# Q1 Results 2018

**MEDIA Conference Call**
Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
on Friday 27 April 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 Q1 Results announcement published on Friday 27 April 2018.

**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, RBS Chief Executive. Please go ahead, Ross.

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**Ross McEwan, Chief Executive**

Thanks very much, Rose, and good morning everyone. Thanks for joining us this morning. Look, I'm going to give you an overview of progress in the first quarter, and then Ewen and I are happy to take your questions.

As you've seen in the first three months of 2018, we made a pre-tax profit of £1.2 billion, that's up 70 percent on the same period last year. This contributed to a bottom line profit in the period of £792 million pounds and actually exceeded the full year 2017 profit we reported in February.

With a return on tangible equity of 9.3 percent, this is a good set of results, showing the progress we are making, despite a more competitive marketplace. Our income is up, our costs are down, and we've maintained our robust capital strength.

Some of our key financials for the first quarter. Our income is up 2.8 percent to £3.3 billion pounds. Underlying expenses are down 2.1 percent to £1.8 billion pounds. Our cost to income ratio was 60.5 percent in Q1, and this is 15.6 percent points lower than our Q1 2017 number.

Our capital position is stronger. Our common equity tier one ratio was 16.4 percent at the end of Q1, and that's up from 15.9 percent at the end of last year. And we continue to target year end risk weighted assets to be £5 to £10 billion lower than in Q4 2-17.

This quarter's performance takes us another step closer to achieving our 2020 target of a sub 50 percent cost to income ratio and 12 plus percent return on equity.

As Q1 is usually our strongest quarter, I don't think you should extrapolate all of these trends for the full year. We also remain cautious in our outlook, continuing to de-risk the balance sheet of the bank.

Now, just turning to the financial highlights of our largest franchises, the UK mortgage market is undergoing a period of intense competition and despite the base rate rise in November, average rates have actually fallen.

And against this backdrop, our mortgage lending growth slowed in the first quarter as we prioritised risk and pricing discipline. Given this, our flow share reduced to 9.8 percent in the first quarter, that's down from 11.7 percent in Q4 2017.

Despite the challenging conditions, our Personal and Business Banking franchise delivered £698 million pounds in operating profit in the quarter and the mortgage approvals in the first quarter are stronger with a flow share of around 12 percent.

Commercial Banking continues to refocus its lending in those areas where we see long-term sustainable returns within our risk appetite. In the first quarter, the Commercial business witnessed lower impairment, helping the business more than double its return on equity when compared with the first quarter of 2017.

Customer activity was down on Q1 2017 in NatWest Markets. And despite this, the business generated total income of £437 million income and continues to work towards a lower cost base.

Our customers continue to migrate from physical to digital channels at pace. Comparing Q1 2018 to the first quarter of 2017, some of the trends we are seeing include: Cheque usage is down 17 percent. ATM transactions are down 17 percent. Branch counter transactions are down 7 percent. And at the same time, customers have sent 10.7 million more mobile payments, that's up 36 percent on Q1 volumes. Three hundred and fifty-six thousand customers have downloaded our mobile application in Q1 alone, bringing the total users to 5.75 million. Volumes of calls to our contact centres reduced by 7 percent. And finally, Cora, our artificial intelligent chat bot, held close to 360,000 conversations in the quarter, of which 35 percent required no handover to a colleague.

This shift reflects a change in customer behaviour, and we are responding in investing in how our customers want to bank with us.

Now, turning briefly to our legacy issues, I know many of you will be looking for an update on our DoJ investigation. Unfortunately, we have no further update to provide today.

You will have seen that we took action last week to substantially address the historical funding weakness in our main pension fund. This is an important moment for the bank.

It's also good news for the trustees and members of the scheme, as it facilitates a material reduction in the level of investment risk in the main fund. Importantly for shareholders, it gives certainty and brings the prospect of dividend payments another step closer.

We also continue to make strong progress towards meeting the 2019 ring-fencing deadline, and today, we have announced a number of board appointments in preparation for this.

And with that, Ewen and I will be happy to now take your questions. So, Rose, back over to you.

