Commercial Banking and NWM Investor Spotlight Live Event

21st May 2021

Audio Transcript

Paul Thwaite (PT)

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Thank you Dave, good afternoon everyone, and thank you for joining today's Commercial Bank and Natwest Markets Investor Spotlight. My name is Paul Thwaite, I'm the CEO of the Commercial Bank. I know many of you will have joined the Meet the EXCO introductory event in March. The session today will provide a deeper insight into how we are driving towards sustainable returns in both our commercial banking and Natwest Markets businesses.

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Later in the year, we'll be holding a similar event focused on our Retail and Private businesses. Today, in addition to myself, and Robert, CEO of Natwest Markets, Simon McNamara our CAO, will highlight some of the key technologies and innovation being provided to our franchises and Jen Tippin our Chief Transformation Officer, will give an overview of how the transformation program is helping us to deliver on our strategic priorities.

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As Dave mentioned, at the end of the presentation, there will be an opportunity for Q&A and I'm pleased to say we will be joined by our Business CFO's Peter Norton for Commercial Banking and David King for Natwest Markets.

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First and briefly, I'd like to recap on the 4 strategic priorities that Alison set out in February 2020 to drive sustainable returns. These very much underpin our purpose and our strategy and we believe are critical to building trust and creating long term value for all of our stakeholders.

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The 4 pillars of supporting customers, powering growth through innovation and partnerships, simplifying our business and sharpening our capital allocation.

Over the last year and through the COVID-19 pandemic we truly believe our purpose and our strategy has been tested and proven as we have pivoted the business to support individuals, families and businesses in many new ways both at scale and at pace, whilst continuing the digital transformation of our business.

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Framing commercial banking and Natwest Markets, together these businesses account for about 50% of Natwest Group income and costs and about 60% of risk weighted assets, making the successful execution of our strategy a key element in the delivery of the groups 2023 targets.

In the next 15 minutes or so, I will take you through how we are delivering on our priorities, within commercial banking, by covering an overview of the business and the financial performance across the different customer segments, our customers focused strategy, our ongoing collaboration with Natwest Markets and our expected financial outlook.

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So, starting with an overview of commercial banking. We are the largest supporter of UK businesses, we serve in excess of 1 million customers across the UK, or put another way, 1 in 4 of every business.

We offer a comprehensive range of the products and propositions across our 3 main customer segments of business banking, SME and mid-corporates and large corporates and institutions.

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These customer segments are complimented by our specialised product business including Lombard, our asset finance business, Invoice finance and Mentor. Our broad regional and local RM presence, our comprehensive product range and deep-set expertise allows us to competitively meet a wide range of our customers needs ensuring we keep pace with an ever-changing market landscape.

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We start with a position of strength and leadership across our primary segments, both in terms of market share and customer satisfaction.

Whilst there are consistent themes and needs across our customer base, the returns dynamic varies across different segments and external and internal drivers impact the profitability of the businesses in slightly different ways.

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It should be noted that 2020 returns were lower due to the supressed income we saw, during lockdown as well as the impact of procyclicality and a flat yield curve.

We see upsides with the reversal of these impacts and in businesses where we hold significant operational deposits, we are highly levered to positive changes in the yield curve.

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Taking each of the segments in turn. Business banking is focused on our smallest customers and we support circa 20% of businesses of this size in the UK. Our net promoter score and CMA rankings in this segment continue to carry strong momentum and our priority is to continue to automate and digitise our offering.

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Supported by a direct relationship manager model with video banking capabilities for those key moments of truth.

Traditionally, business banking has been a high margin business with attractive returns and a source of high-quality deposits with a loan to deposit ratio of below 50%.

During 2020 we saw some significant changes in the shape of this business as the loan book nearly doubled in size, primarily on the bank of bounce back loans and deposits increased by 25%.

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Whilst relatively simple, this business has the greatest scope to be digitised and it's capital liquidity and return dynamics are in many respects more akin to a retail portfolio.

Our SME and corporate businesses comprise of regionally and sectorially diverse customers with more complex needs and typically better credit ratings.

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These customers are served by our relationship managers, supplemented as required by specialist product teams and have increasingly have had a growing demand for digital journeys and video banking. In the current interest rate environments, significant deposit and flows, combined with competitive asset pricing has weighed on the returns.

We plan to increase profitability in this segment, as we evolve the relationship model in an increasingly digital world and meet more of these customers' needs by transaction banking, our ventures and our Natwest Markets capabilities.

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We also include here our real estate business, which reflects where the majority of this book sits and aligns with how we manage the business on a day-to-day basis. Real estate remains important to us, has been discussed at length historically and has been for a number of years, run with a very cautious risk appetite.

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Our large corporate and institutions business have a leading market share and is focused on our largest multinational clients and our most complex and sponsor owned businesses.

We are primarily focused on customers with a UK nexus and over the years have developed strong leading positions in a key number of specialist areas, such as asset finance, infrastructure, product finance and renewables.

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To ensure we deliver all of the bank's capabilities to this customer set, we have implemented new ways of collaborating with Natwest Markets, an example of which is the alignment of our customer facing teams in a One Relationship manager model which simplifies the way we serve our customers.

Large corporate institutions are also a deposit heavy business and returns being impacted by the compression of the yield curve.

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Finally, we have our specialised product businesses, Lombard, invoice finance and Mentor, all of which individually add market leading positions, and are currently integrated with the 3 core customer businesses I just talked through.

Separately we disclose other, which accounts for about £10Bn of risk weighted assets, which includes £4Bn of EU divestment, which will soon be reintegrated into the core business, given the upcoming conclusion of our state A commitments, a legacy assets portfolio of around £1Bn and a centrally held treasury risk portfolio of £5Bn.

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Moving from the segments to our strategy, our strategic priorities for the business align to both value and market opportunity and apply across all of the business segments.

Firstly, supporting our customers through the economic recovery, Brexit and our transition to a Net Zero economy. Secondly, driving quality income growth which we're doing through lending and our partnership with Natwest Markets and through growing our fee income base through payments and transaction banking.

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Thirdly, driving efficiency through digitisation, simplification, and automation by transforming our key processes of our key customer journeys.

And finally, but not least, sharpening our capital allocation across the book.

I'll now take each one and go into a little bit more detail on each.

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Starting with our first priority, the ongoing support we are providing to our customers. This remains at the highest importance; we are now shifting our focus from helping customers through the disruption caused by COVID-19 to supporting them in recovery.

Over the course of the pandemic, we delivered circa 20% of all government scheme lending and earlier this year successfully launched the recovery loan scheme and Pay as you Go, a fully digital end to end journey that supports customers with the repayments of their bounce back loans.

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And aligned with our purpose, we continue to remove barriers to enterprise on our recent work with the government, on the SME task force, including a commitment of £6Bn of funding, demonstrates our focus on improving SME productivity and championing the recovery in the UK.

At the same time, we recognise the important role we have to play in supporting the UK transition to Net Zero and whilst this applies across all segments, we see particular opportunity in the near term with our largest customers.

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An excellent example of this opportunity is how it plays to our strengths is the role we played in financing Dogger Bank wind farm. Our project finance business in partnership with Natwest Markets collaborated to deliver a complex, multi product financing solution, to form the world's biggest offshore wind farm and Robert will talk more to these opportunities later.

