



**THE ROYAL BANK OF SCOTLAND
FIXED INCOME SELL SIDE ROUND TABLE BRIEFING**

Friday 2nd November 2018

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Robert Begbie – RBS Treasurer
Rupert Mingay – NatWest Markets Treasurer**

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 23rd February 2018.

OPERATOR: This is Conference #: 9676499.

Operator: Ladies and gentlemen, thank you for standing by and welcome to today's RBS Debt Sell Side Roundtable Briefing Conference Call.

At this time, all participants are in listen-only mode. There will be a presentation followed by a question and answer session. At which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, November 2, 2018.

I would now like to hand a conference over to your speaker today, Ms. Katie Murray, please go ahead.

Katie Murray: Lovely. Thanks very much, (Sharmaine), and thank you to those on the line and to those in the room. So, my name is Katie Murray, I'm the interim CFO. I'm joined by Robert Begbie, our Group Treasurer and also Rupert Mingay, our NatWest Markets Treasurer as well as some other members of the Treasury team.

And so, thank you very much for taking the time and to come see us. It's always good to kind of get the Q&A sessions on a different time to kind of go through and see others.

I was planning just to open with a few short words and I think Robert was aiming to follow on and then we'll move quickly into Q&A.

So, overall, in terms of the Q3 results, we are pleased, as a bank, we've seen it was a good performance in a highly competitive market and as a more uncertain economic outlook.

Q3 attributable profit of £448 million, so 14 percent up on the previous year. A strong capital position of 16.7% which, of course, was after 10 bps in terms of the dividend which is, for us, nice to see us back to kind of normal behavior in terms of our capital distributions. We're comfortable around our growth and it's stable in the target markets and sectors that we're looking at.

We do recognize it's a competitive market and we saw this coming through in our NIM performance which for those who listened in to our morning call would have heard almost every kind of derivative of question on that messaging. But to offset that, I think we are very pleased in terms of volume of our sales and our strong retention rate.

We're on track to meet our 2018 guidance around the cost savings of over £200 million. We did take an extra provision in our impairment due to market uncertainty but we remain very low in terms of our historical levels of impairments, to only 16 bps year to date.

As I've said, very comfortable with our capital and the liquidity position and we're happy with where we stand as relative to what may or may not happen over the coming months around Brexit.

Robert, I don't know if you wanted to add anything else?

Robert Begbie: Yes. Maybe just from a kind of balance sheet perspective, and I guess, over the course of the year. I mean, you'll see we've continued, as Katie said, to run strong liquidity ratios. I think, the flip side of that is clear, you see that impact through the net interest margin.

But I think, I am certainly very comfortable with that as a treasurer, given some of the potential uncertainties we're seeing ahead of Brexit. We've also very deliberately gone on with our funding this year and we're pretty much done by the

end of September so, then in the first three quarters, there was a fair bit of acceleration of the funding plan both on group level and Rupert can talk about the NatWest Markets funding.

And, yes, we went one stage further in terms of the last MREL transaction we did which actually started to prefund a little bit of Q1's potential issue. And so, that – we feel that's a good place to be. I mean, we've seen a lot of market volatility in the equity market and the fixed income market over the last few weeks.

But it's certainly not been the greatest environment. I think, since the end of Q3 for issuing debt into. So, really comfortable with that.

I mean, our key focus this year for us, really, has been the standup of the banks operating model for ring fencing, I mean, both at a overall structural level but also from a treasury perspective. The reason you've got two treasurers instead of one here is really about standing up NatWest Markets as a standalone legal entity with its own front to back treasury function and, obviously, now post yesterday in terms of the NatWest markets coming out of the U.K. Capital Support Deed and UK Defined Liquidity Group managing their own legal entity footprint.

But on top of that, which is probably less well recognized, from a ring fencing perspective, because of the need not to be dependent on NatWest Markets for critical functions and services we have been effectively standing up front to back treasury operating model in the ring fence bank which is in the name of NatWest Bank and you have started to see – our market counterparties are starting to see NatWest Bank now as a counterparty which in effect would have been the old RBS Treasury but is now NatWest Bank.

So, outside the group holding company, you now deal with NatWest Markets either in the markets business or through their Treasury or you're dealing with NatWest Bank which effectively is the execution arm of the treasury for the ring-fenced bank.

So, that's a very brief way of saying there's been a lot of work involved in doing that right the way through people, technology, systems, we didn't ask for ring fencing or designed it but it's certainly given treasury people a lot of work over the

past nine months. But we're making good progress on that. We're happy to take questions on that from a more structural perspective.

And then, I guess, one of the other things we'll look to now, especially having got the legacy items out of the way is just really having got a very strong balance sheet both in the capital and liquidity and funding perspective. How do we start to really drive the performance of that balance sheet?

Now, clearly there are things we can control in relation to Brexit or the underlying market. But we start from a strong place but we realize that we do need to deploy those resources in a way that gives the best possible performance to the bank kind of going forward. So, that was kind of what I wanted to say as an intro.

And, Rupert, do you want talk, maybe just touch on NatWest markets and then we'll open for questions?

Rupert Mingay: Yes. Thanks, Robert. I mean, obviously, we've disclosed franchise view numbers rather than legal entity numbers for Q3. We are generally disclosing our numbers semiannually. There's one or two numbers you all have seen in (Pillar 3 if you look.

So, you'll get a quarterly stock take of the capital and leverage numbers but on a legal entity basis for us. But otherwise, we're kind of wrapped up within the franchise commentary from a disclosure point of view.

