



**Royal Bank of Scotland Group Plc
H1 2018 Results – Call for Fixed Income Investors**

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OPERATOR: This is Conference #3396479

Operator: Good afternoon, ladies and gentlemen. This afternoon's conference call will be hosted by Katie Murray, deputy chief financial officer, and Robert Begbie, treasurer. Please, go ahead.

Katie Murray: Thanks, (Sophie), and thank you for joining the call. On the line, you have Katie Murray, deputy CFO of RBS, and I'm joined by Robert Begbie, our treasurer, Rupert Mingay, NatWest Markets treasurer, and Paul Pybus, head of debt investor relations. We've put some some fixed income sites on to our IR website, which Robert and I will now talk you through.

I'll provide a quick review of H1 results – they were out earlier today – and then, focus on some of our credit messages, and Robert will provide an overview of our balance sheet performance for H1; and then, we'll open up the call for Q&A. Today, we've posted our H1 results.

I'm pleased to report an operating profit of 1.8 billion for the half year, continuing the trend from the full year. Excluding one-offs and NatWest Markets, our income remains stable half on half despite continuing significant margin pressure in some areas, and in more difficult operating conditions.

This reflect continued volume growth in various segments, including our mortgage business, where we see our Q2 flow share move back up to 11.5 percent, versus our stock share of 10 percent.

We also saw a continued growth in UK PBB and private banking deposits, up four percent and five percent, respectively. NIM for H1 was 16 bps lower than H1 2017, with Q2 NIM down a further three bps on Q1.

Relative to our expectations going into the year, front book spreads in several segments continued to be weaker than planned, particularly in mortgages and parts of the commercial book, and we are holding significant liquidity buffers, which Robert will come to shortly.

NatWest Markets also had one of its weaker quarters relative to recent years with difficult market conditions in Q2 this year compared to a strong Q2 2017, although, underlying customer activity is broadly stable. Underlying core income for the quarter was just over 300 million, and around 700 million for H1.

The bank's operating costs continue to come down. Stripping out the one-off 51 million of VAT recovery in H1 2017, other expenses were 3.6 percent lower than 2017, including a further 5,000 reduction in headcount.

Impairments continued to remain low, at only 9 bps in H1, although, as we have said before, we expect this to normalize to 30 to 40 bps through the credit cycle.

Turning to slide two, you've seen today in our results a further positive CET1 build in Q2, excluding the impact of the DOJ settlement in principle, the 2 billion pension top-up and the accrual of the intended interim dividend, our underlying CET1 ratio improved 110 bps to 16.1 percent in Q2, largely as we reduced RWAs, and generate underlying operating profit.

We expect this ratio to continue to build in H2, with RWAs expected to further reduce from end Q2 levels, to a range of 191 to 196 billion.

In the near to medium term, we expect to operate with a CET1 ratio in excess of 13 percent as we work through the impact of various issues, including IFRS 9 volatility under stress, the impact of Brexit, and RWA inflation from Basel III reforms.

As you've seen from today's announcements, we've announced an intention to declare an interim dividend of 2 p per share, with the plan to formally declare this dividend post the finalizing of the DOJ settlement.

With our existing capital buffer expected further capital build, and modest RWA growth, our target is to build towards a regular payout ratio of around 40 percent of attributable profits.

We will consider further distributions in addition to regular dividend payouts, subject to the agreement with the PRA, and passing the 2018 Bank of England's stress test. As such, we wouldn't expect any such additional distributions until 2019.

Turning to slide three, finally, on 2020 targets, I've already touched on our CET1 target, and we remain committed to our 12 plus return on total ROTE, and our sub-50 percent cost-to-income ratio targets.

However, with the Brexit deadline approaching, there remains a lot of uncertainty with the balance of risk skewed to the downside.

On the income side, to achieve our 2020 targets, our income forecasts are a mix of benefits from improved rates, and relatively modest underlying income growth. While the rate outlook has deteriorated in Q2, it remains better than we had built into our forecast at the end of last year, and we welcome yesterday's base rate rise. Despite current margin pressure, we believe our business model can offset this with volume growth ahead of market growth rates, where we choose to grow.

On operating costs, we've previously said that we expected the 2018 cost reduction to be lower than trend, requiring higher levels of cost reduction in each for 2019 and 2020. Based on our current multiyear plans, we remain confident in our ability to deliver this.

