



## **H1 Results 2019**

### **MEDIA Conference Call**

Held at the offices of the Company  
250 Bishopsgate London EC2M 4AA  
on Friday 2 August 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 H1 Results announcement published on Friday 2 August 2019.

**RBS**

**Sir Howard Davies, Chairman**

**Ross McEwan, Chief Executive**

**Katie Murray, Chief Finance Officer**

**Introduction**

Good morning, 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**

Thank you, Christina. Good morning, and thanks, everyone, for joining the call.

In the first half of this year, the bank has faced another period of economic and political uncertainty. The subdued outlook for interest rates is affecting all banks. Global economic growth prospects are less favourable. There are trade tensions, relationships between the – China and the US continue to be strained, as we’ve seen a reminder of yesterday, and that’s also affecting market confidence.

Against that difficult backdrop, we have continued to deliver bottom line profitability and plan to return more capital to our shareholders including, of course, to the UK government and the taxpayer.

Uncertainty around Brexit continues. Our preparations are in place with our Amsterdam and Frankfurt offices operational. We believe we can ensure continuity of service in all circumstances, but in the meantime our more important focus continues to be on supporting our customers, with advice and lending when they need it and you know from past calls that we have made funds available to people trying to manage that challenge.

It’s very large – very difficult for our large corporate customers to make significant investment decisions without clarity on the future of trade terms to which they’ll be subject, and that’s evident in the market. The sooner they have that clarity, the more proactive our support can be to help with the transition.

As you know, the requirements of the ring-fencing legislation came into effect on the 1st of January this year, so these are, in fact, the first results prepared on that basis. Inside and outside the ring fence, our management is focused on growth initiatives and we are also continuing to bear down on costs.

Today’s results show we’re making good progress there, and one great strength we now have is our extremely resilient balance sheet with ample capital and liquidity.

Before I hand over to Ross, I know you'll be interested in the challenging task to find a successor to continue his good work. We're making good progress with the rigorous internal and external search, and we will update you as soon as we can, in any way we can.

Ross will remain in role until the orderly handover to the new CEO is completed or until April next year, whichever is sooner. I will now hand over to Ross and then we'll take your questions. Thank you.

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**Ross McEwan, Chief Executive**

Thanks very much, Howard.

For the first half of 2019, we delivered an operating profit before tax of £2.7 billion. That's up 48 percent on the first half of 2018, and a £2 billion bottom line of attributable profit which is up 130 percent on H2 – H1 2018.

This is our largest half year bottom line profit in over a decade. This was a solid performance in the current operating environment and represents a return on tangible equity of 12.1 percent of the first half of 2019 and 15.8 percent for the second quarter of 2019.

You'll have noted that our results for Q2 are positively impacted by the Alawwal transaction announced in June, and after many years of negotiations, it was good to make progress on exiting our position and bringing to an end the large scale restructuring of this bank.

We do expect further income benefits in H2, as a consequence of the Alawwal transaction. With the external environment uncertain, we are focused on the areas we can control, and they are costs – they're down, lending – it's up, and our capital position is very strong.

On costs, I'm pleased to report that we've reduced these by a further £173 million or 5 percent in the first six months of 2019. The overall reduction is against our 2019 cost target of £300 million. We have now taken out over £4.3 billion in costs over the last five years and there is more to come.

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On lending, I'm pleased to see that we've grown the balance sheet in the balanced way. We grew net lending by £3.6 billion or 2.5 percent on an annualised basis in the first half across the retail and the commercial businesses.

On capital, we are announcing today an interim ordinary and a special dividend. After these, our common equity tier one capital ratio will sit at 16 percent. That's well above our medium-term target of circa 14 percent.

The positive impact on what we have achieved in restructuring the bank, is our, strong capital liquidity and funding positions us very well in this environment. We have taken no additional provisions related to payment and protection insurance this quarter, but we will monitor volumes overall just to check for any behavioural changes. Today, however, we feel we are adequately provided.

I'm pleased to announce further dividends to our shareholders who have supported the bank through its recovery an interim dividend of 2 pence per share and a special dividend of 12 pence per share.

Added to the £1.6 billion we return for 2018, this will represent over £3.3 billion in dividend payments of which £2 billion will have been returned to the UK taxpayer. We will target further capital returns for the full year 2019.

We have continued to support our customers where demand exists and within risk appetite. In the first half of 2019, UK PB helped 18,000 first time buyers and extended £14.3 billion in gross new mortgage lending, which is a market flow share of approximately 12 percent, compared to a stock share of 10 percent.

In addition, we grew our personal advances by £0.6 billion or 8 percent in H1 2019. For our business customers, we have a total loans and advances of £30.6 billion to our SME and mid corporate customers. That is up £0.6 billion or 2 percent in the first half.