But I think suffice to say, we're carrying on the same journey. We had very significant, two milestones, really, this week. Two (RNS's) we put out, one, the payment of dividend, so we're starting to move towards our end state capital structure, so as you'll see in the half year, our CET1 ratio was in excess of 20 percent. We've taken it down in the order. It was 22 percent coming down to about 17 percent and we've talked about 14% or thereabouts on an ongoing basis.

The other thing, as Robert mentioned – the other thing, on an ongoing basis, was moving out of the legal entity structure in terms of the capital support deed and shared liquidity. What that really means is we have to stand on our own two feet. But also, it means just technically, we need to reorganize how we set limits internally among intergroup and the like.

In terms of business performance, I think it was pretty – you can kind of infer from the franchise Numbers it was effectively steady as it goes. I don't think it was massively exciting on the upside or the downside. Clearly, if you look through the kind of guidance we've given, longer term on revenue where we're broadly on track with that but slightly on the lower end of the range we've disclosed to the market.

And there's plenty to do. We've got further capital reorganization, further funding to put in place for the end of the year. We've also been active in the capital markets as you would know and I'd be happy to take questions on those or on what we're going to do in the future.

And then, I think, we're just looking forward to putting a bit of healthy distance between us and NatWest Bank during the course the next year, supported very much by Robert as Group Treasurer and setting out on our journey.

Katie Murray: So, we open to questions and just – for those on the phone, I'll come periodically to check if there are any. But let's start with those in the room, shall we?

Male: We've got stress test results, EBA stress testing ...

Katie Murray: We have.

Male: Right. And then Bank of England in a month's time. We were talking to a treasurer at a French Bank who said they thought they're a complete waste of time. I mean, what's your view on – and how, I mean, basically, you're doing two test parallel, I guess, which must be fairly drawing on resources. But what can you tell us about – when do the banks find out? What's your view on how severe the stress test had been this year?

Katie Murray: Yes, you go. Absolutely.

Robert Begbie: So, I mean, there's two separate sets of stress tests; we'll get the results at 5 o'clock tonight of the EBA ones. I mean, they are largely formulaic, you throw a bunch of numbers in and you get a ratio. There's no kind of pass-fail. I guess, it sometimes gets looked as a ranking exercise more than anything else.

But I think we would see the Bank of England ACS stress test as our main stress test and I mean regulatory stress test. But on top of what you talked about, we do multiple internal stress tests for various reasons for the budget or otherwise.

I mean, clearly, the ACS stress test is an important day for the U.K. banks. I mean, for us, it's been a journey because of largely our idiosyncratic one-off event which have certainly impacted our stress test over the past two, three years.

Clearly, most of those events have gone. Certainly, the big ones and the biggest one being the U.S. RMBS. We still are going through a restructuring journey, so there are still elements of restructuring in there.

But we would expect to have a better set of stress results than we've had previously by the nature of our balance sheet and by the start point of where our capital has started from.

We don't really find out much before you do in terms of the Bank of England ones. Clearly, those are the ones where the Bank of England can, the PRA and the Bank of England can apply overlays of they feel the banks haven't been stressful enough or they feel that there are gaps in those assessments.

But even we don't get necessarily the full detail of that back to explain any overlays. You may get some with, may be a model piece but there could be others where it's difficult to undertake exactly what that looks like.

So, yes, I mean, looking forward to it. I mean, it's just, I think, another example of where we've got to in terms of kind of restructure.

I think, we would still say that there's a way to go between where we are now and where we would see ultimately our steady stress delta because we still have restructuring costs, we still have various other balance sheet items to get off the balance sheet, Alawaal being one of them. There's various other legacy positions which we would expect to come off over the next 12-18 months.

So, we're not quite at a what I would call a steady state stress delta but we're certainly closer to it than we have been kind of historically.

Yes. I mean, look, I mean, stress testing is becoming a full time – it is a full-time job and it is a 12-month cycle now because outside of the regulatory ones, you have your own internal ones through your budget process and ad hocs and so on answer forth. So, like, everybody, we're – we've been investing in that platform over the last few years.

Katie Murray: And I think, the only thing I would add is that we probably look more to the Bank of England stress test than the EBA one which is coming out this evening.

Male: Then the – on the stress testing, obviously, before, there was records – some sort of not restrictions but you're not, like, redeeming this outside the like legacy instrument or direct resumption of legacy instruments were driven by the stress test. And we've seen Barclays, I think last week, yes, being quite proud of being able to redeem legacy instrument just before the stress test and got the approval.

So, is it because of the stress test you haven't done anything? I think in Q2, you were saying things have (taken hold) that you would look at ...

Katie Murray: No.

Male: ... legacy or it's completely ...

Robert Begbie: We've been – I mean, all U.K. banks have some element of restructuring to do as a result of ring-fencing. I would say, probably, ours has been the biggest in terms of what we've had to do.

And as part of that, we have been moving the balance sheet around and as Rupert alluded to in terms of some of the actions that had been going on in NatWest Markets and declaring a dividend this week and paying a dividend and so on, so there's been lots of moving part in terms of balance sheet funding, liquidity, settling that down, getting the rating agencies comfortable within new structure and how they look it from a ratings perspective.

So, it's not – there is no – well, as you would expect given where our CET1 is, there's nothing stopping us going ahead and getting the requisite non-objections to calling securities we've just not got round to it for this year.

