# WORLD TELEVISION

## RBS

Personal and Business Banking
Investor Roundtable -27th June 2014

## RBS

**Richard O'Connor, Head of Investor Relations**

**Les Matheson, Chief Executive Officer, PBB**

**Stuart Haire, MD, Direct**

**Moray McDonald, MD, Products**

**Mike Larkin, Finance Director**

## *Introduction*

**Richard O'Connor, Head of Investor Relations**
Good afternoon everyone, thanks for coming over or logging on to the webcast late on a Friday afternoon. Many of you will be familiar with the format here, a very similar format to previous; the team will present for about 45 minutes with lots of time for Q&A thereafter and then for those of you who are physically present you're very welcome to pop down to our branch of the future downstairs for five or ten minutes at the end. But with that I'll hand over to Les to introduce his team.

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## *Personal and Business Banking*

**Les Matheson, Chief Executive Officer**
Thank you very much and a very warm welcome to you all, thank you very much for coming along and thank you for joining us on the webcast. What we want to do today is just continue to talk to you about the strategic path that Ross has set for us and we want to talk about Personal and Business banking.

I'm going to put up our forward looking statement.

So today's speakers, we have joining me Stuart Haire, the MD for Direct Bank; Stuart's primary focus is all digital, we have Moray McDonald, the MD for Products and Mike Larkin, our Finance Director.

So in the agenda today I want to just talk a little bit about and frame our franchise, explain what it is and how it's constructed and then I want to talk to you about our strategy on Personal and Business banking. Stuart is then going to talk to you about service and distribution. Moray will talk to you about products and our strategy there. Mike will take you through our financial performance. And then I will come back with a few comments at the end.

So let me just jump into our strategy. The first thing to say is this isn't changing, so our goal is to be number one for Personal and Business bank for customer trust and advocacy. So we want to be the best in terms of customer advocacy, we want to have the best, as we measure it, net promoter score.

Where are we going to operate? We're going to operate with individual customers, with mass affluent customers and with small businesses. We're going to be covered across the UK; a full range of products and all channels in terms of distribution, so whether it's digital, whether it's online, whether it's mobile, or whether it's branch.

How we're going to win, and a lot of I think what we're going to talk to you about today is just being obsessive about serving our customers better. And that's about giving them simple products, making them easy to buy, easy to use and making sure that we have fair and transparent pricing.

In terms of capabilities, we want to be an organisation that's close to our customers, so I personally and all of this team, and I know Ross himself tries to get out every week and talk to customers. So we certainly want to talk to our colleagues throughout the branch and support network, but also we want to make sure we're talking to customer. Because it's only by talking to customers and hearing directly from them and looking back through their comments at the organisation that we can properly understand how we're really performing.

We want to be customer led, we want to make sure we have fast and simple processes, and we will have market leading use of customer data and analytics.

So we're going to differentiate on what our customers value most, being easy to deal with, giving great customer service, acting as an expert and trusted advisor. So it's all about building a truly customer centric bank.

If I take you on then to the franchise, and this is the first time you will have seen Personal and Business banking, so just to be clear this is Personal - it is core individual or retail customers as you would normally know them. It's the mass affluent segment, mass affluent is customers with liquid assets of between £100,000 and a million pounds; anything over that we categorise as high net worth or wealth and that sits in the Commercial and Wealth franchise.

And then we have the Business - small business segment, small business for us is a business with a turnover of less then £2m or lending of a quarter of million pounds or less. We're not going to talk too much about Business today, we will come back at a later date and go into that in a bit more detail, but we'll start to give you the shape of what that looks like.

Ulster Bank also sits in this franchise. As Ross has already said, we are in the midst of a very deep strategic review, and again we will come back at a later date and go through that in a bit more detail.

So we have a large customer franchise, more than 16 million customers across each of these segments in total, the distribution channels we've set out, and we will talk to those as we go through this presentation.

Some nice mug shots, we've got an experienced team, a good balance I think; we've got people who've been with RBS for many years, we've also got people from international companies, from other financial services companies in the UK, I think it's a good mix, a good balance and an experienced team.

So let me just turn to our strategy and I think the main thing here to say is we start with, what is it that customers really need? So we don't start by talking about products, we don't start by talking about channels, we start by talking about what do customers really need? And essentially in this business there are five simple things, it's around making a payment, saving money, borrowing money, protecting yourself, or investing for the future. Every individual has circumstances in each of these areas that are specific to them and then we need to match up the products and services that we have with what customers really need.

Now I think we're making some good progress on that. If you look at our net promoter score, and we look at net promoter score overall, but we also look at it by channel, by particular customer need. And if you look at some of these important areas we've made some good progress in the last 12 months. So we've made some progress in branches, we've made a big, big step up in telephony for private customers, we've made a good step up in our main telephony unit and in mobile. And we know in terms of net promoter score what really drives that is making it very, very simple, making it easy, it's making sure that we treat customers fairly and honestly and can be seen to be doing that and we treat them as individuals; and we'll come on and talk more about that through the presentation.

In Business we've also made a nice step forward in terms of net promoter score. And the interesting thing is that in terms of drivers of advocacy it's fairly similar in small business as you'll see in individual customers. So it's making things easy, making sure people can get hold of you, making sure that we treat people as individuals and really understand them and their drivers properly. And that's really one of the fundamental reasons why we're bringing small businesses and personal together. It's because those sorts of business customers typically want to be dealt with locally and very often in a branch. And by meeting their business needs and their personal needs in the same place we make it easier for them. And if we are a bit more clever in terms of how we manage the cost of delivering those services and capabilities we can remove some of the duplication that might have existed.

Customer behaviours are changing, now you will all hopefully be seeing this yourselves, but I think if you look at the left hand bar chart here and you look at the service mix, how people choose to do transactions, personally I think it's quite incredible. We are seeing now 40% of transactions going through mobile. I have to say personally I'm a bit of a late adopter, but even I am using mobile now, and I find that I'm doing about 90% of anything that I might do from a transactional perspective on mobile. And we do expect that trend to continue.

