NatWest Group plc
Full Year 2020 Results – Fixed Income Call
Hosted by Katie Murray and Donal Quaid

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Operator: Welcome everyone.

Today's presentation will be hosted by Katie Murray, Group Chief Financial Officer, and Donal Quaid, Group Treasurer.

After the presentation we will open up for questions.

Katie, please go ahead.

Katie Murray: Good afternoon everyone. Thank you for joining us this afternoon for our 2020 Fixed Income Results Presentation.

I am joined today by Donal Quaid our Treasurer and Paul Pybus our Head of Debt, IR.

I will take you through the headlines for 2020, give an update on our strategic priorities, and then move into some of the detail.

Donal will then take you through the balance sheet, capital, and liquidity.

And then we'll open it up for questions.

So, starting with the headlines on Slide 3. Against the backdrop of economic uncertainty we have delivered a resilient performance whilst supporting our customers through the pandemic.

Today we reported an operating profit before impairments of GBP2.9 billion for the full year with impairments of GBP3.2 billion below our guided range of GBP3.5 to GBP4.5 billion.

Our well-diversified loan book remains resilient and there's been little change in stage migration which I'll cover in more detail later.

Taking impairments into account this resulted in an operating loss before tax of GBP350 million an attributable loss of GBP750 million.

Despite the challenges of the pandemic we have continued disciplined execution of our strategic priorities and delivered on our targets. During the year we grew Retail and Commercial Lending by 7 percent versus our target of 3 percent. We reduced costs by GBP277 million above our target of GBP250 million.

And we continued to reshape NatWest Markets reducing RWAs to GBP27 billion, well above our GBP32 billion target. This resulted in an initial dividend of GBP500 million from NatWest Markets to the Group this month.

As a capital-generative business we continue to operate with one of the strongest capital ratios of our European peer group at 18.5 percent. And today we announced a final dividend of 3 pence which is the maximum allowed within the PRA guardrail.

You will see that we have also announced this morning the conclusion of our strategic review on Ulster Bank. Despite the progress that has been made in recent years, it is clear that Ulster Bank's business in the Republic of Ireland will not be able to generate sustainable long-term returns.

We have decided to make a phased withdrawal from the Republic of Ireland over the coming years. We will do everything we can to ensure that customers and colleagues are well supported, and that service is maintained.

In the near term there will be minimal change for customers and colleagues. We have also made a commitment that there will be no job losses or branch closures in the Republic of Ireland this year.

As part of this phased withdrawal the Group has entered into a Memorandum of Understanding with AIB to sell Ulster Bank's performing corporate loan book and to transfer Ulster Bank's colleagues supporting this loan book.

Naturally our transaction is subject to the usual due diligence as well as regulatory approval. We are also in early-stage discussions with other strategic partners about retail and SME assets and liabilities.

We expect this withdrawal to be capital accretive over the duration of the process. This decision has no impact on Ulster Bank in Northern Ireland.

So those are the headlines.

I'll move on now to talk about our strategic priorities on Slide 4.

This time a year ago we set out a purpose-led strategy just before COVID-19 and the experience of 2020 has shown that it has never been more important to put purpose at the heart of our business, helping people, families, and businesses to thrive. And throughout the year we have done everything we can to put this purpose into action.

Our purpose is underpinned by four strategic priorities with a plan to drive sustainable returns by serving customers across their lifetime to generate growth; (carrying) the organization through innovation and partnerships; simplifying and digitizing our business through improved customer experience; increased efficiency and reduce costs and by deploying our capital to maximise returns.

Our purpose is also exemplified by three focus areas, removing barriers to enterprise; building financial capability; and leading on climate change which delivers benefits for our stakeholders and will deepen our ability to drive long-term sustainable returns. Donal will talk about what that means for our Fixed Income stakeholders a little later.

Moving on to Slide 5. Our clear priorities are, first to build sustainable growth with a continued risk discipline. We have lent above the market rates in 2020 and expect to do so over the life of our three-year plan.

Second, we are simplifying the business and delivering cost efficiencies. We expect to continue to reduce costs by about 4 percent a year over the next three years, leveraging our investment in technology.

And third, we are actively managing capital in order to maximise returns and aim to operate at a CET1 ratio of 13 percent to 14 percent by 2023.

I'll now give you a flavour of what putting purpose into practice has entailed in 2020 on Slide 6.