NatWest Markets continues to experience challenging marketing conditions, but has performed in line with peers generating core income of £325 million in Q2 2019. That's up 3 percent, compared to Q2 2018 and has operating profit of £362 million benefitted by £444 million from the Alawwal transaction.

These results are set against an external operating environment which is impacting us in areas we have no control over. Lower for longer interest rates, a deterioration in investment appetite for large corporates, and a very competitive mortgage market are all factors that are putting pressure on our income.

Given these factors, achieving a 12 plus percent return on tangible equity by the end of 2020 is very unlikely in the current operating environment, but this remains the target in the medium term.

I am confident that this bank is now in a position of strength enabled to support the customers and the economy going forward. Our customers continue to adopt digital channels at an increasing rate, and during this year for the first time in the personal bank, the majority of new product sales were via digital channels.

We're also growing our current account customer base with 350,000 gross new customers in the last six months alone. That's up from 313,000 gross new customers on the same period last year.

And last month, we launched a new facial recognition capability for personal customers. Customers can verify ID using a selfie, taking the account opening process to under 10 minutes. We're also piloting a biometric card. Customers will use their fingerprint to verify transactions over £30, increasing security and making it easier for customers to pay for goods or services.

These are all improvements that we've deployed in the last six months and there is more to come. In H2, we will be launching both Bó, our personal digital bank, and Mettle, our digital SME platform. Both have been in trial and we're close to delivering these out to customers.

So, in summary, we've delivered a pre-tax operating profit of £2.7 billion in the first half of 2019 and a bottom line attributable profit of £2 billion. This represents a return on tangible equity of 12.1 percent for the first half and 15.8 percent for the second quarter.

I'm pleased to announce a 2 pence ordinary dividend and a 12 pence special dividend per share, which means £2 billion back to taxpayers since we resumed dividend payments.

Our capital strength means we can continue to support our customers through uncertainty.

Net lending is up £3.6 billion or 2.5 percent on an annualised basis. We've delivered further improvements to customers this quarter, and there is much more to come and with that, I'll open up for questions.

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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 the digit one on your telephone keypad. We will pause for a moment to give everyone an opportunity signal for questions.

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**Ross McEwan, Chief Executive**

OK. Christina, have we got any calls there, Christina, or was it we've given everybody what they've needed?

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**Operator**

Yes. At the moment we have a few questions, and the first question come from Iain Withers from Reuters. Please go ahead.

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**Ross McEwan, Chief Executive**

Hi, Iain.

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**Iain Withers, Reuters**

Hi. Hi, good morning. How concerned are you about some of the issues in lending you're seeing in terms of there looks to be a rise in personal defaults and declining property evaluations? And obviously you mentioned business delaying financing. Is that a concern and do you think that will get worse if there's a no-deal Brexit? Thanks.

**Ross McEwan, Chief Executive**

Give that one to you, Katie.

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**Katie Murray, Chief Finance Officer**

Thanks very much. Morning, Iain. Look, as we look at the numbers, we have seen a slight uptake in our impairments in this quarter, with a few single names coming through in the commercial business, and the reality is we're 21 basis points for the half, in terms of our impairment charge and we guide you to 30 to 40 basis points running through the cycle basis.

So whilst we've seen a little bit of an uptake just now, we're not really seeing any particular issues within the group. There are some small signs of strain, but at this point nothing that we're particularly concerned about.

I think what's really important is we continue to make as we write on new business, which we've obviously done a lot of in this first half, is that we're sticking within our risk parameters and making sure that we pay real attention to the customers that we're working with and as we bring them onto our book.

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**Iain Withers, Reuters**

OK, thanks.

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**Ross McEwan, Chief Executive**

Thanks, Iain.

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**Operator**

Thank you. We will take our next question from Stefania Spezzati from Bloomberg News. Please go ahead.

**Stefania Spezzati, Bloomberg News**

Hi, good morning. I was wondering if you could please give us more guidance on where the NIM is heading for the rest of the year and also what you are seeing the UK economy is basically, the deteriorating of the UK economy, is getting worse as we approach the October deadline? And then on the share sale, I was wondering if you will expect the government to do anything this year at all. Thank you.

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**Howard Davies, Chairman**

Can I just take the economy bit and then Ross can talk about NIM?

We adopt an approach of taking consensus forecasts here. Those consensus forecasts are moving around a little bit. As you will have seen yesterday, the bank slightly downgraded the UK economy, so we are expecting slow growth at the moment. We're not expecting worse than that, but we're certainly not expecting better than that.

As you will see from the discussion on the Bank of England's views yesterday there is considerable uncertainty, considerable nervousness about what might happen in different scenarios but we are just, we haven't altered our view that the likelihood is that the economy will continue to grow at a modest below trend rate.