On strategic costs, we previously said that we expect a total of 2.5 billion over the next two years, and our guidance remains the same, with the H1 charge being 350 million.

On conduct costs, H1 results were heavily impacted by the additional 1 billion DOJ charge, partially offset by 241 million, being the recovery we had in the quarter on one RMBS indemnity claim, and we can clearly see that the legacy conduct costs are now trending lower.

With that, let me hand over to Robert.

Robert Begbie: Thanks, Katie, and, again, good afternoon all, and thanks for joining today's call. As treasurer, I'm very pleased to be able to talk to you today from the position of the bank delivering strong capital and liquidity ratios, particularly as we settle legacy issues, and as Katie mentioned a few moments ago, continue the full year '17 trend of operating profitability.

The progress we have made on resolving our legacy issues has been reflected both in the relative performance of our credit spreads and by our ratings with each of the three main credit rating agencies.

Last month, we received an upgrade to our baseline credit assessment from Moody's, which moved our senior holdco ratings to Baa2, with positive outlook across all entities, with each of Moody's, Standard & Poor's, and Fitch.

And finally, in relation to structural reform, we have completed a number of key milestones on our ring-fencing plans, and are well-placed for full compliance with the legislative requirements by the year end.

Turning to slide nine, and an overview of the balance sheet metrics. We have maintained a solid set of key balance sheet metrics in H1. As Katie touched on, our CET1 ratio increased in H1 to 16.1 percent against our longer-term target of at least 13 percent.

Our loan-to-deposit ratio was 87 percent, reflecting strong deposit growth in our core businesses, and the liquidity coverage ratio has increased 167 percent, reflecting the success of our H1 issuance programme and continuing deposit gathering.

And whilst I recognise we're managing liquidity levels above regulatory minima, I think it is prudent we continue to run a conservative liquidity position for the foreseeable future as we settle outstanding litigation conduct costs, make contributions to the pension fund, commence repayment of the term funding scheme, complete ring-fencing, and prepare the bank for Brexit.

Turning to slide 10, as expected following the announcement of the civil settlement in principle with the Department of Justice, and the memorandum of understanding reached with the pension fund trustees, we saw positive action on our ratings from all three agencies during the half year.

Most recently in July, Moody's upgraded the senior unsecured ratings of the Royal Bank of Scotland Group to be Aa2 from Baa3, and placed all entities on a positive outlook. This followed earlier rating changes to our opcos to reflect Moody's view of the entities post-ring-fencing.

Standard & Poor's upgraded the ratings of the ring-fenced opcos, and RBS International affirmed the ratings of NatWest Markets Plc, and are assigning the positive outlook to all entities. And Fitch upgraded the ratings of NatWest Bank and Ulster Bank Ltd, and assigned a final rating for the newly renamed The Royal Bank of Scotland Plc.

Turning to slide 11, in June, the Bank of England published indicative MREL requirements for the U.K.'s globally systemically important banks.

For RBS, this will be 28 percent fully phased, including CRD IV buffers, slightly higher than the previous guidance, but still equating to approximately 24 billion of bail-in securities. Obviously, this is subject to the bank's end balance sheet size and final capital requirements.

At the full year, I guided that we plan to issue 4 to 6 billion pounds sterling equivalent senior holdco in 2018. And I'm pleased that we have executed five well-received transactions during the first half year, totaling around 5 billion, and I'd like to thank those investors who participated in our deals.

That brings us to a total of 12.8 billion pounds of MREL-eligible issuance since 2016, and I reiterate our guidance on MREL requirements at 4 to 6 billion pounds annually as we build out our MREL stack. In delivery in this, we will continue to look at a range of currencies and maturities.

And on internal MREL, as we near completion of the ring-fencing implementation, we're working through the requirements for the downstreaming of our holdco issuance to our subsidiaries.

On slide 12, to give you an overview of how we see issuance requirements for each of our legal entities following the ring-fencing restructuring, in addition to senior MREL, we issued 3.6 billion pounds equivalent in NatWest Markets Plc senior, and we entered the RMBS market with a one billion euro transaction from Ulster Bank.

Looking ahead, given the deposit-funded nature of the ring-fenced opcos, we see no need for senior issuance from those entities at the current time, although, we will keep this under review from both secured issuance and funding diversification purposes.

In addition, we will continue to issue senior unsecured from NatWest Markets Plc as that entity is stood up as a standalone bank, with a potential 1 to 1.5 billion pounds over the remainder of 2018, subject to market conditions.