Over the last year our people have done everything they can to support our customers in the face of exceptional challenges. At the start of the pandemic, we set up remote working for 50,000 colleagues and kept 95 percent of our branch network open for customers who need us while also accelerating our digital offering.

We've provided mortgage holidays, capital repayment holidays, and approved over GBP14 billion of loans on the government lending schemes. Demand for this support has tapered since the second quarter and despite the ongoing pandemic and extension of government lending schemes current trends show no increase in demands, no increase in impairment, and continued growth in mortgage lending.

Nevertheless, we recognise there are tough times ahead for some of our customers as the pandemic continues and we continue to work closely with them to understand their needs.

I now want to move on to the balance sheet, particularly loan growth and impairments. So, starting with Slide 7, gross banking loans increased by GBP9 billion in the fourth quarter driven by mortgages which grew by GBP6 billion or 3 percent, reflecting strong demand ahead of the stamp duty deadline, and the GBP3 billion portfolio acquired from Metro Bank.

Our Retail Banking flow share in the fourth quarter was 13 percent above our stock share of 10.9 percent. Mortgages now make up 51 percent of total customer loans across the Bank. Unsecured balances declined slightly in the fourth quarter across both personal advances and credit cards.

Demand for government schemes also slowed further but still accounted for GBP1.6 billion of additional lending. However, this has more than offset by GBP2.4 billion of RCF repayments in Commercial Banking with utilization in Q4 at 22 percent, lower than the usual pre-COVID level of 27 percent.

Looking now at changes year on year. Gross banking loans increased by GBP36 billion or 11 percent driven by mortgage growth of GBP16.5 billion and government lending schemes of GBP12.9 billion.

Moving on now to look at ECL on Slide 8. You will remember from the half year that our modelling is based on four different economic scenarios to which we attach a probability weighting. We use the two central scenarios to reflect our expected outlook, each with the same probability weighting of 35 percent.

Given the stabilization of economics we have now increased the probability weighting to 40 percent for our base case. This scenario anticipates GDP growth of around 4.5 percent and gradually moderating thereafter. The unemployment rate, average is 6.3 percent in 2021 with an improvement expected from Q4.

A decline in house prices in low-single digits is forecast for this year before steadily reversing from 2022 onwards. And interest rates are expected to remain low with an anticipated reduction in the Central Bank rates to zero in the second quarter this year.

We have included GBP878 million of post-model adjustments for economic uncertainty in our ECL provisions until further credit performance data becomes available as government support protection unwinds.

These assumptions are reflected in our expected credit loss provisions of GBP6.2 billion for the full year.

You can also see our updated sensitivities on this slide. If we were to weight 100 percent to the extreme downside scenario this would increase ECL by GBP2.2 billion. And if we weighted 100 percent to the upside, it would reduce our ECL by GBP840 million.

So, let me now cover how this impacts the impairment charge on Slide 9. We reported an impairment charge for the fourth quarter of GBP130 million or 14 basis points of gross customer loans. This was down from 28 basis points in Q3, largely driven by a reduced charge of GBP10 million in the Commercial Bank, compared to GBP127 million in Q3. This reduction reflects a number of releases, the impacts of refreshing our economic assumptions, and the post-model adjustments I talked about earlier.

Our active capital management in the Commercial Bank has contributed to this low impairment charge and we've had no Tall Tree exposures in 2020 or indeed this year.

In Retail Banking, the GBP65 million charge is a slight reduction mainly reflecting Stage 3 default charges and updated economic scenarios. Any potential flow of new defaults is still being delayed by government support.

Our impairment charge for the full year of GBP3.2 billion is equivalent to 88 basis points of loans. We expect impairments for 2021 to be at or below our through the cycle guidance of 30 basis points to 40 basis points.

I would now like to talk about or risk profile on Slide 10. There has been little change during the quarter as government support measures are ongoing and customers have built up healthy cash balances over the year. Ninety-seven percent of our loan book is in Stage 1 and Stage 2, not past due where customers remain up to date on payments.

Stage 2 past due is 0.8 percent of the book down from 0.9 percent at Q3. And Stage 3 is 1.7 percent down from 1.9 percent at Q3 reflecting write-offs of legacy mortgages in Ulster. Our ECL coverage ratio is 1.7 percent, with Stage 3 coverage of 41 percent in line with Q3.

