



## **H1 Results 2018**

### **PRESS Conference Call**

Held at the offices of the Company  
280 Bishopsgate London EC2N 4RB  
on Friday 3 August 2018

### **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 H1 Results announcement published on Friday 3 August 2018.

**RBS**

**Howard Davies, Chairman**

**Ross McEwan, Chief Executive**

**Ewen Stevenson, Chief Finance Officer**

## Introduction

Good afternoon, ladies and gentlemen. Today's conference call will be hosted by Howard Davies, Chairman of RBS. Please go ahead, Howard.

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## Howard Davies, Chairman

Hi, thank you very much, and good afternoon, ladies and gentlemen. Ross and Ewen are both here, and they will speak to you in a second. I just want to say, just a very few remarks right at the start.

First of all, inspite of paying a billion pounds to the Department of Justice, or at least providing for that, we have made a small profit in the second quarter, and a decent profit in the first half, and Ross and Ewen will give you the details.

We have also announced our intention to declare 2p interim, and also, to work towards a payout of around 40 percent. So we've made big steps forward in the first half in rehabilitating this bank, and, of course, we also had a recognition of the progress made in the form of the government's sell-down a couple of months ago.

On the economy, our view confirms the general impression that the UK economy continues to grow, but at a relatively slow rate of one to one and a half percent. Everything we see in our business, both consumer and commercial, is compatible with that kind of view.

As for Brexit, we see some hesitation on investment by corporates in the light of the uncertainty about Brexit outcomes. One way of thinking about this is that people seem to have kept up investment in cost-cutting activities, but are hesitating on anything which might be a significant investment in additional capacity. And so, we are seeing some pause in investment, particularly in larger corporates.

As for own Brexit preparations, we continue to prepare actively for the absence of passporting after March 2019. We've told you before that our own intention is to establish Amsterdam as our base, and we are in close discussions with the Dutch National Bank to achieve that.

As a result, we were somewhat conflicted about who we wanted to win last night's hockey game – but, at the moment, we are looking to be – to have a Dutch subsidiary in Amsterdam operational by March next year.

There have been some management changes and some more are in prospect.

We have appointed three new Chief Risk Officers, one for the group, one for the investment bank, and one for the ring-fenced bank, the third one of whom is an internal candidate. And of course, we have announced that Ewen will be leaving us shortly.

And one would like to take this opportunity to thank him for all the work he has done for this bank over the last four years, which has left us in a much better position. And one very visible manifestation of that is the fact that we are announcing a 16.1 percent Core Tier 1 ratio with these results.

As for succession, I have nothing to say about that, except that we are looking – from my point of view, I'm not especially looking for another New Zealander!

But in the meantime, Ross and I are going nowhere, and we are very focused on achieving the 2020 targets which have been guiding us for some time. So with that, let me hand over first some brief words from Ross, and then, from Ewen.

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**Ross McEwan, Chief Executive**

OK, well I – because I might – think we might just go straight to questions ...

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**Howard Davies, Chairman**

... we can go over straight to questions.

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**Ross McEwan, Chief Executive**

Yes, I think.

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**Howard Davies, Chairman**

Ewen, anything else to add?

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**Ewen Stevenson, Chief Finance Officer**

No.

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**Howard Davies, Chairman**

OK, in which case, we'll go straight to questions, thanks.

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**Operator**

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

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**Ross McEwan, Chief Executive**

OK. It's going to be a short call.

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**Operator**

And your first question comes from the line of Iain Withers, The Telegraph. Please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Iain.

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**Ewen Stevenson, Chief Finance Officer**

Hi, Iain.

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**Iain Withers, The Telegraph**

Hi, good afternoon, good to speak to you again, and hi, Howard. It's just a quick one on Brexit. I haven't heard you're all thoughts on it for a few weeks. So, Howard, Mark Carney today, saying, no deal is uncomfortably high ... the chances of it Do you think that's right, and do you think banks can cope as he's been saying today? Thank you.

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**Howard Davies, Chairman**

That banks can what, sorry?

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**Iain Withers, The Telegraph**

Whether banks can cope.

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**Howard Davies, Chairman**

Oh – the banks can cope. Yes, well, I think I'm more comfortable answering the second part than I am answering the first part. On the second part, yes, I think that banks can cope. I mean, different banks are affected in different ways, depending on their business model.

And so, to focus on what we can tell you about us, we are not a very large player in continental Europe, though, of our investment banking business, possibly 20-25 percent is with counterparts in Europe. And we have a corporate lending book, which is not massive, but which is not trivial, either.

We think that a markets subsidiary – NatWest Markets subsidiary based in Amsterdam, can cope with both of those elements of our business, and we are on track for that to happen.

It would be easier to manage that transition if the implementation period which has been, in principle, agreed through to the December 2020, were to become inked in.

That would certainly make life a lot easier for us and for other banks, because doing it all by March 2019 is a bit of a challenge.

We think it's achievable, but it is a bit of a challenge, because you've got to repaper a lot of contracts, and all kinds of things like that. So we are not very anxious about our own particular position.

As for the rest, I'm not sure I can add more – much more to what I've said about what we are seeing in our own business in that, we are seeing something of a pause, and some uncertainty creeping into business decision-making.

And I don't think – I think I would be saying just a conventional thing which is that, the sooner that uncertainty can be resolved, the better for our counterparts.

But honestly, we don't have any knowledge through our own business which tells us that there's a disaster on the way, or which tells us there are no problems. I mean, we would say, people would love to have more clarity, and in the meantime, they're sitting on their hands a bit.

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**Iain Withers, The Telegraph**

Thank you. Cheers.

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**Ross McEwan, Chief Executive**

Thanks, Iain.

