and the overall engagement of the RM community.

We have developed our digital channels significantly over this year, working directly with customers using always on feedback loops and net promotor score to continuously enhance our offering.

We have upgraded Bankline, with improvements including the reduction in the time to make payments by over 30%. We have also introduced Cora our AI chatbot, processing over 5,000 queries a month, improving our service with quicker responses and out of hours support.

We are launching Bankline Mobile in the App Store this quarter and this is an exciting new channel for Commercial customers and will enable us to better service and sell. We are currently testing it with over 700 customers, with excellent feedback, but more on that later.

We are also improving Bankline Direct, our system to system payments and reporting solution. We have improved the on-boarding process, making it easier for clients to securely transact large volumes of payments and information. And we're improving direct payment solutions, all of which contribute to the over £50bn of transactions processed each month.

In parallel we are digitising the end to end customer journeys. Examples are the work we're doing in transforming our account opening and lending processes. This has taken time and investment; however we can now see results. Over 50% of all Business and Commercial banking accounts are opened within five days. We can offer pre-assessed loans to existing customers up to £750,000, giving them rapid digital access to funding decisions, with our nearest competitor up to £100,000, this is not just a first for us, it's market changing.

For asset based lending at Lombard we're improving the volume of lending originated digitally with Lombard journeys now being extended to 40 asset classes.

This is just a sample of what we're doing with more to come as we adopt new technologies and data to improve how we meet changing customer needs at pace.

Although we're doing a lot in digital and the results are apparent, we know we can move faster and achieve more. So we are reinventing the way we work. We're combining the pace of agile working with the benefits of being able to access our large customer base. We are customer led, working with customers at every step to understand what they need and develop what's best for them.

We are moving at pace, building more and more digital services even faster than before, doing it in the most efficient way possible to meet their needs. We are continuously improving, constantly building on what is working and testing it with our customers in live environments.

On a personal note I like to think that we're using digital to help our customers do business better and in the process we ourselves are doing better business.

So to finish off I'd like to show you a video that demonstrates our new mobile app, which we have taken from concept to launch in months. It's worth noting that this mobile app is for Commercial customers, so that's the £2m and above and therefore it is a sophisticated tool.

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Video Played

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Keith Middlemass, Chief Digital Officer, CPB
Thank you, I'll hand you over to Andy.

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Delivering Innovation

Andy Ellis, Head of Strategy and Innovation, CPB
Good afternoon everyone and thank you Keith. My name is Andy Ellis; I'm the Head of Strategy and Innovation in CPB. And I'm here today to tell you a little bit more about our innovation portfolio.

A little bit of background on me, I started life in a tech consultancy; I did some coding, ran some teams of engineering and then moved into business strategy. I have been with Alison since Day Zero back in 2014; in fact I did this original event, so like Rob and Andrew we've been here for a while.

Then two years ago Alison asked me to run strategy and innovation, which I was delighted to do because I get to not only define the future, I get to then deliver it. So it's a fantastic job that I'm very happy to have.

It's worth saying that while Keith talks about digitising the core business on the existing core stack, that's largely focused on Commercial.   My focus is around building digital solutions and standalone technology, largely focused on the smaller end of our business for the moment.

We have started testing a number of initiatives in the market and I'll tell you a bit more about these in detail.

So let's spend a moment looking at how we think about innovation, I'll start with distribution. Firstly, as Keith pointed out in our core we've got lots of customers. If you include Business Banking we've got 800,000 customers, it's a massive competitive advantage and we've got the opportunity to enhance how we serve these customers with the new solutions that we're building.

Secondly, we know that new businesses are coming along with digital only platforms with very intuitive interfaces and low bases. We need to make sure we are competing in this space and heading off this competition by providing even better digital solutions for our customers.

And thirdly and this is an important distinction, we need to recognise that we need to distribute through others in the digital world, through other third parties. We need to be where our customers are operating in their day to day businesses so that we can provide financial solutions such as lending for example if they're in their accountancy platform, or at a point of sale.

So although we're clearly facing a lot of disruption in the market new technology and how we embrace it does open up a much wider marketplace than what we have currently. We have the opportunity to take advantage of this but we need to be bold as we face into it.

So in response we've established a new digital platform which we've called Mettle. We've also created a portfolio of solutions that meet business needs. These are business led and focus on pain points around our customers' traditional banking needs, such as lending and payments, but also adjacent services such as advisory and supporting businesses with their business processes.

As we are the first high street bank to launch a fully standalone Business Banking Digital Business Bank in the UK, we'll have a look at Mettle. We announced this in the market a couple of weeks ago and I'll give you a bit more detail.

Mettle, by definition is all about grit, determination and it's just what entrepreneurs and SMEs need to be to be successful. It's also what we need to be successful in a competitive market.

So what have we built? Our customers said to us that connectivity to NatWest is really important, so we need to supplement the Mettle brand with a NatWest and underlying high street bank. We have built a forward looking Business Bank. We believe that businesses are most successful when they understand what's coming up next.

Today we can give customers a lot of historical transaction data and tell them what's happened in the past. Tomorrow we can tell them what action you need to take to make sure you are still in business next week.

And why are we doing this? We're doing it to allow business owners to make better decisions by removing financial complexity so that they can focus on what drives them. And although we're only in pilot launch this new product has some fantastic standalone features.