Some of our wholesale loans are in sectors that we monitor closely. These amounted to GBP27 billion in Q4 which represents 7 percent of gross loans. In these sectors, similar to the trend Group level, Stage 3 gross loans were broadly stable at around GBP800 million and we remain comfortable with coverage at 52 percent.

And with that I'll hand over to Donal to talk through the balance sheet in more detail.

Donal Quaid: Thanks Katie.

Good afternoon and thank you for joining today's call.

Let me start off by thanking you for your continued engagement with NatWest Group during 2020. It was disappointing not to be able to meet you all in person last year, but I certainly hope we can meet face to face once again in the not-too-distant future.
I'll share some of our highlights from last year before moving into more detail on capital and liquidity and conclude with our funding plans for 2021.

Starting with Slide 12, we ended 2020 with a strong set of balance sheet metrics against our capital funding and liquidity requirements. The economic uncertainty as a result of COVID contributed to significant market volatility during the year and in those market conditions I was pleased that we were able to successfully execute a number of milestone transactions across the capital stack.

I would like to thank all investors who participated in our primary deals and those who continue to provide support in the secondary market.

We continue to proactively take opportunities to optimise our capital stack including a USD2 billion liability management exercise that targeted legacy Tier 1 and bullet Tier 2 securities with less than five years to maturity, reducing inefficient capital and generating ongoing reductions in our interest expense.

We were also in a position to call an Additional Tier 1 in July following a successful dollar additional Tier 1 issuance in June.

On ratings, I was delighted to see our progress on ESG being reflected in MSCI upgrades and our Sustainalytics score reducing to just leave us outside the low-risk category.

Earlier in the year in line with much of the U.K. banking sector both Fitch and S&P revised the outlooks on the Long-Term Issuer ratings for all entities in the NatWest Group to negative from stable. And in November Moody's upgraded NatWest Markets to AAA as it refocuses its products and service offerings and reduces risk-weighted assets.

So, turning to capital and leverage position on Slide 13. Our CET1 ratio at the full year was 18.5 percent. That includes the benefit of IFRS 9 transitional relief of GBP1.7 billion or 100 basis points. Our total capital ratio was 24.5 percent with a total loss absorbing capacity ratio including Senior MREL of 37.5 percent. That leaves us comfortably above our minimum regulatory requirements on all of our capital metrics.

Our maximum distributable amount is at 8.9 percent reflecting headroom of 410 basis points above the lower band of our 13 percent to 14 percent CET1 target.

The U.K. leverage ratio was 6.4 percent, leaving 315 basis points of headroom above the U.K.'s minimum requirements of 3.25 percent.

During the year the PRA announced a number of modifications to the U.K. Leverage Framework including the netting of regular-way purchase and sales settlement balances and the exclusion for Bounce Back Loans. These measures combined reduced the U.K. leverage exposure by GBP10.5 billion. In addition, the change in the regulatory treatment of software assets increased the U.K. ratio by 8 basis points.

Moving to Slide 14 and quarterly movements in CET1 and risk-weighted assets. Our CET1 ratio at the end of the year was 30 basis points higher than Q3 driven by lower RWAs and a software intangible benefit of 23 basis points. This was partially offset by the three-pence proposed dividend and linked pension contribution.

Excluding IFRS 9 transitional benefits, our CET1 ratio was 17.5 percent.

We ended the year with RWAs of a GBP170.3 billion, a decrease of GBP3.6 billion in Q4 driven by Credit Risk and Counterparty Credit Risk reductions, primarily in NatWest Markets where we reduced RWAs by GBP3.1 billion to GBP27 billion versus our GBP32 billion target.

Moving on to the drivers of our CET1 outlook on the Slide 15. We have shaped the business to operate at a CET1 ratio of between 13 percent to 14 percent, and we plan to reach this level by 2023.

There are a number of factors to consider in the evolution of our CET1 ratio. First, we expect to generate capital as we move towards our 9 percent to 10 percent return-on-tangible equity target in 2023.

Distribution to shareholders are our key priority as was retaining capacity to participate in directed buy backs subject to the government's discretion. Linked to dividends we have committed to pay up to a further GBP1.1 billion pre-tax into the pension fund over the coming years.

IFRS 9 transitional benefits, which account for a hundred basis points of our ratio will taper down through to 2024 and is affected by Stage 3 migration.

On the denominator, we expect RWAs to increase relative to full year '20 driven by a combination of lending growth, procyclicality, and regulatory uplifts including mortgage floors.

