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Analyst Presentation

THE ROYAL BANK OF SCOTLAND
Moderator: Ross McEwan
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RBS

Ross McEwan, Chief Executive Officer

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Facilitator
Hello everyone, thanks for coming to this session with RBS. I'm very happy to introduce Ross McEwan, CEO, Royal Bank of Scotland. As always we're going to do a first polling question to stir the debate.

The question is, looking beyond the potential DoJ settlement, what would be the biggest factor to increase your investment in RBS? Number one - maintain market share wins on mortgages and SME lending? Number two - executing on cost cutting, achieving a 50% cost income ratio target in 2020? Number three - normalisation of the dividend policy? Number four - capital generation and share buyback? Number five - roadmap to the exit of the government stake?

Music

So exit of government stake is the most voted, I'm sure we'll debate about that.

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Ross McEwan, Chief Executive Officer
We'll debate that I suspect.

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Facilitator
Maybe as an opening question, obviously you've reported your first profit in nine years in 2017, maybe you can give us your thoughts around the milestones the bank has achieved through all the restructuring process and what should we be looking forward to in the near future?

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Ross McEwan, Chief Executive Officer
Well you have to look at when I took over in late 2013 through to making a profit last year; it's been a huge journey for this bank. I mean restructuring it back to our core markets here in the UK and the Republic of Ireland, getting a much, much more focused markets business that Chris and his team have been delivering against has been huge.

Reducing - you have to think about when we started with capital resolution, we had what, £138bn of risk weighted assets sitting in an operation that we wanted to get rid of. We closed that down at the end of last year, having, I think, done an outstanding job.

The conduct and litigation we've had to go through and just starting to rebuild the business into the shape that that we wanted it was is just a great commercial retail business here in the UK.

I think the issues we're still facing, whilst we've dealt with a lot of conduct litigation last year, you know, it's easy to forget FHFA, the 2008 Rights Issue, were two very big ones. The resolution around Williams & Glyn was another big one for us last year. And how quickly you forget what we had to deal with last year.

The one that I saw on the screen, DoJ, still no resolution to that one, that's hopefully this year's exercise that we can sort through and then move ourselves into focusing on getting a dividend back in place and normalisation of this bank again, which I think ends up on the final point of the government can get on and sell. But until I think we've done the DoJ I think that is probably a little bit more problematic for them.

But creating a normal bank has been what we've been after and growing in the markets we like, which you know we've certainly shown that we can grow, when we focus this bank it grows. Mortgages has been one of our hallmarks. We are still the largest business and commercial bank in the UK, and we've been very disciplined about the use of capital in that business. So I think overall just normalising the bank and getting it into good shape for the future as we were planning.

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Facilitator
Obviously one of the things you announced with the full year results was you're no longer going to pursue the £6.4bn cost target in 2020 and at the same time you announced an additional £1.2bn investment. Quite a few banks have reported sort of increased investments, why now? And if we fast forward to 2020 what do you think are going to be the key standouts of these investments?

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Ross McEwan, Chief Executive Officer
Well first off I think people were disappointed I didn't give everybody another target on the cost front. But you know if we look back over the last four years we've taken about £3.9bn, so I don't think anybody could say that we haven't been very focused on the cost take out of the business and it's been important as the revenues have come out of the businesses that we've gotten rid of.

And can I just assure the market that we are still very, very focused on cost take out. And we are going to go after the sub 50% cost to income ratio and we do want to deliver a 12 plus percent return on equity. So those numbers have been part of our planning since 2013, or the beginning of 2014, when we gave you what this bank would look like in 2020 and we're not walking away from that.

But one of the things that I have found that we were starting to stifle ourselves on - that going after a very fixed £6.4bn was that we were starting to actually I think miss some opportunities. And I'll give you just one example of that, but there I think are many.

Our plan originally had not been to go to the cloud with a lot of our technology. And as the markets have moved and the technology has uplifted to being able to take more of your business to the cloud, we have to make some of those decision like this year to have them activated by 2022, 2023. And if we don't take those decisions this year I'm taking on leases on two very large sites that actually then push us even further out to actually go to the cloud. So we have to start making those decisions now. And we believe they will be very good for this business from a cost perspective and a flexibility perspective in 2022 and 2023.