Turning to slide 13, as we normalize our CET1 ratio towards our target, we will also evaluate our regulatory capital stack ahead of our 2022 requirements.

Although we have prioritized the issuance of new MREL and operationalising ring-fencing this year, I've been consistent in messaging that we manage our legacy capital stack for value. And we've been actively managing down legacy Tier 1, reducing from 10.7 billion at the end of 2014, to around 3.6 billion pounds today.

Of the remaining 3.6 billion, we will continue to evaluate calls of those securities through the lenses of current and future regulatory value, relative funding costs, capital impact of calls, and rating agency value.

Touching explicitly on the utility of our legacy stack after 2022, I would like to reiterate that, as we've said before, we take a conservative approach, and we have not changed our assumptions around its qualification as either compliant CRR, or MREL eligibility from previous guidance.

On new issuance, given the balance sheet structure and capital requirements outlook, we do not foresee the need to issue additional Tier 1 or Tier 2 for the remainder of 2018.

And finally, I'm pleased with the progress we've made on structural reform this year, which has been highly complex and operationally challenging. Earlier this year, the first transfer scheme was implemented under which a number of retail and commercial activities and the covered bond program were transferred across the ring-fenced entities, and a number of subsidiaries were renamed, including the former RBS Plc to NatWest Markets Plc.

In July, the capital structure of NatWest Markets Plc was restructured to affect the separation of the ring-fence subgroup, and NatWest Markets Plc. At H2, the second transfer scheme is expected to be implemented in August when certain customer derivatives will be transferred from NatWest Bank to NatWest Markets Plc.

We will finalize the standing up of the three treasury functions across the group, including NatWest Bank as wholesale counterparty, set up standalone liquidity buffer for NatWest Markets Plc, and complete the downstreaming of MREL requirements to the opcos ahead of 1 Jan., '19.

And on Brexit, we continue to plan for continuation of service for our EU-based customers through the repurposing of our NatWest Markets N.V. entity. And with that, (Sophie) will open up the call to Q&A.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press the star key followed by the digit one on your telephone keypad. We will pause for a moment to give an opportunity to signal for questions. We will take our first question from Lee Street ...

Lee Street: Hello.

Operator: ... from Citigroup. Please go ahead, your line is open.

Lee Street: Hello, good afternoon, and thank you very much for hosting ...

Lee Street: I have three questions for you, please. Just firstly, on your ratings, your – obviously, your ratings are still a little bit lower than some of your other U.K. peers. So just wondering if you have a sort of target ratings' level in mind that you'd like to achieve at the – at the holdco level.

And obviously, you were talking about some of the legacy stuff – you're saying that, obviously, you consider ratings as an – as a – you know, as a consideration. So, do you have a target ratings' level for the holdco, or where you'd like to get to?

Secondly, just, obviously, you're very clear. You say you – you've got a target CET1 ratio excess of 13 percent for 2020. But obviously, by implication, that's just a – you know, there's a minimum of 13 percent in that.

I was just wondering why you – you know, how you calibrated the 13 percent, and why that's the – you know, the appropriate level. Because obviously, there's a bit of risk, given here lackluster U.K. growth sort of the rates rising high levels of consumer debt, et cetera.

So why is 13 percent the appropriate sort of minimum level? And then, finally, a bit more of a technical one, just on the recent paper on MREL from the Bank of England, (C) Section 5 spoke about the eligibility of external MREL.

So my question is, do you regard – you know, you've got a few bonds that are issued under foreign law or U.S. law. Do you regard their existence as something which that represents an impediment to resolution as per your read of that paper? That'd be my three questions, thank you.

Robert Begbie: OK. Just thanks for those questions, Lee. Just to kind of take them in order, I think from a ratings perspective – and probably a bit of fool's folly, trying to gauge a target rating in a timescale – I think what we – what we believe and what we're seeing is that once we resolve the legacy issues – and I think, once that we – that the rating agencies could see, not only we had dealt with the legacy issues – that we were becoming capital accretive and consistently profitable on an ongoing basis – that we would start to see some movement.

And I think we have seen some movement, and I think, in some cases, we've probably been pleasantly surprised with the timing of it, especially the Moody's recent upgrade at holdco levels.

So, look, I mean, we look at this in the context of what our business model is and will be, and returning to a normalized bank. But we are conscious that the rating agencies have got a process to go through, they will look at our results on a quarter-on-quarter basis.