As a result of these factors we anticipate RWAs in the range of GBP185 billion to a GBP195 billion at the end of 2021 including all regulatory impacts effective 1st of January 2022.

So, moving to Slide 16. In response to the COVID-19 pandemic, a number of relief measures were announced by regulators to support bank's capital and leverage positions. In March the Financial Policy Committee announced a reduction in the U.K.'s countercyclical buffer to zero percent and in December they announced that the Countercyclical Buffer will remain at zero percent until at least Q4, 2021. Therefore, no increase is expected to take effect before Q4 2022 due to the implementation lag of 12 months.

The PRA confirmed in July that our Pillar 2A requirement has temporarily converted to a nominal amount. The impact of the change had a minimal impact on our Pillar 2A percentage but will result in a percentage reduction to our capital requirements and MDA if we experience future RWA inflation.

The proposed reduction in Pillar 2A announced in the December 2019 Financial Stability Report came into effect in December 2020 and is included in our year-end Pillar 2A requirement.

As I guided to earlier in the year, the reduction in the Pillar 2A requirement is offset by an increase in the PRA Buffer and as a result our supervisory minimum remains unchanged.

Finally, the Systemic Risk Buffer, which is now called the Other Systemically Important Institution or O-SII Buffer, for the ring-fenced bank was unchanged at 1.5 percent. And the PRA have announced that they next expect to set O-SII Buffers in December 2022, with any decisions taking effect from January 2024.

At NatWest Group consolidated level, the O-SII is held within the PRA Buffer and therefore does not form part of the MDA for the Group. It does however form part of NatWest Group's supervisory minimum and therefore informs the Group's risk appetite in setting our steady-state CET1 ratio of 13 percent to 14 percent.

The total loss absorbing capital is 37.5 percent, well above our end-state requirements and that reflects both our strong capital levels and our progress in building our Senior MREL stock.

Moving on to liquidity and funding on Slide 17. Our LCR ratio increased by 13 percent to a hundred and sixty-five percent during the year reflecting over GBP70 billion of surplus primary liquidity above minimum requirements.

The elevated liquidity levels were primarily driven by deposit inflows and our total liquidity portfolio increased by GBP63 billion to GBP262 billion.

During Q1 of this year, we took a decision to repay GBP5 billion of TFSME, given the high levels of deposit funding. This is the first time since 2016 we have had no outstanding drawing of TFS or TFSME. We retain drawing capacity in the region of GBP77 billion which gives us funding optionality to support our customers with future net lending needs if required ahead of the TFSME drawing-window closing later this year.

On Slide 18, you can see the Retail Banking deposits grew by 14 percent or GBP22 billion to GBP172 billion with most of the growth in current account as a

result of lower consumer spending in the face of lockdowns and increased savings.

Commercial Banking deposits grew 24 percent or GBP33 billion to GBP168 billion as customers built up liquidity during the pandemic and retained a percentage of the government lending scheme drawdowns on deposits.

Our deposit base is well-balanced across our Commercial and Retail franchises and our wholesale funding mix reflects a range of different sources and maturities.

Our loans to deposit ratio is 84 percent, underpinning our strong liquidity and funding position as well as our strong ability to lend.

We will continue to look at all options available to us in light of the impact of COVID to assess the optimal blend and most cost-effective means of funding.

Looking back at our issuance in 2020 on Slide 19, given market conditions in the latter part of Q1 and early part of Q2, I'm very pleased at the transactions we executed during the year. We issued USD1.6 billion of Senior MREL in a dual-tranche transaction including our inaugural Green Bond issuance, which was the first Green Bond issued into the U.S. on-shore market from a U.K. bank.

On capital, we returned to the sterling market in May with a one billion sterling Tier 2 transaction, our first sterling Tier 2 since 2006. We follow that in August with an USD850 million Tier 2, which was the first Yankee Bank capital trade to use a three-month par-call.

In June we were pleased to be in a position to issue a new USD1.5 billion AT1, our first AT1 one issuance since 2016, and to announce a subsequent call of our USD2 billion AT1 later that month.

In addition, I was delighted to issue our inaugural sterling AT1 from NatWest Group with a GBP1 billion transaction in November, ensuring we are well-placed when considering refinancing requirements in 2021.

From NatWest Markets, we issued a EUR1 billion and a USD1 billion trade as well as completing circa GBP650 million in private placements.