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**Ross McEwan, Chief Executive**

Yes. And I think we saw that yesterday, Howard with the government coming out at slightly lower growth.

We just run a consensus basis, Stefania. You are however seeing the yield curve decline which hurts obviously value of deposits and the profitability of deposits and you're seeing very strong competition continue in the mortgage market which we think will continue on for quite some time given the amount of liquidity in that market and the number of players that want to pick up some share. So, I think those two will continue to put quite big pressure on our net interest margin.

To what extent we're not too sure, but you have got a book that is mainly on a fixed rate now and as those two and five years come up, people are looking for the best deal, so still some work to be done there.

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Our drop in NIM for our UK business, I don't think looks too different to many other players, a very similar structure to ourselves as we compare the results that come out today. And as Howard said, it's really around interest rate, yield curve and competition in the mortgage market.

The commercial business has been pretty – stayed pretty – stable in its net interest margin. Down about one basis point which for the size of the book and the pressure going on there is very, very good performance. But it's really in the personal banking side that we've impacted along with every other bank.

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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. Ladies and gentlemen as a reminder if you would like to ask a question, please press the "star" key followed by the digit "one" on your telephone keypad. We will now take our next question from Ben Martin from The Times. Please go ahead.

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**Ben Martin, The Times**

Good morning.

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**Howard Davies, Chairman**

Hi, Ben.

**Ross McEwan, Chief Executive**

Morning, morning.

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**Ben Martin, The Times**

Hello, hello. I'm just wondering it's quite a long time, Ross, for you to sort of hang around. Is there a chance he might take you off the ball before April next year and Howard, is that something you're concerned about? And just how advance is the search for Ross's...

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**Howard Davies, Chairman**

That search is going well. We don't have any news today, but it's going well. As for keeping an eye on the ball. All Blacks are not known for taking their eye off the ball...

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**Ross McEwan, Chief Executive**

(Inaudible).

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**Howard Davies, Chairman**

...but in any case, that's my responsibility and I can ensure you that I'm keeping his feet to the fire, his nose to the ground, etc cetera. So, there is no – there's no slacking of momentum here.

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**Ross McEwan, Chief Executive**

Look, we've got a very good executive team and just seeing the results that we're putting out today, this bank is now back on doing good things with customers. We're seeing growth pretty much across all of our parts of our business.

The only piece that's much slower is in the big end, corporate end of town, which we've talked about in the past. So, we are seeing a business that is getting back to doing what

it should be, serving the real economy of the UK and the Republic of Ireland and the team has got very much their eye on the ball. Thanks, Ben.

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**Operator**

Thank you. We will take our next question from James Burton from Daily Mail. Please go ahead.

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**Ross McEwan, Chief Executive**

Hi, James.

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**Katie Murray, Chief Finance Officer**

Morning, James.

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**James Burton, Daily Mail**

Hi, all. Hi. I just wondered about PPI, Ross. I was wondering if you've seen a big rise in incorrect claims as the deadline approaches and if you could out a number on how many calls you're getting a week.

I think Lloyd's getting 190,000 at the moment which obviously huge volume. And I wondered if you could give any colour around the impact that's having on the bank in terms of how many staff you're having to divert to deal with PPI requests that aren't actually going anywhere and the cost. Thanks.

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**Ross McEwan, Chief Executive**

Yes. Look, let me take you back on PPI. The bank's got this thing wrong for such a long period of time that we have been remediating here along with every other bank.

This comes to an end in August. Yes we're seeing a big uptake in the number of claims, but we expected that in the final a couple of months. Look, I haven't got the numbers on what you call, those that are not correct claims.

But we are of course going to get those along with every other bank. We haven't needed to divert any more staff in to this area. We've got a full team working on this right to the end point, so that we can clean it up and look after customers we got it wrong for them.

So, we'll wait and see what happens in the final month of August which we're into now. And it's nice from an industry and I think from a customer perspective to see it end. I'm sure everybody's sick and tired of seeing these adverts for PPI, as well and getting the phone calls. So, I think we're all looking forward to the end of it.

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**James Burton, Daily Mail**

Thanks.

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**Ross McEwan, Chief Executive**

Thank you, James.

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**Operator**

We will take our next question from Terry Murden from Daily Business. Please go ahead.

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**Howard Davies, Chairman**

Hi, Terry.

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**Terry Murden, Daily Business**

Hello, good morning. I just wanted to bring us back to this business about branch closures. I was in a branch of yours the other day near where I live and I counted 17 people in the queue.

17, somewhat frustrated, angry people, one of whom turned out to be an RBS employee and she was on her day off and volunteered to go behind the desk to help ease the queue and get some of the people seen too.

