



## **Q3 Results 2017**

### **MEDIA Conference Call**

Held at the offices of the Company  
280 Bishopsgate London EC2N 4RB  
on Friday 27 October 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 Q3 Results announcement published on Friday 27 October 2017.

**RBS**

**Ross McEwan, Chief Executive**

**Ewen Stevenson, Chief Finance Officer**

## Introduction

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

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## Ross McEwan

Thanks very much, good morning everyone, thanks for joining us on the call today. I am pleased to say in the third quarter we have continued to deliver what we said we would, as we build a simpler and safer bank.

We've grown income, we have reduced costs, we have made better use of our capital, and we have continued to make progress on our legacy conduct issues.

These are good results.

On the same nine month period last year on an adjusted basis income is up 11 percent, costs are down 9 percent, and operating profit is up 73 percent. We have generated our third consecutive quarterly bottom-line profit of £392 million. This brings our bottom-line profit for the first nine months to £1.3 billion with an adjusted return on equity of 10 percent. This compares to a £2.5 billion loss for the same period in 2016.

Our core bank has continued to grow earnings, with a further £1.4 billion adjusted operating profit in the third quarter. The core bank has now reported an average of around £1.1 billion in adjusted operating profits for the previous 11 quarters.

On cost reduction, we have taken out a further £708 million this year and remain on track to hit our target £750 million for the fourth consecutive year. Our actions on capital efficiency are well on track as well. We committed to reducing our core risk-weighted assets by £20 billion by Q4 2018 and excluding volume growth we achieved £10 billion reduction in the first nine months.

The wind-up of Capital Resolution remains on track for the end of this year with an £11 billion risk-weighted asset reduction year-to-date.

Now touching briefly on our legacy issues, we have received formal approval from the European Commission on our alternative remedies package Williams & Glyn. This is a good outcome for both the bank and for competition in the UK SME market. And I am pleased to report that as we begin the process of reintegrating Williams & Glyn into the core bank, this is the final quarter in which we will report financials for this franchise separately.

While we have no further update on the Department of Justice (DoJ) today we do remain optimistic of reaching a final settlement this financial year.

Turning now to our core bank performance in more detail, we remain on track to meet our three percent net lending growth target in PBB and CPB with lending up 3.4 percent on an annualised basis for the first nine months. We are focused on secured lending and within that market we remain within our risk appetite and despite a very competitive mortgage market of low interest rates, our personal business will continue to grow in both market share and total income.

Our commercial business continues to be the largest supporter of UK business with a stock of close to £100 billion in loans and advances. Income is up, costs are down and the franchise has delivered an adjusted return on equity of 10 percent for the first nine months. We have grown lending in mid-corporate and SME reflecting the long-term profits we anticipate from this sector.

Digital and mobile technology is revolutionising businesses and banking is not immune from this change. A decade ago our branch network was the main contact point for the majority of our customers, today over 5 million customers now use our award-winning mobile app.

Every quarter we expand the functionality of the app, in every quarter we see increasing customer take-up. Take product sales for instance, sales this quarter on more than double the volume we experienced in 2016 as customers increasingly turn to mobile in the first instance.

In our mortgage business were similarly harvesting the latest in digital innovations to make our customers lives easier. For example, in 2016, I challenged the personal business to build a paperless mortgage delivery model. With many aspects of our customers lives moving to digital, I could not understand why we still expected from our customers to visit the branch to

submit hardcopies of their documents wasting time for both of them and money for the customers and of course for the bank.

I am pleased to report for today NatWest offers a UK banking first with paperless mortgages. Customers can now apply for a completely digital mortgage which uses the latest technology to securely share and verify documents online. With this new proposition mortgage offers can be made within 24 hours and an average offer is 10 days faster than before.

You will hear more from us in the coming quarters around how we are harnessing digital technology. The opportunity if we get this right is significant. Digital innovation enables us to serve customers more efficiently, be more responsive to their needs, and at the same time take costs out of the business.

In summary, these are good results. Our strategy to deliver a simpler and safer and customer focus bank is working, we have almost got ourselves through our legacy clean-up. Our core bank continues to generate strong profits and is delivering on the 2017 financial targets that we set out nine months ago. And we remain on track for the longer-term 2020 targets as well.

With that, Ewan and I are happy to take any of your questions.

