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H1 Results 2020

MEDIA Conference Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
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FORWARD-LOOKING STATEMENTS

RBS

Sir Howard Davies, Chairman

Alison Rose, 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 NatWest Group. Please go ahead, Howard.

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Howard Davies, Chairman

Thank you very much and good morning. And it's me, Howard Davies, and Alison Rose, and Katie Murray is also with us. Thank you very much for joining on a very beautiful morning, which we will try not to spoil.

It's always disappointing to report loss. As you have seen from the banks have already reported, our first half numbers show the impact the pandemic is having on our profitability.

What is encouraging and Alison will talk more about is that even after absorbing a significant impairment charge in the first half, we have a robust and sector-leading capital position and we are well-positioned to support our customers.

Switching to the Board. The Board are proud of the speed of the bank's response at the start of this pandemic. We stepped up quickly to provide exceptional support to our customers, colleagues and the communities we serve and we'll continue to do this as we come out of the lockdown and the economy is starting to reopen. As you know, there are wide range of estimates as to what the recovery might look like, and that's reflected in the numbers and Alison will explain that.

So, let me hand over straight away to Alison Rose.

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Alison Rose, Chief Executive

Thank you, Howard. Good morning everyone and thank you again for joining us today for our first half results call. I'll start with a summary of our financial performance in the first half and then update you on how we've been managing the business through the COVID-19 pandemic and the progress we've made on our strategic priorities.

As you know, we had a strong start to the year before the impact of COVID-19, and our pre-impairment and operating profits for the first half was £2.1 billion. Since we've spoke in May, however, the economic outlook has worsened and as a result, we're announcing a first half net impairment charge of £2.9 billion. This is based on extensive modelling carried out during the second quarter. And as a result of this, we anticipate an impairment charge in the second half that's lower than the first half, and the full year charge within the range of £3.5 billion to £4.5 billion. Cost was slightly lower year-on-year and taking the impairment into account, we made an operating loss of £770 million and an attributable loss of £705 million.

Given the ongoing economic uncertainty, we are pleased to be operating from a position of strength in terms of liquidity, funding and capital. Despite the increases in provisions, our capital strength remains UK sector-leading with a CET1 ratio of 17.2 percent, and our business continues to generate additional capital.

We continue to believe with the current shape and mix of our business that we should be operating with a CET1 ratio of 13 percent to 14 percent over the medium to long term. This means we have clear headroom in the region of £6 billion to £7 billion above our target capital ratio, which is well above our peer group, and gives us the ability to return capital to shareholders as soon as that is possible.

So, having given you the headlines, I'll briefly talk about how we have been running the business during the pandemic. We set out a new purpose in February to champion potential by helping people, families and businesses to thrive. And we have taken advantage of our strong customer franchise and market positions to advance that purpose.

Putting purpose into action has entailed making a very significant change to the way we work in order to support our customers through the pandemic. While we have had 50,000 members of staff working from home throughout the pandemic, we have also had more than 10,000 colleagues working in our branches and offices to support our customers. And I would like to take the opportunity to thank all my colleagues for their dedication and hard work in maintaining critical services to customers during this time of significant disruption.

In order to help people and families in the UK, we extended 240,000 mortgage repayment holiday, which represents 20 percent of our book, as well as 12,000 interest-free payment holidays on credit cards and 72,000 payment holidays on personal loans. As lockdown has gradually eased, our focus has shifted to helping customers as they start to resume normal repayments. I'm pleased that the swift action we have taken to help customers has also contributed to an 18 percentage point improvement in our branch net promoter score since March.

As you would expect, we have done all we can to support customers through the government-helped scheme. At the end of June, we had approved lending of £10 billion. Of that £10 billion, £8.3 billion has been drawn down and demand is now tapering off from the initial peak.

And while a lot of our energy during the first half has gone into taking swift action to address COVID-19, we have also focused on continuing to execute our key strategic priorities. We have made real progress refocusing NatWest Markets on the needs of our core customers and expect to complete this by the end of 2021. We are also on track to deliver our £250 million cost reduction target despite the disruption of COVID-19.