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Our second priority is to deliver targeted growth. To achieve this, we will support and meet a much broader range of our customers needs, delivering growth both in lending but also in fee income.

Net fee and commissioning fell sharply last year as the UK went into lockdown, and ended the year around £200Mn lower than in 2019, but as customer activity levels have started to return, we have already started to see some recovery in these lines.

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We expect the migration to digital from lower levels of cash usage to remain and our strategy is supported by investments that position us well both to benefit from the recovery but also the structural shifts in payments.

We expect to grow our fee and commissioning income in a number of ways, firstly by meeting more customer needs in working capital and trade finance, secondly by continuing to invest in growth payments through our core products and in ventures such as Tyl on re-entry into the merchants inquiring market and Pay It, our own banking payment platform.

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Both of which we have seen significant volume growth and continued opportunity.

And thirdly, by continuing to deepen relationships across our customer base, by meeting more needs of Natwest Markets capabilities, and creating both share and penetration across key products such as FX and rates.

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Our lending growth strategy will largely be driven by focusing on our areas of strength, with our mid and large clients. We will do this by leveraging our strong track record, with both existing and new clients, continuing to develop leading propositions in ESG and renewables and strengthening the partnership with Markets and RBS International for complex and sophisticated financing and risk solutions.

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Our third priority is around being simple to deal with. We have made significant progress in reducing the commercial bank costs around group targets and we continue to simplify, digitalise and automate the business on an end-to-end basis, to improve both customer experience and engagement but also drive out efficiencies.

Simon and Jen will show a lot more detail here so I'll just touch on a few examples and highlights.

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Customer relationship management software, which we are deploying to over 5,000 colleagues in front, middle and back office. This drives efficiencies, improves customer experience and creates better revenue opportunities.

Our digitisation agenda continues at pace, as we develop our range of digital only products and services, and offer our smaller business customers, data enabled personalised insights.

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And our ongoing methods to automate key processes and improve journeys is evidenced by our launch of 17 new digital channel journeys during the course of this year.

Our final priority is sharpening our capital allocation. We will continue to proactively manage the shape of our balance sheet, meeting the evolving needs of our customers but also playing our part in achieving the groups £20Bn target for sustainable funding and financing.

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Managing capital proactively and efficiently isn't' new to the commercial bank, we have a track record of improving RWA efficiency and recycling capital. But our approach continues to evolve underpinned by better data, a broader range of tools and better use of expertise across the bank which Jen will touch on later.

Our plan is based on growing our lending balances at a greater rate than our risk weighted assets, improving the efficiency of our capital.

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This will also enable us to partially offset the anticipated inflation from bar 3 amendments the quantitative timing of which remain uncertain.

The delivery of this strategy in the capital space is unpinned by a few key things. Firstly, active management including close monitoring of counter parties and sectors most impacted by COVID-19 in short and medium term…

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Secondly, dynamic pricing levels, reflect the economic outlook, risk criteria and our climate and purpose agenda.

And thirdly a disciplined and measured approach to risk.

Moving to our financial performance outlook, as outlined before, we build from a position of both strength and meaningful scale.

Clearly the 2020 results were materially impacted by COVID, where a number of the themes continued into Q1 as the UK economy remained very much in lockdown.

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Some of these factors will continue to impact future business problems, much notably government scheme lending and the growth and deposits.

However, the underlying strength and resilience of the business, has been highlighted in recent quarters as we have delivered a strong operating profit and returns performance despite an extremely challenging externa environment.

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As the impacts of COVID fall away, through the normalisation of our fee revenues, the unwind of procyclicality and the more favourable yield curve, we see material upside, even before management actions that are driven by the strategic plan.

Over the medium term, commercial will play it's part in contributing towards the groups ROE target of 9-10%, at 2023.

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We will develop income by growing our lending book and by delivering material growth in non-interest income in excess of pre-COVID levels, we will continue to deliver cost efficiencies to contribute to the groups overall target of around 4% per year, we will deliver this through simplification, re-engineering, digitisation and automation, leveraging One Bank technology and data capabilities.

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And we will continue to proactively manage our risk and capital exposure. We are preparing plans forecast to be at or below the through the cycle average of 30-40 basis points in the near term.

Before I pass to Robert, I wanted to touch briefly on the work we're doing to bring our commercial banking and Natwest businesses closer together.

Since February 2020, and the announcement we made then, we've taken a number of actions with the aim of driving progress and returns from our shared customer group.

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We have developed an aligned view of corporate and institutional customers, supported by the new One Relationship manager model, we've simplified the product set for example our single FX proposition and we've established a corporate and institutional capital centre of excellence which targets the optimisation of our capital resources.

In combination, we expect these actions to support an ongoing strong partnership between ourselves and commercial banking and Natwest Markets. I'll now hand over to Robert, who will talk to this in more detail and share the properties of the markets business.

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Robert Begbie (RB)

Thank you Paul, good afternoon everyone.

I'm Robert Begbie, I'm the Chief Executive of Natwest Markets which is the financial markets engine for Natwest Group.

Today I'll provide you with an overview of Natwest Markets, the progress we've made on transformation, the capability we have in place to support our corporate and institutional customers and how this business works with commercial.

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Our customers priorities are now, we are delivering through a One Bank approach and a path towards sustainable returns and returning capital to the Natwest Group.

So, starting with Natwest Markets. Natwest Markets purpose is to be the partner of choice to meet the financial markets needs of Group customers.

The business is anchored in the UK, with global reach for customers and is a highly integrated, and connected part of the group.

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We have a presence in key financial centres, that helps us to provide expertise and financial markets access for our customers and the wider bank.

By supporting UK customers to access Europe post Brexit, and servicing our UK customers, by providing access to UK dollar capital markets through our UK broker dealer, connecting customers in UK and Europe with investor capital in Asia and providing around the clock risk management of FX and rates markets, so our customers can hedge their risks.

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The presence and platform we have, plays an important role for the real economy and services the needs of stakeholders across the bank.

And as was particularly evident during the pandemic, with the role of risk management, capital markets have contributed significantly in supporting the recovery of the real economy.

So, lets recap briefly on the transformation progress.

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We made significant progress over 2020 in executing against our strategy and put in place the foundations for a sustainable business.

We have reorganised the business around our new customer led operating model, focused on capital markets, customer sales and trading.

Elevated customers to the heart of our decision making and established a capital management unit to oversee the RWA reduction plan and sharpen capital allocation.

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We simplified the product offering by exiting 11 products, made strong progress in reducing expenses as we reshaped the business by around £140Bn, down 12% excluding strategic litigation and conduct costs.

And most importantly we outperformed the original 2020 RWA plan by £5Bn, reducing RWAs to £27Bn in 2020 and paying a £500Mn dividend to the Natwest Group earlier than planned.

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We executed on a One Bank operating model, transferring around 2,500 employees into Natwest Holdings to centralise expertise and leverage shared services.

We significantly strengthened our balance sheet and reduced the risk profile, which was recognised by both Moody's and Fitch, who upgraded both Natwest Markets Plc and earned new credit ratings during 2020.