You can open an account in under five minutes from your phone. You can easier create, send and track invoices. You can add receipts to track expenses. And you can talk to our customer support team digitally whenever you need.

We continue to focus on great customer experience and creating strategic options for Mettle and for the bank. We're working with our customers to build new features and provide the business support they really need. For example, soon we'll have invoice matching with payments, so you don't have to toggle between spreadsheets or other accountancy platforms. And we will be connecting with accountancy platforms, including FreeAgent to make that very seamless.

At the moment Mettle supports new to bank, smaller customers, and we'll be adding features to onboard and serve larger and more complex customers as we evolve with them.

All this comes together to help customers to spend time in their business rather than on their business.

Okay, so the real power of this portfolio that we've built is the connectivity between all the ventures. We've created a number of business led digital solutions that all talk to each other and interconnect.

To enable this, each of our features they are modular, they are API enabled, and the overarching technology architecture allows single sign on and customer data sharing. And again we can distribute each of these solutions through our core, through third parties, and through Mettle.

Each of these ventures is designed around a specific customer need and let me take you through a few examples.

We spoke to our customers and they said they wanted a quick and easy way to borrow when they needed at a fair price. So we built Esme, we built Esme which provides unsecured lending at a very, very competitive rate which you can onboard and draw down within an hour.

We spoke to our customers and they said we spend too much time and money tracking and processes invoices. So we built APtimise. APtimise is the UK's first integrated digital accounts payable solution. It reads and translates invoices using AI and automates the entire accounts processing process - accounts payable processing, I beg your pardon, and integrates into Bankline and pays it out. Our customers absolutely love it as it does away with the need for dedicated AP staff. And if you're a growing business it means you don't need to add the complexity and the cost of an AP department.

We also spoke to our customers and they said there are times in their lifecycle where they need specialist help and they need somewhere to turn. So as a result we've built Path, which is on the right up here, which is a digital platform which is starting to provide HR services, starting to help customers hire employees, deal with grievance, handle tricky dismissal cases and they can access this through a chatbot, all the way up to a video call with a specialist on hand.

So each of these is best in class, but the most exciting this is once we develop an integrated offering this will be a formidable one stop shop for our customers not only for their banking needs, but to help them run their businesses really effectively.

So how are we doing this? We're doing it - at its heart we're working with the best FinTechs that we can find and we're working in an agile manner. At the start of the summer we carefully selected - last summer - our partners, on Mettle as an example we selected 11FS and CAPCO to help us build this thing.

This immediately brought us experience not only in building in challenger banks in the UK, but the best digital banks globally.

We also chose to leverage as much existing, but new technologies, we could find. To give you an idea of scale and pace, we on-boarded 60 plus software as a service providers and within six months we were up and running with a proof of concept.

We now have a business in Mettle that's got over 50 staff, from designers, engineers and customer services with experience of other banks, top talent from within RBS, and also other sectors including leisure and media. This means that we're developing a genuinely customer led culture, but importantly we also have people in there who understand how to run and build a bank.

Finally to end I'm going to talk for a moment about our approach to portfolio management which I believe is different and distinctive. I run our innovation portfolio with some core principles underpinned by a venture capital style approach. We set a bold strategy to make a significant difference to our customers while being commercially attractive.

These businesses are all actively managed by me and my central team. We dynamically allocate investment resources, we stage gate funding and we starve the businesses so they have to think of creative solutions in order to thrive.

I also work very hard with our core business to leverage not only the expertise that the bank has, because it's massively important in this area, but also to ensure that I can move quickly and safely within the bank's framework.

Finally, we're all co-located actually in this building. We have common ways of working with each other, we're incentivised to collaborate and we've got small empowered teams making decisions daily.

So finally and in summary on the innovation portfolio we have a portfolio of ventures which are ahead of our competition. We have great momentum behind each of our initiatives and we're all focused on serving customers and I fully expect this to be an increasing part of our bank's agenda as we go forward.

So thank you very much for listening, I'll now hand over to Rob, our Head of Finance.

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Financial Performance

Rob Whittick, CPB Finance Director
Thanks Andy. My name's Rob Whittick. I am the Finance Director for Commercial & Private Banking. Finally I guess to look at the financials we have slides that look at the performance achieved over the last four years with detail to support that. And then we'll give you our sense of financial performance as we look forward.

So as you've heard we support a broad spectrum of businesses in the UK starting with those with a turnover of £2m through to the FTSE 100. Our largest exposure is to small and midsized corporates where we see good returns on capital as we support those clients.

Real Estate finance shown here is an amalgam of SME mid and large corporates. And I would note here the LTVs in this sector are now less than 50% versus over 100% pre-crisis.

In terms of the breakdown re sector we've included a list of 14 sectors that individually represent more than 3% of the lending book. In aggregate this total of 14 sectors represent just over 95% of our loans.

We have a diversified book therefore both by size of client and sector in which they reside, and provide a platform for sustainable returns as we look forward.

Returns do vary across the size of client and the sector, but as a portfolio returns continue to improve given management actions on customer journey, pricing, active portfolio management, operating efficiency and RM productivity, as you've heard from the previous speakers.

As Alison has noted headline lending has only grown modestly over the period, but that masks good underlying growth before the impact of active portfolio management and business transfers as we set the bank up for ICB. Clearly as we exit lending businesses that does reduce revenues. Some £300m per annum of revenues would be associated with the loans transferred or proactively recycled. Whilst that is an estimate it gives you a sense of the scale of the impact on revenues.