Male: And, I mean, a lot of your legacy – the thing the legacy issuance – a lot of your legacy are eligible as Tier 2 and you don't necessarily have a lot of Tier 2 outstanding, so – shall we expect potentially some ...

Robert Begbie: Yes. I mean ...

Male: ... revisions?

Robert Begbie: We haven't – we've taken a fairly conservative view on that on an ongoing basis. So, we're kind of viewing them with legacy Tier 1s than necessarily transitioning to Tier 2s. I'm viewing them that way.

I mean, many of them have very high coupons on them. So, the – irrespective of whatever they are or not going forward, they've cost us quite a lot of money in terms of coupon cost. So, clearly, we would like to get that burden off the balance sheet at some point in the future as well. So, yes, I mean, I think there's cleaner ways to get to Tier 2 than necessarily utilizing the high coupon legacy Tier 1.

Male: So, something in the stress test, you had a impact from IFRS 9, maybe a little bit different to some of the other U.K. banks, can you – how are we supposed to think about IFRS and trying to some idea of how that will move through the economic cycle. And to me, it feels like your risk being highly procyclical, but it's just my view. What (inaudible) ...

Robert Begbie: You want to take that one?

Katie Murray: Yes. Sure. No problem. So, I think, if you talk, first of all, the kind of recent result in terms of the kind of £100 million that we added, the disadvantage doing a £100 million number. It sounds like it's a round number which is the number that ended up as a round number. The actuality was 101 but we felt it was just easier to talk to 100.

So, those of you who remember the old day of sense in some ways the good old days of general provisions, it is not that and that's something that you're not able to do any longer.

So, when we do our modeling for IFRS 9, we do a number of scenarios. This time, as we looked at what happened to June to the third quarter, I think there was more uncertainty around how Brexit would flow through and the kind of macroeconomic state as well, consensus itself hadn't moved. What we saw was a lot of widening around consensus. So, we put through another scenario which we kind of probability weight as we weight all of them.

I won't go into probably weighting because that – what I would say it's a low probability which is reflected in the fact, actually, it was only 100 million.

So, I think if you look at our provisions, there's 3.9 billion, so 100 million, it doesn't really move the dial and even they're kind of 16 percent year-to-date in terms of the 16 bps is, obviously, still a very, very low level of impairment.

So, only as you look IFRS 9, it should definitely be pro-cyclical. So, you should see the bad news before it comes in, actually. The problem, I think, that we have and that many other banks have also got is that they have – we have 10 years of really benign data.

So, actually, we haven't done decided what kind of work are we through. So, therefore, you – the standard requires you move forwards and backwards. Obviously, economic consensus is one of the scenarios we use. We do a number of different scenarios along that piece.

What I think I'm interested in is in the stress test that's coming

But what I'm interested in particularly is in the December stress test, is there – I think we'll see a lot more IFRS 9 disclosure where you see the banks in side by side.

Our impairments are lower in percentage terms than other people and then what we are really interested in is what is that side-by-side comparison? Actually, research shows when it is done on really a more consistent basis.

But the challenge is, as you look from one bank to the next bank, all of our portfolios are different. Small differences make big differences in terms of your numbers. So, they're actually very hard to compare.

But absent, a number of different things moving at once whether it would be kind of yield curve, your inflation, unemployment stats, then it's really hard to bring through big things in that number. And I think as I sit in the audit committee, the audit committee say to me, Katie, why are we not seeing bigger numbers moving and I'm like, but not your seeing bigger things happening in the market. So, it's really hard to bring different movements in. So, there's this constant feeling.

We know the others have taken in their numbers, and that HSBC did have some disclosure, it's part of their transition number. But we also know that others – they've all done many different scenarios like us and it's one of those things that's embedded within it. So, I don't think that we are an outlier. I think that we maybe just talked about it a bit more publicly than others.

Male: Let's say it sounds like it was partly linked to Brexit. Let's say that was a Brexit deal agreed on (inaudible).

Katie Murray: Yes.

Male: Simply would expect 100 million come back or is that 100 million or ...

Katie Murray: No, no, no. So, I think each – so we look at the provisions of securing a monthly basis. I mean, (the team) would track them on a kind of daily basis in terms of relationship with the customers. So, the 100 million had been spread out across the business. So, you definitely would not – I would be very surprised if you see the 100 come back.

If you see it, it is an accident of math because it's been embedded into the models now and as we run the various scenarios as we go through, we'll see different things kind of come through. And then as I look at the IFRS 9 numbers, I think what's probably surprised me a little bit is as – is the amount of time numbers moved into Stage 3, back out Stage 3 and into Stage 2 back out of Stage 2 and into Stage 1 and we actually see quite a lot of movements in those numbers.

And when you're – it's actually low level of impairment. So, 30 or 40 million movement has an impact on that kind of thing. But we'd be very surprised if we – they sign a deal in November, I would not expect that to release that at December because, well, whatever the deal might be, it has to bed in and we have to deliver and actually it's how things work.

But I think, there'll be a couple things that will help all of us in terms of the stress test that comes out in the 5th of December and then also at the yearend, we are all required to give even more disclosure on IFRS 9 and a lot more on the sensitivities. And again, we are interested to see other banks' views on that as well.

Male: And let's say, Europe and U.K. were to go into recession and connected to kind of a (recession), so (inaudible), you're right, you haven't got a (little page) then as you look back with the recent data looks worse and worse and worse, how does this all stop? What stops your provision just sort of getting bigger and bigger and bigger as you go through this like the rest of (the thing) that I don't really understand.