We have seen in our branch network through from 2010 to the end of 2013 the number of transactions have gone down 30% and so we expect that to continue. And so we need to find an appropriate way, from a customer perspective, of balancing what we do and how we invest in physical and what we do and how we invest in digital. Fortunately in digital and mobile in particular we have a market leading capability right now and we aim to make sure that we continue with that.

So our model, as customer behaviours change our model is evolving. So we are focusing a lot on simplifying products, Moray will talk to you a bit more about that. We are making sure that we give customers informed recommendations and we're making sure we have consistent frontline delivery. And I'm just going to take each one of those now in a little bit more detail.

So in terms of simple products, what you'll see is that from a personal perspective we've actually reduced the number of products we have by 50% over three years. And if you look on the right hand side what we're doing is we're taking out a lot of the complexity in our back book.

We obviously have to do that very carefully, we have to make sure that we're helping customers through that process. But that enables us to have a much simpler product range which makes it easier from a processing perspective and it makes it easier from a customer perspective to understand what we have and from a staff perspective to know what it is that they're talking to our customers about. If you have a smaller product range and a simpler product range it's much easier to know what it is that you should be saying to customers.

We found for example on our instant access savings accounts that we moved from having 11 on sale products to one and that simplicity meant that staff knew exactly what the product was, they didn't have too large a range, it was easier for them to talk to customers about and easier for customers to buy. We have over £13bn now in balances in that particular product.

The next thing that we're doing is working hard on making sure we have informed customer recommendations. And really what that means is using a lot of the data that we have across the range of products and relationships we have with customers. It's making sure we use that data and the analysis to understand what it is that they really need and when they might need it. And that's both from a service perspective and from a need perspective, or a product perspective.

So if you contact us today in any way, if you go into a branch, if you contact us on the phone, if you contact us via mobile, any of those different methods - very often we will talk to you about either a particular service need or a product need that we believe you may need and the data that we have, based up your habits and behaviours tells us that we should be talking to you about. So we've been making investments in this area, particularly over the last four years or so and have one large customer database that helps us know and understand what it is that customers need, sometimes before they do.

A particular initiative in this area on small business - towards the end of last year and the beginning of this year we went out just with a statement of appetite, to say to some of our small business customers, having looked at and analysed your business if you need a loan, based on our analysis we would be prepared to give you one; please if you're interested in that let's come in and have a chat and let us actually make sure that we've got all of your details correct.

Now, since we've done that we have today about half a billion pounds worth of loans in the pipeline. Because sometimes people are a little afraid to come in and ask for a loan and you know just thinking through some of the behavioural economics we wanted to go out, particularly to small businesses and just say - look if you want to come and have a conversation we'd be very happy to do it. And as I say that's having a very good impact.

The next area is frontline delivery. This is really hard to do; we're talking about across tens of thousands of touch points, tens of thousands of relationships, trying to make sure that we get consistently excellent performance. This is an area that we are absolutely obsessive about. One of the things that we've been doing is trying to take out admin, or things that don't necessarily obviously help customers to make sure that we give our frontline staff more time to actually have good conversations. And that's really what we're about, having good and helpful conversations. But we're finding good progress in that area and you will find that scenario we will continue to focus on a lot.

In terms of Business banking we're not going to feature a lot on that today. But just to give you a flavour. We do have a good franchise here, so we are the number one bank for small businesses=. We have a 23% market share of business accounts. In terms of start-ups, so far this year we have a 22% share of business start-ups. Our gross new lending is up 55% year to date through the first five months and we have lent more than a billion pounds through the first five months of this year. So this is an area we really are focusing a lot on from a lending perspective.

As I said earlier NPS has improved, and again what we're finding is that customers, business customers really want to see our staff in the branch and they want to get both their business and their personal banking done often at the same time. And we think there's a real opportunity for us there.

Just to give you the high level in terms of the financials. So Personal and Business it's a significant contributor to the bank's value. So what you can see here split out, I think probably for the first time, is Personal, Business and Ulster. We won't talk too much about Business and Ulster today, but we will start to present this in the way that you're seeing it here going forward.

The headlines I'd pick out are we made £1.3bn of adjusted operating profit, this is for 2013. That's clearly dominated by Personal, in Ulster we're already seeing some improvement, I think you will have seen in the first quarter results that we've actually moved that into a profit. We already made 10% ROE in this business last year and we're confident in the medium term that we will get beyond 15%. We have a well-funded position, so we've got £167bn of deposits, which means that there's substantial capacity for further lending growth.

So those are the main points that I wanted to just pick out on the financials, we'll go into them in a bit more detail a little later on. I'd now like to hand over to Stuart Haire.

**Stuart Haire, MD, Direct**
Thanks Les. Just to recap and set context for this session, what Les demonstrated is that customer behaviour is changing and so is the way that NatWest and RBS are intending to serve customers. Transactions are moving from the branch to digital channels, so we're having to think about and shift our physical footprint. And we're shifting it to where people are working, living and travelling. And for those that came here today they may have noticed in Liverpool Street Station the types of points of presence that we're standing up to support that.

We're also supporting those physical presences by increased automation, for example WiFi in all of our branches, investments in ATMs, iPads, etc, and other levels of automation. And what we're also trying to do is to create environments where our staff can provide financial education and advice, because we believe that the internet, while it might become a great research tool there will also be a place for financial reviews, help with mortgages, investments and business advice with physical proximity.

The other thing that we want our branches to become is a key part again of their communities within which they sit, so we're investing to make sure that that happens. But as we said the world is changing, over half of our customers are now active digitally and the mobile users, which make up a large proportion of that, interact with the bank 30 times a month.  And I've got a statistic just from this morning, this morning we had the all-time record within one hour the number of logons to our mobile bank, we had 300,000 customers logging in between 8 am and 9 am this morning and they made 65,000 payments in that time.  So it starts to show you the scale of this channel and also the growth, because that's up nearly 30% year on year.

