



## **Q1 Results 2019**

### **MEDIA Conference Call**

Held at the offices of the Company  
RBS Gogarburn Edinburgh EH12 1HQ  
on Friday 26 April 2019

### **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 Annual Results announcement published on Friday 15 February 2019.

**RBS**

**Ross McEwan, Chief Executive**

**Katie Murray, 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, Chief Executive**

Thanks very much Jenny and good morning, everyone. Thanks for joining Katie and I on the call this morning. I'll give you an overview of the bank's progress in the first quarter of 2019 and then we're very happy to take any questions.

Before I get into the results for the first quarter, I'd just like to reiterate what I said yesterday following my decision to step down as CEO. It has been an absolute privilege and an honour to lead this great bank, but now feels the right time to step aside and for a new CEO to lead the bank for its next phase.

We had delivered the strategy we set out in 2013 and the bank is now in a very strong and profitable footing. I'll be around for a while yet to ensure an orderly handover and to continue our focus on improving the bank for its customers.

So let's turn to the performance. In the first three months of 2019, we made a pre-tax operating profit of £1 billion and a bottom-line attributable profit of £707 million. Set against highly uncertain times and very competitive background, this, I think, is a solid set of results.

Looking at our financial performance in more detail, total income of £3 billion was £265 million lower than Q1 2018 as we continued to see competitive pressure affecting our margin and we did have some number – a number of one – offs in the first quarter of last year.

Personal and Ulster and Commercial and Private Banking grew lending by £0.6 billion in the quarter, which equates to a 0.8 percent on an annualized basis. On other operating expenses compared to Q1 2018, we've reduced costs by £45 million.

We don't see our cost reduction as linear and we expect to see further reductions throughout the year, but more in the latter part of the year. In

particular, we continue to see the benefits of our property exit strategy coming through in 2019 and we remain committed to our £300 billion cost reduction target this year.

Taking all this together, we generated a return on tangible equity of 8 percent for the first quarter. Our capital position remains very strong with a common tier equity capital ratio of 16.2 percent. As we outlined in our full-year results, we expect further capital returns in 2019, based off our target of circa 14 percent common equity tier 1 capital ratio by the end of 2021.

Just a note on Brexit. The sustained uncertainty is causing customers to pause some investment decisions. We are continuing to support them and this week we announced the doubling of funding available through our Growth Fund to help businesses prepare, taking the total fund to £6 billion.

In terms of our own preparations for Brexit, our NatWest Markets NV office in Amsterdam, is now operational and started to serve some European customers from March 2019.

We have also received approval for two licence applications in Frankfurt, one for inside the ring-fence and the other one for outside which will allow us to maintain access to the European payment structures.

Now, just turning to the performance of our largest franchises.

In Personal Banking, the UK mortgage market continues to show unprecedented levels of competitive pressures. Average rates across the range of loan to values remain at historic lows. With this in mind, we're pleased to report that in the first quarter, Personal Banking achieved an operating profit of £498 million. This was underpinned by gross new mortgage lending in the quarter of £7.6 billion and net new lending of £1.7 billion and at the same time, Personal Banking has grown personal loans by £0.2 billion or 3 percent in the first quarter. We are now seeing 47 percent of all sales being carried out digitally, which is 17 percent higher than in Q1 2018.

On the Commercial Bank, which now includes Business Banking, it delivered an operating profit of £437 million. This was helped by impairments remaining at historic low levels at just £5 million for the quarter.

Commercial Banking originated or financed £4.6 billion of utilized term lending. In the quarter, our net loans to customers were £100.8 billion. That's down point £0.6 billion in the quarter, which does reflect customers' caution at the moment.

We continue to innovate both inside and outside the core bank, investing £1 billion this year to upgrade legacy infrastructure and improve our products and services.

And in summary, we think this is a solid set of results against an uncertain economic and political background.

We continue to support our customers through this Brexit uncertainty. We expect further capital returns in 2018 based off our target of circa 14 percent common equity tier 1 capital ratio by the end of 2021. We're investing in digital innovation, responding to customers' shift to our digital channels and providing a lower cost, more efficient operating business.