Now my long term investors would say, good on you Ross, you're thinking long term about the business, it happens to be one of the values of this organisation and those who are in for the short term would say, forget about that we only want this year sorted. Well I'm sorry we're running this place to be around for a long, long period of time and that's why those decisions I think had to be made and why we had to say it to the market.

There's £300m that we've also said we're taking for the restructuring of Williams & Glyn to bring that back into the fold, that has a very good return for us because we effectively take all the retail business and bring it back into our network. But there are a lot of costs associated with reshaping the branch network which hasn't been touched now for nine years under Williams & Glyn and we've got premises, as we bring the operational pieces back in.

But the other side to that is there is a lot of technology changes that we want to make and some investment in the business that we believe over time will be very good. So it was that do we stay with the £6.4bn or do we go back into consensus on costs and investment more for the future of the business. And my view was that we should think longer term and invest in this business because this is a great business and you need to make those moves now to be ready for that, beyond where we thought.

And you're also moving and I'm sure we'll have conversations on this today is we're moving from fixed infrastructure into a lot more variable. And you're seeing that how customers are interacting with us as a bank. They used to walk into a branch five or six years ago, today 50% of our customers are now using their mobile phone to interact with us.

You need to make that shift and you need to make that shift quite quickly. And that's what we've clearly signalled over the last few years and the moves we've made at the Annual Results that we are moving to a digitalised operation much, much quicker than people I think anticipated.

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Facilitator
Mortgage margins have been eroded throughout most of last year, that has been a key focus point, can you maybe update us on the latest competitive trend there and is that making your business more or - is the visibility improving in the business and is that making you more or less confident. I presume going forward also with the steepening of the yield curve, overall could you give us an impression, has the visibility improved or deteriorated given the competition dynamics?

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Ross McEwan, Chief Executive Officer
Yeah look it has been very competitive in the mortgage market and you know we've been a small player becoming a medium sized player in that marketplace. And six years ago I think we were 6% stock, we're now 10% stock, so we've been very successful in that marketplace.

We've build distribution up very strongly and you do have to have good distribution and the ability to deal with mortgages coming through the business, as opposed to just price, price is important and we saw that last year when we tried to move the pricing up on the mortgage book, but we had no effect. It takes the bigger players to make a determination that mortgage margins are low enough, thank you very much, to actually have the impact. And you are starting to see two of those bigger players having a bit more influence on pricing up. And you know from our perspective that's good news.

But we believe that we can grow faster than the market, because of what we've built and the concentration we have in there. We think on a NIM perspective this year, particularly in the first quarter will be flat, and it depends on what happens with interest rates going forward, we've build economic consensus that there's two 25 basis point rises this year which will be helpful and probably two more leading through into 2019 and 2020. That will be I think very good for NIM.

The other thing that I think will also be helpful is TFS closing out. There are some players, I mean we participated to the tune of £19bn, so it's not small, but against the size of our book it's a lot smaller than a lot of smaller players that really went after the TFS and borrowed a lot. That has to be over time funded and also you've got to find other sources of getting deposits and wholesale funding to be lending at the rate that they've been lending.

So I think there is going to be some pressure in the marketplace, upwards, not completely downwards, but my view on NIM, pretty well flat for us. And we'll try and grow our mortgage business over the next couple of years and faster than market. And we've been successful at it so far.

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Facilitator
Obviously the you already touched up on the last remaining if you like sort of legacy issue, the last legacy issue is probably DoJ, there have been plenty of press reports saying that an agreement could be a matter of weeks, I don't know, can you give us any update on where we stand? And are you having conversations to settle at the moment? Should we feel confident an agreement, a reasonable agreement is near?

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Ross McEwan, Chief Executive Officer
Look I've got the timing of this completely wrong for the last 15 months so I'm not going to predict it. I thought we would have had this tidied up by the end of 2017 and I've been completely wrong. So you know I think there are five banks that are outstanding on settlement with the DoJ. All I'd say it will be in hopefully 2018, there's just no new news on this.

These deals have to be done at some point in time and all we'd ask for is a fair deal compared with other players. But there's just no update at this point in time, but I think it will happen quickly when it does happen, because there's no ongoing investigation all that work has been done. So it's a matter of having the conversation and the negotiation to get the point. So as I say we're one of five still sitting without a settlement. For me I would give you no predictions on when it will happen I got it completely wrong last year.