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Moving onto corporate and institutional customers. As Paul mentioned earlier, Natwest Markets plays an important role in delivering key risk management capital markets expertise to the groups corporate and institutional customers, and forms an integral part of the overall proposition for the C&I customer base.

A great example of how we deliver an integrated One Bank proposition is the support we provided to the Dogger Bank Wind Farm which Paul referred to.

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Where we provided insights and solutions to the customer on how to efficiently manage the projects FX and interest rate risks, executing FX hedges for a total volume of £2.5Bn, driving great outcomes for the customer and the bank.

We have increased our focus and discipline around our customers, to ensure we're supporting those who play an important role in the real economy.

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And this was especially the case last year, given the impact of the pandemic and the requirement for corporates, institutions, sovereigns and agencies to raise funding as part of the economic response to the pandemic.

We delivered a number of important transactions, including the UK debt management offices, £7Bn guilt issuance.

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Now the teams across commercial and Natwest markets are working hard, hand in hand, to deliver One Bank to customers. We've taken key steps to solidify that proposition. We brought certain coverage teams together with commercial to deliver a more integrated coverage model, created alignment on our growth priorities which I'll talk about later, put in place, clear capital allocation and decision-making objectives, to drive bank wide returns, rather than individual franchise level returns and maintained focus on increasing connectivity in how we deliver a One Bank to customers and outlook opportunities across the bank.

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And all this is aimed to deliver sustainable returns to the Natwest Group and Paul and I are committed to delivering an 8% return on equity over the medium term for the Natwest corporate and institutional customers.

Turning to the Natwest Markets proposition. The product platform we have in place, is designed around our customers to provide them with capital markets and risk management expertise, in areas that matter most to them, and where we can add most value.

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We have a very strong currencies business. It's digitally led, customer focused and increasingly connected across the Natwest Group.

Around 80% of volumes in FX are now transacted through electronic channels, we execute between 30-40,000 transactions a day, and up to 100,000 transactions during peak times and we're able to generate pricing for customers within 30 microseconds of the market updating.

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This is a very capital efficient business and provides stable and consistent revenue streams and we have deep relationships with our customers, that span from UK SME's all the way up to large corporate and institutions.

We're consistently recognised as a Tier 1 player in the UK, where we are the best FX bank for SME's and FX service quality leader for UK corporates.

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And we continue to see significant opportunities to do more in the currencies business.

We have a growing capital markets business that provides access to public and private markets, leveraging our market leading structuring and risk distribution capabilities and providing expertise and through leadership in ESG.

Our primary capital markets business supports financing, and capital raising for customers.

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This generates fee-based income, and is seasonal throughout the year, consistent with activity levels and debt capital markets.

For example, the underwriting of bonds for customers to raise debt financing and supporting customers to raise finance through private placement markets or issuing hybrid capital instruments.

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Our private financing business provides structure and distribution on balance sheet financing and risk management products, for our corporate and institutional customers.

This business generates mostly fee but also some interest income consistent with banking book inactivity. And for example, we support specialist lenders with warehousing financing, primary securitisation and hedging for asset portfolios and we also support sponsors and funds with passive bank lending and other bilateral financing.

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We plan to continue growing our markets business in areas of focus and specialism.

But we have a focused fixed income offering that offers cash and derivative products and rates, supporting customers with risk management, execution and liquidity.

We also provide credit trading across investment grade and high yield as part of a highly integrated credit vertical, supporting alongside our primary capital markets business.

And our continued aim, is to improve efficiency and capital effectiveness across our fixed income businesses.

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Turning to growth, we’re very focused on driving growth with our corporate and institutional customers, and both Paul and myself see great opportunities through One Bank collaboration.

Capital markets and currencies are areas that are capital efficient and where we have the expertise to grow.

We plan to continue growing our ESG market presence through product innovation and thought leadership to support customers in their transitions to Net Zero.

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Across the Natwest Group, we are a market leader providing banking, financing, depositary and risk management products to sponsors and funds.

We plan to continue developing our sponsors and funds financing offering by investing in our coverage and origination capability.

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And both Paul and I see opportunities to do more in commercial banking in currencies through greater integration of FX into payments channels across the group, to provide real time rates and extending the payments currency we offer. Increasing collaboration and connectivity across our Regional Relationship Managers and FX Sales Teams to increase referrals and developing our strategic FX solutions capability to increase our penetration with corporates across FX derivatives.

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Moving onto ESG.

ESG is a key priority for Natwest Markets and is closely aligned with the Natwest Group focused to support climate change agenda.

We've seen an explosion of issuance across green, social and sustainability bonds in the last 2 years and we believe the pace of ESG integration will continue. Around 25% of our syndicate fees in Q1 2021 were from GSS labelled transactions compared to around 3% in 2019 and 12% in 2020. Which illustrates the significant momentum across our primary capital markets business…

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And we are well positioned and continue to develop our ESG offering, through establishing a centre of expertise to embed ESG into our customer product offering, ramping up our presence in ESG across private financing and leveraging our deep institutional investor relationships to support the ESG strategies, and we've made great progress already.

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We raised over £10Bn in climate related financing and funding in Natwest Markets, contributing over 50% towards the Natwest Groups £20Bn target, allowing the bank to bring forwards it's target by a year.

We've embedded sustainability targets into our currencies business, for example executing ESG KPI linked derivatives for NL, Drax Power and the Renewable Infrastructure Group.

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And we continued growing our market share and ranking across GSS bond markets. We supported our own €1Bn Natwest Group social bond, the first UK affordable housing bond by a UK bank, and we've done a number of great transactions for customers, including Republic of Italy's green bond, the largest ever green bond by a sovereign, Mastercard's inaugural sustainability bond which was our first GSS book running mandate for a US corporate and Whitbread's debut green bond and Stirling market which marked their return to the Stirling market after their debut.

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Turning now to Simple to Deal with.

As part of the Natwest Markets transformation, we are simplifying the business to deliver a sustainable markets platform for the group, and all this has been executed as part of the overall bank transformation as being overseen by Jen Tippin, who you'll hear from shortly.

This is a multiyear transformation, characterised into 3 key themes. Business simplification, which is delivering key changes and transformation across the business and regions to deliver our target state operating model.

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A significant part of the simplification has been the front office re-shaping, which has driven the majority of the cost saves in the direct cost space, and we've made strong progress on this front already, and be largely completed by the end of this year.

Secondly, the One Bank model, which looks to drive synergies from functionalisation and bank wide transformation initiatives, such as simplifying customer journeys, and cost efficiencies by re-using capabilities across the bank.

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And thirdly technology transformation which following the transfer of technology and operations into Natwest Holdings, the plans are to streamline and simplify our technology to deliver cost reduction and Simon will talk more about this and the benefits of re-using common capabilities in technology across Natwest Markets.

Turning to Sharpening Capital Allocation. I mentioned our Capital Management Unit earlier. The Capital Management Unit has done a great job of overseeing and delivering the RWA reduction plan and embedding capital discipline at a product and customer level to ensure this is aligned to our strategy.

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The Capital Management Unit drives actions to sharpen capital allocation through implementing a new customer segmentation framework, the clear capital allocation objectives and offboarding customers not aligned with the new strategy.