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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 1 on your telephone keypad.

We will pause for a moment to give everyone an opportunity to signal for questions.

Thank you. We will take our first question, which is from Lawrence White of Thomson Reuters. Please go ahead.

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**Ross McEwan, Chief Executive**
Hi, Lawrence.

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**Lawrence White – Thomson Reuters**
Morning, Ross, I'm not going to ask about DoJ, you may be pleased to hear…

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**Ross McEwan, Chief Executive**
Thank you. We have no further update on that today.

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**Lawrence White – Thomson Reuters**
I got one on – one on NIM and one of PPI. So, I saw NIM actually contracting a little bit once you strip out one-offs, so I'd just be interested a little bit about the competitive environment you're seeing. Are you worried that margins could contract further and the competitive environment could sort of squeeze you towards non-commercial levels.

And then on a PPI, it's a bit of a nerdy one, but just some recent court cases have ruled customers are entitled to all the commission on those, this is some appeals from the Plevin ruling. So, we've had some law firms sort of trying to say that this could lead to a big spike in the amounts claimed.

I just wondered if you've seen any evidence of that, because I noticed you haven't provisioned any more PPI, are you concerned there could be claims for those full amounts that could lead to bigger PPI charges as we head towards the deadline?

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**Ross McEwan, Chief Executive**
I'll start with the PPI, I know we have seen increases in the amounts paid out on PPI, but we still believe our provision, at this point in time, is satisfactory. The coverage per quarter is still very strong for ourselves.

We haven't seen any spikes against the points you're raising there, though, Lawrence, from PPI, so we'll keep an eye on that. We will review each quarter, but at this stage, we were comfortable with our provision set against PPI.

Ewen, do you want to make comment on NIM…

**Ewen Stevenson, Chief Finance Officer**
Yes, the NIM in Q1 was 2.04 percent, which was flat on Q4. There were one or two one-offs, but if you look for example at our personal bank, NIM was actually up slightly if you strip out one-offs.

It is competitive, particularly in the mortgage market at the moment, which is why our flow share held, as we tried to raise pricing in Q4, which obviously flowed through to lower mortgage volume in Q1.

But we are getting some benefit of the November rate rise that came through. We've got a very big current account base, which is benefiting us, so overall, pretty neutral actually, in relation to NIM.

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**Lawrence White, Thomson Reuters**
Thanks.

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**Operator**
Thank you. Your next question comes from the line of Stefania Spezzati of Bloomberg News. Please ask your question.

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**Ewen Stevenson, Chief Finance Officer**
Hi, Stefania.

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**Stefania Spezzati, Bloomberg News**
Hi, morning. So, my first question is – I mean I know there is no update on the DoJ but would you say – would you expect something – to hear back from them in the first half of the year?

And then I would like to ask if – have you seen any sign on constraints in economy – UK economy because of following you know – probably because of Brexit – so if you can talk about – more about that? And also, if you think that the bank is in a better position to pay dividends once the DoJ will be settled? Thank you.

**Ross McEwan, Chief Executive**
Yes, look first off on DoJ, we don't have any update here. And you'll recall, I got the timing wrong, I thought it was going to be last year, so I've given up choosing or commenting on when I think it'll come.

As we've always said, it's in the hands of the DoJ, as opposed to ourselves, but – you know, we remain hopeful it's going to happen sooner, rather than later, but as I said, timing's not mine.

Constraints on Brexit, you're seeing still quite a robust economy out there, GDP growth 1.5 – 1.6 percent. We're still seeing SME and mid-market still borrowing at reasonably strong levels.

We've always seen that the very large corporates hold back on investments until they get a bit more certainty, and that's probably where a little bit of a slowdown has happened. But the mid market and SME market has been reasonably strong and you've seen that coming through our SME results in particular.

On dividend, look the DoJ has always been a constraining factor for us and that's why we would like it resolved, but at a reasonable pricing point – so but dividend – and the fact that we worked through the pension issue that we announced last week, I think is also very important.

The reason the DoJ is because it does affect our stress testing, and we do need to get through our stress test, but, we are getting much closer to that and we'll have conversations with the regulator once the DoJ is resolved.