The upside of these actions is that the quality of the book is rising as are the returns on the capital deployed. At the same time we've improved the cost income ratio through a variety of management actions, mainly impacting the front to back operations and the associated costs.

Finally, whilst ROE has risen modestly this is against a backdrop of low interest rates, elevated costs as RBS restructures, and the actions to set up the bank to be compliant with ICB. In summary we have built a business that can deliver sustainable returns in the future.

Since the beginning of 2017 we have achieved £6bn of core growth and that's a compound rate of 3% which is now in line with M4 PNFC over the same period. As we've reorganised the bank over the last two years to be ICB compliant, the net impact on the business is a reduction in reported balance sheet of £4bn. Predominantly this is the funds business that we transferred to RBSI which was ROE accretive to Commercial prior to it moving.

As Andrew has talked to, since 2014 and in particular over the last two years, we have focused on recycling the portfolio, addressing low returning assets, assets that react poorly under various economic scenarios, and finally those that no longer fit the strategic direction of our business. The disciplines applied in this work, we will continue to ensure we've done - or they will continue to ensure that we dynamically distribute capital to optimise returns.

Turning to NIM, management have taken a number of actions to seek to mitigate both internal and external pressures on NIM and fees. The left hand side of this slide looks at what has happened in the past. We have worked hard to tighten our pricing on assets and deposits which has had a positive impact on NIM, together with modest rises in interest rates coming through that are also beginning to have an impact.

These however were negated by the bank holding excess liquidity, elevated capital and funding costs, hedging income falling and the impact of ICB related transfers I have mentioned. Finally competition clearly plays an important part in NIM.

On the right hand side we set out the tailwinds for our NIM. In the short term we believe these against the headwinds will create a stable underlying NIM, and in the medium term we believe that these will exceed the headwinds and create positive momentum in our NIM.

In terms of comparison of NIM between banks it's clearly important to understand the composition of each corporate business and how funding costs are treated. Here in RBS they are all part of the business NIM. I have included here also a simple breakdown of our non-interest income which shows our diverse income streams in this area. Mainly fees around lending and leasing, together with some one offs included in the other column.

Across the bank improving operating efficiency and productivity has been a key focus, and that is no different in Commercial. At the same time as increasing underlying volumes we have achieved headcount reductions of 26% in the front office, 29% in the middle office and 19% in operations. These reductions together with the associated reductions in property, systems and products will ensure that Commercial makes a significant contribution to the bank meeting its target of a cost income ratio below 50% in 2020.

And finally as a result of investment and staff training you can see that lending, our client facing FTE is rising sharply reflecting significant uplift in frontline productivity.

You can see that whilst we have maintained robust profitability through the cycle despite all the changes, ROE has stubbornly refused to rise. The management team have taken a significant number of positive actions to drive underlying returns up; however these have been largely offset by internal reorganisations and extraneous factors. This slide sets out what has happened and what is likely to happen.

On the left hand side of the waterfall this shows what has happened over the last four years, and as you have seen on the previous slides RM productivity rising, pricing discipline improving, strengthening of the balance sheet and improving returns on capital have been supported by interest rate rises which have begun to come through, albeit slowly.

Against that we've had to reorganise for ICB which has been detrimental to Commercial. Hedging income has fallen; increasing levels of liquidity held at the bank and increased capital requirements.

On the right hand side as we look forward we do expect to achieve growth. We expect we will achieve further cost savings and rises in productivity as we make both our customers and our colleagues' lives easier, and as you heard from Andy we'll develop new capabilities providing solutions to our customers.

Against that we expect competition to get stronger and challenge pricing. The end of TFS will likely impact deposit pricing, and further capital model changes are known to hit us in outer years. And clearly on economics we wait and see re Brexit, but in the meantime we will focus on supporting our customers.

In terms of supporting our customers we're looking to meet their needs through their lifecycle. We clearly provide financing both from our own balance sheet and the debt markets, risk management mainly around interest rate and currency risk, and supporting our customers hold, monitor and move their money. Clearly providing term finance is a cornerstone of this, enabling clients to buy fixed assets or fund acquisitions. However it is capital intensive and therefore it is essential that we balance this with other products.

In terms of funding our business we do in a basic sense as you can see fund our lending through deposit taking.

In terms of very broad economics we see as relevant to the business. GDP clearly relevant for wider investment levels and long term returns, and directly relevant to our Lombard and invoice finance businesses. M4 PNFC we see as relevant to our small and mid corporate volumes. And levels of interest rate, particularly low levels, impact margins and in particular the spread between base and market implied rates. Business confidence is clearly relevant across our whole business, and as you would expect currently impacted by Brexit.

We have projected here what we see over the three to five year horizon given consensus economics though we are clearly in highly uncertain times. In the short term with Brexit, and the bank holding excess liquidity and capital, we would expect to see more challenging dynamics. But should the economic landscape improve and the bank moves towards targeted levels of liquidity and capital then we would look to see the following. Lending and consequently income to grow. Costs will continue to reduce as we simplify our business. We do think impairments will increase versus the 13 basis points you see here for Q3 year to date. We do see our deposits rising to support that lending growth, and RWAs will also rise as the balance sheet grows, but we will maintain a focus on proactively managing capital intensity.