We have put in place tools from a granular assessment of capital allocations to customers to ensure it is aligned with our strategy and embedded a pricing framework for new capital against the new business and transactions we originate.

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And as a result, we aim to deliver the majority of our remaining RWA reduction in 2021 against our medium-term target of £20Bn.

We plan to operate within a corridor of around £20Bn once the RWA reduction is delivered, and as a result, we expect to pay further dividends to the Natwest Group in 2021 and over the plan.

In terms of outlook, we've been pretty clear on the targets we're aiming for and to create a sustainable markets business for the Natwest Group.

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We plan to improve profitability by reducing operating expenses while growing core income streams to circa £800Mn - £1Bn over the medium term, and we're targeting low – mid single digit returns on equity for Natwest Markets over the medium term and expect to return significant capital through distributions to the Natwest Group.

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So, in summary, Natwest Markets is a well-connected and integrated markets business providing capital markets and risk management expertise across the group. We're focused on our customers, in areas where we can add the most value through One Bank collaboration, we're building expertise in ESG and product innovation to support customers in the Natwest Group's climate commitments, re-investing to deliver a simpler and efficient markets platform for the Natwest Group and we plan to return significant capital to the Group and deliver sustainable and positive returns.

I will now hand over to Simon McNamara who will take you through technology and innovation.

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Simon McNamara (SM)

Thank you Robert. It's nice to have another opportunity to talk to you so, I'm keen to share what services brings to our commercial and Natwest Markets businesses. It's a story that's built on a foundation of safety, security, and simplification.

So, having laid strong foundations, we have a safe platform and assets. We continue to invest on average £100Mn per annum, improving the stability and resilience of our technology estate.

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We do that year in, year out, so we have a very modern technology stack, which is paying dividends in reliability of our services to customers.

A most severe Critical 1 Incidents in commercial and Natwest Markets are in single figures and through improved detection and management, cyber-attacks are falling.

We continue to simplify our estates. Applications have more than halved in the last 5 years. Payments Technology Stability has improved by 70% since 2019…

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Something our institutional customers felt the benefit of. We reduced our suppliers by 74% since 2014 and our property footprint has more than halved, and at the same time the use of Cloud is up by 40%. We have over 1,000 applications in the cloud today and taken together, our technology run costs have come down by a quarter.

Let me share some specific examples…

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We're doing some really great work with Robert, the restructure of business has seen our Natwest Markets technology team move to services. That's helped Natwest Markets reuse existing bank capabilities. Others have benefited from the capabilities Natwest Markets have and our colleagues have a new common platform experience with centralised support, which also removed duplication.

So, technology costs are reducing as we run one set of capabilities rather than multiple, for example 55 applications are due to be de-commissioned in Natwest Markets this year.

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The opportunities for Paul are different, with commercial they already use our common platforms, so key focus areas were the shift to digital and the reuse of core digitisation and automation capabilities. I've got some really compelling examples. Firstly, on automation, we have had success with the combination of artificial intelligence and robotic process automation, known as Bots.

During the COVID-19 pandemic, we deployed 114 Bots to process over 300,000 bounce back loans and C-BIL applications to the value of £14Bn.

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At our peak, these volumes would have taken up to 1,000 people to process, we didn't need to recruit or spend the money, we got the Bots to do it and we'll support a further 14 processes with more than 80 Bots by the end of the year.

Next up Cora, Cora our digital assistant was pioneered by our retail business and we're reusing it. Cora is supporting our business banking customers online, it had half a million conversations in 2020, which is up 150% from 2019.

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40% of which needed no human intervention. So, it's a lower cost to serve, and as you can see, there's our reuse of codes supporting lending journey. As I've said in the past, we found many opportunities to digitise, automate and reuse, as our customers enjoy simpler, digital journeys. We reused shared capabilities and our cost base reduces.

Supporting around 4% cost reduction per annum across the group to 2023.

Now if our foundation is built on safety and simplification, our future is built on being modern and smarter. Let me put that into context…

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Now the business of banking is changing, customer demands are changing, they're becoming more expectant, wanting services that are seamless, tailored and personal. Asking for simple and smart banking, using channels of their choice when they choose, so we need to combine our assets and services with those of others, so we can do new things that are valued.

It's a world unlocked through APIs where our post modern banking, our use of data, has paid off.

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We made sure we built our APIs in an industrial manner. We have the highest performing, most available and most in demand APIs around, so we can reuse services and capabilities across our products, making it simpler and quicker to develop and deploy them to our customers.

We have over a billion of payments that are processed using APIs. Around 230 third parties connect with us using open banking, that's 1.5 million customers, our APIs are enabled across all our brands, and over 125 million API calls are processed each month.

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And we were the first UK bank to offer personalised quotes on social media. We also have a strong innovation track record and ecosystem. Our success comes from collaborating with great companies with lots of experience. A good example of this is Tyl. As Paul said, the merchant business is a priority area for commercial with a view to growing fee based income. Now, we're supporting that through the integration of Tyl, with bank assets like Pay It, Free Agent and Metal, Tyl are working with Pay It, helps merchants take payments anytime, anywhere, with next day settlements as standard.

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Pay It also reduces the cost of fraud, improves cash flow and reduces the businesses data management burden. Integrating with Free Agent gives accounting software to businesses, and working with Metal, we can help with invoicing, tax and book keeping, helping customers become tax compliant and get the services they need to run their businesses.

So, Tyl customers get a One Bank SME and payments proposition delivered through personalised, smart insights for businesses. Helping them track sales, target customers and grow loyalty.

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We're using data to improve customer onboarding, helping minimise customer dropout and we share competitor insights, trends and forecasting so businesses can plan ahead. These unique insights generate customer appetite and as a result customer stickiness.

Our strategy with Tyl also reduces costs at scale, bringing competitive advantage and increasing the speed of technical scalability. It brings new prime development capabilities, so we get it cheaper and faster.

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We take a One Bank approach, so we can unlock opportunities in all our franchises. I think the work we're doing in foreign exchange space is exciting and we want to bring our markets FX capabilities to our commercial customers, so they benefit from exchange rate certainty, reduce fees, customisable pricing and better rates. We're integrating these capabilities into our payments and digital channels and into Bank line this year, benefiting 100,000 commercial customers.

Let me give you another example…

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Last year, our digital payments teams worked together to enhance our banking as a service offering. They developed a domestic payments API, at the same time international finance institutions such as C Hoare and a number of others, who I can't name unfortunately, were working on a digital shift strategy to meet demand for real time payments. By using our APIs, we helped them meet the demand for 24-7 speedy, secure payment solution.

0:40:35.6

They can take advantage of instantaneous payment capabilities and get the service at a fraction of the cost of developing their own, and our relationship with them deepens.

My favourite example is the ground-breaking commercial agreement we've signed. I'm not naming names here, I need to maintain confidentiality, but we'll announce in the next quarter, giving a glimpse of the future. It helps improve the onboarding process for customers that want to become merchants.

0:41:02.6

Retail customers can share their authenticated, contact data using an API reducing the work and cost to become merchants and we get a fee every time the API is used. We're working to get similar on board by bank agreements with others. So, further opportunities for fee-based income growth.