**Operator**

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

**Lawrence White, Thomson Reuters**

Hi again, everyone, and thanks for the call. Can I just ask what stage you're at on the successions? Specifically, have you started interviewing candidates for the CFO role?

And then, a kind of a broader question on the share price, obviously, today's results were strong; the dividend payout was welcomed, but not unexpected by investors. But the share prices still sort of suffered in the – in the last few months. So what do you think it is that's weighing on that, and what will it take for the market – for – to give you more credit for this transformation of the bank that you've done over the last couple of years?

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**Howard Davies, Chairman**

On the first point, we began the search process quite quickly after Ewen told us he was going, but I'm not going to give a commentary on who's interviewed who at this point. But it's being actively pursued with headhunters, and the process is going smoothly.

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**Howard Davies**

On the share price – Ross.

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**Ross McEwan**

... look, the share price has languished over the last three months, up to today, given the results.

But there's a lot of other factors that have been weighting on to the – particularly the bank stocks in the UK. We talked about Brexit just a few minutes ago. We've also seen issues around, the talk ... of trade wars – none of these are actually positive for share prices. So you've seen they have stock and others being weighed down.

I think today's results with the intention of paying a dividend, do certainly help this bank, because there are many investors that can't – couldn't come into the stock, surely because we didn't pay a dividend.

So that changes with what we've put out today, and there'll be many investors who can come into the stock now that there's a income generation going to be coming through.

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**Lawrence White, Thomson Reuters**

Thanks. And then, just a last one, if I may. The Net Promoter Scores remain stubbornly low, particularly in some of the commercial banking business. What are you doing to address that, and what's the time frame, do you think, to get those Promoter Scores back up to where you want them?

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**Ross McEwan**

Yes, they – the one that is the most difficult – has dropped the most has been in our business banking area. These are small, medium-sized businesses, and it relates to the model changes we made a couple of years ago, as one thing, in the branch changes, don't help that – branch closures.

Because a number of these parties use the – use the network, and we've disturbed them twice now with changes to the way that our business model operated, because we weren't making a lot of money out of that segment, and it needed some change, and also, the branch closures.

So stabilising that now going forward and by the end of this year, we'll have a branch network that everybody knows about, and we will be investing in that network, I think we will – we will see some movement up next year.

You're seeing it already, in one of our portfolios on the slides we've put out there, it's just starting to tick back up again, and we've got a lot more work to do.

Can I just say, as an organisation, this is our key focus now is around the customers. We've saved this bank; we've now got to run a very, very good capital and liquidity position.

It's making money again – we're paying – intending to pay out a dividend. And now, it's back to, how do we really serve our customers better, and I don't underestimate the task.

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**Lawrence White, Thomson Reuters**

Thanks.

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**Operator**

Ladies and gentlemen, as a reminder, if you wish to ask a question, please press "star" and "one" on your telephone. And your next question comes from the line of Iain Withers, "The Telegraph." Please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Iain.

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**Iain Withers, The Telegraph**

Hello again. I thought I'd just ask another quick one.

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**Ross McEwan, Chief Executive**

All right.

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**Iain Withers**

It's just on – the shares sale from the government, obviously, the one in June got underway, and – but perhaps not as well as hoped.

Are you concerned at all that you want the next one to go better, in order to see a return to private hands as quickly as possible? Thanks.

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**Ross McEwan, Chief Executive**

Well, first off, when you say it didn't go that well, I mean, it – they got a £2.5 billion pounds worth of stock, which is a huge undertaking.

I think what then happened afterwards, you saw some quite dramatic changes in the marketplace, which pulled the stock down, but then, you've got a lot more stock that's finding a place out there.

So £2.5 billion is no small amount to get into the marketplace. The market took a while to absorb it, but let's see what the government do next.

They've now got a business that is – has the intention to pay a dividend, which should be helpful, and it's in their hands as to when they sell the next tranche.

They clearly said that they wanted to sell a minimum of £3 billion a year for the next five years; that process has started.

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**Iain Withers, The Telegraph**

Thanks.

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**Operator**

There are no further questions at this time. I would now like to hand the conference back to Howard.

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**Howard Davies, Chairman**

OK. Thank you very much. Well, as you know, we're always happy to take questions. Chris Turner will deal with any further inquiries you have.

But in the meantime, those of you who are about to go on holiday as I am and Ewen is, have a good holiday. But Ross, I think, wants to conclude with just a couple of headlines.

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**Ross McEwan**

Yes, thanks very much. Look, I'm – as I said earlier on in the day, I think really good results in tough conditions – you know, profit before tax £1.8 billion, bottom line £888 million, even with £1 billion pounds being provisioned for the Department of Justice.

Great to get the intent on the dividend out there, and also, the range that we're working towards of a circa 40 percent payout ratio. Capital, incredibly strong, at 16.1 percent, after we've provided for all those items.

So we're really pleased about that. And the underlying business is doing well – the core underlying business is, even at this stage, doing a return on tangible equity of 10 percent.

We are lending in this marketplace – you know, we are open for business, we're lending. Gross mortgage lending £13.6 billion. SME lending is up, and our commercial business is doing very, very well.

So, a lot of the legacy issues out of the way. Our job now is to focus on our customers, and deliver a better return for our shareholders. Appreciate joining the call, and if you're going on holiday, enjoy it. I'm about Howard ...

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**Howard Davies**

Good.

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**Ross McEwan**

... I'll look after the place.

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**Howard Davies**

We never close.

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**Ross McEwan**

We never close.

Thank you very much.

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**Howard Davies**

Thanks a lot. Bye.

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**Ross McEwan**

Thank you.

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**Ewen Stevenson**

Bye.

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**Operator**

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

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**END**

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