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**Stefania Spezzati, Bloomberg News**
Thank you.

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**Operator**
Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press the star key, followed by the digit 1 on your telephone

keypad. Your next question comes from the line of James Burton of the Daily Mail. Please ask your question.

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**Ross McEwan, Chief Executive**
Hi, James.

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**Ewen Stevenson, Chief Finance Officer**
Hi, James.

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**James Burton, Daily Mail**
Good morning both, couple from me first of all, I was just wondering on the branch network, sounds like you're seeing, as you said, sort of accelerated move to digital, do you expect a lot more closures this year? And can you particularly update on the Williams and Glyn branches now that you're not planning to hive them off into a separate bank?

And secondly, just back on mortgages again, Ross, I mean it's obviously counterintuitive that fixed rate has gone down, even though an interest rate rise has come in. I mean are you worried that perhaps other players in the market are offering mortgages that might be starting to get sort of risky for borrowers, as rates continue to go up – you know, people end up on a fixed rate and switch to a much higher rate in five years time? Is that a concern? Thanks.

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**Ross McEwan, Chief Executive**
Cheers. Well first off on the branch network, you know, I've given you some steps today that show that customers themselves are changing the way they want to operate. You know, our branch transactions quarter – this quarter versus the first quarter last year, 7 percent down, ATM usage on the same quarter down 17 percent, cheques down 17 percent.

I mean these are massive changes in the way customers are operating and we need to make sure that all of our distribution responds to that. So, we have made some quite large changes to our branch network across Scotland, Wales and England under the NatWest and the Royal Bank of Scotland brand.

But at the same time, we have increased the number of stops that our mobile vans do down in these small country type areas. We're well over 700 stops per week. We've introduced Community Bankers who are actually out in these smaller communities working with the elderly and with other people who are struggling to make the transition.

You know, branches will be a very important part for us going forward. And we've also changed the way that people can use – if you're a Royal Bank of Scotland customer, you can use a NatWest branch and vice versa, if you're a NatWest customer, you can now use the Royal Bank of Scotland branch – our systems are finally connected. So, a lot of change going on there.

The Williams and Glyn branches, there are 275 of them. We are going to be asking 120,000 of our SME customers to move bank, as part of the resolution we got to with the European Commission, and that'll happen later on this year.

And the branch network that was going to be Williams and Glyn hasn't been altered in close on nine years now, so we do need to have a look at the size and shape of it. And quite a large proportion of them sit across the road from a NatWest branch or around the corner.

So, I guess we are going to have to resolve that, but the rest of our network, I think is in pretty good shape now, given the changes we made, signalled at the end of last year.

On mortgages, yes a very, very competitive marketplace. And I think this is to do with – you know, there is a lot of money in the system trying to find a home to get a return. There have been some banks that have wanted to be more competitive in this marketplace to utilise the liquidity there is in the bank.

We have been and will remain cautious about where we put the – our – you know, depositors' money. We, of all banks, understand the experience of when you get things wrong, and we've got a very tight risk appetite framework for this business and we will stay within there. So, yes very competitive, we will be competitive as a bank, but not to the point of damaging the bank or its customers.

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**James Burton, Daily Mail**
Thanks very much.

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**Ross McEwan, Chief Executive**
Thanks, James.

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**Operator**
Thank you. And your next question comes from the line of Terry Murden of Daily Business. Please go ahead.

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**Ross McEwan, Chief Executive**
Hi, Terry.

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**Terry Murden, Daily Business**
Good morning Ross. Just quickly again on the branch closure business, you announced a review of some of the branches that you intended to cut, could you give us an update on that? And tell us whether any of those which have been given a stay of execution will possibly be saved? And could you also just give me an update on your mobile van operation, and particularly in the Highlands area. There's been some suggestions that you’ve been cutting back on that too?

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**Ross McEwan, Chief Executive**
Yes, look as I said, branch network is changing because customers are changing the way they operate. And I've been out there recently and had a look at some of the branches that are up for closures and some of the – a couple of the ten – that are in the review of, we've said we'll have a look at holding back the closure of those till the end of the year, while we do a review.

