Q3 Results 2019

MEDIA Conference Call
Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
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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 Thursday 24 October 2019.

RBS

Katie Murray, Chief Financial Officer

Introduction

Good morning, ladies and gentlemen. Today's conference call will be hosted by Katie Murray, Chief Financial Officer. Please go-ahead Katie.

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Katie Murray, Chief Financial Officer

Thank you, Tracy. Good morning everyone and thanks for joining. I think Ross had said to many of you he wouldn't be here for these results, given we are trying to make Q1 and Q3 financial updates, but I will give a brief overview of our financial performance in Q3 and then take any questions.

The core retail and commercial bank continues to perform well, and their underlying performance remains solid in a tough economic operating environment. Our pre-tax operating profit of £2.7 billion for the first nine months is in line with the same period last year; an attributable profit of £1.7 billion, up £400 million on the same period as last year.

As expected, however, our Q3 numbers are significantly impacted by a PPI charge of £900 million, following greater than predicted complaint volumes in the lead up to the deadline.

In addition, NatWest Markets had a disappointing quarter. Generating an operating loss of £193 million and with core income of £184 million, it is down £147 million or 44 percent from last year, which is driven by challenging market conditions, principally affecting the rates income and most significantly in August.

These factors have contributed to a group operating loss of £8 million and an attributable loss of £315 million for the quarter.

Looking at costs, we reduced other expenses by a further £20 million in Q3, taking the year-to-date reduction to £193 million. As we have said, cost reduction will not be linear throughout the year and we remain on track to achieve our £300 million target for full year 2019.

There were £215 million of strategic costs in Q3, which included further property exits and on-going technology transformation programme costs. Our litigation and conduct charge was £750 million for the quarter. This included £900 million of PPI provisions and a reimbursement of $200 million under indemnification agreements relating to RMBS.

Our impairments in Q3 were £213 million. This includes a £55 million charge reflecting a more uncertain economic outlook, including the deterioration of growth forecasts, the ongoing volatility we have seen, and the slightly increased unemployment figures from an admittedly low level.

Turning to loan growth, we have seen growth across all the business in Q3, which is a good result. UK PB, growth new mortgage lending was £8.6 billion in Q3, compared with £6.7 billion in Q2. With an approval share of 15 percent, market flow share of approximately 12 percent and stock share of circa 10 percent.

We are seeing good take-up of our new credit card products, where we've had two consecutive quarters of growth in balances and customers. And additionally, our main current account acquisition continues to show the positive trend of Q2. We have attracted 190,000 growth new customers in Q3.

Turning to Commercial, we have grown our loans across the whole book by £0.1 billion Q3. Lending growth across business banking, SME, Mid-corporate and Specialised business was £1.6 billion year-to-date.

We have also seen positive growth trends across Ulster, Private and RBSI. Looking forward, we continue to target net lending growth across UK PD, Ulster, Commercial and Private Banking at attractive returns.

Q3 year-to-date annualised growth rate was 3.2 percent. This is above the upper end of our 2–3 percent net loan growth target, which we are clearly on track to achieve. So, overall, a strong story of growth across the business.

And lastly, turning to capital, we generated 35 basis points of capital from profits in Q3, prior to the PPI provision and RWA increases. We ended the quarter with a CET1 ratio of 15.7 percent, which reflects the PPI charge of 50 basis points.

I thought, given the week, you would expect me to say something on Brexit. We are very much focusing on controlling the controllables, as the Brexit economic and political uncertainty continues. As far as RBS is concerned, our preparations are in place, with our Amsterdam and Frankfurt offices totally operational.

Above all, and most importantly, we continue to work closely with our customers as they work through their own Brexit preparations.

So, to summarise, we've continued to deliver strong net loan growth and delivered this in challenging times, without compromising on underwriting standards.

Costs are within our control and we remain committed to taking out £300 million this year, having taken out £193 million to date.

On capital, we're in a very place to generate and distribute sustainable returns.

And finally, with Alison taking over as the new CEO next week, and as we approach the end of our 2020 journey, we look forward to updating you on our priorities in February. And with that, I am very happy to take any questions you may have.

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Operator
Thank you, Katie. Ladies and gentlemen, if you wish 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.

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

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Katie Murray, Chief Financial Officer
Good morning Stefania.

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Stefania Spezzati, Bloomberg News
Hi, good morning Katie. Just was wondering if you could give us a bit more colour on what you see in the UK economy considering in a down growing assessment related to

Brexit. And also, we notice the impairments were higher than expected, so is that related to any specific name?

Katie Murray, Chief Financial Officer
In terms of what we see in the economy, I think the picture is really best told by the loan growth that we've experienced in the quarter. It was 3.2 percent of loan growth across all of the businesses.

What's interesting is when you get to corporate – in the larger corporate space, what we see there is that they're managing their funding much more and holding back still which is the same conversation we've had throughout the year in terms of delaying making the large investments into the UK economy and we see that in other surveys as well that the level of investment has diminished over the year.