Back to you, operator.

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**Operator**

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

The first question comes from a line of Stefania Spezzati from Bloomberg News, please go ahead.

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**Stefania Spezzati, Bloomberg**

Hi, morning, just a couple questions, if you can tell us a bit more how did you generate the capital ratio, and as well I would like to know what are you doing regarding the sex harassment allegations mentioned from the former executive.

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**Ross McEwan, Chief Executive**

I will pick up on the latter one, look, the allegations made absolutely appalling, that will not be tolerated in this organisation and we have a very strong whistleblowing process within the organisation that if people do have complaints, I want to hear about them through that system.

And they will be dealt with completely independently from the organisation. And if people do have complaints to make, certainly through our whistleblowing process is there for that very, very purpose. But appalling if that is what happened in this organisation, that is why we are changing the culture.

Ewen, do you want to just pick up on the capital position because we have done a lot of work on reducing our capital requirements but also the sale of many of the assets of the businesses that we are removing. Do you want to make some comments on that?

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**Ewen Stevenson, Chief Finance Officer**

Three things I guess going on this year in terms of capital build-up. Firstly, obviously, profits. Third quarter in a role of profitability. Secondly, we continue to run-off Capital Resolution, we have talked previously about trying to get Capital Resolution, RWAs into a range of £15 to £20 billion pounds of RWAs, ex the stake in the Saudi Arabian bank by the end of this year. As of the end of Q3 we are already down to £16 billion so comfortably heading towards the bottom end of that range by year-end.

And we are reconfirming again today that we intend to wind-up our bad bank by the end of this year. So this will be the last quarter that we will be separately reporting the bad bank. And finally, we also committed to take out £20 billion of RWAs out of the core bank by the end of 2018. We have taken about £10 billion out so far, this year, so we are again well on track.

So combination of profits and RWA reduction. Core Tier 1 is up another 70 basis points this quarter to 15.5 percent, our target is 13. So comfortably in excess of that at the moment.

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**Ross McEwan, Chief Executive**

Thanks for your question.

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**Operator**

The next question comes from Emma Dunkley from the Financial Times. Your line is open.

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**Emma Dunkley, Financial Times**

I just wanted to get your view on a potential interest rate increase or do you think that is likely to happen at the beginning of November? And how are you preparing for that? And secondly, Ross, have you been approached about taking on National Australia Bank job as chief executive?

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**Ross McEwan, Chief Executive**

I will take the last one, I think you're talking about CBA rather than National Australia Bank, I'm happily doing what I'm doing here. Just on interest rates we will leave that to the Bank of England, we understand next week they are sitting to have a conversation about that and we will wait for them.

When we look at our business, we really run on economic consensus of what is happening with interest rates, whilst we have a bank view we run all of our numbers through an economic consensus. And the last time it looked like there was probably 60 to 70 percent chance of there being a rate rise.

It will be the first rate rise in over 10 years. I think we have to be very sensitive to that, that is obviously when rates do start rising be very good for those who have suffered quite badly with deposit rates and savings rates being so low for so long, it does start to impact customers who have borrowings. Remembering

though that 88 percent of our mortgage customers are on a fixed rate. So, they have certainty for quite some time around what their rate is. So, it's really around those who are on a standard variable rate, and it was only a year or so ago that those rates were adjusted downwards. We will just see what happens if there is a rate rise next week. But we will leave that to the governor of the reserve bank.

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**Stefania Spezzati, Bloomberg**

Thanks.

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**Operator**

The next question comes from a line of Jill Treanor from The Guardian, please go ahead.

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**Jill Treanor, The Guardian**

Hi good morning, there were just a few things I wanted to check, when was the last time you reported three consecutive quarters of profit? And then I wanted to ask, I just wanted to make sure that you are saying you are optimistic that this DoJ arrangement will come this year. How can you have that optimism? I'm just wondering what it is that you know? And just finally, Ross, you were quoted as saying that you fed up with the bank being bad mouthed over the treatment of small business customers. Is there any sign that small businesses are turning away from the bank because of the way you have been treating them in the past or even currently?

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**Ross McEwan, Chief Executive**

The last time, on the first question, the last time was 2014, three quarters in 2014, and then obviously with restructuring and other charges, conduct charges coming through report a loss at the end of that year.

