Q1 Results 2017

MEDIA Conference Call
Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
on Friday 28 April 2017

FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Q1 Results announcement published on Friday 28 April 2017.

RBS

Ross McEwan, Chief Executive

Ewen Stevenson, Chief Finance Officer

Introduction

Good morning ladies and gentlemen. Today's conference will be hosted by Ross McEwan RBS Chief Executive. Please go ahead Ross.

Please go ahead, Ross.

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Ross McEwan, Chief Executive

Thanks Lawrence and good morning to everyone. Thanks for joining Ewen and I, for our Q1 results call. I know it's a busy day for you with Barclays reporting as well. So keep our commentary brief, to give you time to ask questions.

We are pleased to be posting a bottom line profit of £259 million for the quarter. These results do reflect, very much, what we've been talking about at full year. Firstly, a strong and improving core bank and secondly, a few of our remaining legacy issues.

Core income is up, on last year. Adjusted costs are down and we're making better use of capital. These drive our 13.8 percent adjusted return on equity. An improving productivity in the core bank and important steps in the path to our profitability.

Our six core businesses made an adjusted operating profit of £1.3 billion in the in Q1. RBS has now averaged an adjusted core operating profit of over £1 billion for the last nine quarters.

This is a further demonstration of the earnings power of this business.

We had a softer start in Q2 in NatWest Markets, which is only to be expected after such a strong start and is in line with our full year guidance. Annualised lending growth in our Personal & Business Banking and Commercial & Private Banking franchise of 5.6 percent, also compares well with our 3 percent target for the year. In the context of the UK economy, I think this is a good result.

For the same time as growing lending in the markets we like, we're improving our capital position. We've run down our legacy RWAs by a further 7 billion in the quarter, overall. And our CET 1 ratio is up to 14.1 percent, as a result.

I said that at our full year results in February that we were going to go further on costs and faster on digital transformation and we've continued to make good progress on both.

We've reduced costs by £278 million so far, this year. And we're on track to deliver a £750 million saving for the year. A good example of this is our property strategy. We've recently exited 135 Bishopsgate and we've announced plans to exit another of our London City properties, Premier Place, which will take out 6,500 desks in London, alone.

At the same time as reducing costs, we continue to improve our products and customer service. And mortgage book is growing and we are winning 13 percent of new business, compared to our 9 percent stock share.

Our mobile app voted by customers, as the best in the UK continues to improve in functionality and its usage is increasing. It already delivers over a third of personal product sales. And we aim to meet over 1 million customer needs through our mobile app, this year.

The improvements we are making on customer service are flowing through to our Net Promoter Scores. Our NatWest Personal Net Promoter Score was plus 15 in Q1, it's the highest it's ever been. Commercial Banking is a market leader with a score of plus 21. And we're putting clear water between us and our key competitors, here.

There's plenty more improvement going on, in the business. We've just launched RBS Assist, an online artificial intelligence support tool. For customers, answering the 80 of the most frequently asked questions. This is a banking first in the UK.

And our small business lending platform allows us to complete small loans much quicker now and shows pre-approved lending limits to customers alongside their online banking.

We're also preparing for full migration of customers to our new, best in class, Bankline platform, later this quarter for our larger commercial customers.

On RMBS, we have no further update to provide today. We remain in discussions with FHFA on the preliminary RMBS litigation plan, and have nothing more to say on any engagement with the Department of Justice.

You have all seen the European Commission's announcement about the consultation on HM Treasury's alternative plan for Williams & Glyn. We're pleased with this progress. And expect to continue to have positive discussions with HMT and the European Commission.

Subject to dealing with RMBS and Williams & Glyn, this year, we anticipate being profitable in 2018 and are on course to deliver our targets for 2020.

I want to reiterate what I said to you in February. This bank has a very strong core with great potential and we believe that by going further on the cost reductions and faster on digital transformation – we will deliver a simpler, safer and even more customer-focused bank, with a compelling investment case.

Thanks for coming on the call. I'll pass over to Ewen, who will now step you through the financials in a little bit more detail.

Ewen Stevenson, Chief Finance Officer

Thanks, Ross. It's good to see our first bottom line quarterly profits since Q3, 2015. Even better, are the underlying performance trends we saw this quarter.

As part of our recent full year results, we said we'd deliver four things in 2017, before returning to bottom line profits in 2018, as part of our progress towards our 2020 targets.