In addition to our strategic priorities, we have also set ambitious targets for supporting UK enterprise by helping to create new businesses, promoting financial capability and well-being, and helping to address climate change. We believe the need for these initiatives is even greater now as we start to rebuild the economy and are fully committed to delivering on our commitment.

So, in summary, I believe our first half results show that we have a strong business franchise that continues to generate capital. We are managing risk carefully and providing for impairments thoughtfully. We continue to execute on our strategic priorities. And even after absorbing increased provisions, we have a robust capital position, giving us the ability to support our customers through this period and, also to return capital to shareholders as soon as it's possible to do so.

Thank you very much, and now I'll hand back to Howard.

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Howard Davies, Chairman

Thanks, Alison. Well, we're happy to go straight into your questions.

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Operator

Thank you very much. If you would like to ask a question, please press star – sorry, 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.

We will take our first questions – question from Oscar Williams-Grut from Yahoo Finance. Please go ahead.

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Oscar Williams-Grut, Yahoo Finance

Morning, Howard. Morning, Alison. Thanks for taking the question. In terms of Brexit, we haven't heard too much about that recently, but it's sort of ticking out now and as people saying it looks more and more likely that we'll get a no deal Brexit at the end of this year. Can you talk a little bit about whether that's included in some of the models you've set out today and which one of the central scenarios? And could you also sort of talk specifically about how you think that might overlay and interface with, obviously, the COVID crisis that we're seeing at the moment.

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Alison Rose, Chief Executive

So, thanks, Oscar. Well, Brexit we have obviously been focused on being ready for the outcome, and we have planned operationally for a hard Brexit. So operationally, we're completely ready and that's all part of our plans.

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Katie Murray, Chief Finance Officer

So, in terms of in terms of the question we modelled, I would say that we've done four different scenarios. I would say all of them include some level of Brexit. And then what I would say if you look to what would be our disorderly Brexit, you're probably getting into the downside scenario that we have there. I mean we've only got a 10 percent weighting on that scenario in the round. If it was very disorderly, that's where you'll get to, but otherwise it's obviously considered in the round as part of all of the economic forecast that we're making in the moment.

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Oscar Williams-Grut, Yahoo Finance

Oh, and just – sorry, just on that quickly. When you say a disorderly Brexit, is that no deal or is that worse than no deal, going spectacularly wrong?

Katie Murray, Chief Finance Officer

I think it would be no deal and with to the downside as well. I think our downside economics are really – they're very – they're really quite negative in terms of where you would – you would get to.

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Oscar Williams-Grut, Yahoo Finance

OK. Thanks very much, Guys.

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Alison Rose, Chief Executive

Thank you.

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Operator

Thank you very much. Our next question today comes from the line of Stefania Spezzati from Bloomberg News. Please go ahead.

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Alison Rose, Chief Executive

Hey, Stefania.

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Alison Rose, Chief Executive

Morning.

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Howard Davies, Chairman

Stefania, are you here? We're not hearing you, Stefania.

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Operator

Are you on mute, Stefania?

Stefania, I'm going to release you back into the call. If you would like to ask a question, please press star and 1.

We will take our next question, which comes from the line of Terry Murden from Daily Business. Please go ahead.

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Terry Murden, Daily Business
Good morning.

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Howard Davies, Chairman
Hi.

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Terry Murden, Daily Business
Can you hear me?

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Howard Davies, Chairman
Yes.

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Alison Rose, Chief Executive
Yes, we can hear you.

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Terry Murden, Daily Business
Just could I ask a couple of questions. Firstly, could you provide any indication of any net gains and losses in the – in the terms of business and retail customers since February? And secondly, in view of the success of the home working exercise, will you be reviewing your office requirements?

Alison Rose, Chief Executive

Thank you for the question, Terry. Well, let me – let me take the second one. So, we've had 10,000 of our colleagues working in branches and offices right the way through the lockdown supporting our customers, and 50,000 working from home, maintaining the critical services.

We're going to be quite careful and thoughtful about how we bring people back into offices and evolve office space. So, I think what we'll see is a bit more of a hybrid working model, and that's something we'll work on very carefully.

At the moment, my priorities are the health and safety of my colleagues and our customers as they – as we manage through this period. So, we'll continue to review that.