Data has clearly underpinned every example I've given you, as I said in the past data and how we use it, is a huge opportunity, the convergence of compute power with Cloud, data and intelligence, with artificial or human coming together a world of possibility opens up.

0:41:39.7

We can deliver personalised insights based on the customers context, relationships and behaviour, predict economic network dependencies and help with cash flow.

We're identifying behavioural patterns, giving insights to commercial customers and we're going further with insights based on business interactions. We're supporting lending growth for our commercial businesses by leveraging customer insights. With proof-of-concept data learning tools, combining debt card payments and account data, giving insights to commercial customers like local spending trends, helping them grow their business.

0:42:17.3

Most competitors will find our model difficult to replicate because our privileged position across commercial and retail banking bases, we're simply best placed with the knowledge and data that we have, helping us drive smarter outcomes for our customers and of course helping them to thrive.

And for us, we have an analytics platform driving smarter decisions on our use of capital with a single view of the customer, we're driving sharpened capital allocation and by using granular insights, into the drivers at valuing cost, we're generating new customer propositions.

0:42:49.1

So, our services, if I can summarise before handing over to Jen, our story is built on a foundation of safety and simplicity, through continued focus and investment, we've turned a technology liability into an asset, we have real evidence that we're becoming modern and smarter. We're coming together as One Bank, focused on reusing internally and collaboration externally.

And it's all enabled by APIs, giving our commercial and Natwest Markets customers new, unique capabilities and insights that they value and trust.

And for us that's really exciting. So now I'll hand over to Jen, over to you Jen.

0:43:31.3

Jen Tippin (JT)

Thank you Simon and good afternoon everybody. My name is Jen Tippin and I joined the bank 9 months ago as the Chief Transformation Officer. I joined from Lloyds Banking Group where I was a member of their Group Executive Committee, co-designed their first strategic plan and led on cost management and I'm really excited to be part of this Natwest Team.

0:43:52.6

So, our strategic priorities are anchored in an ambitious, multiyear, One Bank transformation program. And having heard from my colleagues you'll know that we're focused on working together to unleash the potential that exists in our group.

Now, the aim of this program is to enhance our franchise businesses and to drive incremental value beyond what each franchise can deliver alone through working as One Bank.

0:44:20.1

Given the scale of this transformation, we've deliberately taken a different approach I'd just like to bring to life briefly.

So, we've built and mobilised dedicated transformation office to drive our overall program and approach to cost efficiency, investment, customer journeys and champion the reuse of capabilities.

The Chief Operating Officers of the Franchise and Functions are a core part of the transformation team, and they have a dual reporting line both into their business area and into me. This ensures that they are connected into our program and that we manage dependencies effectively.

0:44:59.1

And together we've built a One Bank delivery road map with a critical focus on outcomes rather than milestones. We've built a multiyear approach to cost efficiency and our investment with a suite of objectives and key results and quarterly investment reviews, providing greater rigour and greater transparency to our performance.

In terms of cost management and you'll hear more from me on this later, we're taking an approach and focusing on front to back, re-engineering of our costs, including customer journeys, directly enabling the franchises to deliver both improved customer experience and greater cost efficiency.

0:45:40.7

As you know we're delivering and investing £3Bn over the next 3 years, focused on our key strategic priorities of growth, simplification and capital, all powered by innovation and partnerships as you've heard from Simon.

Key investments for commercial and Natwest Markets include over £60Mn in transactional banking and around the same amount in delivering the single online channel and log in for our commercial customers, and of course as you've heard from Robert, our investment in Natwest Markets strategic transformation.

0:46:15.4

Now, a critical aspect of our transformation program is the mobilisation of 7 workstreams that run end to end across the bank, and you can see them listed here.

Customer Lifecycle, Digitisation and Distribution, Customer Journeys and One Bank Capabilities, Organisation, Skills and Culture, Tech and Data, Partnerships and Ventures and Portfolio Discipline, and the core purpose of these workstreams are to enhance group returns through leveraging capability across the bank.

0:46:49.9

Now today, we're going to focus on those workstreams most relevant to commercial and Natwest Markets, being Customer Journeys and One Bank Abilities and Portfolio Discipline, and what I'd like to do, is bring these to life during the next few slides and include some proof points on how these workstreams are working.

So, first of all, on Customer Journeys. Transforming customer journeys end to end, through greater automation will have a significant impact on our sustainable multiyear cost reduction.

0:47:20.4

Whereas you know we're targeting gross savings from customer journeys around £300Mn, but it will also deliver a step change in our customers experience.

A good example of this is our work in business banking. The business banking transformation program allows us to improve our coverage model, providing a new direct relationship model for 16,000 more of our customers. Enabling us to focus our Relationship Managers time on delivering enhanced service to our customers with more complex needs or growth potential, whilst offering true multichannel customer experience and choice to our customers but at lower cost.

0:48:01.4

Our business banking NPS has already started to see signs of improvement using this model, rising from -5 to -1 and importantly we are improving in all SME customer segments, performing strongest in segments where we provide a relationship model service.

Part of the program is to provide more customers with not only the relationship model experience through direct channels but also more digital, self-service options which would help improve customer engagement and satisfaction in a low, cost effective way.

0:48:35.8

Automation of our key service journeys will underpin our transformation, it will also improve call times and improve our ability to get it right first time.

By the end of the year, the majority of staff across commercial banking will be on a single customer relationship platform, through using Microsoft Dynamics 365 we can better support the use of capabilities, such as video banking, and access to customer information, reducing the need for our colleagues to toggle between platforms and spend time managing customer records, allowing our front-line teams to spend more time, serving more of our customers, in real time.

0:49:17.8

This whole program has already delivered a number of outcomes ahead of schedule and these initiatives coupled with the digitisation of 17 key service journeys to promote self-service will help generate annualised cost benefits of around £19Mn.

Let me give you 2 more examples, of how we're working across the bank to deliver value. By way of a reminder, you've already heard from Robert, about the significant progress, he and his team have made in reducing RWAs in Natwest Markets over the last 2 years, with more progress to come this year.

0:49:54.1

The work in Natwest Markets has enabled us to refine our capital management capabilities and we are now seeking to actively reuse these and enhance our capital allocation through establishing a new capital management unit that can optimise pricing and build consistency of approach as One Bank, increase capital velocity through the investments we're making in tech and data, improve our RWA accuracy and modelling and of course enhance our performance management.

0:50:24.3

And in addition, as you've heard from Simon. We're also leveraging the foreign exchange capabilities in Natwest Markets across the bank and in particular in commercial which will help drive revenue growth.

It is through this approach to reuse, that helps commercial to leverage and proposition without having to build it from scratch, saving time, effort and cost.

0:50:49.0

Turning to cost. Underpinning the delivery of our cost target is the mobilisation of a new approach to cost efficiency, with a dedicated cost management team looking across the group and covering all costs and resources. Our cost management strategy is multiyear and is executed as One Bank across all of our franchises and functions.

Transparency over our performance has increased. We have now developed and implemented a real time process with ownership of initiatives and benefits tracking.