With that, Katie and I are very happy to take any questions that you may have.

Jenny, I'll open up the – if you could open up the lines, 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 "1" on your telephone keypad.

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

And we will take our first question from Stefania Spezzati from Bloomberg News London. Please go ahead.

**Ross McEwan, Chief Executive**

Hi, Stefania.

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**Stefania Spezzati, Bloomberg News**

Hi. Good morning. I was wondering if the bank is considering taking more provision related to Brexit considering the ongoing economic uncertainty that you mentioned, as you did in the third quarter, if this is something the bank is looking at.

Also was wondering how the second quarter started in terms of economy and if there is remarkable deterioration. Thank you.

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**Katie Murray, Chief Finance Officer**

Well, hi, Stefania. It's Katie. Hi. Good morning to you. In terms of the additional provision in terms of Brexit. I mean, we obviously look at this on a quarter-by-quarter basis and at this stage, there's no indication that we would – it would be appropriate to take anymore at this point. So we're not planning to at the moment.

I'd say as you look at how Q2 started, it's really a continuation, I think, of the environment that we've seen – we've seen to-date. So nothing particularly startling happening, I think, at this point, but we're still pretty early in the quarter as well though.

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**Stefania Spezzati, Bloomberg News**

Thank you.

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**Ross McEwan, Chief Executive**

Thank you.

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**Operator**

Thank you. The next question is from the line of Iain Withers from Reuters. Please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Iain.

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**Katie Murray, Chief Finance Officer**

Morning, Iain.

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**Iain Withers, Reuters**

Hi. Good morning. Just a couple of quick ones. The first one in the investment bank, it looks to have had a poor quarter. I was just wondering if the bank is still committed to that or whether it might get smaller over time.

And the other one's a Brexit related one. Are you concerned because of the Brexit paralysis that might delay further sales of the government stock? Thanks.

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**Ross McEwan, Chief Executive**

Well, first-off on the investment bank. If you look at the core underlying business, it was down about 8 percent which is about where we see it, the middle of the pack for the rest of the industry.

So we had a very good quarter, first quarter, last year and this year's been – this quarter's been OK, but it is down about 8 percent. So that's about, we think, middle of the pack for sort of markets business, investment banking businesses.

So there are a number of one-offs coming through there, also some historic charges for funding, which is now in NatWest Markets. So, there was a number of one-offs in there that probably make it look worse than it actually was.

On Brexit itself, let's see what happens with where these next series of negotiations go, but it's quite clear and I've called this out for the last three to four quarters, people are pausing and you're starting to see that's coming through in some of our numbers, particularly in the commercial side of the business. The retail side's fine and even SME, but it's more the larger players that are sitting there.

Katie, have you got any other ...

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**Katie Murray, Chief Finance Officer**

And I think you also asked about Brexit relating to the directed buyback in the share sale.

And clearly this is something for the government. They will – they will take a view there, but I think at the moment the government is absorbed with Brexit, so that may or may not have an impact.

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**Ross McEwan, Chief Executive**

Thanks, Iain.

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**Iain Withers, Reuters**

Thanks.

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**Operator**

Thank you. And your next question is from the line of James Burton from Daily Mail. Please go ahead.

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**James Burton, Daily Mail**

Good morning, both. Thanks. Couple of quick questions. First of all, there was a Bank of England survey out the other week saying that there'd been an increase in the sort of rates of credit card defaults across the industry. I'm just wondering if you could provide any commentary around what you're seeing in the credit card market and more people defaulting.

And secondly, I was wondering how you'd react to TSB's fraud pledge the other day. Obviously it went further in promising to refund all fraud victims than the sort of proposals that you and the other banks are working on together. I mean, do you think TSB's got the right idea here and is it something you'd be prepared to match? Thanks.

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**Ross McEwan, Chief Executive**

Look, I'll take on the latter one just on the Bank of England and credit card. We did make a model change which had a small impact on the impairments there, Katie ... but there's nothing that we're seeing that sort of is worrying coming through our credit card business. Remembering it's quite small and it's pretty concentrated on our own customers, our credit card business. We haven't participated in zero balance to any extent.