We've invested well in the past here, we've got a market leading and award winning mobile app, but we've got to maintain that position.  I probably speak to the people in the room and anyone who's watching, if you have got with your bank the mobile app and you're covering this sector, download it and use it because it's where retail banking is going.  So I encourage you to do that to make sure that you're really understanding how the customer behaviour is changing.

The other thing about this channel is it has incredibly high NPS, the customers that use it enjoy it, love it, and advocate it to others.  It creates incredibly sticky customers.  So it really is a driver for not just advocacy but long term value.

I mentioned that we had to maintain our leadership position and I reference on this slide really just two of the various things that you can do currently with our mobile application.  We're the only bank where you can go to an ATM and take money out without having your debit card with our Get Cash facility.  And also a thing that you may not be aware of, but if you are looking to take our a new product and service and you require your identity verified you can do that simply by taking a photo of your identification and sending that to us and that will be verified and you can move on with your transaction, without the need for paper, etc, in the process.

What's also interesting is these types of functions are equally applicable if you're a small business as they would be if you were a personal customer.  I think if you look down the range there they equally apply.  And so there's great synergies that we can realise there as well.

Rather than me talking endlessly about it, what I thought I would do is I would show you a video that we have on YouTube, and increasingly on our videos on YouTube, something you may not know but we are the most watched bank, UK bank, on YouTube.  You may say - well I bet you are, but actually we're also the most liked UK bank on YouTube.  So if it's okay could we run the video?

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**Stuart Haire, MD, Direct**
So the point of showing that was really just to show you some of the functions that are available on the app and also how people are using it. What's important to say is that these functions are built based on customer needs, not a technology trend, these are things that people need and use every day.

What I did also say is that we can't stop there, this is going to be a continually moving space and we'll be investing over £1bn between 2014 and 2017. That excludes the significant investments we've already mentioned on increasing our resilience and security of our services.

What I should point out though is our investment is shifting to digital and to digitisation. But that's not to neglect our branch network, we want to invest in it to make sure, as I said earlier, that we're creating the digitisation and automation as well as creating the spaces to have great conversations.

At the end of this for the people in the room we'll invite you down to our branch on Bishopsgate, just to give you a feel of how we believe that banking is going to evolve in a physical setting.

Finally in my section I'd just like to talk a little bit about the chronology about how we've seen the digitisation of banking and how we see it going forward in the future.

2012 or slightly before NatWest and RBS websites were there and they were a channel that supported you to service your account, to take out additional products; and you were starting to see then the introduction of the mobile apps. Now what you're seeing is NatWest and RBS increasingly integrating all of the channels with multichannel products and services. So for example if you were to start an application for a mortgage online but you then wanted to go and see someone, pend and retrieve that application and they could continue with that discussion. So you're starting to see the way that the channels can merge and converge for the use of our customers and to serve them the way they want to be served.

What we see going out into the future though is another change, we believe that the digital assets that the bank holds will increasingly be where the customers need them to be, where the customers are. What do I mean by that? Customers in the past have always had to go to the bank, they've either had to go to the physical presence, or go to the website. Increasingly we see the bank having to go to the customers.

So if a customer is looking to, for example, buy a house we see it's our responsibility to assemble all of the parts that are required to buy a house and play our own part there. And I think we all know it is quite a painful process to buy a house, but if you can assemble the estate agents, the solicitors, the conveyancers, the people to help you move the house, the tradesmen, etc, then you can create an ecosystem that can actually support that end to end journey for customers. And we see digital playing a huge part in that.

It's also an area where we believe we can play a strong role, not just assembling the ecosystem, but also connecting our small businesses and our commercial customers to our personal customers for both’s gain.

So that's the channels and the service offerings that we're looking to provide.  I'd like hand over now to Moray who'll talk a little bit about the needs we're servicing with the products.

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**Moray McDonald, MD, Products**
Thank you Stuart and good afternoon.  I think you'll have gathered by now that our strategy is based in service differentiation and definitely not in product differentiation, in fact the opposite is the case.  So our goal being to deliver perfect interactions every time, the role of products is threefold.

Simple products, we want the fewest number of fit for purpose products to meet customer needs.  Easy, literally means easy every time you touch us whenever and wherever.  And fair, fair is kind of in the eye of the beholder, but we have a simple definition for fair - what would you feel happy recommending to a member of your own family in terms of fairness.  Hopefully in your family that's a pretty high bar.

I'm going to give you examples of those three, but first I want to talk about our biggest single focus which is in home lending.  Why is it a big focus?  Well it's a primary area of focus for our customers, think about when you bought a home or anybody you know who's doing that, it's a huge decision for our customers.  It's also critical for us because we are underweight in home lending, underweight it means below our natural share, what we mean is nearly one in five people, 18% regard us as their main bank but we have a much lower share in mortgages.

We have been growing really quickly, so we're one of the fastest growing businesses since the crisis, we've grown £30bn to £101bn, so between about £3bn and £4.5bn every year since the crisis.  We've grown our share from 5 to 10% of new business, right now we're 12% of all new approvals in quite a fast growing market.  So we have grown very quickly but we're still underweight.  What are our big levers to grow and why should you imagine that we will?

In terms of our under our own brand we are growing our advisor base, that's particularly important because after the mortgage market review which as you know happened a couple of months ago in terms of implementation the vast majority of new mortgages are advised face to face or over the phone.  We're doubling our capacity to do that between 2012 and 2014, we'll exit this year with 800 trained advisors.

Half of the UK market chooses a new mortgage through a broker, we have traditionally been underweight in broker, we've chosen to do less than 40% of our business in broker, we're now right on the market average, giving us much more access to market.

Just a comment on risk and I'm happy to take questions a little later on this. Our portfolio is very clean; we do not have legacy issues distracting us from growing our book. Mortgages has been the subject of a lot of regulation, we retrained our advisors in new MMR compliant processes about 12 months ago. So the introduction of MMR for new business hasn't caused us any significant issues.