Katie Murray: Yes. No. So, I mean, I think it's – so, in theory, as you're going in, you would have recognized it all at the beginning that that won't happen exactly that.

So, it's – I think as we kind of work our way through it, it is around the multiple scenarios that kind of stop and pull you back.

Male: (Inaudible).

Katie Murray: Yes. And I think the other thing is as we do our provisioning, so if I look at it, the small amount that is NatWest Markets, it's done on a – it's individual names that we're reviewing, an individual name basis.

The mortgage book is a pool, so that behaves in a different way but that's much – that's easier to look at and we stressed affordability of the mortgage pool between 6.5 percent and 7.5 percent interest rates.

And then, the corporate book is a mixture of a small pool and actually much more of it done by individual name. So, that, I think, is probably what stops you kind of disappearing over the edge because, actually, the big pool is the mortgage and the credit card book which is there is better data on.

Male: Got you. Yes. OK.

Male: When I was on the way up here, I think I remember back in maybe July or August last year, there was announcement of an FCA investigation into money laundering and I can't remember if that was ever resolved or whether that's still ongoing. Do you know anything about that?

Katie Murray: I don't specifically ...

Male: ... deal with Russian trades, I think.

Katie Murray: That does ring a little bell, actually. Yes. So, can I ask that (Paul) come back to you on that? It's clearly is not something that's ...

Male: Just because of what's going on with (Inaudible).

Katie Murray: No, no. So, it's ...

Male: I don't remember seeing any ...

Male: (Inaudible).

Katie Murray: No, no. I mean, we – so, what I can say is that we're not under any money-laundering-type guidance or instruction from the FCA or the PRA. We are, like, all other banks continuing to upgrade our client onboarding. But I think we are not – we're certainly not in a situation where we're being investigated.

And so, I do remember something along that line but it hasn't developed into anything that have a wider significance for the bank. But we do, like, every (inaudible), we're spending quite a lot of money on making sure that we upgrade our onboarding and we watch where others have been burnt.

And what is always amazing, it's one or two very small cases. And if you look at them in the (ING) recent ones, so it's helpful that they're publicized because then you can actually see it's hard to capture. But at this point, we – I have a lot of conversation with the regulator but we're certainly not under kind of monitoring or anything like that.

Male: We do have an extensive disclosure in our risk factors (inaudible).

Male: (Inaudible).

Katie Murray: I do have – I remember something about it. It's not developed into anything of any substance.

Male: And linked to that, I'll try and ask it without just trying to ask forward going but to what extent do you think P&L can look a bit cleaner next year because, obviously, it's been a little while since you had a somewhat clean P&L without one-offs?

Katie Murray: Yes. I know. Well, I think we can give you some forward guidance on that because we have been quite kind of open about it. So, I'll almost work my way back up from the bottom, if you don't mind.

So, as I look at our (annoying for you) start before payment (of prefs) and things like that, but so, if I look at our impairments, we've always sort of said 30-40 bps through the cycle saying it's 16 bps, it doesn't feel it's going to flip through that kind of level anytime quickly.

But within conduct and strategic costs, we still have a number of conduct items that we need to resolve. You can see us picking those off and you see little charges going through. We, obviously put it through PPI and a couple of other smaller charges in this quarter.

I would expect some of them to continue to come through into 2019. I would hope that by 2020, we were in a more normalized state but I think there have been some conduct to show us anything. It takes a long time to go through the machine just in terms of all the different counterparties.

So, there'll always be an ongoing kind of conduct charge and where consensus is sitting externally, we're not uncomfortable with in terms of that guidance.

On strategic costs, we've talked about spending 2.5 billion over '18 and '19. We spent 699 to date. We are not changing the guidance on the two and half but you could expect, I think, a relatively chunky number coming through that piece.

Operating cost will continue to decrease. And in terms of income, if we kind of work through the various sectors, we've obviously got the structural hedge which is giving you good guidance on overtime in terms of being that piece in, NatWest Markets is the 1.4 to 1.6.

CPB, we have guided you that we're kind of more or less finished our RWA reorganization and taking it at out the poor performing groups and we're growing where we are. We're expecting kind of 1.5 percent growth being the lender and the size of lender that we expect to participate in that.

And in terms of (PBB), we sort of said flat, slightly up over the kind of medium terms. So, those are all the bits of guidance.

They kind of together tell you something and not so much on the income line probably. But that's kind of where we are. I mean, the reality is we often talk about one-off and I think, actually, we make our own burdens here a little bit.

And you'll notice in the disclosure, we described them all as notable outcomes. I think debt sales is a reality of life as a bank. You do – they're lumpy, they come through from time to time. But things like the insurance recoveries and things. We were told that we are getting to the tail end of those kind of things.

But the conduct lines, certainly, where consensus is looking at the moment, we're not uncomfortable with – and it will be around timing as much as anything.

Male: And so, there could be some more PPI ...

Katie Murray: So, I mean, PPI, we believe that we're – we estimated that we've got a good record of trying to put away what we've done. In my hand-over with Ewen, one of the things he said was don't say never on PPI. So, I will not say never on PPI.

But, I mean, we put an extra 200 through. We'll continue to monitor it. We saw a huge spike in August this year. I wouldn't be surprised if we shell out another 50 or 100 through. But I mean, we don't have anything modeled. If we did, we do recognize it already.