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Facilitator
Maybe the last one from me and we'll open it up. Obviously DoJ is the big hurdle before switching on dividend and capital return. If we look beyond that could you maybe talk us through if there's any other significant item when we think about capital return in the bank medium term, and obviously there's the pension top up, should we think about

mortgage output floors, etc, but basically what do you think - when do you think RBS will be in a position to start talking about share buybacks?

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Ross McEwan, Chief Executive Officer
You're right, the first thing is get the DoJ tidied up, I mean that is the biggest thing standing between us and returning capital. And let's just make an assumption that the settlement is a settlement that's in the bounds of others so that there is capital left and that's what would predicate my conversations now around dividend. So that is the last remaining big item.

Pensions is important, you know we've got the triennial review this year, we've clearly signalled that impacts into 2020. We think there is money that needs to go across to the trustees and we'll have those negotiations in the early part of this year with the trustee, because you know we want a strong pension fund, we don't want that being a lagging effect where we have to be constantly be thinking about it and having capital put aside. But you know every organisation with an old defined pension fund is having to review how much needs to do in, but we funded it two years ago and we want to make sure it's well-funded.

But DoJ is the big issue, then we will have the conversation with the regulators about getting the dividend going again. And I think dividend first because it just brings us back to being a more normal stock and also a lot of firms can't invest in us because we don't pay a dividend, you know there will be some tracker funds that are dividend related, there will be other investment funds that have to have a dividend associated. I think it opens up. And then it also opens up the opportunity for the government to have a great pool of investors to invest in the stock. So it starts with the DoJ and moves itself quite quickly I think through into dividend payment.

We have been very clear Ewen and I that we do want to get that up and running again and it will be a priority for us to have that sorted out with the regulator by the time we've done the DoJ and then clearly signal to market when we can do it, we'll make a payment.

And I think that point you know we're back to being a much, much more normal stock that we can have much more normal conversations about banking rather than four or five years of very heavy restructuring. And as I've been very clear this is a stock that should produce and will produce a 12 plus percent return on equity, we'll have a cost to income ratio of sub 50, it's got great market positions, we have been investing heavily in this business around our technology, you know we are in much better shape from a technology perspective than many people I think give us credit for. And a lot of that is lagging back to our 2012 incident when we stopped for a couple of days. But a lot of work has been done on our technology stack that has put is, I think, in quite a good position going forward.

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Facilitator
Okay, we can open it up to question. Julian in the first row.

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Questions and Answers

Question - Julian
On what you said about those big improvements that you've had since 2012 in technology, can you benchmark where you think you are against your main competitors, kind of across the board, kind of break it down, not just a kind of general comment, but across mobile, core systems and other systems?

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Ross McEwan, Chief Executive Officer
I would say that we are probably around the middle of the pack if you benchmarked us - we do benchmarking of costs across all of our business. If you'd taken us back to 2012 when we were running 5,500 systems and applications we would have probably been pretty close to worst in field with all of that infrastructure and the spaghetti that ran. I think today we would be mid-field. But what we've done is we've laid some pretty solid foundation that are enablers for this business going forward in a much more technology digital path. And if we'd still been in that shape of 2012 we'd be really struggling.

We have in my mind some of the best mobile, and every bank says it, but we just go to the independently rated apps and you know we are rated number one. We've just announced at our annual results when you look at our business and remembering we're a big business bank, we've had Bank Line which has been an online platform for our commercial customers.

We are now trialling Bank Line Mobile, which will be a big step up for our customers to do banking, our corporate and commercial customers to do banking on the run, where they can - you know just like you do as an individual customer, you can do it from a commercial perspective. I think that is a major breakthrough in this marketplace, particularly when you're making payments, you don't have to be back at the office, a fixed place, doing these things. So that's another big move, I think, that'll hold us in very, very good stead.

So we have quietly been stabilising our business, I said at the results we had in 2014 something close to 300 outages of what we call of a severity one, where it impacts a number of customers, last year that was around 20. And in the last six months of last year was four. Now I don't want to tempt any fate, but we haven't had an outage in November, December, January, or February, to March. Now that is significant when you were creating difficulties for customers 300 times a year to be in that position today.