Just taking a comment from some of those people, it was quite clear that they don't really buy in to your continuing argument about transferring banking to digital and mobile operations. They actually want their branches and a survey out yesterday said that people want their towns to be populated again with things like bank branches.

Is it not the case that this whole process of branch closures is not so much a response to customer demand, its customers being forced to accept the policy of cuts which has allowed the bank to reduce its cost? And has actually forced customers to just actually accept that this is the way it's going to be.

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**Ross McEwan, Chief Executive**

Terry, thanks for your question and I'm delighted that one of our staff members hopped behind the counter, that's the sort of people we have in this organisation now trying to serve our customers.

Well, let's face the facts of what customer behaviour is doing, it's changing dramatically, as the amount of cash in the industry is starting to come down at an alarmingly quick rate. Cheques are continuing to come out down 17 percent a year, I think that even accelerated this year, the usage of cheques. The uplift in digital platforms and people using digital is changing.

We have made all the changes to our branch network that we're going to be making in 2019 and we've said we don't have any plans for 2020. But we still have a number of customers who wish to use our branch network. We have the third largest branch network in the UK and we'll make sure we hold on to a very good network.

But let's not push against the change that's happening in technology, across every industry, not just ours. And unless this bank makes the changes, unfortunately, we won't be out to resource and grow this bank and for customers in the areas we should be for the future.

But I understand the change. I understand what people are saying. But at the same time we've got the third largest branch network. I have 11,000 post offices people can pop in to. I have 700 stops now that people can go to in their towns and villages. I have community bank out in the community and the towns and villages.

I think we have the biggest distribution network in the UK. It just happens to be different to what it used to be. So I get the point, but there are some massive changes going on across every industry and we as a bank can't stand there, in what was a different world.

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**Terry Murden, Daily Business**

It's not helping the people that are now facing -- having to travel considerable distances to do their banking and Scotland in particular where you've got vast tracks of...

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**Ross McEwan, Chief Executive**

Terry, I've got 11,000 post offices. I have 700 sites, most of them in Scotland where our vans drop into on a weekly basis for our customers. That's better service than they were getting because of the times you couldn't get into these towns and villages. And I got community bankers out there for the vulnerable people who are helping people who can't get out of their homes.

We never used to have that either. It's different and I think it is different and we've done the branch changes that we're going to be making certainly this year. We have no plans for next year. But thank you for your question.

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**Operator**

Ladies and gentlemen, as another reminder if you would like to ask a question, please press the "star" key followed by the digit "one" on your telephone keypad. We will now take our next question from Marion Dakers from Bloomberg. Please go ahead.

**Ross McEwan, Chief Executive**

Hi, Marion.

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**Katie Murray, Chief Finance Officer**

Hey, Marion.

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**Marion Dakers, Bloomberg**

Hi. Morning, all. I wanted to come back on the government share sale. Just even with the shares doing what they're doing this morning, Boris Johnson and Co. might find it quite handy to crystallise some gains on the shares. Are you hearing anything on what their timetable might be or is there anything on the horizon that might stop it from your point of view?

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**Ross McEwan, Chief Executive**

Look, I'd just remind everybody, it's the governments shares to sell not ours and they will have a pricing point that they feel comfortable selling at, which they don't share with us> We'll be told the same time as anybody else they're about to sell shares. So, we are not included in the discussions about any form of timing.

We are in the position today to be putting out at very good dividend, back to the government, £1 billion of the £1.7 goes back to the government, just as £1 billion of the last one dividend we did paid out, went back to the government.

So I think that's really good. But it's really in their hands. We've now got a very good sound bank with great capital, good liquidity and lending well in to this economy. They should feel comfortable about the bank and that's really in their hands to take their timing.

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**Marion Dakers, Bloomberg**

OK, thank you.

**Operator**

There are no further questions at this time. I would now like to hand the call back to Howard for any closing comments.

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**Howard Davies, Chairman**

OK, thank you very much. I don't think there's anything further to add.

We pressed on as I said at the beginning. It's a tricky environment for all UK companies and it's particularly tricky for banks because in addition to the uncertainties that everybody has, we have a flattening yield curve which is unhelpful for any bank in the UK and indeed in Europe.

But that said we press on. Our balance sheet is slightly growing which is good I think in this environment. So we remain pretty optimistic about the prospects for the bank and we also particularly draw people's attention to the fact that we are very strong in capital terms and able to distribute a lot of that capital back to our shareholders, which is what they've been waiting for patiently for some time.

So thanks for all your questions. Look forward to talking to you again in the future. Bye.

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**Ross McEwan, Chief Executive**

Thank you. Thanks very much, (Christina).

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**Katie Murray, Chief Finance Officer**

Thank you.

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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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