Certainly, the working from home has been a positive for a lot of people. It's busted a few myths about how we can work and it's a little bit of an acceleration of some of the trends of flexible working and using technology. But for others, it's not been a great experience and we're very mindful of the well-being and mental health issues of being isolated as well. So, we're being quite thoughtful and careful about how we will evolve that, both to take advantage of some of the opportunity offers to our colleagues but maintaining continuity of service to our customers.

Can I hand the second question to you, Katie?

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Katie Murray, Chief Finance Officer

In terms of the customers, what you're seeing is interesting behaviour across different parts of the – of the group. So, if you look in terms of a lot of the government lending, we were very much lending to our customer base and so, therefore, there would be very limited kind of new customer acquisition in that kind of space.

You'll be familiar, I imagine, with the Williams & Glyn transfer that was going on, and we were actively moving customers. That has slowed down a lot as people have preferred to stay with their existing bank in this time of challenge, which makes perfectly good sense.

And Coutts, we've had 1,500 new customers over this period, which is – it's possibly a sign of people just having time to actually address some of their banking needs, as well as our very strong proposition there.

And then within the personal space on credit cards and things like that, you've seen – you've seen people kind of paying that down. So less about customer acquisition, but we have issued £6 billion of mortgages out to our customer base. A portion of that would be new and we've also been quite strong in terms of acquiring and some of our new customers. I would say in the second quarter not as strong as earlier as people, I think, are kind of more stable in terms of maintaining their existing banking relationships.

Thanks, Terry.

Terry Murden, Daily Business
Thank you.

Howard Davies, Chairman
Next one?

Operator
Thank you very much. The next question comes from the Stefania Spezzati from Bloomberg News. Please go ahead.

Katie Murray, Chief Finance Officer
Hey, Stefania.

Stefania Spezzati, Bloomberg News
Hey, hello. Can you hear me?

Katie Murray, Chief Finance Officer
We can.

Alison Rose, Chief Executive

Yes, we can. Hi.

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Stefania Spezzati, Bloomberg News

OK, cool. Hi. Yes, just a couple questions for me. If you could give us a bit more of details on – of deterioration of the economy, what you are seeing and which element of it is really going wrong. And then on dividends, what's your view? When do you expect to resume paying dividends and if there would be also – if you also consider to pay special dividends, when you will start again?

And that I was curious to know if there is any update on the government share sale. I understand that this might not be a priority for the government right now, but if there is any update that you can give us will be good. Thank you.

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Howard Davies, Chairman

Let me take – let me pick up the dividend and share sale ones, and then Alison can pick up the other.

The issue on dividends is that the regulators said they did not want UK banks to distributing capital, whether in the form of dividends either ordinary or special or indeed buy-backs. They said that right at the end of March, and that's the position that we are in.

The regulators actually said this week that they would not be issuing any revised guidance until the fourth quarter, and that in that fourth quarter they will look again at the capital position, at the state of the economy and issue new guidance. So, they said that generally. They've also said that specifically to us.

The government share sale is, as we always say, and that's for the government. But I think the present circumstances, we are holding our breath in expectation of an early share sale. So, I think that's not currently on our active agenda.

Alison?

Alison Rose, Chief Executive

Yes. So I think in terms of the economy, what we've seen is that the huge amount of support and intervention that's been put in place in collaboration across the government and the Bank of England and all of the banks has really put a lot of support in and to bridge the economy during this period. And you've seen a hard stop of the economy created by COVID-19 and now businesses are slowly getting back to work.

Now, clearly, we can all – you cannot obviously see the data in terms of dropping investments and CapEx spending businesses and lack of confidence. But at the moment, what we're seeing is business is slowly getting back to work and all of the schemes and the interjection really supporting businesses and consumers during this period. And you can see that through reduction in spending, increasing deposits and low level of actual delinquencies.

But the outlook is clearly very uncertain. The speed of the recovery of the economy is not yet known and the underlying story we don't know yet. So, what we're doing is taking a very prudent view of what the outlook is. And I think as businesses get back to work and start scaling and moving forward, we'll see more of an impact on what the real damage to the economy is and also the curve of the recovery.