But you know you can't sit there and say that’s okay, we are having to make sure that the activity around fraud and cyber-attacks are all covered off. We are spending money on that. We are partnering well with outside organisations to help us with those things. So I think you know we've - we have a reputation of not being great, I think it is the wrong reputation and we will quietly prove that we've a very good bank from a technology perspective and we are moving faster to digital than most people would give us credit for.

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Question - Male
Two questions please, one could you please talk about the opportunities and threats from BSD 2 and GDPR for the business as a whole?

And secondly, you know, given the leadership position that you have, yourselves and Lloyds is there any structural reason why the eventual end game for cost to income ratio should be different, I'm thinking about is there any business mix differences, or investments that you make in technology that could explain that, or in the end game the aspirational targets should be the same, thanks?

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Ross McEwan, Chief Executive Officer
Yeah, look there are some structural differences in our business, the way we're shaped, I mean we're a bigger business bank, we have a slightly bigger markets business, they are much, much bigger in the mortgage book, which gives you I think advantage on a cost perspective if you've got a book of three hundred and something billion versus our 120 billion, absolutely there's an advantage there. So I think there are some structural reasons why you'd probably end up at a different place from a cost to income ratio perspective.

The second piece is they started in a much better position than us, let's be quite honest they have got the advantage. But don't underestimate, we've already said we'll be down below 50% in 2020. And we've shown you that we can take costs and will take costs out of this business. I don't think there's any bank in the world that's taken £3.9bn out in four years.

Now I admit we had to, but boy we've done it. So the focus needs to be continuing on taking out costs out of our business, but we started on a different position and I think we end up at a slightly different position. But costs need to come down to bring the cost to income ratio down so that we can serve customers with good product and also give good returns to our investors. That's the second part of your question, we're all heading in the same direction but they start from a different position and they have a different mix.

On the issues around data usage, as a reasonably large bank with a large customer base I think we have an inherent advantage around data of customers. And the question then is how do you use it for the betterment of customers? And open banking I think gives everybody a good opportunity to get hold of data. And we will use it to the advantage of customers because that's what it's there for.

So I think we've got a good starting positon, four or five years ago Simon McNamara our head of IT and Ops set up a unit that was around data. So we have been working on how do you pull data together and then how do you use it for customer advantage for the last five years. Again, delighted we made that move five years ago because if you were starting today to try and pull data together from - and banks, remember, tend to be very silo driven, if you can - the quicker you can get it into one large place that you can use that data the better it is for you as a bank, but also the customers.

So I think we're okay positioned, okay not brilliantly, but okay positioned and we'll use APIs to actually advantage customers over the next 12 to 24 months. Do you need to be rushing into the marketplace now because open banking happened on the 13th of January? I think not. You know we are now fully compliant with the legislation and the regulation, we're completely compliant. We were 99% compliant on the first day, there was only one piece of the business that wasn't, we got recorded as we weren't compliant, but it was 1%. We are now fully compliant.

But I think in the next 12 to 24 months you'll see us as an organisation, on behalf of customers give them better ways of thinking about their financial services for their betterment, it's got to be about the customer benefit as opposed to the bank's benefit and I think we'll be in good shape to do that and we are in pretty good shape today.

But is it going to be a rush that everybody is going to move their data around, I don't think so. You know we've been telling customers for 50 years, be careful with your data, they're not going to immediately turn that switch and say let's all move it across to somebody else. And I think we also need to make sure that customers are aware when they ask for their data to be moved it needs to go to safe places, you know, that's a big educational piece in this marketplace.

But I think it's a good move, I think it's a very good move to be much more open with customer data so that they can use it for their advantage as opposed for bank advantage. But I think we're in an okay position.

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Question - Male
Hi, thanks very much for that, I just had a quick question, I'm looking a couple of steps down the track, but the big government stake, have you had any discussions or any view as to how that may be dealt with in the future, is Lloyds a roadmap, or?

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Ross McEwan, Chief Executive Officer
No, we haven't had that conversation, I can recall - I can just recall the last time that they did a sell down, I got a phone call at about five to five and that's the way it should be, it should be an arm's length situation. But I think the two things that I would think about would be DoJ and then the path to dividend. I think it starts to make it a lot easier for the government to start that sell down.