The principle impact of MMR is actually on customers with an existing mortgage with their lender, which now become advised interactions if you talk to a bank employee. You can choose to execute your renewal of your mortgage with your lender without getting advice, that's called execution only. We're fortunate in having built the leading market solution there. The majority of our customers in the last month, i.e. post MMR are renewing their mortgage online. And that's been a terrific investment for us.

In terms of the announcements that happened yesterday those will not affect our appetite to continue to grow. The limit was imposed of 15% of our new mortgages granted above 4.5 loan to income ratio, we are at 9%. So the 15% cap is very unlikely to check our growth. In London, which is obviously the intended hotspot where 19% of lending is done nationally above 4.5 LTI we're at 12, so this isn't going to be an issue for us.

We have for many years stressed our affordability for customers, well above the actual rate they were paying, we stress at 7%. That 7% rate more than accommodates the 3% guidance given yesterday by the bank.

Okay, let's talk a little bit about savings. As Les told you this is where we've taken the biggest action and actually seen the greatest returns and reward for a very simple approach. We only have five savings products, there are only five types of savings products in the UK, we therefore have one of each.

The mechanism by which this becomes more profitable is very, very simple. If you are a frontline staff member and you only have one product of the type that meets the customers' needs you don't talk about multiple products, you don't talk about rates, you talk about what a terrific thing it is to form a savings habit. And if you think what's the best thing to do for a customer, it isn't to talk about products and rates - it's to talk about saving for the future.

I'll just cover one thing, I mention an award on this page that we won - we're the only bank to hold a five star rating for the Fair Banking Foundation. They didn't give it so us for a product, they gave it to us for a tool. And what this tool does is allow you to give a name to the thing you're saving for and if you don't continue to save on the trajectory that you've laid down it bugs you, it bugs you to get back up to speed, to get to your savings goal, which a really interesting approach - it's being annoying in a helpful way. We won the award for that and it's that tool that features in the ad, and we're going to show you part of one of our ads. If we could run that please?

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**Moray McDonald, MD, Products**
So he got his Mustang in the end but he had to wait a while.

Okay, I'd like to talk a little bit about current accounts on the next slide please. We regard current accounts as - they can be the cornerstone of our customer relationship. I say they can be because each of us probably has multiple current accounts. You like me will have one which you regard as your main current account, where you pay your income in; you probably pay your bills from it. Those are the accounts we want to hold. So we are all about holding value on accounts where customers engage with us rather than running after volumes of accounts. So that's what we call main bank accounts.

We are growing the number of our main bank accounts and as you can see from the chart we are also growing the balances in our whole current account portfolio. We've grown those by an additional £4bn over the last year, so about 12% against the market rate of about 4%.

We're also focused on making current accounts easier, rather than read the slide the one I would draw your attention to is that we'll exit this year being able to have a fully operational current account, including a functioning debit card within 24 hours, having historically taken as long as five days to do that. So we'll have that in place by year end.

The last area I wanted to cover and this really goes to fairness is in unsecured, and I'll focus particularly on cards. This is where we've made the biggest break with the way the market operates. When we looked at zero percent balance transfers for credit cards aimed at people with an existing balance we realised the outcomes for customers were not good, you can't really justify offering something you know isn't good for customers. More than half of customers not only don't pay down their balance they increase their balance during the period of a zero percent balance transfer, despite not being charged interest.

Most customers run for an average of five to six months into the payment wall where it goes from zero to 18 or 21, before they move away. And why would you want to sell a product that forces people to move away? It just doesn't make any sense to us. And if you apply the family member test, when your family member came to the end of the zero percent period would you tap them on the shoulder and remind them? Okay, there's not a bank in the UK that does. So we decided those things aren't good and so we don't do that any more.

Our approach to helping customers with a balance is to say have a low rate card and that low rate will carry on, at no point does the rate go up and so we've launched the Clear Rate Platinum card.

For the other half of the market which is really driven by transactors we're also launching a card that appeals on the basis of rewards for transactions and you can expect to see that launched.

The last thing I would say is in the context of ease, making our process easier that does show up in NPS and we've seen that and NPS is our North Star measure. We've also seen through really looking at all of our policies and processes in the unsecured area we've seen our complaints across overdrafts, credit cards and loans drop by a quarter and we've got plenty more to do in that. So thank you I'll now hand over to Mike who is going to talk about the numbers.

**Mike Larkin, Finance Director**
Thanks Moray, good afternoon. Before I delve into the numbers I just wanted to have a very brief look at the economic picture I guess. Now last March we did our last roundtable, I guess the topic, or the focus of the discussion was really around what we'd seen in the market over the previous years and why that meant the income in this business has been contracting. And you know that was where we were and I guess where we've gotten to now with a forecast of 3% GDP growth this year wouldn't have been really on my agenda 12 months ago for sure and it wasn't on most peoples.

So what we see now is the deleveraging from a household perspective has kind of stopped, we're beginning to see customers having more appetite to ask us to borrow. Certainly mortgage approvals are up very strongly, and we forecast that to continue. And even in the Business space we can see start-ups growing as well.

So what does that mean? Well I think for us it means we've passed an inflection point in terms of our ability to deliver income growth and I think we will see, as you saw in Q1, income growth continuing to be delivered in this business.

So in terms of the franchise and these numbers exclude all services, it's just UK Personal and Business. I guess the messages I'd like to leave you with is we're seeing real momentum building in this business, particularly from a balance sheet perspective. So as Moray talked about earlier we're now up to 12% share of mortgage approvals in a very strong growing market. We're seeing our business lending up 55% year to date and we're still achieving good solid growth in our deposit balances, particularly in instant access. So the income outlook is positive.

However, 59% cost income ratio is where we're starting from as a result of bringing business in and it's in a place where the cost income ratio is much higher than what was retail, so we have more to do and we will talk to you about that more in a few minutes.

In terms of impairment, we've seen really strong performance over the last years in impairment and we continue to see very positive metrics on impairment.

Just moving on to look at income growth in a bit more detail and I guess I'd like to look at this kind of in a combined way, because we manage our business really across the balance sheet. So from a mortgages and savings perspective we kind of look at what's happening to customer rates and mortgages and customer rates and savings really. And we've done that throughout the last four or five years to maintain NIM.

