

## Chief Executive's Statement

### **We champion potential, helping people, families and businesses to thrive.**

Dear shareholders,

It is a privilege to be writing to you as CEO of the company that I joined as a graduate more than 25 years ago. I am truly excited by the opportunity to lead the Bank as we set out a new commitment to become a Purpose-led organisation, which will champion the potential of people, families and businesses across the communities we serve.

#### **A period of unprecedented disruption**

We, like our customers, are living in a period of unprecedented disruption - whether it is the struggle to get on the housing ladder or starting a business, the rapid growth of disruptive technology, an ageing population, the emergence of the gig economy or the existential impact of climate change. The way people live is changing, and their expectations of companies are changing too. I firmly believe in response, we have to adopt a new approach that moves away from a view that is defined by products and transactions, and uses the strength of the relationships we have with all of our stakeholders as the real test of our progress.

This disruption is happening against the backdrop of a highly uncertain economic environment. UK economic growth remains subdued, compared to its historic trend, and interest rates are likely to be lower for longer. This has an impact on our ability to generate net interest income. Business confidence continues to be affected by the UK's departure from the EU as our customers await certainty over the future terms of trade. Consumer confidence on the other hand continues to be supported by a relatively strong UK employment market and we are seeing good volumes in our mortgage business as a result. We still see opportunities to grow in our key target markets despite some of these challenging trends.

#### **Purpose-led organisation – Building more sustainable returns**

Today marks a new era, as we provide an update to our plans and a new Purpose for the Bank that will help us become a more sustainable business, delivering better outcomes for our customers and our shareholders.

We are privileged to play a central role in the UK economy. That brings with it, a deep responsibility to the communities we serve and to wider society. That is why we have a refreshed Purpose:

**We champion potential, helping people, families and businesses to thrive.**

We won't get everything right every time, but this simple expression will be the standard to which we will hold ourselves.

Sustainable returns, however, can only come from a sustainable business model and building a Purpose-led bank must underpin the services we provide. It also means we must play our role in tackling the issues which hold people, families and businesses back.

The Board and management team have worked together to define an approach to becoming a Purpose-led organisation based on balancing the interests of all our stakeholders. As part of this, we have worked with the not-for-profit organisation a Blueprint for Better Business.

We have informed our approach using their framework that identifies the need to be: Honest and Fair with Customers and Suppliers; A Good Citizen; A Guardian for Future Generations; and A Responsible and Responsive Employer as key drivers to becoming a more sustainable business. In addition, we have analysed what is driving the changes in our own customer

behaviours and the subsequent trends borne from their experiences. This forms the building blocks for the plans we are setting out today.

It is essential that our Purpose underpins our strategy and the decisions we make on the future direction of the business. At a practical level, we have been reviewing how to embed Purpose within Board forums and processes to ensure it is a central part of how we work. We are very clear that our Purpose must apply across the whole organisation and to everything we do. We are also clear that getting this right will take time.

### Three initial areas of focus where we can make a substantial impact

We have identified three areas of focus where we can make a substantial impact in addressing challenges that threaten to hold people, families and businesses back:

- Enterprise, and the barriers that too many face to starting a business;
- Learning, and what we can do to improve financial capability and confidence for our customers, as well as establishing a dynamic learning culture for our employees; and
- Climate, and the role we can play in accelerating the transition to a low carbon economy.

We have set out some significant ambitions across these three areas that will deliver important benefits for our customers and the wider economy.

### An ambition to take the lead in combating the causes of climate change

Today, we are setting a bold new ambition – to be a leading bank in the UK & Republic of Ireland helping to address the climate challenge; by making our own operations net carbon zero in 2020 and climate positive by 2025, and by driving material reductions in the climate impact of our financing activity. We are setting ourselves the challenge to at least halve the climate impact of our financing activity by 2030, and intend to do what is necessary to achieve alignment with the 2015 Paris Agreement.

This will be a significant challenge as we, like others, do not yet fully understand what this will require and how it will be achieved, not least as there is currently no standard industry methodology or approach. Solving this will require UK and international industry, regulators and experts to come together and find solutions. We are determined to not just play our part, but to lead on the collaboration and co-operation that is so critical to influencing the transition to a low carbon economy.

As a systemic UK bank, we must play an active role and these market leading ambitions underline our position. This is not only the right thing to do, it will give us the opportunity to do more business with our customers, as they transition to a low carbon economy.

We are already taking positive steps in the right direction. This year we became one of the Founding Signatories of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking, committing to begin strategically aligning our business with the UN Sustainable Development Goals (SDGs) and the 2015 Paris Agreement. We have been reviewing specific SDGs with relevance to our Purpose focus areas of Climate Change, Enterprise and Learning.

The Bank continues to support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – a voluntary set of guidelines encouraging consistent climate-related disclosures in annual reporting. In 2019, we were one of the first companies worldwide to commit to all the Climate Group initiatives on electric vehicles (EV100), energy productivity (EP100), and renewable power (RE100).

In November 2019 we issued the first exclusively social bond under ICMA's Social Bond Principles in the UK by any financial institution. The impact of the lending funded by this bond

will be reported 12 months after issuance, measuring the number of jobs created and retained in some of the UK's most deprived areas.

This is good progress, but we can, and will, do more.