On the Department of Justice, the issue for us is that there are only a couple of banks outstanding now and we do believe time will come. There has obviously

been discussions at the lower levels, as they look to their own case and want to ask us questions about that, no substantial conversations anywhere beyond that at this point in time. But people are in place now in the Department of Justice, so we remain optimistic on that.

On the final one, can I just clarify what my actual comments were around small businesses because I think that is really important. The conversation I had with a journalist at a work function which was one of our customer functions was around that there is a very, very good complaints process for customers to go through. And they should use that process, there are 930 odd customers going through that now. They should use that.

And then I said at the end of that if they are not happy with the outcome of that, of course they can take a case against us in court. Let me put that into perspective as where I went. The thing I raised was there appears to be a lot of media talk to a handful of people, if you actually go back and have a look at their cases, particularly those that have gone through the courts, I think you should actually just do the homework on having a look at what actually happened, with my commentary.

But we have an incredibly good process now for customers to go through, one of the big findings that has come out last November and again recently that there was nowhere for people to go to complain. That is now in place and there is a High Court judge independent sitting over the top of that. And in the end, we are the biggest backer of business in the UK and we want to continue doing that, and you saw our balance sheet cruel on that last year and again this year. I think we are doing a really good job.

And we are holding our own in that marketplace which is highly competitive.

Next question.

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**Operator**

The next question comes from the line of Ian Withers from the Telegraph.

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**Iain Withers, Daily Telegraph**

Hello good morning, just a couple questions, one on the Department of Justice stuff. Are you advising that if it doesn't come in this year you will provision for it in the fourth quarter? Just a comment on the UK economy, do you see it as a resilient going into next year? Thank you.

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**Ross McEwan, Chief Executive**

First off, look, the Board would have to comfortable to make a provision at the end of the year, we will have a look at that later on in the year, and that will depend on the conversations were having. And really, I can't make any other comment on that we just don't have anything more to update. As I said I do remain optimistic that we will get our result this year but look there is a chance we won't.

On the economy, I have been pleasantly surprised how resilient the economy has been given the uncertainty and as Ewen and I were chatting yesterday, it's just not the uncertainty of Brexit, there is a lot of changes going on in this market with technological changes. I have described some of the changes that are going on in our business. There happening in every business, how customers respond, and use the Internet nowadays as opposed to physically shopping.

You are also seeing the impact starting to come through just some of the changes in wage rates, which flow through into businesses as well. So, I think there is a number of changes going on not just uncertainty around Brexit, but the economy appears to be still very resilient, unemployment levels at record lows. But we do watch just to see what is happening in the underlying business. And it still seems reasonably good.

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**Iain Withers, Daily Telegraph**

Thanks.

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**Operator**

The next question comes from a line of Tracey Boles from The Sun, please go ahead.

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**Tracey Boles, The Sun**

Hello good morning, can you there if you say a little bit more about what is in the impairment charge? And many of the challenger banks are adding customers, are you adding or losing customers at the moment? I will come back to the DoJ later, if there is time.

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**Ross McEwan, Chief Executive**

Ewen do you want to make a comment on impairment charge, we do have a slight uptick in one part of the business, but it is one impairment we don't disclose what those are. But across the board not much change at all, still at a very low level.

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**Ewen Stevenson, Chief Finance Officer**

Impairment charges overall continue to be very low as Ross said, there was one larger single name exposure in this quarter, but away from that the underlying impairment trends continue to positively surprise us. We obviously are cautious about the outlook for impairments and we have previously signalled that over the medium term we do think they will rise.

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**Ross McEwan, Chief Executive**

And just on customer and challenger banks, we are growing in the markets we like and pretty stable across the board because we have concentrated in certain parts of the market and we have seen good growth where we are focused. And also, you are starting to see just the way our customers are operating with us. You are seeing a very big uplift in a mobile usage. For those customers that really want to be with the bank. The challenger banks are doing well but we are growing and markets that we actually like.

**Tracey Boles, The Sun**

And which ones are those?

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**Ross McEwan, Chief Executive**

You have certainly seeing it in the commercial business, you are seeing it in the high-net worth markets, in our retail business, you are seeing it in our mortgage business, you are seeing it in SME getting about 6 percent growth there, and the books that we are running there and holding onto market share.