And it really – at moment, I get kind of weekly notification of PPI claims. They're bang on what we expected them to be. I don't know if (Arnie) is being less effective than he was ...

Katie Murray: In terms of the advertising. What we are seeing interestingly, is it's probably a bit more of a threat people not using claims standards in companies, they're coming

a little bit more directly. And I don't know if that tells you anything in there in terms of how – whether that's interesting or not. But we're not expecting anymore of it. We're not expecting not to necessarily have another little skip up as we finalize.

Female: Anything on the pension payment side? Do you obviously pay some chunky (inaudible) ...

Katie Murray: We paid (inaudible) ...

Female: ... another piece of that. Was that 2020, though? Was that ...

Katie Murray: So, we've got three more portions that we've agreed to pay, 500 million a year as we make the first payment in 21, I'm going to say. Is that right?

Katie Murray: Twenty-one, 22, and 23?

Male: Yes.

Katie Murray: And they're linked to our dividend payments.

Female: Yes.

Katie Murray: They are maximum of 500 million. So, we'll deal with them as we go. I mean, from an IFRS 19 basis, the pension is very strong, but you may be aware on our own scheme that we don't have automatic access to the surplus. So, it's not there for our benefit.

But the good thing about putting the 2 billion in is we've got so we think it's a good place to be with the pension scheme and so on from economic terms. We wouldn't expect to be contributing any more than the standard charges as for those people that continue to be members of the scheme.

I'll just go to the phones. (Sharmaine), would you like to just confirm if there's any questions on the telephone?

Operator: Yes. At this time, ma'am, there's no question over the phone line. And as a reminder, if you wish to ask a question, you may press star one on your telephone

and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Thank you.

Katie Murray: OK. Thanks.

Male: In terms of your existing debt stack risk, what is the ending of LIBOR mean, I guess it's a broad question. But ...

Robert Begbie: I've got the chap who runs the LIBOR program in front of you. But I mean, that will kick off and then (Donal) can maybe – I mean, like in most banks, we're mobilized, we're looking at the implications of it. And it extends, it's quite interesting when you start looking at it because the obvious places you would look which is your derivatives book and your investment bank, a big derivatives book in your treasury, and you have LIBOR-linked loans in your corporate banks and so on and so forth.

And then, I know you start to think about, well, that's – you can quantify all of that but then you start thinking about all the other things within the organization that have some element of LIBOR linkage to them from your fund's transfer pricing through to potentially even service contracts that you have with suppliers which may have kind of LIBOR terms in it or whatever else.

So, the short answer is it's a massive body of work. We've mobilized a program which I oversee. It's really what I would call a federated program and that we have some stuff we need to do in treasury, some of the stuff needs to be done in NatWest Markets. But we'll probably be more market solved as opposed to idiosyncratic actions.

Our Commercial Bank has got a lot of work to do in terms of their commercial lending that's linked to LIBOR and how do you move that over a period of time. And then you get into the internal stuff around the FTP and you run a budget process, but halfway through it, it switches to SONIA but is it just SONIA or is there some kind of structure to SONIA as well?

So, there's a lot of work to be done. I think the – that if I think about what's going to flip past, then you'd already see in that – I'll get (Donal) to comment in a minute, the market is already starting to adjust to it in terms of issue and it's linked

to SONIA in terms of, I think banks starting to look at whether that was liquidity portfolio about structural hedging or whatever on to SONIA. Do you want to ...

(Donal): Yes. I think in relation to the debt stack, I think the answer is we don't know. I think the industry doesn't know but at least it is an industry problem that needs to be solved.

The two complications, I think, is the debt stack and also LIBOR lendings because in effect, there is no replacement for either currently today. Derivative piece, I think, is easier because there'll be the ISDA consultation if you want, because SONIA derivatives exist today. So, there is the root to transition.

But I know – there's been a lot of talk around – (Scott), you can jump in here as well – consent solicitations, et cetera. But it doesn't – none of them seem actually anyway possible to implement. So, really, what you need is some Regulatory or industry-wide solution, I think it's back- book and that's even assuming that we have some sort of term fixing or replacement rates because that's still uncertain at this stage.

Male: If you go to the deadline by the 14th of December, I guess, where you have to prepare or to suggest to the regulator later. I mean ...

Male:

(Donal): So you're talking about the dear CEO letter. Yes. The response. Yes. So, in effect, there's one thing – Dear CEO letter is really around our plans and how we transition. But I think within that, there's still a number of outstanding decisions that need to be decided from an industry perspective before you can actually transition your back book.

You probably separated to front book and back book as well. As Robert said, we've already seen covered bonds issued linked to SONIA. It's probably unlike that we will see covered bonds linked to LIBOR (to) – I think going forward, (I do) have that avenue available.

But it is – it's the back book piece that still needs to be solved. I think as an industry, I don't think anyone will be able to put a solution to a Dear CEO response because it's something that will drag well into next year.

Scott: It's not just from an issuer's perspective as well. Bear in mind, as well, that some investors will have to meet the functionality and the capabilities there to have a non-IBOR linked instrument on their balance sheet as well.

(Donald): As we stand today, based on the current fallback language, FRNs turned in to fixed rate bonds and unless there's some sort of change in or some solution to them.

Male: I think you mentioned December 14th. What's your – what can you tell us from like the timeframe beyond that line because it's not really very clear to me what the timeframe is from now till the end? (Inaudible) you know?