#### Improving financial confidence and becoming a learning organisation

We also know that we have a responsibility to help our customers improve their financial confidence. Our UK-wide financial education programme, MoneySense has now been running for 25 years. We can help children in schools and at home understand the value and importance of finance from an early age. We will target reaching 2.5 million people through financial capability interactions each year. The more confidence our customers have, the more opportunity we will have to provide services to them.

I also want to build the confidence and capability of our employees. We already have one of the most qualified workforces in the UK. Today I am setting a target to have all front-line staff professionally accredited within the first twelve months of being in role.

#### Removing barriers to enterprise

As the largest supporter of UK business, we already offer a wide range of support to those who want to start a new business.

But we also know that for many, it remains harder than it should be. We are committed to helping create an additional 50,000 new businesses across the UK by 2023, through inspiring and supporting over 500,000 people to consider enterprise as a career option.

Our focus will be on under-represented populations, with women making up at least 60% of those we support and more than 20% being Black, Asian, Minority Ethnic-led businesses. We will also make sure that at least 75% of the people we support are in regions outside of London and the South East. By helping to tackle the barriers to starting a business, there will be more opportunities to help companies grow.

#### Starting with strong foundations, but with much more to do

We have built strong foundations, but our performance doesn't yet match its full potential and we need to support our customers better at the key moments in their lives. This means running a bank that is safe, simple and smart – supporting our customers with what they need and also making some tough choices in order to deliver for shareholders and colleagues.

#### Safe

Safety and soundness must underpin everything we do. Intelligent risk-taking is why banks exist - to find valuable and sustainable uses for the resources in the economy, and to help customers achieve their ambitions. We have strong capital and liquidity positions and are well placed to help our customers succeed. In today's digital world, our operational resilience and keeping our customers' data safe are top priorities. We can never lose sight of this, even as we look to grow. We have announced today that we will reduce our Common Equity Tier 1 ratio (CET 1) over the medium to long-term to around 13-14%. This will ensure that the Bank remains safe, and also allow room for further capital distributions.

#### Simple

We are still too complicated for our customers. Much of the potential value in this Bank is locked in business lines and business models that are too complex and generating too little return. This complexity also creates 'bad costs' – costs that provide no benefit to customers.

This applies to parts of our NatWest Markets business, where we have shrunk over time but we could do more to increase its focus on our corporate and institutional customers and their needs.

Today we are announcing that we will reduce the size of this business by around half, as measured by Risk Weighted Assets, managing down and optimising low-returning capital and inefficient activities. We will build a much smaller and simpler part of the business which will bring customers closer to the services they need, reduce costs and release capital for shareholders.

This action will refocus our NatWest Markets products and services on our corporate and institutional customers. We estimate that for 2019, our corporate and institutional customers represented around £75 billion of Risk Weighted Asset equivalents but only generated returns of around 2% on an underlying basis and excluding strategic costs and litigation and conduct costs. We believe that as we refocus NatWest Markets, corporate and institutional customers in the medium to long term will represent around £60 billion of Risk Weighted Asset equivalents and returns will improve to around 8%.

Driving out bad costs also means simplifying our core customer journeys, like our account opening and lending application processes. Aligning and accelerating the transformation of these with more automation and less manual processing will save money, deliver better controls and improve service.

We are targeting an overall cost reduction this year of £250 million.

### Smart

Taking a disciplined approach to cost means we can make smart investment choices, investing to improve our services across our retail and commercial customer bases. We will continue to explore the potential for partnerships across industries, and within banking, that can help us innovate faster and ensure our investment is wisely spent.

We already have strong relationships with millions of customers in this country, but we can deepen them even further by building propositions that provide support throughout their financial lives. This may mean looking to increase our presence in certain areas including through partnerships, where relevant, to ensure we are helping our customers meet their needs and ambitions.

In recent years we have dramatically increased the focus on innovation across the Bank. This has positioned us well with partners, opened up new income lines and helped improve our time-to-market in a number of critical areas. There is an amazing opportunity for NatWest to use its brand and market presence to connect new technology solutions with the problems that hold back potential in the personal, professional and business lives of our customers.

This must, however, also be matched by the financial discipline to call time on ventures that don't deliver and that can't deliver a big enough impact for our customers and investors.

By simplifying our innovation focus, and being disciplined on the internal allocation of capital, we will strengthen the core of the Bank. By making smarter investments in services for our customers we will deepen our leading positions in personal, business, commercial and corporate banking.

### Delivering sustainable returns

Championing the potential of people, families and businesses is not an add-on to our strategy, it is our strategy. I firmly believe this new Purpose-led approach is what will deliver reliable returns for our shareholders, year in, year out.

We will target a return on tangible equity of 9%-11% from a CET 1 ratio of 13%-14% in the medium to long-term. Subject to shareholder approval of our 2019 final and special dividends,

we will have returned £4.2 billion to shareholders, with £2.6 billion returned to UK taxpayers since 2018. We have a clear plan to continue to return capital to our shareholders over time.

I know from experience, that we only succeed when our customers and wider communities succeed. I am confident that the strategy I have outlined will deliver sustainable long-term shareholder returns and will also build a Bank that the UK and Republic of Ireland can be proud of. We will create lasting value when we champion the potential of those we serve. That is our Purpose and our Strategy.