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Howard Davies, Chairman

Thanks.

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Stefania Spezzati, Bloomberg News

Thank you.

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Operator

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

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Alison Rose, Chief Executive

Iain?

Howard Davies

Morning.

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Operator

I think Iain is just being put back into the conference. The next question comes from the line of Katherine Griffiths from The Times. Please go ahead.

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Howard Davies, Chairman

Morning, Katherine.

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Katherine Griffiths, The Times

Hi, everyone.

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Alison Rose, Chief Executive

Good morning, Katherine.

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Katherine Griffiths, The Times

Hi, hello. I just wanted – could you just please explain a little bit more about the points that depending on kind of what happens with COVID-19 and government schemes that could be an impact on goodwill? And secondly, could you give a little bit more detail about the 10 billion in CBILS and Bounce Back, how are you seeing things, how sort of likely is it that – how much of that is going to come back? And could you talk a little bit about the merits of a sort of government-coordinated action there to perhaps nationalise some of those debts, and whether that would be a good idea or not? Thanks.

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Howard Davies, Chairman

I think Katie on the goodwill, and then probably Alison on the CBILS.

Katie Murray, Chief Finance Officer

Yes, sure. Absolutely. Katherine, thanks very much. I mean, you're very well-versed in this – in this sort of area. But goodwill is a relatively kind of technical accounting matter. We look at it each quarter to see if there's any indications of impairment. I think we could all agree that what's been happening in the economy and where we are sitting that there's certainly goodwill could be challenged with.

What we've done is we've disclosed in our accounts that we hold about £5 billion of goodwill, £2.6 billion of that is in relation to the commercial banking. And I think as you – as you look at that, what we're seeing is, under some economic scenarios, there's a possibility that you could see a goodwill write-off of part of that, and we've given you some disclosure there.

In my own (inaudible), a little bit again some of the adjustments we did last year around FX recycling and relatively technical accounting of in nature, but obviously what it is saying is that this sector is under pressure, which given the 65-basis point fall that we've seen in rates and also the pressures that we see on the broader business world. That's not an unexpected conversation, I think, to be having at this stage.

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Alison Rose, Chief Executive

Thanks, Katie. On the government schemes, Katherine, we've got just over £10 billion improved. That's to around the 190,000 customers and we're comfortable with the risk there. We have been lending to our existing customers who we know and whose risk we understand.

Around just over £6 billion of that is on Bounce Back loans. That's about 253,000 applications. The average loan size is anywhere between £35,000 and £37,000. And on CBILS just over £3 billion, which is around 27,000 applications now. As you know, the Bounce Back loans are 100 percent guaranteed by the government and the CBILS is 80 percent.

We have been very clear as I know the government has that these are loans and liabilities that businesses are taking on. What we find the businesses are being very thoughtful about the support they're asking for, both in terms of whether they take on additional debt, which they need to repay, or whether they look for other supports such as capital repayment holidays.

We're working very closely with our customers to help them plan for the future and think about what the implications will be, but clearly, a lot of that planning is in the initial stages as businesses face into a quite an uncertain future. And we know that times are going to be tough and not all businesses are going to survive.

I think on your second question on the merits as government co-ordination, I know there was a lot of work you've seen CityUK's plans, which we're obviously contributing to and involve in the discussions around how to deal with this wave of debt that has been put into businesses and how that's addressed.

I think it's really for the government to decide on that. The focus is on, that they're being very clear. These are loans that need to be repaid, and we're going to work very closely with our customers to help them with that.

Katherine Griffiths, The Times
OK, thanks.

Alison Rose, Chief Executive
Katherine?

Katherine Griffiths, The Times
Yes, thank you very much. Thanks.

Operator
Thank you very much. Once again, if you like to ask you a question, please press star followed by the digit 1.

The next question today comes from the line of Michael O'Dwyer from the Daily Telegraph. Please go ahead.

Michael O'Dwyer, Daily Telegraph

Good morning. First question for me just relates to the economy. I was wondering what your expectation is for unemployment in the UK for the remainder of the year and how bad you think it might get. And second question is about Scottish independence, which is obviously moving back up the agenda again. Do you still expect that if Scotland were to vote to become independent, would you renew the commitment to move your registration to London?