Donal: Well, I think we – you have to work to the case of LIBOR, will it not exist beyond 2021. I think that's exactly what ever bank is working to in the ...

Male: I mean, there's no steps between now and 21 ...

(Donald): There will be. Because I think there's ...

Male: (Inaudible).

(Donald): ... we just don't know yet. I think we'll see a step up from (SCM PRA) for banks – to put pressure on banks to transition as quickly as they can. There are definitely parts of the market currently available to us to transition. (So it's from a) derivative perspective, we can transition.

But unfortunately, there's still industry-wide solutions that need to be taken before you transition your debt stack and your LIBOR-linked lending.

Robert Begbie: I mean, I think – I mean, I would imagine that once all the (Dear CEO) letters go in, we'll each individually get a call in January to come in and talk through it via CEO letters and we'll get feedback on whether that felt to be ambitious enough or fast enough or whatever. But I have been in forums and you've been in forums where the banks, together on things like this, it doesn't feel like anybody is that far ahead of anyone else.

I think the bit that's – I think not as much patchy but the take-up's been patchy which is not surprising given Brexit's (inaudible). It's really the interest from strong investors and potentially clients in terms of getting into the real specifics around it right now, I think our last side investment bank have grown, client dial-ins, trying to get clients together and pick up speed, probably are patchy, I think, at this stage which (inaudible) here thinking about immediacies of what you're faced and clearly between now and then to March is much more in the forefront than getting to 2021.

But we've done – I think the Bank of England has made it very clear what their expectations are and the industry needs to work back from there in terms of kind of solving it.

Whether LIBOR remains an index that gets quoted beyond that, that is – that could happen but I think the expectation of the Bank of England is for us to get off it.

Male:

Given the way your CET1 ratio is inevitably you're getting pressure from the equity market about returning what's perceived as excess capital. How do you – in terms of your capital targets, how are you feeding Basel IV into that? Is it – I think you said before your RWA inflation is maybe around 10 percent is what you will see on that, at least by 2022. So, I'm guessing more by 2027 as it gets phased in. I don't know. But, so how do you – how do you look at your capital ratios in the light of Basel IV?

Katie Murray:

I think the guidance that we've given is that we have a capital target of 13 percent. We expect to run over – a little bit above that for the next couple of years. And there's a number of reasons for that. One is IFRS 9, one is IFRS 16 which is around leasing, which is a small impact to couple of billion of RWAs.

And then, obviously, the mortgage floor is coming through which we've done additional 12 billion of RWAs. And then once you get to that stack, we then think the Basel will be 10 percent of that kind of stack.

What we see and observe is it seems to be taking a bit longer. There's going to be a slightly slower buildup of it and as we kind of work the way to becoming kind of final.

But we are comfortable with that kind of guidance as it stands just now. I think in terms of the whole dividend buyback and I think we had an (equities) call this morning, I think I (answered) the same question in many different ways throughout this morning which is interesting, like, Ross meeting one of our bigger investors and he was in the office shouting, when are you giving further capital to them, Katie?

So, we're – and I mean, that's such a strong conversation. But naturally, we're sitting at 16.7. We know we've got an extra 40 bps coming. We've guided the market to a 40 percent payout ratio. We're looking at consensus, we're more or less there already.

So, it's something we will just kind of work our way through. So, we are – we're very conscious of the bonds that will come on our RWAs and our capital base. It's not the same kind of change in our capital guidance at this point.

But we do seek to return a significant amount of capital to shareholders over the next couple of years. And that will be via a variety of mechanism, not all of which are in our control.

So, in terms of a directed buyback, there needs to be a sale for us to do a directed buyback attached through and we're trying to – we're working with the PRA and the UKGI to be in the position to participate in that should they decide to go on that route.

Male: Unlike a lot of banks, you're talking a fair bit about digital transformation and what is happening there and it's not clear to me yet how that's all going to shake out in terms of the competitive landscape between Fintech companies and the Neobanks and whatever.

But in terms of earlier in the year, there seem to be a lot of talk about open banking but I've not heard much about that recently. Has that been a factor for you? Is that something that ...

Katie Murray: It's not a factor. We have some customers who have made themselves available. I don't think we've disclosed a number but it's not – it's a small – I mean, it's a tiny number in comparison to our customer base. What's also interesting which I

hadn't realized that once you made your data available, you then do a reconfirmation, 90 days later.

And so, we see a little bit of a follow-up at that point. So, I don't know if that means you get closed down your (service) again but that's quite interesting but we see it as a very real thing as times goes on. We see that not just a threat but also an opportunity for us, in terms of us – as we open banking up for our customers, we'll also get see more of their information which will now also help work with them in terms of products and services.

I'm interested as you start to see others launching their kind of open banking solutions. We are – we haven't lost ours yet but we are very much working on it.

So, I think it's something that will become more of a reality and I think what we know is that companies trust banks to look after their data. They don't always trust us from giving us the best advise as PPI would kind of suggest. But they're very happy that we hold their data.

So, I think that is important. Neobanks are important. But we are quite confident we have a very important role to play and what we really need to do and a conversation we have internally, how do we make this as a big opportunity for us to continue to serve our customers?

We likened it to the transition over to digital not just from the fact it's a better customer experience, also with my (finance) hat on, it's lower cost. And so, it enables us to actually close down a lot (inaudible).

Robert Begbie: I think the launch of it coincided with a number of different things about data and data security around (inaudible) and this trades in with the social media ...

Katie Murray: Yes. Yes.