And NIM as we have noted over the medium term pricing discipline, falling liquidity and capital and funding costs together with rising rates we believe will more than offset the increased competition that we will experience.

The business has delivered consistent profits across the cycle despite challenging economics and continued internal change. We have proactively managed the balance sheet to ensure sustainable future profits. We have delivered growth across the cycle. And from 2019 without significant recycling of the balance sheet our business will grow on a headline basis.

The future three to five year projections are positive subject to improving economics, although we do clearly live, as I've said, in highly uncertain times in terms of those economics.

With that I will hand back to Alison to close.

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Closing Comments

Alison Rose, CPB Chief Executive Officer
Thanks Rob.

So well hopefully we have given you a deeper understanding of the progress that we have made in Commercial in the underlying dynamics. I guess in terms of the key messages I would leave you with before we open to Q&A, we are the largest UK Commercial Bank and as a result we have a degree of scale across the UK with dedicated and leading customer advocacy. We are driving sustainable growth and we're very focused on ensuring our capital is deployed and our balance sheet is managed appropriately.

The RM led model is a key differentiator and we have invested very significantly on that, but also supporting it with strong digital and innovation services to make sure that we are building a business that is also future proof and that we continue to evolve and develop.

And with that I'm going to invite the team up to come and sit here and we're going to open to Q&A. I'm sure there are lots of questions around the bank and mortgage pricing and Brexit and other areas, but perhaps we can maybe focus the questions on what we've covered today which is the Commercial business. And with that we'll open it up to questions. Guys if you want to come up and join me.

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Questions and Answers

Alastair Ryan, Bank of America Merrill Lynch
Slide 42 is very interesting. What would be the best for your business? Would it be interest rates going up which would help the very strong liability balance? Would it be customers wanting to borrow which has been one of the things that hasn't really happened because there hasn't been a lot of borrowing? Or is it really you're not worried about that, you're just worried about managing your own business and you'll accept the economics as it comes?

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Alison Rose, CPB Chief Executive Officer
So I'll start with that and Rob can help.

I mean we're fundamentally a driver of business confidence in GDP, so we tend to follow GDP growth. So business confidence will drive investment. So what we've seen over this year is slightly subdued investment levels, people have invested for what I would consider short term. So we're focused on customers borrowing for investment needs and that will be through a multiple of products, but fundamentally GDP will be an indicator of our growth.

We're going to continue to actively manage our business to make sure that the balance sheet is right and we've got both the appropriate portfolio size and shape of our business and individual asset management as we grow, and you can see that from the dynamics we've showed you there. But we are a beneficiary of interest rates going up as well but that will hit both sides of the balance sheet. Rob I don't know if you want to illuminate a little bit more on that?

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Rob Whittick, CPB Finance Director
Sure. In terms of interest rate rises - sorry clearly if interest rates rise we are geared towards - through the hedging mechanisms we will benefit from that. Against that interest rate rises conceivably could make customer debt less affordable so we are conscious of that.

In terms of volumes yes, business confidence and therefore more lending growing for us, the engine if you like is built. So putting more volume through and the appropriate volume is good for the profit levels.

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Alastair Ryan, Bank of America Merrill Lynch
Thank you. If I could just follow up. I guess with all the loans you've took off the book, it's back on slide 38, you'd be more comfortable that the book would perform well in an economic shock versus what you would have been before. Is there any way of quantifying that? I know that's a hard one but presumably stuff that you've cleaned up that stresses badly so would have consumed capital, not having that will help the credit charge if there is an economic shock next week or whenever.

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Alison Rose, CPB Chief Executive Officer
So our focus is actually around that. We manage the book both on a portfolio basis, elements that flare under stress, and then individual known concentration. So we are trying to create less of that fluctuation in an economic cycle.

So there are particular elements of the book that when we've looked at different scenario analysis flare more under stress and therefore using that insight we may rebalance the book a little bit, either in a portfolio or a sector. So the idea is to create a much more sustainable. The obvious example that I brought out was Commercial Real Estate. We saw how that performed during post the financial crisis and in a property downturn. We changed both the exposure and the sub segment and its sort of share across that metric, but we've also changed our risk appetite. So lower loan to values, higher interest covers in areas that we think.

So yeah we're not going to be completely immune to shocks in the economy obviously because businesses have different dimensions, but the idea is to create a much more balanced and sustainable balance sheet.

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Ian Gordon, Investec
Two please. I don't know if it's a redundant concept but share of wallet didn't get a mention. On the one hand your digitisation strategy would presumably encourage cross sell and the road to greater penetration and all those good things. And then on the other hand your more selective approach to stick and hold assets would encourage the opposite as would your managing away of concentration risks. So how should I think about where you've gone over the last five years in that metric and where you're going over the next five years?

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Alison Rose, CPB Chief Executive Officer
So largely when we look at our customers, and it varies obviously with the spectrum of customers that we've got, we're trying to focus on providing them with solutions. And those solutions are delivered across a multiple of product. So rather than just selling

one product, we're looking to penetrate their wallet as deeply as we possibly can, and we're very solution led on that.