For 2017, for the core bank; we said we'd grow income, we'd cut costs and we'd do it with less capital and for our legacy issues, that we'd seek to largely complete the job, this year. Mainly, that we'll seek to resolve RMBS – both the FHFA litigation and the Department of Justice investigations, that we'd agree a solution for Williams & Glyn and that we'll wind up capital resolution, at year end.

For the core bank, we had what we think is a good quarter and very much in-line with building towards our 2020 targets. The quarter was much stronger than Q1

2016. Good growth taking market share, where we want to take market share. Adjusted income is up 12 percent and adjusted operating profits are just over £1.3 billion, are up 30 percent.

On income, our UK Personal & Business Banking franchise continues to deliver strong growth. Mortgage volumes up 12 percent versus Q1 2016. We also saw good growth in Business Banking with Q1 on Q1 growth of 4.7 percent, excluding transfers. And overall, UK Personal & Business Banking had adjusted income growth of 8 percent.

Commercial Banking has as we'd said we'd do being more selectively targeting, where it wants to grow. So adjusted income growth was more modest of 1.4 percent. NatWest Markets had a very strong quarter. Adjusted income of £508 million. That's up 83 percent on Q1 2016.

On cost cutting, our program continues on track. £278 million of additional costs out on Q1. That's 37 percent of the £750 million of cost saves we'd said we'd do this year.

Capital Resolution's operating costs in the quarter was £69 million. That's 70 percent lower than Q1 2016. And for the remainder of the year, we expect the rate of decline in Capital Resolution's cost to moderate. Meaning much more of the overall cost reduction, in the final three quarters, should benefit the core bank.

On capital and the core bank, we achieved a growth reduction in risk rated assets of £3.2 billion. Primarily, from Commercial Banking and NatWest Markets. This reflects the start of the, at least, £20 billion of gross RWA reduction, we've targeted from the core bank through end 2018.

So in the core bank, with income up 12 percent, adjusted cost down 1 percent, and RWAs down 2 percent, adjusted operating profits were up 13 percent on Q1 2016. And the adjusted return on equity rose to 13.8 percent from 10.9 percent.

Turning to our legacy issues on US RMBS, Ross has updated you. I would continue to caution that we could see further material potential settlement costs for our RMBS, this year, above and beyond existing provisions.

On Williams & Glyn, you know where we stand with the European Commission and HM Treasury. Financially, Williams & Glyn income was broadly flat on Q1 2016. And its adjusted operating profits of £111 million were up 10 percent.

On Capital Resolution, it's on track to deliver its risk weighted asset reduction target for the year, with RWA's down £4 billion, in the quarter, to £30.5 billion. And you all have seen, earlier this week, the Alawwal Bank announcement regarding merger discussions.

On the balance sheet, our Common Equity Tier 1 ratio rose 70 basis points, to 14.1 percent.

So overall, with only two months since we last updated you, all of our targets for this year remain on track. We've significantly de-risked by following a strong first quarter, those targets. We're pleased to be reporting our first profit, in six quarters and happy with the underlying performance trends.

Our core bank had a good quarter, relative to Q1 2016. Adjusted income, operating profits and returns were all well up. And on our legacy, we continue to make steady progress. We want this year to be our final year of substantive clean-up, prior to returning to bottom line profitability in 2018.

Thanks and with that, if we could now open up for some Q&A.

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Ross McEwan, Chief Executive
Thanks, Ewen. Lawrence, over to you to open up for the questions, please.

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Operator
Thank you, Ross. Ladies and gentlemen, if you would like to ask a question, please press the star key, followed by the digit one on your telephone keypad. We'll pause for a moment to give everyone an opportunity to signal for questions.

We will take our first question from Richard Partington of Bloomberg News. Please, go ahead.

Ross McEwan, Chief Executive

Morning, Richard.

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Richard Partington, Bloomberg News

Morning, both. So with RMBS, I know you're not able to really provide an update, but was just wondering how confident you are in the amount you provisioned and is there any danger that this could run into next year? Are you, in any way, concerned that it's taking a little longer than expected?

And then, second question, if I may, on the investor lawsuit. Do you just think that people aren't settling, just want to see Fred Goodwin in court? I mean, it seems to be that they're holding out to get this to trial. What do you think of that?

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Ross McEwan, Chief Executive

Well, first one on RMBS, there's not much more we can say. We are still confident that it'll happen this year, as Ewen said, there may be more money to pay up, we don't know that until we've gone into discussions with the Department of Justice. But we have warned that, you know, there could be, you know, substantially more there to say.

