

**INVESTMENT NOTE**

**31 OCTOBER 2014**

**Hermes Senior Credit Analyst Filippo Alloatti comments on RBS Q3 Results**

RBS already pre-announced positively in the September 30<sup>th</sup> trading update but still have beaten expectations. NPLs are down 11% QoQ, they have added to litigation reserves and headline beat by £300m. Conduct and litigation costs include £562m at the IB and £100m PPI; total legal provisions all summed up are now £3.9bn.

Based on these figures, it is possible, perhaps even probable (ref PG Woodhouse for the difference) that RBS could see a net release of impairments for FY14. Effectively reversing previous guidance of £1bn charge.

Capital: Basel III CET1 ratio is +70bps QoQ, and +200bps YoY to 10.8%, far ahead of consensus (+30bps QoQ). RWAs declined 3% QoQ to £382bn; it is remarkable that the capital beat is coming from better CET1 capital because of the strong statutory earnings and positive cash flow / FX movements. Leverage ratio is up +20bps QoQ to 3.9%.

On the negative side, the trading update disclosed un-quantified weakness in Corporate & Institutional Banking revenues.

An important announcement will be made today at 2pm by the Financial Policy Committee (FPC) in respect to the final calibrations for the leverage ratio (LR) for UK banks.

**-ENDS-**

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**Notes to Editors:**

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