So for example, I mean maybe to bring it a little bit more to life, if you are a midsized corporate, midsized SME, it's highly likely you will be borrowing from us to invest in your factory or some form of commercial real estate lending. It's also likely you'll have working capital needs so we might be providing you with supply chain financing, invoice financing. We'll probably be financing your equipment through Lombard. We'll potentially be engaging with Path or Mentor to give you advisory services, as well as doing your transaction banking, cash management etc. So we're trying to sell across the wallet of the customer.

Digitisation doesn't - what digitisation does is allow customers to choose to interact with us, and some of them will want to choose parts of their wallet through self-serve, and others they will want an RM to provide them with a wraparound solution. So actually when we look at our customers, particularly with the more sophisticated customers, we target number of products sold. But it's very much through a needs based lens. So the productivity increase and the revenue increase by customer, which were some of the stats we showed you, are an example of how we're increasing wallet penetration of customer.

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Ian Gordon, Investec
Thank you. Second one; forgive me it's a project hysteria question. In your SME book what proportion of your customers have no transactions with the EU? Would it be more than 92%, less than 92% or approximately 92%?

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Alison Rose, CPB Chief Executive Officer
I don't know the answer to that question; we'll have to get back to you on that.

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Chris Cant, Autonomous
Just coming back to Mettle which going through all of the various facets of that product offering sounds very interesting I guess for the smaller end of SME. I'm just curious to ask you how you think about that playing out relative to the Williams & Glyn incentive scheme over the next two years? I guess that's going to come within CPB if Business Banking is moving over in terms of those customers, so on the one hand you're hoping to gather new to bank customers, and on the other you're incentivising similar small SME customers to move to competitors. How do you see those two things playing out over the next couple of years?

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Alison Rose, CPB Chief Executive Officer
Yeah so I mean Williams & Glyn we obviously have our obligations to fill under those and those clients are ring-fenced and that will be executing in line with our EC commitments in the new deal.

Mettle is really a new digital bank that we're launching and one of the things around our innovation portfolio that Andy touched on is both looking at different ways to serve our customers through the way they're looking to behave, so a lot of SMEs maybe want to interact completely digitally with an ecosystem and much more API enabled. So it's testing that. It's also obviously a scalable model so we can build things very differently.

So it's a way for us to potentially learn and acquire new customers that may want to interact very differently than just coming in the core route. But it's also a way of educating ourselves in the new existing bank as well. So if I think about Esme which is our digital lending platform, our customer acquisition of that is 85% non-bank customers. But the learnings we've taken from that we're applying into our lending platform in core.

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Chris Cant, Autonomous
In terms of your SME lending book if I can put it in a slightly more numerical fashion, are you expecting Mettle to deliver enough growth to offset some of that Williams & Glyn pressure you're likely to face, particularly as we head into 2019 when that incentive scheme kicks off? Or should we really think of this as the very beginning of a J curve over a number of years in terms of that Mettle customer base building up?

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Alison Rose, CPB Chief Executive Officer
Yeah I think you should think of Mettle as a new start-up innovation that's very small and we're testing and learning.

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Martin Leitgeb, Goldman Sachs
Two questions from my side. And the first one I think we started well in terms of the discussion branch based distribution versus digital, and just in terms of the medium term perspective five years on from here, looking at all these initiatives, it seems like a number of the products, the SME Mettle and so forth are potentially RBS trying a new approach and seeing how it runs. But I was just trying to understand is this more an approach to try to fend off some of the competition coming in by offering similar products, similar speeds of turnaround on loans and similar things, or would you have the hope that maybe in a couple of years' time the adoption would be such that you could take out some of the NatWest cost structure, branch structure as a result because more and more of the transactions will essentially move to digital?

The second question more on deposits and competition for deposits. So I was just wondering if you could comment on what impacts you think ring-fencing might have had in terms of Commercial deposit pricing? Thank you.

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Alison Rose, CPB Chief Executive Officer
So in answer to your first question the answer is yes to both. So we are using our innovation portfolio in some of these new ventures to really look at trends in disruption, where they may come from and different ways of customers behaving and how they may wish to interact. They may help us win more market share and disrupt ourselves, or

they may take us into a new market depending on how customers behave. So we're using them very deliberately to test and learn and also be very mindful of how the market is evolving both from customer behaviour which you can see all the time, and also how competitors are moving at scale.

So when we look at our scenarios for our innovation and start-ups, they go from it will be a test and learn to it will win me market share to it will be something that enables us to disrupt ourselves. And as we evolve that portfolio and Andy talked about the sort of tight gates that we put on it, we're asking ourselves those questions as we go.

On the second question in terms of deposits with ring-fencing, all of our Commercial clients and corporate relationships sit within the ring-fence. And we obviously collect deposits from them so we're not seeing any impact of ring-fencing because we've obviously gone for the broad ring-fence and they sit within our ring-fence structure which is CPB.

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Rohith Chandra-Rajan, Bank of America Merrill Lynch
The 5% loan growth that you talked about the underlying, just wondered if you could talk about how much of that is you sort of repositioning the book and getting into segments that you were perhaps previously underrepresented in, versus what might be obviously dependent on the macro outlook an ongoing sustainable pace of growth?

And the second one was just I think Rob mentioned price competition quite a lot. Just curious to understand which areas of the market you're seeing that competition and how aggressive it might be?