On the rights issue, look, we believe that we've got a strong defence to the claims and have a duty to act on the best interest of all our shareholders, including the UK tax payer. Talks have been continuing, but, you know, we've been very clear, if we can't settle this on agreeable terms, we'll continue to defend the claim at trial. And the first stage of the trial remains set for May 22nd. And it look we believe it'll last for several months. And if it goes to many stages, it could last for years. So, you know, look, that's where it's sitting, at the moment.

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Richard Partington, Bloomberg News

OK. Thank you.

Operator

Thank you. Our next question comes from the line of Lawrence White from Thomson Reuters. Please, go ahead.

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Ross McEwan, Chief Executive

Hi, Lawrence.

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Lawrence White, Thomson Reuters

Hi. I had the same ones as Richard, actually. So I just one from to follow up, really. How much confidence do you have in this guidance of profitability in 2018? Given that you've, sort of, said that the two main factors predicating against it are Williams & Glyn and RMBS. The timing, of which, seem to be out of your control. So if you had to put a, sort of, number or guidance on it, how much confidence do you have in that target of profitability in 2018?

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Ross McEwan, Chief Executive

We'll we're as confident as we can be, given those two situations, in which we've commented on. We're very confident in the core bank. You've seen the results, today. We've called the core bank is a very good one and as we restructure it and get the costs out and capital out, you know, this is a very, very good franchise. So, to the extent of the two issues we've talked about, Lawrence, we are confident that we'll be back in profit in 2018.

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Lawrence White, Thomson Reuters

Thanks.

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Operator

Thank you and our next question comes from the line of Jill Treanor of The Guardian. Please, go ahead.

Ross McEwan, Chief Executive

Hi, Jill.

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Ewen Stevenson, Chief Finance Officer

Hi, Jill.

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Jill Treanor, The Guardian

Hi, good morning. Given that Philip Hammond admitted that he's not going to get the taxpayers' money back from this stake in RBS, can you say when you would expect the stake to stop being sold-off?

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Ross McEwan, Chief Executive

No. Well, that's in the hands of the government, itself, Jill. We'll leave that to UKFI. I mean, my job is just to create a really good bank that they can sell. We've said that there are two issues that we do believe we need to resolve. Before that, it is probably likely to start the sell-off. RMBS and Williams & Glyn and they are very much on their plan for this year. The core bank, though, is really strong and you can see that in the results, today. Good growth, now going on in the core of our franchise. Costs down, capital out, this franchise is really starting to work, again. So it's a very good bank.

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Jill Treanor, The Guardian

So, from what are you saying do you think the government won't be able to sell any shares until those two issues are sorted out? You don't expect the sell-down to start while those two things are outstanding?

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Ross McEwan, Chief Executive

It's in their hands, but I would suspect that they will wait until those two issues are resolved and in the interim, you know, my job is to just create a really good bank. So when they do want to start to sell, it's in great shape, which is what you're starting to see.

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Jill Treanor, The Guardian

OK. Thanks.

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Ross McEwan, Chief Executive

Thanks, Jill.

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Operator

Thank you. I have a further reminder. If you would like to ask a question, on today's, please press star followed by one, on your telephone keypad. We'll take our next question from the line of Emma Dunkley of the Financial Times. Please, go ahead.

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Ross McEwan, Chief Executive

Hi Emma

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Emma Dunkley, Financial Times

Hi, both. Could you give some guidance on what when you might expect to restart dividend payments? Once, I guess, RMBS and Williams & Glyn is cleared and then also, a bit more clarity on where you expect to make cost cuts, this year. So do you expect to see more branch closures and redundancies?

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Ross McEwan:

Ewen, maybe if you want to cover off on the first one.

Ewen Stevenson, Chief Finance Officer
Yes. We've always been clear that there's, sort of, four issues that we've got to work through. Williams & Glyn, RMBS, as you know, we've got to pass a stress test, and we've got to be bottom line profitable. So all of those, I think, you can see, from today's results, are on track. But we're not going sit here and predict where, as in when we may return to dividends.

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Ross McEwan, Chief Executive
On the cost, we said we would take out £750 million, this year. Half of that will come out of areas like our, as we close down, Capital Resolution and the businesses that they have been winding down on our behalf. The other half will come out of our core bank, as we just get a lot more efficient. We're using a lot more technology. We've made the announcement regarding two properties, in London. So our property portfolio, we're utilizing much, much better than we have in the past.