But what we're really pleased by is that 3.2 percent loan growth across business banking, mid-corp specialised and of course to then our personal book which is really good to see.

In terms of impairments - yes - the charge a little bit higher than consensus. You might recall at Q2 I spoke a little bit about there were slight strains in the numbers that we were seeing, and I'd say we were still at that level of slight strains.

One of the things that we have done this quarter is we've taken our charge for what we call multiple economic scenarios, which is basically a kind of complicated way to say the economic indicators have got that bit worse from the end of June and as we kind of run that through our models we end up taking a £55 million charge similar to the charge we took about a year ago.

And that for me would be kind of the sign of the strain the economy is under and we've seen different rates call throughout this quarter. So, that sliding number is a little bit higher. In the underlying impairments there's a few – a few tall trees in there.

No one name specifically that you would call out, but that in itself is interesting. These things always come at different times, so you can't really draw a big trend from it but there are some and we haven't seen some for a little while so that's probably all I'd say. Thanks so much Stefania.

Operator

Thank you. Your next question comes from Iain Withers of Reuters.

Katie Murray, Chief Financial Officer

Good morning Iain.

Operator

Please go ahead, your line is open.

Iain Withers, Reuters

Hi good morning. A couple of questions on PPI. Do you think that's the end of that now, do you kitchen-sink that number enough, and on NatWest Markets, do you think there has obviously been a lot of restructuring of that business? Do you think there'll be more needed in the fourth quarter? Might there be any job cuts in the near term? Thanks.

Katie Murray, Chief Financial Officer

Thanks Iain. So, in terms of PPI, you know the way we do this is very much to try to take the best estimate as we see the number, and that's really what the £900 million represents.

You know since we did the press release at the beginning of September, we've obviously done quite a lot of sampling. We've processed quite a lot of claims, but you the volume of claims means that we still obviously have some way to go on it. For me at the moment, this is the best estimate that we have of the number that we're comfortable with.

In terms of NatWest Markets: as I look at it what I've always talked about – they are in year three of a four-year kind of journey in terms of changing that business. That will continue as it is, and as a journey that they have been on. You know we – we still guide you to the fact that we're working toward £39 billion of risk weighted assets, £1.4 to £1.6 of income and £1 billion of expenses so no change in that strategic direction at this stage.

In terms of job cuts, as you know we've always preferred to talk to our own staff before we speak externally. That's not something that I really anything more to give you on that this morning.

Iain Withers, Reuters
OK, thanks.

Operator
Thank you. Our next question comes from the line of Kalyeena Makortoff with the Guardian. Please go ahead. Your line is open.

Katie Murray, Chief Financial Officer
Good morning Kalyeena.

Kalyeena Makortoff, Guardian
Hi, good morning. I'm just going to extend on Iain's question a bit. I know you sort of talked about a more robust part of the business across the retail side, but given these extra costs, what does that mean for the efficiency programme and could any further cuts be extended to impact staff or branches in the UK? Thank you.

Katie Murray, Chief Financial Officer
Yes, thanks Kalyeena. So, at the moment I think we've always been very open around the fact that we're on a continuing kind of transformation journey of the business and that we have a £300 million target this year and then in February we'll talk more about what it means for next year. In terms of branches, we have no plans at the moment to make any changes to our branch footprint as we move forward.

But the reality is for all of the large kind of incumbent banks, as we continue the journey to the digital world, we'll continue to see investment and as a result of that we'll also continue to see greater efficiency in our call space. Thanks, Kalyeena.

Operator
Thank you. Your next question comes from Holly Williams at the Press Association. Please go ahead. Your line is open.

Katie Murray, Chief Financial Officer
Good morning Holly.

Holly Williams, Press Association
Good morning. I've got a couple of questions, sorry one of them you might have already covered but I think I got put into this call till a bit later, but first of all on PPI, obviously you are saying this is best estimate, but how happy you are to now to be able to kind of draw a line under this saga and move on. And secondly on Brexit, an economic hit, I just want to check for the charge taken was £55 million and if you could just kind of run though again what you're seeing in terms of the impact at the moment?

Katie Murray, Chief Financial Officer
Yes, sure thanks. So, in terms of PPI, I think what's been really helpful in terms of this quarter is that the date has ended for new applications to come in.
So now we're managing what was a significant level of applications. That clearly will take us a bit of time to work our way through and we are continuing to do that, and we're looking at our sample checks of different batches to make sure we're not seeing anything different in those numbers.

I think it would be a very brave FD to say that the line was completely drawn under it, but this is certainly our best estimate of that in the account to give you some sensitivity in terms of what movements on it might be. But certainly, at this point, I am comfortable.

And in terms of the £50 million, the economic scenario charge, that really is a sign of the growing volatility in the economics that we see, rather than being something that is specifically tied towards Brexit. I think it's important to have the separation. I mean, what we see in economics more widely is it's obvious we're part of a global economy as well as what's also happening in the UK and that's really reflecting that.