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Alison Rose, CPB Chief Executive Officer
So in terms of the 5% growth we've been very targeted around where we want to grow so we look at it through a number of lenses. There are some sectors where we think the dynamics of that sector have been positive in terms of the returns, its robustness to shocks and where we are in weight. So we've seen quite a lot, for example growth in manufacturing where we feel that we have a particular strength with our manufacturing capabilities and wraparound care and the strength of that sector. So we've grown very strongly in that sector.

In other areas there are geographies around the UK where maybe we are underweight and so therefore we've targeted our origination from that perspective. And then there's individual customers where we feel when we look at the needs of that customer and our product sets we're maybe not you know developing as much as we possibly can. So for example our Lombard asset financing business, we've had a real focus on growing that business to particular sector and customer groups. So the growth has come through those dimensions as we've growth both demand and underweight and penetration of wallet. So that's generally how we look at it.

So as a result you can see we've outgrown actually market in some sectors, and in other sectors we'll be lower. So we're very strategic and tactical about it in terms of how we grow.

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Rohith Chandra-Rajan, Bank of America Merrill Lynch
Can I ask how you're managing your Retail exposures at the moment? Has there been much movement there?

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Alison Rose, CPB Chief Executive Officer
Yeah we've done some de-risking of our Retail portfolio which Andrew mentioned. We've obviously been looking at the correlation of all the data points that we have but in particular we've been looking at the trends in Retail where we're seeing business models being disrupted, I think that's a particular theme. Some of the retailers that you've seen go through CVAs of which a number of them we haven't been lenders to and perhaps they haven't moved their online model fast enough. So we look at the kind of correlation between macro and disruptive trends, and therefore we realign our portfolio just in terms of weighting and then individual name from that perspective.

And then your second question was on pricing competition. We compete effectively but Andrew I wonder whether you want to talk about pricing competition and answer that question?

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Andrew Lewis, MD, Capital & Transaction Management, CPB
Interestingly we do get different competitive pressures by region. So we'll see Barclays is particularly in one region and Lloyds in another, sort of historic footprint. But I think generically probably the most aggressive we've seen is HSBC, particularly since they stood up their UK ring-fenced bank.

And on the challenger banks, we tend to see them through proposition difference rather than price. So the mainstream is where we see most of the price tension.

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Question
Good afternoon, two questions if I may. First one was on capital allocation. I guess you're allocating 11% of risk weighted assets, risk weighted asset equivalent to Commercial. If Group is going to be at sort of 16 plus which it is at the moment, how do you solve or play your part given the RWAs you have in getting Group to 12% plus? And are you planning to stick with 11% for the time being or thinking about capital allocation?

Second question was another one just on margin and interest rate sensitivity. When we see you've got the £96bn odd of deposits how much of those are managed margin deposits? And if we get a 25 basis point rate hike how much would you share with your customers? Or maybe that's not how I should maybe think about the mechanics on your sensitivity?

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Rob Whittick, CPB Finance Director
So in terms of the first part of your question, as you say capital scalars are currently at 11% for this business. We maintain those under constant review with Treasury to

understand as situations changes should we change the scalar. So that's under constant review.

And then in terms of our returns, yes they're against 11%. We do see our returns, as we've indicated in the debt, rising over the near term. I think in terms of potential capital scalars I don't think that will stop us making a significant contribution to the bank meeting its targets in 2020.

And then in terms of the £96bn probably 60% is on managed rate, and you can see in the disclosures quite what's happened to that over the last six or eight quarters. We got the book significantly more onto managed rate. You can see the drop in cost of customer funds four or five quarters ago and now it's obviously gone up a bit because of the rate rises. But yeah so 60% of them have got stuff on interest bearing.

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Jason Napier, UBS
The guidance of kind of expanding margins loan growth and yet costs over three to five years down in absolute terms suggests a really strong outlook for pre provision profits. I wonder would you mind adding a little colour on the cost outlook? There's been a huge increase in loans per customer facing staff and headcount is actually quite stable now, annualised cost run rate is down about £100m this year. I just wonder what are the big blocks in terms of the three to five year outlook that make you confident that ex inflation and top line growth that you can actually be down over the period? Thanks.

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Alison Rose, CPB Chief Executive Officer
Yeah we continue to focus on costs in the business and there's been a lot of work around the efficiency of the costs. But particularly as we stood up our customer journeys and I touched a little bit on journey accelerators that we were putting through the business, and Andrew and his team are leading that work across the Commercial business. You know there's a lot of work still to do around process efficiency and simplification. So you know our strategy of simplifying the products and then creating automation if we can or elimination, I think there's still a lot of work to go on that as we create efficiency in our customer journey. So that's the first element.

Obviously as customers self-serve more of what I would describe the vanilla products then that requires less intervention from us. And with our end to end process redesign things like the straight through processing has improved. Our right first times have improved so you need less rework. And all of that will drive cost efficiency out, and those are big drivers of the productivity.

We're also beneficiaries of the bank wide cost reduction programme. As we exit properties, as our property costs comes down across the Group, as you know that's a significant driver of costs, and more efficiency through our technology platforms across the bank we'll benefit from those bank wide cost reduction programmes as well through the allocated costs that we get. But it's really through the journey work within the sort of direct cost base that we will drive out more efficiency. And you know there are some good examples of things we're finding through our accelerators and our digital.

Andrew I don't know if you want to just give a couple of examples just to bring that to life?