And I guess what we're seeing at the moment is on the asset side, HPI particularly is driving people down the LTV curve, so that's helping more people move off SVR which is a good thing, but it does cause some suppression in margins. And again we're seeing some slight trending down in front book margins as well. So overall the outlook for margin this year on the mortgage book is downward. However, because of the investments we've made in capacity and our appetite the volume we will write in mortgages this year will offset that margin degradation.

And on the other side of the balance sheet from a savings perspective customer rates are softening, we are basically maintaining our spread by passing on those cuts and as a result our income on deposits in terms of savings plus volume growth generally will go up supporting income this year.

From a business perspective the decline in assets we've seen over the last number of years has been arrested with this increase in volumes we've seen. And on deposits, again we're seeing deposit margins improve in Business. So the message is for this year, income growth restored.

Moving on to costs, I would have said that we can all agree that this business has delivered significant cost take out over the last four years. A 17% reduction in our costs, largely driven through three key pillars, migration and automation as we referred to earlier of transactions, automation in our back and front offices processes and lower support and control headcount which really was last year I think where we simplified our support structures.

But as I said, the job is not done and we are targeting a cost income ratio for this business across the franchise of under 50% and we will use the same three pillars across the bank and across this business to drive that number down. I guess the emphasis would be it will have very little impact on customers, they are choosing to move transactions and it's cheaper to fulfil those transactions.

Then moving on to impairments, we've seen a very positive trend on impairments over the last few years, that does reflect the investments we've made, both in our front end in terms of improved credit scoring and credit decisions. It also is reflective of the investments we've made in our collections and recoveries processes, we've invested well in those and that also, to be fair, reflects positive economic tailwinds. So we've got a very positive story around impairments and our metrics in terms of be it debt flows, cure rates, or recoveries are all quite positive. So it's something we've constantly got on our agenda, but at the moment we don't have any red flags.

Moving on to Business banking, as Les alluded to earlier; we see this area as a new area of potential for us, for a new area of focus. From an income perspective, as I suggested, we see the income turning around and starting to grow this year. I guess our primary area of focus at the moment is really looking at that cost base.

Now we believe we can generate synergies through the bringing together of Personal and Business banking, and driving the cost income ratio down to a more kind of normal level. And I'd say that one other area that is really worth mentioning is impairments, albeit we've seen a 50% reduction in debt flows year on year, we probably think there's slightly more to go on that. So profit will certainly improve in this business going forward.

Just briefly talking about risk, you know we've got a very well defined risk appetite and risk frameworks across the bank. Moray alluded to the interest rate we use for stress testing all of our mortgage applications which is 7% and have done so for 5 years. We've also got a very well defined approach to stress testing across the bank, in terms of earnings volatility. Risk is fundamentally at the heart of the decisions we make, be they pricing, or be they planning, or whatever.

Moving on to conduct, so the measures I'd want to leave you with on conduct is our fairness agenda is fully aligned to the conduct agenda. We have already completed some business model reviews on a few of our products, we've taken learnings from those, but in the main we are very happy that conduct is fully embedded in the decision making within the business. Zero percent, not just a decision but the measure that sent to our people in terms of cultural change was a big one and there were many of those decisions taking place in the business.

Moving on to messages I guess I would like to leave you with in terms of the outlook. I guess to reiterate, income growth, consistent income growth in this business - a real focus on continuing to take further cost out with the target of getting below 50%. Impairment benign at the moment and really we're very confident in our ability to deliver 15% plus returns across this business. And with that I'll hand back to you Les.

**Les Matheson, Chief Executive Officer**
So thank you very much Mike. Let me just come back and summarise some of the main points that you've heard. As we've said I think consistently, there is no bank that's truly outstanding in terms of customer service and advocacy and so we want to break away from the pack, that is going to be out goal. We'll differentiate through simple products and also fair. And I would argue that right now we are leading the way in terms of fairness, we don't see that from many of our competitors, I think there's many actions that we're taking that differentiates us there.

I think you will see us aiming to invest appropriately across the business as you see this transition from physical to digital. In the end we don't see one replacing another, we see a combination, but we want to make sure that we're investing appropriately. But we think this is a strong, consistent cash flow, high return business. We've got a large customer base and we've got plenty more that we can do with it. And with that just to say thank you and we'd like to open it up for questions.

***Questions and Answers***

**Question**
I'll just ask a couple just to start with, the first one was on your payroll accounts, as in you say the value accounts, the deposit accounts at the top of all, that you've been growing it. So what kind of - if you wake up today and the accounting says that we'll get 50 basis in the sterling, so what kind of rate sensitivity does this franchise have, it would be great if you could just tell us a bit more about the deposit base and what kind of sensitivity we have?

**Mike Larkin, Finance Director**
So I wouldn't disclose an absolute number for a 50 basis point price increase. But I guess the essence of this business is that it's positive I guess in terms of a rising rate environment. So we would expect the net earnings to increase as rates rise, certainly all of our current account base - we do not pay customers interest at the moment, so as the reward rate moves up there then the rates move forward.

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**Question**
What is the breakup of the deposit base, I mean how much is current accounts?

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**Mike Larkin, Finance Director**
So £30bn is current accounts.

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**Question**
£30bn is current accounts?

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**Richard O'Connor, Head of Investor Relations**
In our disclosures, our UK interest rate sensitivity is close to £400m, a 1% increase, the majority resides in this business

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**Question**
But the majority - that's of ...?

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**Richard O'Connor, Head of Investor Relations**
That's of the UK disclosed number.

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**Question**
Okay, perfect. Now the second one was around cost and it goes across platforms, then their branches, and the SME business part of it. When you say that one of the main drivers of business profitability is cost are you saying that you're migrating business customers in the branches, or shutting down branches?

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**Les Matheson, Chief Executive Officer**
No, no, no I mean what we are doing is we're making sure that our business customers can see our RMs where they want to see them, which is typically in the branch, so we're making sure that we have RMs in the branch, in the branch location close to where our customers happen to be. And it's making sure that we are marrying their business needs and their personal needs that they typically like to do in the same area.