Robert Begbie: ... (inaudible) or whatever it might be and, look, they may be are connected by customers minds are not necessarily unconnected. So, I'm sure that probably had an impact on just what such a low take up it has been. But the generational thing kicks eventually, I think people will get more used to it, but it's certainly not taken off anywhere near the (inaudible).

Katie Murray: I think also in one thing that people don't realize yet, it's not all product yet, so it's just your current accounts, not your credit cards or your deposit accounts. I think as it expands and grows and you're actually able to see more and more of your customers' positions and then get into the position that you're able to advise them and actually truly do you realize that you are overpaying here and then making it seamless for them to sort out some of their financial wealth.

I mean, as I talk to the team, they say, so, Katie, if you gave me access to all of your details, I know we could save you a thousand pounds this afternoon because you'll be paying too much on XYZ and it's just a question of actually when are you ready to do that. And then for us to make it effortless for our customers to make those changes.

Female: OK. (Inaudible) way to think of it in this way, but further down the line, does it compromise the idea that deposits are stable?

Katie Murray: I think that's actually a very important point. It's something ...

Robert Begbie: Yes, I mean ...

Katie Murray: ... talking about yesterday.

Robert Begbie: The way I look at it is it's part of an overall shortening of behavioralization lives and whether it's the fact just generally, you take it your phone out of your pocket and move money in two seconds or open banking or just small price visibility and you compare it (inaudible) to the market, all that stuff, I think, would generally lead you to believe the behavioralization but it can only get shorter rather than longer.

Albeit, it's getting shorter from very long tenors and part of that is really been driven by the underlying interest rate (environment we've had for 10 years. And again, it'll be interesting to see if rates do start to rise where you have a tipping point in terms of that behavioralization as well.

So, we run – I mean, as part of our own internal liquidity stresses and our (ILAAP) submission to the Bank of England, we've run specific stresses around open banking, around cyber attacks, around various different things. But the general principal is that we believe that behavioralization will shorten over a period of time.

Now, does that give you an issue? Well, it depends how aggressively you're looking at behavioralization in the first place in terms of the way you're potentially positioning your structural hedge against your deposit books and so on. We've intended to be relatively conservative and constant in terms of the assumptions we've made. We could have pushed longer but we felt we've kind of held our ground on that.

So, I think that's the kind of general backdrop. I don't know ...

Donal: The only thing I would add, I forgot to (say) in open banking where people are shifting their deposits on a weekly overnight basis, it starts to become funding that banks don't actually want. In that case as well, it doesn't bring any liquidity value. So, what impact does that then have? So, yes, let's just see how it evolves over the next few years.

Katie Murray: I think it's something we do - we pay a lot of attention to not just account the (switch) because, actually, those numbers are still very low, actually, who's moving money (today out to Monzo) to use on a daily basis and how big a trend is that becoming. It's still small but it's something that we watch and actually this idea that people should have a discretionary bank account, they use to kind of manage their finances that I think will be interesting as how does that become, how can we place in that space and I think it's a kind of fascinating area to watch.

Male: (Can I ask) an old question about whether issuance plans (next year) stuff.

Robert Begbie: Yes. I mean, we've try to be fairly consistent over the past few years in terms of our guidance, we still believe 4-6 billion per annum (solves) for our (MREL stack). As I've said earlier, we've done closer seven this year, so gives us a little bit of a head start on next year's target. That doesn't mean to say we won't issue the upper end to that target next year, but I think that will be driven again by is there any potential issues in the market in the first quarter because of Brexit or otherwise.

So, that's pretty straightforward. We have in the plans secured issuance. This year, we didn't do it because we're certain that high 150s LCR and really, there was no need to issue covered bonds entering more liquidity in the door.

But the covered bond program sits in NatWest Bank now, that's where the majority of our mortgages are. We're growing our mortgage book, so therefore, it's another funding source for us to use covered bonds as part of that and it also plays a part but we're not dependent on that in terms of the TFS repayment where we drew 19 billion. We've got a plan to repay that through a number of different areas balance sheet coming down, covered bonds, deposits, some deposit growth. But we're comfortable. We can get that.

Do you want to talk with a ...

Rupert Mingay: Sure. So, Robert's talking about the HoldCo positions. We said we'd be issuing 2 to 4 billion sterling from NatWest Markets, obviously a separately rated and entity. We issued effectively 5 billion this year.

And the way to think about that is really we've obviously got a steady state refinancing requirement but we've got a maturity profile that we've inherited from debt issued by the predecessor company and then we've obviously got the events of next year.

So, we've issued mainly in Euro in the public market during the course of this year. We look toward the markets as available.

Male: So just on your issuance on that one? Where do you think that should trade versus the Holdco? A question (we) all ask ourselves.

Male: (Inaudible) OK.

Male: Where do you think it should trade?

Male: (Inaudible).

Male: Well I was hoping to trade inside as well (inaudible)?

Male: But I mean, if your commensuration ...

Robert Begbie: Well, the ratings are similar – I mean, I was just going to talk about ratings and actually differed markets. So, I mean, just on Rupert's point a little bit, I mean, one of the things we are both looking to do over the next 12 months is to diversify investor bases and currencies, I think, which are (direct to) ratings.

I 'm in Japan, in a couple of weeks' time just start to have discussions with investors out there because we know are moving, I think, to the place where we've become a more investors will look more to us in terms of those different markets and whether that's in yen or it's in Aussie dollars or it's in Canadian dollars or whatever.