Turning to Slide 20, and our issuance plans for 2021. On capital our expectation is issuance of approximately GBP1 billion AT1 and GBP2 billion Tier 2.

In Senior MREL, our guidance is a range of GBP3 billion to GBP5 billion as we look to finalise the steady-state MREL stack requirements, while being mindful of our 2022 calls and the maturity of some of our earlier MREL issuance maturing in 2023. As this is in bullet format, these securities will lose their MREL value from Q1 2022 onwards.

From the operating companies, I expect limited issuance from NatWest Markets legal entity given its balance sheet reduction and reduced funding requirement.

We are also unlikely to be active in Cover Bonds or RMBS from NatWest Bank this year given our significant funding surplus. We will, however, keep this under review going forward subject to funding requirements.

Finally, on legacy securities, we will continue to look at further opportunities to optimise the efficiency of our capital stack.

I'd like to finish off by covering a couple of areas of focus for us in 2021. Firstly, our ESG agenda and then the work we are doing on LIBOR transition.

Starting with our progress on ESG, on Slide 21, last year we saw marked improvement in our ESG rankings, reflecting the increased engagement effort we've had with the ESG agencies and is aligned to our purpose-led strategy. Our rating from MSCI improved to AA, from BBB in Q4 after Sustainalytics announced a reduction in our risk-rating score from 27.7 to 20.5 in July.
A score below 20 would characterise NatWest Group as low risk. These rankings leave us very well placed from an industry perspective.

We announced plans last year to do more issuance in Green, Social, and Sustainable format and I'm pleased that last year's Green Bond represents our second GSS transaction following 2019's Social Bond.

We have issued approximately GBP1.1 billion under our GSS framework to date and this year we're looking to further increase the volume of senior HoldCo issuance in GSS format, providing dedicated funding for loans and investments that bring a positive environment or social impact in the U.K.

And finally, on LIBOR transition. We now have just over 10 months remaining until the expected cessation of Sterling-LIBOR. We continue to be actively engaged in industry working groups to ensure smooth transition to new risk-free rates.

Huge progress has been made over the past number of years and it's now nearly two years since NatWest completed the first ever SONIA loans and issued our first SONIA Covered Bond. There is still a huge amount left to do over the remainder of the year and we are fully supportive of the Sterling Risk-Free Rate Working Group roadmap and targets, including the cessation of Sterling LIBOR-linked loans, linear derivatives, bonds, and securitizations by the end of Q1.

So, in summary, substantial economic uncertainty remains but we continue to build and operate with very strong levels of capital and liquidity.

And with that I'll hand back to Katie.

Katie Murray: Thank you, Donal.

And so on to my final slide to summarise.

We delivered a resilient performance in 2020 and despite the challenges of the pandemic exceeded our targets on growing lending, cutting costs, and reducing RWAs.

In an uncertain economic environment, we continue to do everything we can to support our customers, while advancing our strategy and accelerating our digital transformation.

Our focus is on driving improved returns with target set to grow income, reduce costs, and maximise capital efficiency over the next three years.

With disciplined execution in each of these areas, we expect to deliver a return on tangible legacy of 9 percent to 10 percent by the end of 2023.

We are pleased to be able to recommence dividend payments and our intention remains to return capital to shareholders with a pay-out ratio of 40 percent for ordinary dividends and distributions of at least GBP800 million per annum in 2021, 2022, and '23, giving us the capacity to participate in directed buybacks from the government for which we have approval from the regulator today.

Thank you very much.

We are very happy to open it up for questions.

Operator: Thank you.

Ladies and gentlemen, if you would like to ask a question please press the "star" key followed by the digit "1" on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions.

We will take our first question. And the question comes from Lee Street from Citigroup. Please go ahead. your line is open.

Lee Street: Hello. Thank you very much for holding the call and thank you for taking my questions. I have two for you please.

Just firstly on issuance, so you've obviously got a very strong capital position and that's going to stay strong for some years and at the same time you know, there's been a lot of pressure on net interest margin, you've undertaken you

know, the legacy tenders last year to help manage that, so my question is why the focus on issuing AT1 and Tier 2 this year given your you know, huge headroom, capital issuance position, to me it seems like you don't necessarily need to? That's the first question.

And secondly, linked once again to capital, obviously lots of discussion about capital, dividends, and directed buybacks. Given that as it's said so you wouldn't consider any form of M&A beyond sort of the small-style bolt-on acquisitions like you've undertaken with Metro for their – for their mortgage asset?