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Andrew Lewis, MD, Capital & Transaction Management, CPB
Yeah I mean it's small things like application forms, we'll look again at the product range and actually is there further bits there. So you actually have to get in there, find it and extract it which is what the accelerators do. We've done some of the structural costs and we'll continue to do that, but actually it's building the alternative channels, different ways of serving a customer, the customer behaviour changing and then as that customer behaviour change materialises you get in and you take out the cost you can. That's where we're going to focus on the journeys.

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Alison Rose, CPB Chief Executive Officer
And Keith we're rolling more and more services out through bank line and more capabilities again which drives through the self-serve side.

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Keith Middlemass, CPB Chief Digital Officer
The increased channel and the increased channel usage drive more self-service. And also not to forget about the origination side of things as well. So the origination through digital channels improves efficiencies.

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David Wong, Credit Suisse
Good morning. I have two questions if I may. The first is just on the top line growth. This may be an unfair characterisation but it strikes me that your business model is more sort of lending led compared to some other UK banks' lending models which are more sort of liquidity and cash management led. And I'm wondering why you don't seem to be trying to do more of the ….. that seems to be quite a nice capital light kind of business which banks can do, I guess is my first question.

The second question just on the cost and pre provision outlook. And it's obviously been said, revenues up, costs down sounds excellent. I'm just wondering of the gross cost savings you extract, typically how much would you be thinking of reinvesting back into the business to ensure that the platform is obviously kept in good shape for the future? Many thanks.

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Alison Rose, CPB Chief Executive Officer
In terms of product obviously a big part of need of SMEs is lending, particularly around the small end, the sole trader. It tends to be very simple needs so we tend to have a portfolio usually of loans, commercial loans, commercial cards, those types of products. As we go up actually we do have transaction banking, UK cash management capabilities that we provide. When we exited transaction banking globally we didn't exit the UK so transaction banking is a core part, so running the accounts, transaction banking.

We do have quite a lot of diversification through our Lombard business, asset financing, we have a market leading invoice financing business. So we are trying to diversify our product suite through trade. And a lot of the new innovations that Andy touched on are actually about creating adjacent needs for our customers and much more fee based. So the key is to make sure we're selling the right products to the customer, so we're very much around ethical sales and needs based selling. But absolutely diversification is key, but a big part of that small end is lending.

In terms of your second point around how much are we reinvesting, we're investing a lot in the business. Obviously across the bank you're aware of the numbers that we talk around the level of investment that we are putting in. We get a significant amount of investment that we prioritise into the business so a lot of our investment has been focused on bank line, so the re-platforming of bank line and the additional rollouts and modules and the innovation there. Our lending platform and our account opening have been big areas of investment to make sure that we move from the analogue to the real digital.

So it's as any CEO of a business will say I always want to invest more than I do, but I think actually we've got the right focus of investment and the right prioritisation to make sure our platforms are stable and secure which is delivered through the core bank, and then suitably agile for us to roll out new capabilities for our customers.

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Ed Firth, KBW
I just had two questions. I guess the first one is really about - I guess it's about strategy. It's looking I guess reasonably likely that at some point over the next 12 months you may have a change of control in terms of your largest shareholder. And your potential new controller has made it pretty clear that he thinks you haven't been lending enough in recent years. And I guess looking at your credit performance you could perhaps say that there is some validity in that. How would you respond to those sort of criticisms I guess and how would you see your strategy evolving if you were under pressure to lend somewhat more, particularly at the low end?

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Alison Rose, CPB Chief Executive Officer
Yeah I mean I think in terms of our lending as you can see from the real growth in lending that we're delivering, we are creating real growth and deployment of credit into the SME in the market. And if you look at how we stretch our business regionally we can identify and we talk quite often about the level of regional investment that we create with our local teams on the ground. So I would certainly say five years ago we were accused of not lending. Actually that is something I very rarely hear a complaint about.

We are lending but we are lending in a way - one of the messages I give to my bankers is we've got to lend a good yes and a good no. Overleveraging companies is not what I would call sensible or sustainable lending. So my answer to that question is we are lending, we can demonstrate growth; we can demonstrate deployment of capital into the UK economy as the biggest commercial lender. With a balance sheet of that size you can see we're lending to businesses.

We're also doing more than lending in that we're actually put practical and real help on the ground for customers. Good examples of that are our entrepreneur accelerator programme that I run for the bank where we've put three accelerators around the country to make sure that we're providing full wraparound care and support, and advice for entrepreneurs. So far we've helped 5,000 entrepreneurs across the UK. The survival rate of entrepreneurs who go through our programme two years after trading is in the 80% so we're making a tangible difference.

So I'm pretty confident that I can answer the question and I'm regularly asked it, and we share it with all stakeholders the amount of deployment of capital we're putting in.

We are - in answer to the second part of your question we lend in a way that is appropriate as a publicly quoted company, to drive the right value for customers and the right value for shareholders. I don't think it is appropriate for both of those to commit lending to companies that they can't manage or go into an economic downturn and not be able to pay back that money or it causes stress for their business. So we're very clear about we're providing real support for business so that we can provide real support through the cycle.

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Ed Firth, KBW
So your broad response would be there is very little flexing you can do? Broadly it is what it is and that's what it will be?

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Alison Rose, CPB Chief Executive Officer
No I mean I think we'll continue to lend and we'll continue to grow. So we expect in line with GDP, so business confidence is affected by elements of uncertainty. So if there is demand we will lend and we will seek to help and support business growth. So I expect our business to continue growing and our lending to continue.