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Alison Rose, Chief Executive

Thank you, Katie. Do you want to take the unemployment one?

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Katie Murray, Chief Finance Officer

Yes, I'll take the unemployment one. So – and we've done four scenarios, with our two central scenarios, which are weighted at about 70 percent have unemployment between 9.2 percent and 9.8 percent for 2020. But then recovery into 2021 is between 5 percent and 7.8 percent, and we've seen that.

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Howard Davies, Chairman

On Scotland – this is a political question and we are rigorously independent about it, but we did do contingency plans last time to redomicile our headquarters. And that we thought was probably likely – the best likely thing for us to do, which has very little implication in terms of jobs and stuff, and that probably almost none, but there is – there is our concurrent contingency plan.

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Michael O'Dwyer, Daily Telegraph

Sure, thanks. And just one other question then on the rebrand or renaming, is there a figure for how much that cost?

Alison Rose, Chief Executive

Relatively nominal, actually because, of course, with the – it was a parent company name change. There was no change for our customers. All our branches are branded – NatWest and Royal Bank of Scotland, and there was no change to that, so it was a very minimal.

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Katie Murray, Chief Finance Officer

I mean, it's a de minimis number.

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Michael O'Dwyer, Daily Telegraph

Sure, thanks.

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Operator

Thank you very much. The next question today comes from the line of Iain Withers from Reuters. Please go ahead.

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Iain Withers, Reuters

Hi, good morning. Can you hear me OK?

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Howard Davies, Chairman

Yes.

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Alison Rose, Chief Executive

Yes. Hi, Iain.

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Katie Murray, Chief Finance Officer

Hi, Iain.

Iain Withers, Reuters

Oh, great. Thanks. Hi, hi. Just another one on forecasting, the worst-case is for 17 percent drop. I appreciate it's difficult to make those calculations, but does that factor in further lockdowns and, if not, could it be worst this year? And just on bad debt, do you think the government should be acting more urgently on that? Thanks.

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Katie Murray, Chief Finance Officer

So, in terms of the 70 percent, you could assume that does factor in lockdowns. I couldn't tell you the specific shape of them, but in terms of whether revisited, that's definitely is there.

Alison, do you want to take the bad debit point?

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Alison Rose, Chief Executive

Yes, I think in terms of government support, what you've seen is an unprecedented level of support and help being offered to businesses. I mean, we're obviously lending £10 billion, which is broadly in line with our market shares that we would expect to have go to businesses. So, I think there's been a huge amount of help.

The most important thing now is as the economy recovers, getting growth going again and getting businesses supported and locked down, but I think the amount of support and the terms of those loans are very generous and have – and have done what they were supposed to do, which is really to support businesses during this period. And now the focus is on how we get the economy moving and businesses get back to work.

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Howard Davies, Chairman

Thanks.

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Iain Withers, Reuters

OK, thanks.

Operator

Thank you very much. The next question comes from Kalyeena Makortoff from The Guardian. Please go ahead.

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Kalyeena Makortoff, The Guardian

Hi, good morning.

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Alison Rose, Chief Executive

Hi. Morning.

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Kalyeena Makortoff, The Guardian

Could you start off by giving us an update on headcount? I notice that you said headcount fell by 500 in the second quarter. Can you just confirm which parts of the business this affects and whether these are all due to natural attrition or not? And give an update about how many actual jobs you're planning to cut by year end.

And secondly, I'm just – on Bounce Back loans and CBILS, I mean, how alive are you to concerns that businesses outside your customer base say that they're still struggling to get access to the government-backed loans? I mean, I know this is obviously an issue for all the banks. But is there any discussion how to get money to what I understand is probably about tens of thousands of businesses that seem to be running out of time before the scheme comes to an end? Thanks.

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Alison Rose, Chief Executive

So, let me talk about the about the Bounce Back and CBILS. We've obviously been supporting our existing customer base. I think those are customer who we know and whose risk we understand and I think the scale of support that we've put out there, £10 billion of lending, average size of Bounce Back 35 percent, it will give you a sense of the scale of support that we're putting out and how much we're doing them. And I think most importantly, we're trying to help as many customers as we possibly can. And I think that is the area of focus that I – that I have.