0:51:21.7

Progress on these initiatives which run into the 100s are reported fortnightly and discussed with the Chief Executive, the CFO and our Executive Management Team. A good example of this is the work we have been doing in Natwest Markets. We decided to realign our support functions across Natwest Holding and Natwest Markets which began in 2020. As a result of this activity, as you've heard from Robert, we saw over 2,500 people transferred and associated cost reduction from this of £30Mn per annum for the Natwest Group. As an example, in finance, we realigned common processes and activities, transferring nearly 500 FTE back into Natwest Holdings and this alignment was completed for all of our support functions.

0:52:09.8

This example shows, that rather than having each part of the business having standalone functional teams, we can integrate them, improving the operating model and process, resulting in a continued high level of support back to the franchise but at significantly lower cost. This approach is expected to play an important role over the next few years, to help the bank deliver it's 4% cost target.

So, to conclude, our strategic priorities are embedded in a multiyear One Bank, transformation program, that plan is now underway and has a number of comprehensive work streams.

0:52:51.1

Paul has shared the continued drive to build a simpler, safer and more efficient commercial bank with foundations for long term, sustainable performance and RoE by focusing areas of expertise to support our growth opportunities, improve capital efficiency and deliver joint propositions with our wider franchises, deepening our relationship with customers, while improving capital allocation and working towards a combined RoE of 8% for our corporate and institutional customers.

0:53:23.0

Robert has demonstrated a well-connected markets business, providing capital markets and risk management expertise across the Natwest Group through focusing on customers in areas where we can add the most value, through One Bank collaboration, continuing to build our expertise in ESG and investing to deliver a simpler and efficient markets platform, returning capital to the group and delivering sustainable returns.

0:53:50.6

And Simon has shown how services working across all franchises, to provide continued operational resilience, reuse established capabilities to support cost reduction, digitise and improve the customer experience and work with Fintech and Bigtech to innovate, and identify the opportunities for the future to grow our businesses.

This One Bank approach to transformation is critical to unlock the incremental potential of the Natwest Group above what our franchises can deliver alone.

0:54:22.7

Our focus remains on driving improved shareholder returns by growing income, reducing costs and maximising capital efficiency with a target of delivering a return on tangible equity of between 9-10% by 2023.

I'll now hand back to Paul to facilitate our Q&A. Thank you.

0:54:43.6

PT

Thank you Jen, yes we'll move straight to the Q&A. I'll try and coordinate things virtually, direct questions to the best home, a reminder also we've got Peter Norton and David King joining us for the Q&A. Keen to give as many people as possible a chance to ask their questions so those who do come through could you please limit it, a polite ask, a maximum two please, and that's to allow everybody to have the opportunity. So, David we can move to you and introduce the first question that would be great thank you.

0:55:19.3

Operator – Dave

Thank you Paul, just to remind everyone, if you'd like to ask a question, you can either press the Raise Hand button within Zoom or if you have dialled in, please press *9 followed by *6 to unmute.

Paul, our first question comes from Alvaro Serrano from Morgan Stanley, Alvaro please go ahead.

QUESTION – Alvaro Serrano, Morgan Stanley

Hi, thanks for taking my question. A couple of questions from me please.

In terms of the lending environment, you expect going forward, obviously there was a substantial amount of front loading, and that demand last year was a different guarantee programs, and record issuance in the market, I realise you pointed out that you expect to grow RWAs but if we think about growth and lending, presumably there might be some procyclicality there. Do you think it will be a while before you can grow lending? You focus on targeted growth, so I wonder just the general environment on actual lending.

0:56:23.1

And second question is also on revenues on non-interest income. You want to return to pre-COVID levels, realised 2018 was significantly better than 19, so, is 19 the reference and related to that, is there any colour you can give us about the actual COVID impact maybe on fees and that recovery in the non-interest income, do you expect there's a quick recovery as the economy opens up or is there more an element of rolling out products so we should expect it to take a while? Thank you.

0:57:06.7

PT

Thanks Alvaro, I will take those. On the lending front, you're right, obviously in 2020 we saw significant growth, earlier in the year driven by a draw down of all the credit facilities and then later in the year, I guess from Q2 onwards, it was primarily driven in the commercial bank by the lending schemes.

Lending in Q1 was relatively muted, we're coming to the end of the government schemes, we're still in the third lockdown.

0:57:37.4

When I think of the growth in the commercial bank going forward, I think about it in terms of the midmarket and the large corporate market, I think a lot of demand has been brought forward at the smaller end, but as the economy recovers, I see opportunities to grow commercial banking lending book in some of the areas I mentioned actually, project finance, infrastructure, renewables, which are all areas which I think correlate well with public policy and the support that is there for those areas as the UK looks to build back better.

0:58:14.6

So, over the course of the plan, obviously we're talking through to 23, that's where I see the opportunities for growing the lending book.

To flip onto the non-interest income question. Yes so, the 20 number dropped in the region of £200Mn, you will have seen either from the year end results or in the slide in the presentation, that, that was primarily a combination of a number of fees.

0:58:38.9

Payment fees, credit card fees, that would have heavily correlated to underlying economic activity, so we expect that to recover as economic activity recovers, in terms of a couple of data points, which I think was the final part of your question, we've seen encouraging recovery around commercial card debit transactions, likewise, very quick growth post the April 12th reopening in both commercial cards, but also in our merchants acquiring business as well, which to us confirms the thesis that those revenue lines will recover as the economic picture recovers, which gives us confidence the NII outlook over the course of the term of the plan.

0:59:29.0

Alvaro

Thank you very much.

PT

Thank you Alvaro, maybe Dave we'll take the next question.

Operator – Dave

Certainly, our next raised hand comes from Rohith Chandra – Rajan from Bank of America, Rohith please unmute and go ahead.

0:59:42.0

QUESTION – Rohith Chandra–Rajan, Bank of America

Hi, good afternoon and thank you very much for the presentation. I've got 2 as well please.

Just actually following up on the non-interest income theme and the aim to grow that within the commercial bank above pre-COVID levels. Is it right to think that payments would be the primary driver of that out performance, so you'd get the uplift in activity that you've just talked about, but then also an expansion of the payments business in particular, and I guess that's obviously an area that a number of banks target, so what really is the competitive advantage there? Is it being the UKs biggest business bank, or to what extent is it, the proposition that you have, or obviously a combination of those two?

1:00:31.7

And then the second area was One Bank collaboration has been a running theme through the presentation, it's also something that has been mentioned in the past, so I'm just curious to really understand, what's really different about it this time? Is it to the degree that it's combined customer relationship management, combined capital management and capital allocation and sort of de-duplication? so those were the two areas please?

1:01:04.4

PT

Thank you Rohith, I'll take the first one and maybe ask Jen to comment on the One Bank collaboration.

So, in terms of the recovery in the NII income line, payments will certainly be one component of that. I wouldn't rule it out there, generally we see opportunities in payments but also more broadly in transaction banking, so, across the whole transaction banking products suite, so trade finance, payments, cash and cheque management, so, that's how I would answer that, in terms of the sources of growth.