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**Stuart Haire, MD, Direct**
The cost take out is really about the back office, operations, technology and support functions, not the customer facing side.

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**Question**
Again, going back to your chart you've seen that service mix has gone significantly onto mobile, so this is on a person touch basis, so are you saying that on a number basis the number of service that's happened in the branch has stayed exactly the same or increased?

Why do you need so many branches to service this mobile and online platform?

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**Stuart Haire, MD, Direct**
There's two answers to that, the first one is that as an absolute number the amount of transactions that customers are having with us are growing, as I said on the mobile -

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**Question**
In the branches?

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**Stuart Haire, MD, Direct**
On the mobile - overall it is growing. In the branches you're seeing a shift from a transactional volume to more interactions with advice and education. So the type of staff you're needing there is changing. We're investing in our mortgage advisors, we're investing in investment advisers, but you don't need as many clerical staff who were perhaps doing more of the transactional work.

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**Question**
If I could stay on slide seven, just a couple of questions on strategy. Just firstly you talked about mortgage advisors there, I know when we had a similar presentation last year from yourself and Ross you talked about being underweight in London with 63 mortgage advisors and you felt you should have double that, so perhaps you could tell us what that number is today

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**Moray McDonald, MD, Products**
I don’t have the number but those numbers related to face to face advisers, so we are on track to have just under 500 face to face advisers by year end.

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**Question**
Across the UK?

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**Moray McDonald, MD, Products**
Across the UK.

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**Question**
And what was the equivalent number last year?

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**Moray McDonald, MD, Products**
320. Yes, so the London number I don't have but we are on track across all of our regions to that number for year end for face to face advisers.

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**Stuart Haire, MD, Direct**
And the telephony advisers, just to get the number there, we were about just over 100, 110 telephony advisers last year, and we will exit the year with over 300.

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**Les Matheson, Chief Executive Officer**
So what you're seeing really is in the space of about 18 months it's going to be doubling in terms of our capacity.

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**Question**
And then just on the chart on the top right, I'd be very interested to know, when you're thinking about first point of contact, so the number of mortgage applications in particular or alternatively the current accounts that are issued, how much of those is still done in the branch? Is it in line with these numbers or is it even higher than that? Just thinking about first point of contact. I know you've obviously got these ID systems now that you can do online, but I imagine the vast majority are still done at branch, is that fair?

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**Les Matheson, Chief Executive Officer**
The majority are still done in the branches, that's right yeah.

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**Question**
So would it be this 63 figure or even higher? Are we talking 90 plus, 80, 90?

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**Moray McDonald, MD, Products**
I can give you a guide on the mortgages. So specifically on mortgages, for face to face advisers 64% of the customers are our own customers. So two thirds of new mortgages done face to face tend to be referrals from our own customers, and that's typically through the branch network.

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**Question**
And the rest is presumably broker driven?

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**Moray McDonald, MD, Products**
No the rest is new customers.

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**Question**
Okay.

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**Moray McDonald, MD, Products**
So our mortgage advisers don't only deal, whether they're in telephony or in a branch, they don't only deal with our own customers. But typically two thirds of face to face adviser business is through our own customers via branch.

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**Stuart Haire, MD, Direct**
Just again to exemplify that, that product mix you right in terms of new mortgage business that's typically done with a person, but for renewals of mortgages more than 50% is done online, and growing.

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**Question**
And I just had a quick question on the financials as well. On slide 25, again when I go back to the presentation of a year ago, I don't recall there being a single down arrow. So obviously a few of those stand out. The one I'm most interested in is in the mortgages and the margin trend. You obviously talk about the impact from business mix and SVR switching; can you give us an indication of how much the mortgage book is on SVR? And also in turn how much you've seen actually start to refinance what the figure was in Q1 as well?

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**Les Matheson, Chief Executive Officer**
So in terms of our mortgage book 23% of it is on SVR.

**Moray McDonald, MD, Products**
And it is true. So we would expect, given that consensus about rate rise is, if anything, moving towards us and it's more prominent in media that we would expect that to be a trend that continues through the rest of the year, if we continue to get rate expectation media stories in consumer media, that's what makes people think, yikes I better do something. We think it will continue …

**Question**
What was the number in Q1, do you have that to hand?

**Mike Larkin, Finance Director**
25 I think.

**Question**
25. Thank you.

**Mike Larkin, Finance Director**
It's very volatile because it depends on the timing of rolls offs. You know some people are on SVR for a very short period of time.

**Question**
Just staying on that slide 25 actually, because you didn't mention the cards business when you was talking about that and that's clearly, you've got down arrows in all three of the buckets which is surprising actually because I thought given that you've re-priced, made it simple, I'd have thought you'd have expected the volume, given the market is now growing in cards, the volume arrow to be up. So if you can just talk a little bit about that.

And what are you doing in terms of front book, back book? Are you passing the family test? Are you re-pricing everyone that's got a card, an old card, but you've given them the new card on 11% APR?

**Moray McDonald, MD, Products**

So we have seen our sales reduce because we don't do BTOs any more. And that's a cost we are bearing, but it's a cost that's going to - we're going to bear until I think the rest of industry catches up with us in terms of this obvious area of fairness. We are though getting the customers we are, who are taking the clear rate platinum card, we're getting great engagement, high balances. So we're actually pleased with the impact it's having and the feedback we're getting from customers.

We are offering clear rate to our own base, so we're not relying upon the inertia. If you come in and talk to us, and we see that you have a balance on one of our cards and that you would be better off on the clear rate we move you, absolutely we move you.

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**Question**
So they have to come in and ask?

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**Moray McDonald, MD, Products**
Well we actually can't move customers because there's a fee on the new card, so we're not - we couldn't legally move customers. And I think the fee is an interesting point. You may know that we are - the industry is going to have significantly reduced interchange. That has happened in other markets, a significant step down in interchange. And one of the interesting things will be to see that the UK, which is out of line with many markets in being typically a no fee market for cards, for holding the card, in other markets we've seen fees become the answer to that reduced issuer interchange income. So we have introduced a fee quite deliberately on the clear rate card.