The branch one is really to do with customers' usages, not so much cost. Yes, there is some, but it's not a large cost save. It's really out of what customers use and you've seen a dramatic change of customers moving towards digital channels, particularly mobile. They're using other channels, like our mobile vans. They're using the Post Office, 11,000 Post Office units that they can go to.

So there's a real change in how people are banking, today. That doesn't matter whether it's in the, you know, the individual customers or the very large customers. And that's where we need to direct our investment. So that's why you're seeing major changes there.

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Emma Dunkley, Financial Times
So we can expect to see more branch closures, this year?

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Ross McEwan, Chief Executive
I think you'll see it across the industry, more branch closures over the next five years. The issue is customers are not using them as they used to, usage is down. So we've announced, just recently, 158 branches. We've given six

months' notice with put in leave behind situation, so that the customers are well looked after. So we have already announced our situation for the next six months.

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Emma Dunkley, Financial Times
Great. Thanks.

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Operator
Thank you and we'll take our final question from the line of James Burton, The Daily Mail. Please, go ahead.

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Ross McEwan, Chief Executive
Hi, James.

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James Burton, Daily Mail
Morning both. I just wanted to ask something, back to Jill's question on Philip Hammond's announcement that the taxpayers aren't going to see a profit on RBS. I mean, what's your message to taxpayers? Is it time for an apology from the bank, that they're won't get their stake back in full? Thank you.

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Ross McEwan, Chief Executive
James, I think we have to go back to, why did the government of the day step in and rescue The Royal Bank of Scotland? Let's go back to that, it's such a fundamental part of the financial fabric of the UK. If the government hadn't stepped in and purchased the assets and supported it through the Bank of England, we would have had a major, major difficulty in the financial services sector.

So let's go back to that. The price that was paid was the price of the day. The market has changed substantially since then. You've seen all sorts of things happen, both in the world, pricing of banks, and in the UK, and a lot of uncertainty around that. All I can say, is my job and the teams' here job, is to actually create a really good bank, so that the government, when it does choose to sell, actually gets the best price.

Do I think we just need to go back and say, why did the government step in? It was the right thing to do, at the time, and that was the price they had to pay to actually save this bank. So let's do the best we can to get the most back for the taxpayers. I don't think it's a matter of an apology. I think, you just go back to, why it happened.

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James Burton, Daily Mail

Thank you.

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Operator

Thank you. We did have a further question, that comes from the line of Katherine Griffiths of The Times. Please, go ahead.

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Ross McEwan, Chief Executive

Hey, Katherine.

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Ewen Stevenson, Chief Finance Officer

Katherine. Hi.

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Katherine Griffiths, The Times

Hi, there. Morning. It's just a quick one on RMBS. It's a couple of months, you say since last updated us. Is there anything further you can tell us on actual, kind of, engagements with the DOJ, in the last two months?

Ross McEwan, Chief Executive
No. There's no further updates on the DOJ. You know, they're obviously going their changes at the senior part of the senior levels of the Department of Justice. They're still continuing with the investigation from the lower levels, down. So at this stage, there's no further update.

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Katherine Griffiths, The Times
OK. Thanks.

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Ross McEwan, Chief Executive
OK. Lawrence, maybe if I just make a few comments in closing. And first off, I think this quarter's results show a path to profitability. As we put the past behind us, you have bottom line profit of £259 million, our first since Q3 15.

The core bank has averaged over a billion pounds in adjusted core operating profit across the past nine quarters. Our strategy is working and we are on track to deliver our financial targets. Costs are down, income is up, capital is robust, and we're growing in the markets we like.

We are going further on cost and we are going to get faster on the digital transformation, which will improve this bank for our customers. This year we'll take out a third, you know, take out £750 million of costs out of this business, this year and our digital innovation is giving customers more control on how they bank with us.

We're getting uplifts in our Net Promoter Scores and our two biggest franchises, which is the NatWest and in our Commercial portfolio. We've got a lot of work to do in other parts of the business and we are growing our lending to the UK economy with £3.7 billion increase in net lending from Q4 of last year.

We continue to grow our mortgage book winning 13 percent of new business and that's compared to our 9 percent stock share and we do anticipate, still, a bottom line profit in 2018, if we resolve the Williams & Glyn and remaining RMBS litigation issues.

You know, this it's a major milestone for this bank, as we continue to become a much simpler, safer and even more customer focused bank. Thanks very much for your time this morning. I appreciate you're going to be very busy. Cheers.

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Operator

Ladies and gentlemen that will conclude today's call. Thank you for your participation, you may disconnect.

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