We had an external party looking at that review at the moment, but we're going to have to find somebody else because they were unable to do it. But we do want to have a quiet review of the – of the ten, not the full number, because we think we've got those right. But you know, we've said we'll do a review and using external parties, so I haven't got any updates on that.

But I have been out and seen what's been going on in these – in the branch networks. And the connectivity between ourselves and the Post Office with the mobile van, where they have Community Bankers is a very, very strong customer proposition.

I've popped in to see the Post Office – Post Master in one of these towns, and – you know, of course he was delighted that we were bringing customers around to him. And so, I think that sort of relationship with the Post Office needs to – and I think, will work very strongly for our customers as well.

On the mobile vans, we do a quarterly review of who was using the vans, and we modify the times that they stop. So, for example, if there's only one person who was using the van when it stops in a certain town, it doesn't need a full hour. It only needs – you know, a quarter of an hour to half an hour, so we're modifying. If there are more people using them, we actually extend and that's what the review does, and we'll do that on a quarter basis.

But in Scotland itself, we have 440 communities that we get to every week. And I think this is what people have missed, that we have got these mobile vans that's the biggest network of towns and villages that we're connecting with this mobile network. And there are 440 every week, and there are 440 – sorry 488 mobile branch stops across Scotland.

So, you know, this is a big network that we've created, it just doesn't happen to be a branch in every village now. So, I'm very comfortable with the way we've created a very large network of points of presence that our customers can connect with us.

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**Terry Murden, Daily Business**

OK, thank you.

**Ross McEwan, Chief Executive**

Thanks, Terry.

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**Operator**

Thank you. And your last question comes from the line of Douglas Fraser of BBC Scotland. Please go ahead.

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**Douglas Fraser, BBC Scotland**

Hi, good morning, yes, continuing that with a wider picture, the costs ratio that you're looking at, so you're targeting 50 percent for 2020 and you're at over 60 percent at the moment, how confident are you that that pace of bringing down your cost ratio is going to get to your target? And what additional measures do you think you're going to have to take to get there?

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**Ross McEwan, Chief Executive**

Yes, thanks Douglas. One of the – a couple of the larger items of course that impact our cost to income ratio are the – is the restructure we're doing on this business, as we move from very physical distribution into more mobile and digital distribution, you know, the buildings that we operate from, the likes.

And we have been taking heightened restructuring charges, and we've told the market it would be about £2.5 billion over the next two years.

And things like data centres, where traditionally you have a number of data centres, but as you move more and more to the cloud, you know, by 2022, 2023, we'll have those, we suspect outsourced to other parties at a cheaper price than what we can do for ourselves.

The building I'm sitting in here, 280 Bishopsgate, will be gone by the end of next year.

These are big physical changes and we are also doing a major restructuring and investment in NatWest Markets that will have a significant cost reduction by the time that's finished by the end of 2019, so significant changes going across the business that we believe will bring our cost to income ratio down.

We've seen it's moved down significantly over the last 12 months, and we expect to see it continue to reduce to below the 50 percent cost to income ratio by the end of 2019.

OK, Rose.

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**Operator**

Thank – thank you. There are no further questions at this time. I would now like to hand the call back to Ross for any closing comments.

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**Ross McEwan, Chief Executive**

Thanks, very much, Rose. And thanks for joining the call. I'd just like to leave you with three key takeaways, and the first of those is that we've had actually good start to 2018.

Our income is up. Costs are down. And our capital has strengthened again. Our bottom line profit for the first quarter exceeded the amount we reported for the full year of 2017, so good progress.

Secondly, customers continue to migrate to our digital channels. At the same time, we're investing to accelerate our transformation from high cost, fixed physical assets to a lower cost, and more flexible and technology-led operating model.

And thirdly, we remain cautious in our outlook and continue to de-risk the bank. We've significantly addressed the deficit and our main pension plan, and we now have only one significant issue left to resolve, before we can be in a position to consider the resumption of dividend payments.

Thanks very much for joining. I hope you have a good day.

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**Operator**

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

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## DISCLAIMER