And you've got a house broker who would probably give you a good idea of how much they could sell in one tranche straight off, they are probably better at giving you a good feel for it than I am, because you don't want to knock the price around, you've got to be a wee bit careful how the tranches and I think the thing is to get it going. The government has said that they want to sell down a fair portion of their stock in this time of government and the first sell down would be in the '18, '19 year. So DoJ first and then let's get on with it.

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Question - Male
Hi there, what are the risks of moving all your systems into the cloud and have you had any conversations with the regulators who've raised any concerns about moving the data away from you or centralising the data somewhere else?

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Ross McEwan, Chief Executive Officer
A really good question, we're not going to move all our data into the cloud, but there are some things that would be best served there from a flexibility and pricing perspective and we'll look to move those, but we're going to have to make sure that there's very,

very good controls around where that data sits, how it's held and who gets access to it, which will just be us. So a really good question.

Those are things we're working on at the moment, but our analysis to date, and it hasn't been to our Board yet, but our analysis to date shows there is good advantage for us from a flexibility and from a pricing point of moving it to the cloud. There are some parts of our business that have already gone there, newer parts have already started to move there and new applications and it's working pretty well. But you do need to make sure that the security of customer data is absolutely paramount. And the regulators, I think, will be all over this, as they will be over all data points.

And also, can I add to it, I think they will be all over the use of artificial intelligence as well, which is something that we're pushing very heavily on because it's data, it's customers, and making sure it's absolutely safe.

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Question - Female
On that topic I've got a couple of questions, when you talk about the cloud, what exactly are you moving to the cloud, is that [inaudible] processes, so let's say CRM, HR, or is it actually the core processes of the bank, so let's say the mortgage, the current accounts? Because in my understanding it is moving the second part is what really can make a difference to the cost bases?

And then I have a second question if I may, we talk a lot about data, do you have a single customer view at the moment already amongst all your core products, or are you planning to get there? Thank you.

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Ross McEwan, Chief Executive Officer
First off we've already started moving some items to the cloud, for example next year all of our HR activity has gone to the cloud. So those sorts of activities are already on that path. The core banking activities are the ones we're talking about looking at how much of that can we move to the cloud and what advantages are there for us between now and 2022 and 2023.

And the reason there is such a long period is because that's how long the leases on the actual datacentres we have today, but if we don't start moving today you actually have to renew all these centres again, again and again. So that's what's pushing us to thinking about more transformative activities of core banking activity up into the cloud.

It's not in the cloud, we all know that, it's just on to other datacentres that have a more efficient utilisation of their capacity, which when we run our big datacentres, we've got two just outside of London, you're running at a minimum amount of efficiency on those, which just doesn't give you the economics that somebody else can have with much bigger datacentres and your sharing capacity with others.

But it brings it back to the security issues that have to be worked through, but we are looking at more fundamental then just the periphery things like our payroll and our mobile activities that would go to the cloud.

The second question was on single customer view, we would have - today we are probably around 70 plus percent of a single data view of our customers in one large data receptacle that the organisation can get a hold of from a personal perspective. Less so as you get up into the large corporate end of the market, so we're - but we are building a large data capture area that the bank can access.

And it's not just from a customer perspective, a lot of the costs on these businesses are around finance and risk have different access points and after different data, therefore having built over years different silos of data that they interact in. And then making sure that they all interact together by the time you come to do your monthly accounts, quarterly, accounts, annual accounts, it's bringing all of that activity together that is also quite a big saving.

So for example we now have our risk and finance data teams are the same team, now I know that will sound strange for you and hardly imaginative, but if you think back over the last few years completely siloed and separate, now those units are operating together. Now how do we utilise that data better and make sure we're getting it out of one source.

So those are the things that we are down the track on, we're more so in the retail business then we are in the commercial, but quickly moving across the organisation to get it in one place so that we can all utilise it no matter what the need is.

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Question - Male
Coming back to the dividend, what kind of initial payout ratio are you thinking about and can I clarify if that also includes an interim dividend?

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Ross McEwan, Chief Executive Officer
Look, the issue around interim versus a final depends on the timing of the DoJ and getting the regulator comfortable that - you know we've got a stress test and those sorts of things, we did okay last year, but we have to get them comfortable. So I'd be a little reluctant to say there's an interim because if the DoJ doesn't get sorted until later in the year well it's now an impossibility.