Those are my two questions. Thank you.

Katie Murray: Lovely. Thanks, thank Lee. I'll – I'll take your second and then Donal will come back on the first for issuance.

So, in terms of capital and dividend, we're definitely not saying that on M&A. What we're saying is, our preference is to return our capital back to shareholders and to participate in the directed buybacks.

We will and continue to look at M&A. I think the Metro deal was a good example of that where it was adding nice volume, a very good quality book, building where we've got real capacity to build. We'll continue to look at those deals. So we're really interested in things that are volume or things that are adding capability that we don't have but it's not the primary driver of the use of excess capital but it is something we're definitely open to and when there are opportunities we do look at them.

Donal, do you want to talk issuance?

Donal Quaid: Yes. Sure, Lee.

So in terms of Additional Tier 1 and Tier 2, you can pretty much see what our end-state requirements are so we don't tend to run kind of buffers at present so I guess what you're linking it to is our strong CET1 position of 18.5 percent.

So, the way I would look at that as Katie and Alison announced this morning, we've guided to RWA inflation of GBP185 billion to GBP195 billion by the end of this year. That obviously includes our mortgage floors, RWA inflation that we expect on the 1st of January.

We also have built in there potential for directed buyback at 4.99 percent, dividends of a minimum of GBP800 million, and then the linked pension contributions as well, and their expectations as well as the software intangible benefit of 23 basis points roll off too so you know, there are headwinds to that currency CET1 position so we do expect it to come down during 2021.

And then we we're guiding to from an issuance perspective. We have in our plans about a billion of additional Tier 1. Obviously just noting there we do have a USD2.6 billion call in August so again just retaining close to what our end-state requirements are.

And in terms of Tier 2, really which I've talked about before is we have about GBP6 billion to GBP6.5 billion of dollar bullets outstanding that are amortising down 20 percent per annum so again that issuance just keeps us in or around what our end-state requirements are.

Katie Murray: Thanks Lee.

Lee Street: All right. That's clear. Thank you.

Donal Quaid: Thanks Lee.

Operator: Thank you.

And your next question comes from the line of Robert Smalley from UBS. Please go ahead. Your line is open.

Robert Smalley: Hi. Thanks for doing the call in U.S. accessible hours as well, greatly appreciated. Couple of things.

First on LCR, up at 165 percent. Realise as you said that it's a lot to do with the in floor deposits but how do you bring that down and how do you more efficiently manage that and is there any – do you judge any like trapped profitability in there? Is my first question.

Second question on Slide 20 on the legacy capital, GBP2 billion left, really just a couple of CUSIPs. Is the plan just to do the rest of the lift this year and take all of it out?

And then my third question, you talked about LIBOR transition last year, your AT1s you did one with Treasury reset, one with a GILT reset. Will you continue to do your AT1s in that format until LIBOR has fully transitioned or would you look to use different reference rates?

Thanks.

Katie Murray: Donal?

Donal Quaid: Sure. Let me try and take them in order Robert.

So LCR full year, a hundred and sixty-five percent. What we have done obviously since, since full year we paid GBP5 billion of TFSME and we also had the purchase of the mortgage – of the Metro mortgage book of GBP3 billion, so what we have seen is that hundred and sixty-five come down you know, in or around the kind of mid 150s at this stage, since that full-year position.

In terms of managing that, you know, we have been managing excess liquidity now for a number of years so we've kind of considered that BAU. And it does link into you know, some of our 2021 and longer-term targets around lending above market level.

So again, the large majority of that liquidity is sitting within the ring-fenced bank and there are constraints around you know, what we can do with it and how we put it to work.

In terms of the legacy capital of GBP2 billion, you know, I think we have a – very obviously you know, we have a very good track record of dealing with legacy instruments with you know, I think we had a about GBP11 billion of legacy Tier 1s was outstanding back in 2014 so we've seen a gradual reduction there.

I think we will – our view is that we will – we will look at opportunities to upside capital stack again during '21 but our expectation is that there will be some securities and notionals outstanding because even with a very successful LME you know, we'll never get a hundred percent take up so particularly around the OpCo Tier 2s, the likelihood is there will be small notionals remaining outstanding.

And finally, on LIBOR transition and the additional Tier 1. I think you know, I – think as we go forward, we will be happy with the resets against gilts but we could look at that on a – on SONIA basis as well going forward, so we'll keep that under review just based on timing and investor demand as well.