All of the ones we have probably been putting out you over the last couple of years have been the ones that we have been firmly focusing on.

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**Ewen Stevenson, Chief Finance Officer**

The only part of the market going back to impairments that we continue to be cautious on is unsecured consumer lending. You will see in doubt that we are actually reducing our overall share relative to others.

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**Ross McEwan, Chief Executive**

If you have a look at the unsecured personal, we are seeing good growth. If you look at SME unsecured, good growth. Certain parts of the commercial. But there are parts that we haven't been concentrating on for very good reasons.

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**Tracey Boles, The Sun**

And when the DoJ arrangement crystallises is at a point at which taxpayer sells down its stake in the bank?

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**Ross McEwan, Chief Executive**

I think what it does give is the government another good opportunity to have a look at what time they want to sell down, this will be one of the factors I

suspect, and quite a large factor for them to be holding onto the stock at this time until they get certainty.

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**Tracey Boles, The Sun**

Thank you.

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**Operator**

The next question comes from a line of James Burton from the Daily Mail, please go ahead.

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**James Burton, Daily Mail**

Morning, just a couple from me, you talked about the uptake in technology, obviously that is often accompanied with branch closure, can you just give me an idea about the branch closure program in the coming year, and how many will be closed.

I also wanted to ask issue guidance now that you expect a full year profit this year? And just back on unsecured consumer lending obviously, you have been quite outspoken on this in the past Ross and the Bank of England and others now seem to be picking that up as well and being more outspoken, do you think there is a problem in some parts of the market with unsecured consumer credit at very low rates?

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**Ross McEwan, Chief Executive**

First, I would take them in the order that you have given them to me. First off, on technology customers are changing the way they interact with the bank. And we are saying that over the last probably even four years accelerating, less and less people wanting or needing physical attention through a branch network. And you are seeing the extraordinary growth in mobile and even the reduction now in the growth that is been happening on the online space.

The branch usage is down 40 percent since 2014. It just gives you a feel, we are reshaping the branch network and we will continue to do so. We do understand that does have an impact on some customers but what we have been putting in place, one, is 11,000 post offices that people can go in and put money in and out of.

We have extended the use of our mobile branches which is the mobile vans around the country areas, that is getting to more sites now than we ever had any branches in. It is well over 500 stops in a week into areas, some of these areas we had never been stopping for our customers before.

And the usage of mobile, we are leaving in some of these areas community bankers that can work with the customers in these areas, and we have 55 community bankers, that go out into the small rural communities and help people who are a bit more vulnerable, but also customers that need some face-to-face attention.

You are seeing a big change in how banking is done, and I believe that will continue as people use more technology.

On the second one, profit full year, it is unlikely given we still have to settle the Department of Justice, so I think it is unlikely we will make a full year profit. But the underlying profitability of this business as you are seeing again today is very, very strong and that is what we have been concentrating on.

On unsecured, yes, you have heard my views on that probably for the last 12 to 15 months, the reason that we have held back on putting, I think a very good product into the credit card market, until that market settles down a bit. I think when you seeing 10 percent growth in a market, like an unsecured credit card market with wage growth of 2 percent, at some point in time it needs to slow down.

I've been cautious on this for quite some time as is Les Matheson and his team. And it is one reason why we've stepped back a wee bit from the credit card market, but that is our strategy, it is quite different to others. We have gone towards secured as others have gone to unsecured.

**James Burton, Daily Mail**

Thanks.

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**Operator**

The next question comes from Stefania Spezzati from Bloomberg News. Please go ahead.

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**Stefania Spezzati, Bloomberg**

Hi, this is not a question, because you're optimistic to settle the deal with the DoJ this year, was wondering if you have received an opening offer from them?

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**Ross McEwan, Chief Executive**

No. Nothing to add to that either. Thank you.

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**Stefania Spezzati, Bloomberg**

Thanks

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**Operator**

I will now have the call back to you for closing comments.

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**Ross McEwan, Chief Executive**

Thanks very much and thanks for joining us, look, I just wanted to reiterate we are doing what we said we would. As you have seen with got good growth in our income, we have reduced costs, we have improved our capital efficiency and we have continued to make progress on putting our legacy issues behind us. We are confident that we have the right strategy to deliver a simpler and safer bank with good returns for shareholders and with a much better experience for our customers.

Thanks very much for joining us today.

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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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