So no, we're not – we're not seeing that other than the model change. It is a part of the business that we're going to have another look at this year and see if we can participate more in, in a somewhat different way.

On the fraud victims, so I mean, look, this is an industry issue that needs to be dealt with, not just by the industry, but with all, with the police and everybody actually being very aware of what these criminals are doing. And they are criminals that are taking money off innocent people.

They are highly sophisticated scammers and I think we, including the media, have a major job here of educating people not to give details away and we keep saying to people, we will not ring you and ask for your personal detail.

And I think from an industry perspective – and I'd call on all of the media to take a major role in this because this is sophisticated stuff.

Now, TSB have taken a move. At this stage, we're thinking about how do we work with customers, we've got a big program of education.

We're modifying systems and putting in new systems to actually try and catch these scams before they get anywhere. We look at every claim on a case-by-case basis and we will reimburse customers, where they've been a victim of a sophisticated authorised push payment scam.

The thing I think we have to be very careful of here, is that we have to do this with customers and customers can't just say, oh, it was the bank's fault I gave my details away. So we have to work with customers together on this. This is a collective responsibility and, as I said, we have to work with all parties to actually stop these fraudsters.

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**James Burton, Daily Mail**

Thanks.

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**Operator**

Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please do press "star" and "1" on your telephone keypad. If you need to cancel that request, you can press "star," "2." I'll now pause for another moment to give remaining participants the chance to signal for questions.

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**Ross McEwan, Chief Executive**

This will be the quietest one we've ever had, team.

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**Operator**

Our next question is from the line of Stefania Spezzati from Bloomberg News London. Please go ahead.

**Ross McEwan, Chief Executive**

Hi, Stefania.

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**Stefania Spezzati, Bloomberg News**

Hi again. I was wondering, I'm looking in the litigation section that RBS is working – is responding to a request for information on Russian and Lithuanian transaction involving money-laundering scheme. I was wondering if there is any progress you can share with us at this point?

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**Ross McEwan, Chief Executive**

Now, look, that one came as a big surprise to us when it was pushed across to us, particularly around the ABN AMRO business that we purchased 10 years ago.

We have done an initial investigation on the details we've been given and we haven't found anything, but we have asked for more information because we're very keen to see if there was anything that happened with that part of the business.

Remembering it was a business that we bought 10 years ago. We closed most of it down within a couple of years. I think the issue for everybody is that we've got to take anti-money laundering very, very seriously and this is coming across all banks.

This is probably one of the top three risks of all banks globally now and we're certainly taking our obligation seriously here and upgrading our looks at how do we make sure that all the payments are the correct payments and we're not harbouring money launderers, but it's a banking issue globally now.

But no update at this point in time with that. We've asked for further information. That hasn't been received yet, but as soon as we get that, we'll go through all of our files and see whether we were involved or not. So no, no further update.

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**Stefania Spezzati, Bloomberg News**

Thank you.

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**Operator**

Thank you, Ross. There are no further questions at this time, so I will hand the call back to you for closing comments.

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**Ross McEwan, Chief Executive**

Thanks very much Jenny. And look, just a few comments to close.

So I think a solid set of results, against a highly uncertain and competitive background.

Operating profit of £1 billion with attributable bottom line £707 million.

Very strong capital position at CET1 of 16.2 percent and we continue to target capital returns. In 2018, we paid £1.6 billion of dividends, of which £1 billion goes back to the government.

Now, we are ready for Brexit and supporting customers so they are ready as well and, as I said, we announced the doubling of the Growth Fund that we made available. We've got our business in NatWest Markets entity in Amsterdam up and running and serving customers and we've got our payments licenses approved.

The bank is concentrating and investing very heavily in innovation and £1 billion a year at the moment's going into upgrading our legacy systems and we are innovating using different vehicles like the Mimo, paperless mortgages, Bó and Mettle and we are seeing in the Personal Bank, nearly 47 percent of all sales being carried out digitally.

So big changes going on in the industry and the bank is well-positioned for it. But thank you very much for joining the call this morning. Thank you.

**Operator**

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

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