But ideally we would start small and build, I don't want any shocks to this business, I don't want us starting a dividend, finding the market tanks over a bit and everyone getting nervous and stopping again. Let's start small, build is the way we'd do it, and that's the way that Ewen and myself are thinking on behalf of the Board. And those conversations will be through our Board and with the regulator, but just start with the DoJ, that's the big one, that tells us what capital we've got back. You've seen we've built capital, I think, very, very well, but it's about how much gets taken off us about of that one full strike and then the timing of it.

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Question - Male
Thank you, as the largest UK business bank, can you give us any update on asset quality so far this year, are there any early indications of stress, I mean we all know retail is

under massive pressure, but can you give us some industry colour, CRE, things like that? Thank you.

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Ross McEwan, Chief Executive Officer
Look we are not seeing, at this stage, and we do look, I mean it's a question we ask ourselves every month at our Executive Risk Forum, that gets asked at our Board Risk Committee, we are on higher alert for is something changing in the marketplace? And at this stage it would be fair to say that we still haven't seen it.

There are - you know at the end of last year people quite rightly asked the question about a few companies that were having some difficulty and when you look through those you go back to the very fast acquisition type activity, probably poor integration, go onto the next one before you've cleaned up the last one, all those sorts of issues, were nothing to do with what was going on in the economy, it was more to do with the model of business that people were running.

The retail side, I think we are - we're being cautionary, we've got a reasonably big retail portfolio, but we are being cautious there because - nothing to do with consumers, but it's just the way consumers are consuming retail. I mean I was saying to a few of the meetings this morning, I see in our own home every day there is a parcel that arrives at the front door for my daughter and her boyfriend. You know their method of consuming has changed dramatically over the last two years as they just order it online, on the bus, on the train, in a taxi, or an Uber, or whatever, the consumption is changing. So those who don't keep up with that change are the ones that will probably have the difficulty as opposed to total retailing.

And it's no different to our business, why are we making some pretty big changes in the way we operate and moving more towards digital and away from physical, it's because the consumers are moving. You know the change in utilisation of branch network, the change in utilisation of ATMs, the dramatic drop off in the change in the number of cheques, that's all a trend in our industry and those trends are being picked up in other industries as well. So it's not around is there a problem with them, it's are those people adapting to them is the thing that we're watching.

But we are not seeing any form of stress, but we are on high alert. And it's mainly around high alert because of you know the uncertainties on a number of factors in the UK more than anything else, Brexit, ring-fencing, those sorts of issues. But it's mainly around Brexit and the uncertainty. But it's GDP growth, 1.5%, we just run on consensus and we're seeing that flowing through, markets are okay.

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Facilitator
One follow up from me specifically on asset quality, because we have found, we run a survey, one we published on Monday actually, Morgan Stanley provides a survey looking at the consumer and their thoughts on Brexit and how they're coping. And that showed specifically, not so much delinquencies, but how much you struggle on making your payments on time and do you sometimes miss a payment, that went up like ten percentage points, which was quite telling. So maybe we're not seeing any delinquencies, but are you noticing those payments being skipped?

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Ross McEwan, Chief Executive Officer
Not as you're describing there, we keep an eye on overdraft usage and the likes of those sorts of features. And it's fair to say that the consumer is more stretched than they were two years ago. I mean the consumer kept the economy running last year, this year we believe that the manufacturer will keep the economy running, but not to the same extent as the consumer. But the consumer can only borrow so much because they you know come to the limits of their - be it credit card, overdraft, or borrowing facilities and then they have a breather, they have to, you know. And you're seeing inflation is higher than wage growth, so that puts pressure on the consumer. So our view is the consumer would be a slower portion of the growth in the economy this year and that manufacturers would pick up some but not all of the slack.

But we are keeping an eye on those activities and you know the thing you have to watch for too is how many customers are living on pay day, to pay day, to pay day, which is fine while there is a pay day. And those are the things you've just got to be careful of as well. And you know why we've stayed out of certain parts of the marketplace, we've been quite open about that.

We have - we've participated where people have a pay down programme, be it an unsecured personal loan or an unsecured business loan, you know they've got a payment they need to make. I've been less comfortable where - on credit cards where they don't have that payment, there's a minimum payment to be made on a monthly basis. Rightly or wrongly we've stayed out of that marketplace, we're still in the credit card business, but not in that part of it. So we've been - we're not yet seeing anything but as I will stress we are keeping an eye - a watchful eye on it and we are cautious.