1:01:36.7

In terms of the competitive situation, it's obviously a focus for a number of banks. I think the advantage and opportunity we have is, that scale and depth of our relationships, we have in the region of between 20 and 29% market shares in all our customer segments, so we have strong customer base. In many respects it's white space for us, obviously our heritage of owning World Pay means in effect we have a referral agreement, we've now launched our own solution, so we have the client base, we have a very competitive acquiring product, on service, on price, on brand new [tech], so rather than being incumbent in many respects with a challenger, so that's where I see our competitive advantage in the merchant acquiring space. Jen, maybe pass to you to talk a little bit around how One Bank Collaboration works?

1:02:35.2

JT

Yeah, thank you Paul and thanks for the question Rohith. Look, I mean I think you're right to have picked out the theme around One Bank collaboration. We see that as really very important and, I would say that the time is absolutely right for us to be doing this now. We've made some important strategic decisions about Natwest Markets, about our position in Ulster for example, we see the opportunity as I was describing in the presentation, to enhance the returns of our franchise businesses, through leveraging those capabilities across the bank…

1:03:10.5

and I would say the main difference is, versus what you may have seen previously, and I tried to explain this a little bit at the beginning is, we have built a dedicated transformation office to oversee this, we have actively built the use of One Bank and reuse of capabilities into those work streams that I was describing in the beginning and the benefits of those are built into our budget and into our plan and it's the delivery of the franchise plans, plus the One Bank transformation program, that really leads to our confidence in delivering the 9-10% RoTE returns that we guided you to by 2023, so hopefully that helps just bring it to life for you.

1:03:55.6

And I think some of the examples that we've shown you today, are really good proof points of it working in action.

Rohith

Thank you.

PT

Thanks Rohith, thank you Jen. Dave we can move to the next one, next question please.

1:04:09.9

Operator – Dave

Our next raised hand comes from Omar Keenan, Omar please unmute and go ahead.

QUESTION – Omar Keenan, Credit Suisse

Hello, thank you for taking the questions. I have 2 questions please, so firstly, were your comments on the significant rate sensitivity in the business. I was wondering if you could help us think about what the interest fixation periods look like, particularly on the commercial lending book, what the repricing might look like if there was a Bank of England rate hike? Just trying to understand really how much of the group rate sensitivity you think sits in the commercial bank.

1:04:55.3

Related to that, how do you think preparing for the transition off LIBOR has affected any of that, and then just lastly another question on Tyl, what is the current penetration rate of TIL into the customer base, relative to what World Pay's penetration was or the customer base? thank you.

1:05:28.1

PT

Okay thank you Omar, I will come to Peter around the structural hedge and rate sensitivity, but just quickly will cover the Tyl question. We don't disclose product sales numbers Omar, what I would say is that we launched the proposition at the tail end of 2019, so it's now been live for almost 18 months, we're very pleased with the growth so far, we're very pleased with the customer reception and we think it will make a material difference to our performance on non-interest income in the medium term, so that's the view on Tyl. Peter, do you want to cover the rate sensitivity structural hedge question?

1:06:06.1

Peter Norton (PN)

Perfect thanks Paul. Omar I'm not going to give you NIM guidance for commercial or rate sensitivity for commercial per say but I will point you to the guidance that Katie gave at Q1 around the structural hedge and the headwind for the group.

And maybe just to help you on that, I'll point you to page 230 of our ARA where we give some of that structural hedge breakdown, the income in commercial and you can see the significance of the structural hedge contribution to commercial.

1:06:48.4

And I think the final thing I'd say is Katie obviously also guided to some of that headwind reducing from Q2 is the expectation.

Operator – Dave

Your next question comes from Ed Firth, Ed is audio only, Ed please unmute and go ahead with your question.

1:07:11.7

QUESTION – Ed Firth, KBW

Afternoon everybody and thanks very much for the presentation. I just had 2 questions. One was sort of detail and one was a bit broader.

I guess the broad question is, you talk a lot in your presentation about digitisation and the use of technology and I guess when we've seen that across any number of markets in the last 10 years, the net affect of that has generally been a pretty major impact in terms of revenue margins and I'm thinking particularly in places like foreign exchange where that's been put on market etc… so what are you thinking in terms of the net impact of this, in terms of the revenue line? Because I guess most of it, it's going to be a market wide transformation, you're not going to be unique in terms of moving a lot of this into the digital world, so that would be my first question?

1:08:07.1

And then my second question was, I don't think if this is unfair or too much detail, but if I look at your Natwest Markets accounts, you run with a core Tier 1 of over 20% and I'm just wondering what's driving that, and at what point can you actually release some of that capital or are there other constraints that we're not aware of in terms of leverage or something else? So, I apologise if that's too detailed by all means pass that off if it's too much detail. Thanks.

1:08:33.1

T

Thanks Ed. I think I'll pass to Robert on both actually. Robert.

RB

Yeah so, I'll take the second one first and look, I'm happy to answer it. The simple answer is, we are in the midst of a transformation program, so part of the way we viewed it, especially around last year given some of the market uncertainties and economic uncertainties was to run a very strong balance sheet, you've seen that at the group level in terms of the groups capital and liquidity and funding and you'll see similar in Natwest Markets, so, we paid the £500Mn dividend at year end which was ahead of timescales.

1:09:16.6

There is nothing to stop us taking that down further. We are going through this year, we'll continue to talk to Katie and Alison and we'll dividend up at the appropriate time, but over the medium term you should expect us to dividend closer to where our risk appetite is, so, no reason for the capital not to flow back to group, it's just the timing of it will be agreed as part of working through the transformation and so on.

1:09:43.9

Ed

So, in terms of looking out of the medium term, somewhere around 13/14% is a sort of reasonable assessment?

RB

Yeah, I think the risk appetite currently for Natwest Markets is higher than that. One of the things we will look at, as we complete the transformation is just the way we're reshaping the business, we'll end up with a less volatile business and therefore you expect over time that, that's to be reflected in things like the stress test results and therefore what your risk appetite is, but again, that's work in progress and whilst we're in the midst of the transformation, it's something that we will look at as we go through time.

1:10:37.8

Just on your first question. I think two things, one, the numbers I quoted you, only demonstrate that we've done a lot of digitalisation at the FX business, over the past years and certainly quoted some of the UK positioning but we have got, we think, a very good FX technology platform that some very, very large customers use as part of their ecosystem in terms of their payment journeys for customers.

1:11:11.1

I think the interesting part to that is though, that we probably haven't been as good as connecting enough internally, part of that was because of ringfencing and really having the Natwest Markets technology stack segregated that therefore you couldn't have that dependency on the Natwest Markets technology into Natwest Holdings because of ringfencing.

Moving that technology, now takes that barrier away and therefore, not only with Paul's business, we are looking to quite soon connect into some of the online platforms for his customers, but also talking to David in retail, to Peter in wealth about how we bring that FX technology capability to the rest of the bank…

1:11:53.1

So, we actually think, this is about bringing back business, or making sure that there's no customer of Natwest Group with a need to exchange one currency for another, should be going anywhere else than using our technology and our platforms.

Ed

Great, I mean I suppose I was thinking not just in Natwest Markets, but I guess more broadly, I was staggered by that slide you showed that I think you said you did 300,000 loans without human intervention, and I'm just thinking if that becomes increasingly a standard practise in the corporate sector, what are you thinking in terms of how that's going to be transferred in terms of pricing as we go forward?