And I think the important thing as all of these things are going on is to make sure that we're spending the right time with customers, so they are ready and they're aware of what facilities we have in place to kind of help them on their journey whether it be our Brexit fund or whether it's some of our just other day to day products. But that £55 million very much represents that the economics have kind of gone downward since the end of June, and so reflecting that in our numbers today.

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Holly Williams, Press Association
OK. You think -- OK, thank you.

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Katie Murray, Chief Financial Officer
No. Sorry, on you go.

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Holly Williams, Press Association
I was just wondering if in terms of what you're seeing at the moment in terms of demand from companies and are you seeing much of an impact from the uncertainty?

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Katie Murray, Chief Financial Officer
It's a tale of several parts. If we look within our personal space, we've grown mortgages by £8.6 billion this quarter, with applications at the sort of 15 percent level and 12 percent converting into actual loans, so that's very strong, again, good growth within our unsecured lending.

We're obviously a much smaller base, so the kinds of growth numbers look in percentage terms bigger than the actual numbers that sit underneath them.

And then when you get the corporate businesses, there's a couple of different conversations going on within business banking, mid-crop, specialised finance businesses. We've grown our lending this year by £1.6 billion. It was a little bit slower in Q3 than it was in Q2, but I really wouldn't read too much into that necessarily. We're very comfortable with the 4.1 percent growth we've had in that business year to date.

And then what we see in the larger corporates is that they are holding back a little bit in terms of making the investments and that naturally when big corporates make investments, it's mid-corps and small businesses that kind of were the recipients of that investment.

But I would say at the moment the fact given that we've grown the whole book in excess of our target, I think we're kind of – things are still moving along in terms of the economy.

Holly Williams, Press Association
OK, thank you.

Katie Murray, Chief Financial Officer
Thanks, Holly.

Operator
Thank you. Just to remind you, its "star" followed by the digit "one" key on your telephone keypad to ask a question. Your next question comes from Steve Slater. Please go ahead.

Katie Murray, Chief Financial Officer
Hi, Steve.

Steve Slater, IFR

Good morning, Katie. Just to follow-up on NatWest actually. I mean, obviously a difficult quarter again and you said that you're in year three of a four-year journey. Can you give us some guidance? Are you happy with where it stands at the moment or do you think Alison will be thinking of changes to that business? Thanks.

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Katie Murray, Chief Financial Officer

Yes. Now look, in terms of, I think that nobody and particularly the NatWest Market management team itself, a hard quarter is a hard thing to deal with for any kind of business. And as I look at the results actually what we saw, there's a problem particularly in the rates business and actually their currency and financing business had slight growth.

So, we were kind of happy to see that. And as always, it's a question of how do you balance things. And I think in terms of what Alison's views might be, she starts her new job next week.

So, I think I'll let her get her legs under the table before I try to think of what her views might be and she and I will come and talk more about her priorities in February and we can take it from there. I think it's probably best to give her some time to go around the businesses.

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Operator

Thank you. And your next question comes from the line of Nicholas Megaw with the Financial Times. Please go ahead, your line is open.

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Katie Murray, Chief Financial Officer

Morning, Nicholas.

Nicholas Megaw, Financial Times
Hi. I know you've spoken a bit about the impairment situation already and I know a lot of it is because of that general economic forecast shift. But there is a line in the results that said on personal loans that underlying defaults were up and that you sort of changed the risk appetite in response. Could you talk a little bit more around that?

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Katie Murray, Chief Financial Officer
Yes, happy to. So what we see in personal, a few different things happen and it's important to look at the different bits of the book. So, we have tightened some of our risk parameters, particularly on the unsecured lending. We do that quite dynamically. It's something that we would look at quite regularly and what you do see is the default numbers are a little bit higher in that space.
And for me it kind of falls into the bucket, where I've talked about the kind of signs of strain, that is one of them. So, and if I look at our basis points year to date they're 22 basis points. Part of that's obviously the MES and the view of the tall trees. But in the unsecured space we do see just a little bit of pressure going on within there. Also the thing to realise as well, we've grown our book, one of the intricacies of the IFRS 9 new standards. As you add new businesses on the book, even though on the day that you add it, it is not loss, you do make some assumptions as to what losses you might see.

Again, you see a slightly higher impairment charge because of that as you look from last year to this year, which I think is important. The growth in book comes with a little bit of an impairment cost as well. But we are seeing a little bit of tightening of our underwriting in that space and the defaults have just been a little bit higher but not too concerning but something we're obviously watching very closely.

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Nicholas Megaw, Financial Times
OK, thanks.

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Katie Murray, Chief Financial Officer
Thanks, Nicholas.

Operator

Thank you. I'll now hand the call back to Katie for your closing comments.

Katie Murray, Chief Financial Officer

Thank you very much indeed. Look, I apologise to everyone for the slight confusion on the line this morning. I know that you all have tight schedules that you're working towards.

As I said earlier, I am confident that we're delivering on the levers we need to, to take this business forward and Alison and I do look forward to talking more in February. With that, I'll sign off. Thank you very much indeed for dialling back in.

Operator

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

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