On jobs and FTE, we don't give out details of job numbers. I will always tell my colleagues first before anything, but the number that you referred to is natural attrition. And obviously, we've been reshaping parts of our business, as part of our strategic plan and particularly in relation to NatWest Markets. So that's what that relates to.

But in terms of broader job numbers, I wouldn't comment on that, I'll always talk to my colleagues first.

Kalyeena Makortoff, The Guardian

Could you then just confirm? Actually, as far as I understand it, you've delayed sort of announcing any job cuts until after September. Is that right? So, at that point, how many do you have slotted to already take place that employees already know about?

Alison Rose, Chief Executive

I think – I think I've answered that question. I'll talk to my employees first. Of course, my focus in the first half quite rightly has been pivoting the organisation to make sure that we can react to the COVID crisis and support customers. And so, we've refaced some of our cost savings and we provided support to our colleagues, obviously, to help them as well as they've been dealing with the pandemic in a personal level too. But I've got no further detail for you on jobs.

Kalyeena Makortoff, The Guardian

OK, thanks.

Howard Davies, Chairman

Next up?

Operator
Thank you very much. We have a final follow-up question here from the line of Oscar Williams-Grut from Yahoo Finance. Please go ahead.

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Oscar Williams-Grut, Yahoo Finance
Hi guys. Thanks for taking another question. I was just wondering we've seen Lloyd's publicly come out recently and make commitment on black senior leadership and in HSBC there's also been reports about a similar around staff, obviously, in light of the Black Lives Matter protest we've seen in the first half.

Can you guys just say – are you – is that something that you're all looking at? And are you making any commitments to staff around diversity at the high levels of the bank and any sort of initiatives that are ongoing?

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Alison Rose, Chief Executive
Thank you, Oscar.

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Howard Davies, Chairman
Yes, Alison, you're very active on this.

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Alison Rose, Chief Executive
Yes. I made a statement very early on around our commitment to a progressive and inclusive culture. We've actually had BAME targets in place since 2018 within our business. But what I did launch was a taskforce, which is chaired by representatives of our employee-led network to explore how we can continue this debate and also see how we can continue to improve and drive the sort of progressive and inclusive culture that we want.

I think we're the only organisation that has actually launched a taskforce and a specific survey with our colleagues into looking at this matter – into this matter. So, we will continue to publish our targets and refine them. But most importantly, we want to contribute to driving a progressive and inclusive culture, which is part of our plan.

But our taskforce is led by our employee-led network representatives on behalf of the employees and those results in conversations are happening actively across our organisation.

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Oscar Williams-Grut, Yahoo Finance
And do you have any stats that you could share about the representation of black colleagues at the senior levels of the bank?

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Alison Rose, Chief Executive
So, in 2018, we put in place targets to increase the number of employees from BAME backgrounds in the most senior roles in the bank to 14 percent by 2025. We currently have 9 percent BAME representation amongst the top foremost senior levels in the organisation, so that's a 1 percent uplift since the targets were introduced.

What we are doing with our taskforce is having a much broader conversation around the component elements of BAME because I think everybody's lived experience can be quite different. And so, we will refine and look at those targets based on that survey. Just to give you a sense, the survey that we ran across the bank almost 22,000 colleagues took the time to share those views, and those views will help shape our approach going forward as part of an ongoing conversation with our colleagues.

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Oscar Williams-Grut, Yahoo Finance
Great. Thanks very much.

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Operator
Thank you very much. There are no further questions at this time. I would now like to hand the call back to Alison for any closing comments.

Howard Davies, Chairman

To conclude very briefly by saying that probably come up in questions just to remind you that the bank is in a very strong capital position with over 17 percent for tier one capital. So, we are open for business. We are not in any way in the same position as in the last financial crisis where there was a shortage of credits and banks found it difficult to lend. We can lend. Obviously, we have a risk appetite that we have to be careful about. But we are in a strong position to continue to support our customers.

Thank you very much for everybody coming on the call this morning and have a nice day.

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Operator

Thank you very much. That does conclude today's call. Thank you for your participation. You may now disconnect.

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DISCLAIMER