Robert Smalley: Great. Thank you.

Donal Quaid: Thank you Robert.

Katie Murray: Thanks Robert.

Operator: Thank you.

We will take our next phone question. And the question comes from Daniel David from Autonomous. Please go ahead. Your line is open.

Daniel David: Hi. Thanks for the call. And thanks for taking my questions.

The first is just touching on the legacy securities that you were just commenting on. The first point is if you could give anymore guidance on the legacy timeline post March '21, that would be appreciated?

And secondly, as you just noted, I think it's safe to assume that it would be hard to remove a hundred percent of legacy instruments post Jan '22, so my question is if they are deemed an inflection risk, is there any consequence, regulatory consequence of leaving them outstanding and also do you think the regulator might provide a bit of leniency if you attempt to LME in the past or in the future?

Just moving to ESG and noting your issuance and your developments in the space. I was just wondering if you could target size of ESG issuance in 2021 and also whether you consider capital issuance and more broadly post Brexit, comment on how the EC's taxonomy factors into your ESG strategies going forward or if it does or not?

Donal Quaid: Sure. Let me – let me start off there as well. Paul, you correct me if I'm – if I'm missing any of these.

In terms of – I think it's – it touches on around the legacy instruments so as you're aware that the Dear CFO letter that came in in November, so we're just finalising our risk-base assessment of the impact of those legacy instruments.

The PRA you know, have outlined that they're taking a prudent risk-based approach to that so you know, I think in terms of anything we have outstanding in terms of small nominals and where we've tried to address it through LME. I think they will take a pragmatic and prudent approach to that.

Capital, I think in terms of ESG. We guided last year, our expectations where we were hoping to do about a billion in – of MREL issuance in ESG based at the time of – we guided to about a USD2 billion to USD4 billion MREL requirement last year. Obviously we issued less than that. We only issued in total USD1.6 billion of which USD600 million was in – was our first inaugural Green Bond so that's I think about 38 percent of our total issuance.

Again when I look at it this year, we've guided to Senior MRELs, USD3 billion to USD5 billion. And our expectation is again that we will look to do minimum of

about 25 percent of that in ESG format; obviously depending on demand we could do higher than that as well.

We've previously considered from a capital perspective Tier 2 in an ESG format, but Additional Tier 1 is not something we're considering at this stage.

Katie Murray: And Donal, do you want to pick up the question on post Brexit taxonomy?

Donal Quaid: Yes. So, the initial one we've seen is obviously PRA's views on software intangibles, which obviously we expect to disappear at some stage this year or by the 1st of Jan '22. But apart from that we will just wait to see, I think on the outcome of a number of consultations that are expected this year to see where we land, but I'm not expecting any major divergence to where we currently stand.

Katie Murray: Lovely. Thanks Donal.

Thanks Daniel.

Daniel David: Thanks.

Web Operator: Thank you.

Our next question is a web question from Kevin Maas of Wells Fargo Asset Management. It asks, "Can you discuss the key drivers of your 2022 base case of U.K. GDP forecast? Which micro drivers would lead you to expect a higher GDP growth in 2022?" Thank you.

Katie Murray: Sure. Thanks very much.

So in terms of the drivers, they're all across the whole seat. They're all laid out with – within the account I think probably GBP173 billion, if you want to go there, it's on the page, Kevin, so have a look at it.

But when you look at kind of the 4.5 percent growth, then this year we kind of see it muting off after that. And for us it's a real – it's going to be a story of how we come out of lockdown, how you know, the countries kind of opened up.

And I think what's going to be interesting is actually what happens with a lot of the cash flow that people have built up. We see 17 percent levels of savings in the retail space, that's compared to normally a 5 percent level so there's a huge amount of cash that's sitting in people's accounts.

And I'm sure you'll like we do, read accounts of what it might actually feel like towards lockdown and if we do actually go in to a big spending boom I think that will – that will have an impact obviously on that growth.

You can to that as well, we see kind of slightly worsening unemployment. We believe unemployment will get worse this year as though, peaking at sort of 7 percent then coming down to sort of an average of I think 6.3 percent it was for the – for the year, in 2021.

So, for me it's definitely going to be as you would expect the blend of what's happening in that kind of emergence and post lockdown period. You know, and then I think what the story is on unemployment are going to be the two biggest drivers, as we look at it.