But our unsecured lending is growing on market, our unsecured lending is growing on market, our unsecured business lending is growing on market, our mortgage, which is secured and where we like it most is growing above market. Our commercial is there or thereabouts market, given we are taking - some of the portfolio still off and you're not seeing massive growth there.

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Question - Male
What should we make about this press story about the standalone digital bank that RBS is looking to launch?

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Ross McEwan, Chief Executive Officer
I think what you should do is take on board that we are seriously thinking about digital and innovation going forwards in this marketplace. And I'm not going to make any comments on what areas we're looking at, but we are serious about transforming this bank to being much more digital than it has been physical, because you've seen in the last five years massive transformation happening to this industry and I see nothing but that continuing to happen.

So the physical things like cheque are down another - what 14, to 15% on last year, ATM usage is down 10 odd percent, branch usage is down another 12 to 14%. That's all physical. Upside is mobile usage is up dramatically, both in transactions, but now customers buying from the mobile. So you're seeing the shift of this bank to those.

And it's very difficult because you know you're still having to look after customers who want that branch network but in much smaller numbers. And you know we've taken a lot of media noise around these things, more so than any bank and I understand why, because we're 70% owned by the government and therefore people feel they have that ownership of us and we should do what we want them to do. But we also have to think about long term for this bank, but the transitions need to be made and we've battled into those transitions.

So I would take that we are very serious about the innovation and about digital, connect that in with me saying that we are going to spend a bit more money on innovation in the next two years, because I think there are some good opportunities there. And only time will tell whether we're right or wrong, but I think you wouldn't thank us in five years' time if we didn't start making some plays and you'll say why did you miss the mark on it.

we're not making huge bets, but we are making some bets that we believe will add to our core business be that retail or commercial. And in Chris Marks NatWest Markets business they are completely redoing the platforms they operate in and more and more is just sheer digital in our FX rates type businesses, big shifts. And I think people have underestimated how quickly that shift is moving. And if you don't move out of physical you'll be trapped with it.

We may have got it wrong, but we haven't been wrong so far on those shifts.

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Question - Male
Just building on that digital innovation point, do you feel that at some point you might have to look at IP outside the bank, I know you're investing organically, there is a part of it that you want to figure out your balance sheet, once the DoJ clarifies that position, but once that happens do you think you might look for IP outside the bank and actually the strategy therein as well, because right now you're keeping it all under control, but if things are going that fast maybe there is a lot of IP outside that you would want to have in house? Thanks.

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Ross McEwan, Chief Executive Officer
Thank you, we've had a small scouting team in the marketplace in the United States and places like Israel and around the UK for quite some time and in the last two years we would have looked at about a thousand different businesses that had innovative opportunities around them. And in all of those probably picked two or three handfuls of companies to operate with.

We didn't put money in - we've actually put money into I think only two, very small amounts, so we haven't gone down the path of we have to buy or invest, but would do so if the right opportunity came, but it hasn't been one of the drivers for me. But it's been around partnering. And I think the issue of partnering is more important in a lot of these areas than having to buy.

So for example Esme which is a play for us trialled last year, hardening up this year in the SME marketplace, head to head with the peer to peer lenders, of which we like some of their business, some of it we don't want. But you know we have partnered with a platform provider Ezbob, which we partner with and use their platform. We like it, it's fantastic.

So we didn't buy it, we just partnered. But there will be other things that we'll look at and say, mainly should we just - I think the big thing for us will be partnering, but there will be some pieces that we might like and want to add to our stable of core technology go forward positions, but there won't be too many in my mind.

Partnering is good and building - we are a very good partner, you know Chris and his business has very good partner relationships with a number of bigger players that we've had for years and year. The retail business has got some really good partners. IBM we've partnered well with and you know we use IBM Watson as our core artificial intelligence that we're building off.

We're partnering with Soul Machines out of New Zealand to do the Avatar piece. We haven't bought into them, we're just partnering with them to sit on top of IBM Watson. So I think partnering is probably stronger, but if there are things that we like we'll have a go, but let's not get too excited. We did 94 acquisitions and created a mess for ourselves, we're not going to be doing that under my time.

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Facilitator
Great, I think we've got to leave it there, thank you very much.

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Ross McEwan, Chief Executive Officer
Thanks.

Applause

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