So, diversification away from just the focus on the dollar market or even the euro market, I think, would be good for both of us and we're working with the guys here in terms of investor relations of each plans and people who haven't been part of the story for the past five years, understanding what the story is.

Linked to that is the ratings. We believe, firmly believe, the gap to peers is still too wide and should narrow over a period of time. We get the fact that's not going to happen in one jump. It's (unrealistic to think) agencies would do that but we've met them all recently and we've made our points that if whatever lens or methodology look through that they use, we are in a position where we should be expecting to close that gap to peers over a period time.

We're sitting here in November. There's Brexit uncertainty. It's probably going to be a (brave rating) agency that goes and upgrades UK banks anytime soon. And so, there's a bit of clarity on that.

But not withstanding that. That doesn't change the fact that we think we should have – we think that certainly if everybody stay the same, ours should go up. If there's more volatility in ratings, we should still close that gap.

Rupert Mingay: And, I mean, obviously, from a NatWest Markets point of view, we're borderline single A in the sense that we're BBB plus from (inaudible) positive outlook from all three. So, I think that would be helpful.

That would slightly position the comment I made about (inaudible) clearly be inside – be interesting of where we do trade outside. But I think more importantly for us, we've established the yield curve this year obviously we've got two-, three-, four-, five-year transactions. It is the case that we would probably think our rating is not sufficient that – for all the markets now to access but there are some markets that at this rating that would be available to us overtime.

So, we will – we'll diversify both on the main transactions, obviously, to build around the margin as Robert said.

Male: And capital? (Tier 2 / AT1)?

Robert Begbie: Yes. I mean, it wasn't in the plan this year. We don't necessarily need it next year but I think next year, you start to think about it because if you think back to our original new style (AT1s), we started that in 2015. So, you start looking at them in terms of when they might come up and now you might look at it.

So, I think we'll – we normally give a bit more firm guidance after the full years results. (MREL) target's not going to change. Covered bond target's not going to change. Refinancing requirement is not going to change but I think that the rest of it would be kind of market dependent (inaudible).

Male: And for the rest of year? Just would be focusing on the potentially pre-funding of (MREL)?

Robert Begbie: I'm not intending (planning) to come back to the market this year. I mean, that (inaudible). Unless Ross (inaudible) ...

Male: (Inaudible).

Robert Begbie: ... fantastic opportunity, but really no, (I don't think so). I mean, I think we feel comfortable where we are and I think you need to be careful. I think people get – or investors get the fact that we've been prudent this year. We've gone to the upper end of the range and we've slightly prefunded next year.

So, the fact we've done 6.7 billion instead of six at the top end, I think we can argue that that was just being conservative and sensible. I think if we go again, just starting to get over the 7), I think we're going to get questions of why did you tell me 4-6 if you're going to issue eight.

Rupert Mingay: And probably, on our side, we had a lot of support overseas for most recent year transactions. I think it's really building on that in terms of investor communication, investor marketing. What's the case for us is our disclosed balance sheet at the half year, took a little bit of unpicking because we still had much of the ring fence activity in there – in the balance sheet.

But I think forward-looking, obviously, for Q3, but particularly for the year end our balance sheet look a lot simpler, so that's really getting ahead of conversations for next year around that.

Katie Murray: (Sharmaine), just confirming if there's any questions on the line before we start to bring it to a close?

Operator: There's no question over the phone line, ma'am.

Katie Murray: OK. Lovely. Thanks for that. So, we'll finish up in the room then we go to (inaudible).

Male: (Inaudible) from the resolution strategy. So, we heard about impediment to resolution. Some of your peers are taking legal advice and what that means as a nuance between what is impediment and what is only complication to resolution, are you also trying to take a view on what this impediment to resolution would mean?

Robert Begbie: You mean specifically around bonds that may (inaudible). Yes. I mean, there's – I'll get (Scott) to jump in. But there's proposed legislation coming out in the U.K. which we will – we believe will deal with the issue. We are led to believe that that's progressing as planned and should come in in early December.

So, we've looked at other methods of dealing with it and spoken to our lawyers but we think the problem gets fixed.

(Scott): Yes. I mean, I think there's different reason which impediment to resolution could be construed and constructed. It's ultimately for Bank of England to determine, I think in discussion with the individual resolution entity, what they would perceive to be the impediment to resolution.

So, Robert touched something in terms of some bonds, what would be the factors that could potentially stop you from issuing that junior subordinated instrument there if there was, for instance, blocker language in some of your instruments which we've got a number of legacy instruments which could potentially made it quite tricky there for us to issue that junior subordinated instrument.

We've seen other issuers such as Barclays access the market earlier go through a consent solicitation process to help resolve that, to change the structural terms. For us, we've got the Bank and (Building) Society priority of insolvency order which sets out the classifications, so you're got your Tier 1, your, sorry, your Class 1, Class 2, and Class 3 there of instruments which we think should actually solve the issue because therefore, you've got the statutory solution which embeds the ability to create a junior class of instrument, that's due to be implemented on the 1st of December.

Robert Begbie: Bank of England does obviously (explain) the impediment to the resolution (after that. It could be bond related, but).

Male: Yes.

Katie Murray: Are there any last questions? OK. Thank you for your time and ...

Robert Begbie: Thanks so much. Thank you.

Katie Murray: ... if you want to have any other question (inaudible) access, but please don't hesitate to reach out. Lovely. Thanks so much. Have a good weekend, everybody.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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