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Ed Firth, KBW
And my other question was, again a slightly broader question, you talk a lot about cross selling of products etc. I guess your biggest competitor feels that it's almost impossible to run a Commercial Bank separate from an Investment Bank. What are the sort of challenges you find trying to do that? Do you find yourself disadvantaged at the margin in terms of particularly at the top end trying to sell more sophisticated products that you perhaps don't have under your wing and actually you have to cross sell another part of the Group? How do you sort of look at that trade?

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Alison Rose, CPB Chief Executive Officer
So obviously NatWest Markets is a key partner to the Commercial Bank. So Chris Marks and I work very closely together, we obviously operate now ring-fenced bank and non-ring-fenced bank. But we made a very clear decision around the type of products that we wanted to provide through the shape of our Investment Bank and those serve the top end of my corporate clients but also through to my Commercial and my Retail clients through access to capital markets, FX and derivatives.

We don't have as you say corporate finance or M&A or equities, and so therefore we make sure that the customers we are lending to in the corporate space, the capital deployed to them is sufficient for the product set that we can sell to them to drive the right returns, and we're very comfortable with those choices that we can support our chosen customers with that product set.

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Ed Firth, KBW
But do you find any pressure at the top end in terms of customers that you would say were like a Barclays customer versus a Royal Bank customer or …?

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Alison Rose, CPB Chief Executive Officer
No. I mean the thing with the corporate customers, and I used to look after our debt capital markets business in one of my previous roles in NatWest Markets, all those customers, corporate customers, multibank anyway, they will have a core set of five to six Tier 1 banks and maybe a portfolio of however many you want to do. So they will apportion their wallet depending on need.

We're very clear with the capital that we're playing in a certain aspect of their wallets and we feel we can compete effectively with the product set that we have and the capital we deploy. Some of the capital reshaping that we've done in our book has been as we've come out of different products sizing our capital appropriately now for the product set we sell in. So we find we have very good structured conversations with our clients and can make adequate returns with the product set that we have.

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Chris Mannors, Barclays
The question was on asset quality again and impairments are very low year to date, you're getting a bit of vol coming into these numbers with IFRS 9. Obviously you're doing work here to reduce assets flowing under stress, the CRE etc. I'd just be interested; do you think that means that your stress drawdown will be lower in the corporate book in Commercial Banking than it has been? In the past I guess it was what £5.5bn drawdown that we had published last night for Commercial, and so what you're doing, will that bring that down?

And the second point is do you think you should have a lower cross cycle cost of risk than we've experienced over the last sort of several cycles because of what you're doing? Is it going to be that impactful?

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Alison Rose, CPB Chief Executive Officer
So I think if you look at the previous model where we held assets to maturity, so previously we originate assets, they would sit on the book to maturity with no real kind of portfolio management of the book. A lot of what we've been trying to do, and Andrew and his team have led, has been really making sure that that book is balanced appropriately and that the risk is balanced.

Absolutely we will see an increase in impairments as you go through an economic cycle; we're not a risk free model of course. But what we're trying to do is make sure that we have less of the big swings and drops, and the biggest swing post financial crisis was

Commercial Real Estate. So you can - which is why I bring that out to give an example of what we've done.

We are saying that we will expect impairments and provisions to go up as you get into a more normalised through the cycle lens. But what we're hoping is with that better portfolio balancing there's less big concentrations, we've de-risked that, there's less concentrations in particular sectors. And with some of the proactive early warning indicators that we've put in we're hoping that we can get ahead of some of the cycle. We won't get ahead of all of them but certainly that's what we're trying to do.

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Ian Gordon, Investec
Can you just say a bit more about competition? I think the competition authorities may be a bit disappointed about your earlier answer that most of the competition you see still comes from the incumbents. I understand why that would be the answer now but in terms of all the money you're generously giving to your would be competitors would you see any material change in market share from big four over the next five years?

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Alison Rose, CPB Chief Executive Officer
I think one of the slides I showed earlier with the customer segments and the spread of competition, one of the conversations I've had with the CMA as they went through their competition review is there is no shortage of competitors in this market. And with the scale of customers that we look after we're competing with the traditional competitors, and at the moment there is a structural element of ring-fencing being set up, but there's a lot of liquidity around that's creating particular competitive pricing amongst some of the big providers in ring-fencing.

But we get competed at the lower end. We compete with peer to peer lenders. In fact we actually refer business to them. We think that's the right thing to help customers if it's not within our risk appetite. We compete with standalone asset financers. We compete with the new digital banks that are starting out. We compete with PayPal and Amazon. So it's a very broad competitive base.

I guess our point is we're very cognisant of the competition. There is competition on pricing. From our perspective we think our relationship managed led model, the solution led model and drive into to business solutions allows us to compete effectively in that market. But we're very conscious that we have to manage our pricing and our price elasticity as well. So I think you can reassure the CMA that we're not short of competitors.

Any other questions? No.

Well if there are no more questions firstly thank you very much for coming along. I hope it's given you a sense of where we were, where we've come from and what we're facing into.

Please do stay around, we're hosting drinks afterwards which we'd love you to stay and join. All of the management team will also be there so very happy to take any more informal questions. But please do join us for a drink afterwards and thank you again for your time.

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