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**Question**
What's the positive to interchange off your card revenues?

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**Mike Larkin, Finance Director**
It's about £200 million.

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**Question**
Got a few more questions. On the mortgages how long do you think it takes you to get to your national mortgage market share if you add - when you talk about the trajectory?

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**Les Matheson, Chief Executive Officer**
Well I'm not sure that's going to be within our lifetime to be honest.

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**Question**
What is your national market share?

**Les Matheson, Chief Executive Officer**
I mean our current account market share is about 18%. Our stock of share on mortgages is 8%. Our share of flow for the first quarter was somewhere between 10% and 12%. So certainly for the foreseeable future we see mortgages as an area that's likely to continue to be an area that we disproportionately are able to perform well.

**Question**
And do you think your share of flow will be in line with your national market share?

**Les Matheson, Chief Executive Officer**
No I think our share of flow will be around where it has been actually, around 12% or so, 10% to 12%. That will enable us to grow significantly ahead of the market.

**Question**
So is that 10% to 12%, because it's been that for a while despite the growth in advisers, so is the growth in advisers an admin point for the MMR as opposed to an increase in sales?

**Les Matheson, Chief Executive Officer**
Look I think it's probably both, but I think that it may well be that we'll be able to grow faster as we move across the year.

**Question**
How many branches do you think you need in the long term?

**Les Matheson, Chief Executive Officer**
That is a good question. I think what I can tell you is probably not the number we have today, but you know I think that that's something that we have to be thoughtful about, I think we have to look carefully at the transactions and how our customers are using branches. And we will continually adapt and evolve our network.

**Question**

And have you benchmarked yourself against competitors or other UK banks on the resilience of your IT systems?

**Stuart Haire, MD, Direct**
That's an interesting point. I don't know if we benchmarked ourselves. That might be something the services guys have picked up, but what we can say is the level of investment we've put in. Well we obviously had a high profile incident that sharpened our focus on that area.

**Question**
So you haven't benchmarked yourselves?

**Stuart Haire, MD, Direct**
To answer the question simply I'm not aware of any benchmarking.

**Les Matheson, Chief Executive Officer**
But what I think we would do maybe to that point is we do benchmark ourselves in terms of availability with different systems and up time and that sort of thing. And I think as far as that's concerned we would be mid market right now.

Do you want to explain a bit about what we've done in terms of the investments?

**Stuart Haire, MD, Direct**
The resilience investment in particular, two things which actually will take us ahead of that benchmark. The first one is something we're calling shadow bank. And what shadow bank does in essence is if there was to be a systems incident in the background, then from a customer's perspective it would be invisible. So the core functions, the key functions that a customer is interested in, not the filling of the ledger and the cash management that goes on in the background, but the customer functions would all be available. So from a customer perspective the SLAs would be 100% which would take us ahead of the benchmark.

The other thing that's worth pointing out is with the area that is often the problem in big banks and was the problem for us is in the batch scheduling in the background. Now what I would say is that the world is moving to real time, Google, Facebook, etc. But if you look at banking just now, if you were to go down and take £20 out of the ATM and then look at your mobile app, that would be real time. So what the batches are actually doing are effectively populating our ledger rather than affecting the customer transactions.

So what we've been investing in is to try to weed out all of the MI tasks and everything that made our batches very long and complicated and removed any space for error. So we've simplified them back down, shortened them and decoupled them, which means that they can run in parallel, which means that the actual turnaround time for the batches, which are more back office tasks, are now much faster.

So I guess three things to say from that. First of all where we have invested to make more resilient the batch, the batch in and of itself doesn't affect the customers, and if there was a critical outage now a shadow bank would be able to stand up and basically provide the customer function.

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**Question**
And do you have the same system for Ulster as well as … ?

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**Stuart Haire, MD, Direct**
Yes.

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**Les Matheson, Chief Executive Officer**
Yes, we do.

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**Question**
Just moving onto a different area in terms of business banking, can you talk a little bit more about where you expect the growth to come from within this area?

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**Les Matheson, Chief Executive Officer**
I think I'll probably prefer to come back to you on that a little later in the year. We will - I think what I can say is we want to make things simpler and easier. We expect the growth come largely in lending, that's what our focus is. I think we have a special duty if you like, to try and make sure that we're helping the economy as much as we can. So we will be disproportionately focusing on lending and on getting net lending growth.

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**Question**
And that would be off within mid sectors, because historically you've obviously been quite forward in commercial real estate.

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**Les Matheson, Chief Executive Officer**
I think you can be - I would say that that will not be the intent going forward.

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**Richard O'Connor, Head of Investor Relations**
Sometimes we've taken that commercial real estate over exposure, down and it's almost done now. So you can see in the new business that we're now starting to see growth and you see in the business there's a loan to deposit ratio of 50%. So it's substantially under lent. So you get quite good benefits if you can get that lending machine moving.

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**Question**
I think last year when I met some of your colleagues they talked about a proactive approach across your SME customers to go and ask for how much they would like to lend - like to borrow.

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**Les Matheson, Chief Executive Officer**
So that was the sort of - that's what I was referring to earlier. We did go out with that and we have had a very good response.

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**Question**
Yeah. So how much of net lending do you think this year is effectively down to some of your proactive measures that you put in last year?

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**Les Matheson, Chief Executive Officer**
I probably can't quantify that for you right now. I think what I can say, as I said earlier, is we have had this year about half a billion worth of pipeline in terms of small business lending. It came about as a result of the programme that you are describing.

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**Richard O'Connor, Head of Investor Relations**
So we talk about a billion growth that we've achieved so far, and of that about 100 million was a result of that initiative. Obviously that's a further initiative we will take going forward.

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**Les Matheson, Chief Executive Officer**
And we have pipeline that we are going to be meeting that will make up the additional 400.