You know, I think we're pleased to see the rate curve kind of going up a little bit in the year to end that's helpful obviously to us and that could drive a little bit of growth as well over time.

Thanks Kevin.

Web Operator: Thank you very much.

Our next question is actually going to come across from the phone line, so we going to hand back to the phone line for the next question.

Katie Murray: Great.

Thanks Sharon.

Web Operator: Thank you.

Your next question comes from the line of Christy Hajiloizou from Barclays; apologies for the pronunciation. Please go ahead. Your line is open.

Christy Hajiloizou: Hi Katie. Hi Donal. That wasn't a bad – that wasn't a bad pronunciation, I seen a lot worst. Trust me.

So my question is on your Stage 2 balances. I was just looking at the fourth quarter and obviously there was a fairly big reduction Q on Q. I think it looks like you've moved a chunk of your Commercial loans back into Stage 1.

I'd just be interested actually if you could give us a little bit more colour on what drove these and move back to Stage 1 for those loans, is it because you've moved those below that threshold for migration or did you change the threshold in any way, just a little bit of colour about the movement from back from Stage 2 into 1, and also if you can give us any sort of colour around you know, the type of loans that consisted of, that went back into Stage 2 versus those that – that went back into Stage 1 versus those that are still in Stage 2, so basically just some colour around the movement of Stage 2 balances would be great?

Sorry, I had a second question also on, just on NatWest Markets actually. Given the sort of ongoing reduction of risk-weighted assets, I'd just be interested in – just understanding a bit better the long-term ambitions for this entity in terms of how you see it fitting into the Group. You know, what's its steady-state size, do you still consider it as strategic?

That's all. Thank you.

Katie Murray: Yes. Sure. Thanks, thanks so much.

What I'll do, I'll take the second one first. In terms of NatWest Markets, no, look we definitely consider it as strategic which is why we kind of announced the strategies that we did last year so I mean if you just recall, it was very much around taking it's RWAs which were sitting at GDP 39 billion, this time a year ago, and what we're saying we were on – we wanted to go to a journey in the medium-term to get down to GBP20 billion.

And how is that GBP20 billion of RWA used, really focused on supporting the corporate customers who used – who use NatWest Markets to service a much broader range of their – of their demands.

Now what we've seen happen this year, as we were trying to get to GBP32 billion and the team, we did a truly outstanding job in reality and got down to GBP27 billion so we're a nice way through that transformation.

But even more importantly, just from the day-to-day operations, the mechanics of what you see is the NatWest Markets teams and the Corporate and Commercial teams working so much more closely together, making sure we're able to give the right service out to our customer base.

So it's important, we expect income to fall a little bit in this year, from the GBP1.2 billion where they benefited from a lot of volatility down to about GBP800 million to a billion pounds, except remembering of course we've also taken the RWAs down lot within there but, you know, comfortable that in time it will get to a kind of – contributor towards the ROTE of the Group and very, very pleased of that.

If we look at the Stage 1 to Stage 2 and for those that haven't picked up on this yet, there's a handy little table in the Company announcement on Page 22 in the – if you just go year end to year end, you miss the fact that actually the loans in the wholesale space have moved around quite a lot in terms of the shape.

You know, we have the GBP12 billion in Stage 2 at the beginning of the year on a growth basis, then it went up to GBP66, back down to GBP59, and went back to GBP44. What you're really seeing in there is the improvement in economics.

So we haven't changed any of our criteria. We haven't changed a kind of cyclical criteria we talked a lot about at the – at H2 but what has changed is our view of economics. And if you're a wholesale loan, the minute that your PD improves, we move you immediately up and down the stages, whereas in the retail space there is a six-month kind of cure time to say, "You might be getting better but actually we're going to wait before we move you."

And so it's literally the improvement in economics has caused that movement to happen. No more than that. And it would be – it would be across various and different sectors, I wouldn't – I wouldn't call out one specifically.

Christy Hajiloizou: Thank you.

Katie Murray: Thanks very much. Thank you.

Operator: Thank you.

I will now hand the call back to Katie for any closing comments.

Katie Murray: Thanks very much Sharon.

And I just say thank you very much to everyone for joining us. We really do appreciate your time and coming in to touch base with you on Results Day and also your ongoing support.

And we look forward to chatting with some of you in more detail over the coming weeks and then as a thank you, as part of the Q1 announcements. Thank you very much for your time today.

Take care.

Donal Quaid: Thank you.

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

END