1:12:39.8

PT

Ed, I'll comment on that. The 300,000 loans are bounce back loans, so very much the SME end of the commercial bank. What I would say is this, and not actually dissimilar to FX, a large amount of lending in that SME market is already digitised and has been for a number of years in the wider market, so, I think in effect, it's not a new effect, it's one that markets been living with over the course of the last I'd say 5-6 years. Both large scale banks and also Fintechs have had digital lending solutions, so, it's not new news, it's been something that's been there 4 or 5 years. That's the way I think about that.

1:13:20.3

I think lending at the upper end is a much more complex proposition, involving structuring and advisory and doesn't lend itself to digitisation. So, that's probably the way I'd encourage you or help you in thinking about the differences between a much smaller end of the client base and the more sophisticated institutional end.

Thanks for your question Ed.

Ed

Thanks very much.

1:13:42.1

Operator – Dave

Thank you. Our next question comes from Aman Rakkar from Barclays, Aman please unmute and go ahead with your question.

QUESTION - Aman Rakkar, Barclays

Hey Paul, Hey Robert. Just 2 questions then.

So, one was around margin outlook, longer term in commercial and I guess it's in relation to the structural growth that you are flagging the opportunities in project finance, infrastructure and renewables, how do margins compare in those businesses versus what you've currently go in your mix? And should we be thinking about that as margin accretive 5 years down the line, or margin dilutive within the commercial banking business?

1:14:31.4

Secondly just around cost, so I note the comment around supporting the group cost reduction target, across commercial and Natwest, but presumably they've got quite divergent cost trajectories. I guess could I ask each of Paul and Robert about their expectations for the absolute cost space in their division? Should we be thinking about something fat in commercial and the kind of balance being made up in Natwest Markets?

1:15:04.6

PT

Thanks Aman, we'll take them and maybe come to Peter on the risk return dynamics on PF and Infra on the cost piece we don't disclose the specific cost target for commercial, but hopefully you got the sense from the presentation that I see opportunities to continue to take cost out of the commercial business. I think as you heard from the examples from Jen there are still significant opportunities around automation, simplification and digitisation through both the SME business, our specialised product businesses and on mid business. So, when I think about the opportunities for improving returns, I very much see cost as one of the levers that can help that in commercial. That's the prospective, commercial, Robert on cost?

1:15:55.6

RB

Yeah so, just on the Natwest Markets cost and I think if you look back to last year, we took a significant amount of cost out, net cost out, from Natwest Markets, £140Mn or 12%. Clearly, we have the benefit of that run rate into 2021. The way I think about costs going forward is that, we will largely complete the business redesign this year, so, there will have further cost take out this year, lets call it from a business perspective than Natwest Markets. In the years then going out from there, it's really, my colleagues Simon and Jen because Simons managing the tech transformation for Natwest Markets and they are, given the strategic investment over the next 2-3 years, we would expect to see a simplified technology platform and therefore costs come out as a result of that…

1:16:52.5

And then Jen through the bank wide transformation and we benefit from some of the work on things like customer journeys as well, but take out that end to end cost on some of the common processes and activities across the group, so, this year, is around completing that direct cost reduction plus what Simon and Jens doing in their world. Post that, you should expect to really see the cost at a more indirect lip.

1:17:22.2

JT

I think Aman, just to add to what Robert and Paul have said, I think it's that trajectory that gave us the confidence and belief to commit to a 4% net cost reduction over the course of the next couple of years to 2023. So, we delivered 4% last year as you know, we've started the year well delivered 4.5% in the first quarter of this year so it's, as you heard from Paul and Robert, this is very important, we see it as an important lever and some of the key themes that we talked about today, both in terms of rearchitecting and reuse, are some of the key themes that we will continue to take forward across the whole group.

1:18:05.2

PT

Thanks Jen, Peter, do you just want to cover the margin question?

PN

Thanks Paul, Aman I guess I would point you really to looking at it more from the return's perspective than from a margin perspective. I think the dynamics within the commercial business, given the very significant government loans schemes, how they were priced, the existence of the guarantees etc… all makes the picture from a NIM perspective quite complex. I think you rightly point out in terms of where our growth is targeted, is at the upper end, as Paul said of the customer base. That does from a capital intensity and risk perspective tend to be higher quality, and in the case of infra and things quite often secured, so you would expect commensurately lower margins but from a return's perspective, still very attractive.

1:19:06.4

So, there is both a growth dynamic and a government scheme dynamic that needs to play and clearly government schemes and customer behaviour, the duration of that work etc… and how it will impact our margins is still very early to say. We've only just seen the schemes close, we're only just now in that process of contacting customers and it will be a picture that will evolve, but it will as we cool down, it will have an impact, particularly on the margins of the commercial business for some time most likely. But from a return's perspective, I would get you to focus on that rather than margins per say.

1:19:48.1

Aman

Ok, perfect thanks.

PT

Dave next one if you can? I think we've got Jonathan on screen?

Operator – Dave

We have, just to remind everyone, if you would like to ask a question please press the raise hand button if you are using the Zoom app or if you have dialled in please press *9 and yes our next question comes from Jonathan Pierce from Numis Securities. Jonathan, please go ahead.

1:20:11.3

QUESTION – Jonathan Pierce, Numis Securities

Hello there, just looking at slide 7 and it's a question back on rate sensitivity, can you give us a bit of help as to how much of the £170Bn of deposits within the commercial bank pay rates that are genuinely manageable? As opposed to being directly linked to LIBOR, Sonia or some other short rate, I'm guessing most of the £33Bn of business banking deposits, you can manage the rates on, same with the SME stuff, maybe not the large corporates and institutions so, be helpful to get a flavour as to the manageability of interest rates across those different deposit pools...

1:20:55.2

And then maybe I can ask a second question on same sort of topic, how much of this deposit pool across the commercial bank is captured within the product hedge, structural hedge at the group level? Thanks very much.

PT

Thanks Jon, Peter, follow on the theme of the hedge?

1:21:15.6

PN

Yeah Jonathan, in terms of your synopsis around the different customer segments and the managed rate book, I think that's broadly correct, I'm not going to go into disclosing details of that but I can confirm your sort of hypothesis around that.

I think in terms of the, I point you back to the group disclosure, we haven't really got specific commercial disclosure and I'm not going to give it now, so I would point you back to the broader group disclosure around sensitivity where you can see the contribution to commercial income from the structural hedge.

1:22:05.9

Jon

Ok, can I have a quick follow up on the managed margin aspect, because again we get the managed margin number at the group level, how much of that is coming from an assumption of managing the margins on this business banking and SME deposit book, are you able to give us that?

PN

Jon I'm afraid I can't.

Jon

No, worries understood.

PT

Yeah, we don't disclose that Jonathan. Thank you. Thank you Peter. Dave?

1:22:44.3

Operator – Dave

Paul, that's all the raised hands we have. I'll now hand back to you to close, thank you.

PT

Ok, thank you Dave. So, thank you everybody for taking the time to join us, we hope you found it insightful and useful. We will be running a similar event for our retail business and private business on the 29th June, so we hope you get the opportunity to join that, thanks again for your time and hope you all have a good afternoon, thank you!