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**Question**

Per your claims of slide 25, most of your asset growth is being offset with margin pressure. And I just wondered longer term, absent rate rises do you think you can post decent income growth given that we're going to see continued pressure on the asset side? I mean are you really dependent on the rate rise to get the income growth going if it's coming out of the deposit base?

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**Les Matheson, Chief Executive Officer**
I think the answer is no. So we are assuming that we have income growth this year, and we are assuming that we do not have any rate rise this year.

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**Question**
And beyond, I'm thinking about how sensitive you can be because the pressure on asset prices feels like it's only picking up. You are, as Richard points out, disclosed one of the most rate sensitive banks, I just wonder how much volume growth will translate into income growth on the asset side if we don't see that deposit spread improve?

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**Les Matheson, Chief Executive Officer**
Look I think that the range of things that we're doing, if we execute the things that we're talking about doing and make things simple and easy, the volume growth that we're talking about will enable us to sustain that level, the level of income growth that we're describing here.

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**Richard O'Connor, Head of Investor Relations**
The overall guidance on margin is flat, future to savings mix, and so obviously any volume growth does translate directly to income growth.

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**Question**
And secondly just a question on mortgages, about how you're pricing mortgages. There's confusion at the moment as to whether or not we should be thinking about mortgages with a risk rate floor, whether or not we should be thinking about the leverage ratio. I mean I guess when you're earning 200 bps on a mortgage it doesn't matter so much, but as spreads come in and you're going to have to start making some more difficult decisions about your pricing, what do you use, 15%? I mean I know you're around that anyway on average, but do you use a 3% leverage ratio? How do you think you work and how do you think yesterday's news about the PRA influences that?

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**Les Matheson, Chief Executive Officer**

Well I think what we've seen in other markets is that businesses generally are able to price any changes that need to be made in terms of risk weighted assets.

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**Mike Larkin, Finance Director**
We are pricing at the moment, our mortgage price in particular, we take what we believe the risk rating is and we apply an overlay for kind of a through the cycle adjustment. So I think what you kind of see as a regulatory capital minimum the floor is going up. We don't believe it will impact us as much as others. So if you look at our risk ratings versus some of the other banks, there's a smaller gap to where we may potentially go to. But as Les rightly points out, if capital requirements on mortgage go up, the chances are prices will follow.

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**Question**
You mentioned the volume, you know flat margin volume will give the income growth that you're talking about, you're not actually putting any numbers though, you just give us an arrow. So what income growth are you talking about?

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**Richard O'Connor, Head of Investor Relations**
Q1 as the inflection point as Mike said. And then if the business can get momentum, all the initiatives, obviously move up from there.

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**Question**
Can I ask about servicing - there's quite a few moving parts here. I want to just focus just now on kind of volume driven income trajectory, there's obviously efficiency improvements and changes in channel. Putting all of those together do you expect kind of sort of current profitability levels to be sustained in terms of ROE, or is there a positive -?

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**Les Matheson, Chief Executive Officer**
Are you talking about Personal or are you talking about Business, are you talking about Ulster or are you talking about the whole thing?

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**Question**
So that's - the first question is about Personal, and I have a second about the whole thing.

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**Les Matheson, Chief Executive Officer**

I think that as far as the ROE on Personal is concerned we'd expect we'd be able to sustain that. I think both in terms of Business and certainly in terms of Ulster we'd be looking to make substantial improvements, and aiming to get both of those areas also to a level that exceeds our cost of capital.

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**Mike Larkin, Finance Director**
Just one thing to add to that, one thing we haven't really majored on but the reality is as you reduce your unit costs you can effectively write more business because you're cut off means it becomes profitable to say yes on more occasions than we otherwise would have done. So it helps that volume question we had earlier.

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**Question**
Okay, thank you. So then just looking at sort of slide 13, it gives kind of the moving parts of the current ROEs, and you mentioned sort of the expectation is that you moved from 10% to 15% for the division as a whole. Even with Ulster just moving to breakeven which it now is, does that not pretty much get you to 15%? So that's with you know Personal staying where it is, Business profitability being relatively low and unchanged and Ulster breakeven, does that not get you from 10% to 15 pretty much?

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**Les Matheson, Chief Executive Officer**
It may well be that that target increases over time.

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**Question**
And we talk about above 15 …

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**Question**
Stripping out Ulster you're already about 20. You'd be well above 20.

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**Les Matheson, Chief Executive Officer**
As far as Personal is concerned that's certainly true. Obviously that's not the case in Business.

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**Question**
Actually on Business I'm quite surprised by how low the ROE is. I mean I guess the issue we always - the point you make in here is targeting closure for the cost income ratio spread versus the market. The problem we have is every bank seems to have a

different definition of exactly what business banking is. So perhaps you could give us an indication of what you think the market cost income is, would be quite helpful actually.

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**Les Matheson, Chief Executive Officer**
I'm not sure that I could venture a market view but ...

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**Question**
Just picking up on the earlier point about ROE, so you should comfortably say that with 15 to 20 for example and moving ahead, does it ever worry you that you're going to be too profitable? That the regulator is going to look at this, or the politicians are going to look at this in May 2015 and say blimey all the UK retail banks are targeting 20% plus returns, let's do something. Especially if your trajectory just has all those little arrows pointing up?

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**Les Matheson, Chief Executive Officer**
I think returns are something that we always have to be thoughtful about. I think it's one of the reasons why our stance on fairness is very important. I think we're one of the few organisations that does no teaser rates, so we focus on our existing customers rather than new customers. I think that's a very important message and I think that that's where a lot of value sits for us, and a lot of opportunity. I think if we can be seen to be leading in those areas, and if we are improving customers' levels of satisfaction, and if we can demonstrate good customer outcomes, then I think we can continue to progress in the way that we're describing here.

Any other questions? All right, well if not look thank you very much indeed. Thank you very much for coming along, particularly on a Friday afternoon. For those of you who want we actually have a branch that is downstairs that has a number of the features that we've talked about, and if you'd like to just stop off then some of the team will show you some of the new features and functions and I think you will find it quite interesting. So thank you.

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