But I think the fact we're on upgraded with all three is a positive sign. And certainly, over the next 18 months, if we continue to deliver against those strategic plans and our targets that Katie laid out, we see no reason to see

that gap, and that narrowing further at a – at a holdco level. On the CET1 ratio, I'll kick off and Katie can jump in.

I mean, I think, you know – you know, over the past number of quarters, we've guided kind of 13 percent or above. But I think we laid out a number of different factors that would lead us to believe that in the short term, we'd certainly be trending above 13 percent, notwithstanding the fact that we're sitting at 16.1 at the moment.

I mean, I think a number of them have been ticked off in relation to DOJ, and clearly, the pension liability. But the two – and I think Ewen touched on them this morning – is still the impact of IFRS 9, and really, working through what does that really mean, and what does it mean through a full cycle and a stress test.

And probably less so but clearly upcoming at some point in the future, will be the impact of Basel IV, in terms of what does that mean – you know, that's probably more a '22 type impact. And I think the other part to this, it really comes down to the stress testing aspect of it.

We – we've always said that, with an internal risk appetite, we never want to go below nine percent in a 1:100. We believed that we should trend towards a four percent stress delta with a normalized operating environment for us as a bank.

Now we – we've just come to the end of that major restructuring. There's still some restructuring still to be done, and things like (Alawwal) and so on have still to be fully disposed of.

So this year when we get stress test results, clearly, there'll be a cleaner stress delta than there's been in previous years because some of the big ticket items are no longer in that stretch, but we still wouldn't see us being in a normalized stress delta environment.

So I think until we calibrate that four percent better, then I think we would naturally be thinking that we should be running in excess of 13 percent.

Katie Murray: Yes, and, I mean, I think, Robert, that more or less covers it. I mean, certainly, we reiterated our year-end guidance that we would look to run ahead of that 13 percent in the medium term.

You know, and it really is an interplay of, we've agreed our pension contributions – we still have yet to make them; and also, the interplay with the capital buffers that the bank runs in terms of the investment risk that is being run in the – in the pension scheme.

You know, and there's a series of RWA inflation events that are coming, whether it be IFRS 16, the mortgage flow, or the Basel III amendments. And also I think, us and many other banks are getting used to what IFRS 9 actually means.

We've only had two quarters of reporting. And I think what we've all seen as we've looked at our own results and others, that the impairment levels are still at very low levels, and I think we would like, like others, to get a bit more used to how they actually play out as we move through different economic cycles.

And I think the other thing that we – you know, we've referenced both this morning and on this call is also the impact of Brexit's in – March '19 date is getting closer.

And so, I think with all of those things combined, we're going to be looking at how they might impact our stress tests, but in the medium term, we look to run a little bit ahead of our target. Do you want to pick up the MREL?

Robert Begbie: Yes.

Katie Murray: Perfect.

Robert Begbie: And just lastly, on your point on eligibility, yes, I mean, we – we've – we obviously seen the same paper as you did.

I think we are – we'll probably wait a little bit for the guidance and dialogue, just in terms of how bail-in really is going to work, and how resolution really is going to work in practice, I mean, clearly, the Bank of England set the rules, and if they see it as a – as an impediment to the ability to affect resolution, then we would expect to have to take action on that.

And we're also mindful of the (clean) holdco requirements, albeit, there seems to be a little bit of a relaxation, in terms of the implementation timeline for that. So it gives us a little bit of time to work through any potential actions we might have to take on any of the bonds that could be perceived as an impediment.

Lee Street: OK. That is all very clear. Thank you for your answers.

Robert Begbie: Thanks ...

Katie Murray: Thanks, Lee.

Operator: Thank you. Our next question today comes from the line of Robert Smalley from UBS. Please go ahead, your line is open.

Robert Begbie: Hi, Robert.

Robert Smalley: Hi.

Katie Murray: Hi, Robert.

Robert Smalley: Hi, good morning – and good afternoon, and thank you for doing the call, and, as I always say, thank you for doing it in U.S. hours, too – greatly appreciate it. Just following up on Brexit potentially, looking at the presentation from earlier this morning, on slide 24, on the net interest margin, there was 11 basis points of give on – due to increased liquidity.

Could you talk about that – what that is, or what that was in the first half? And given that we're seeing articles about stockpiling in the – in the U.K., will you have to stockpile more liquidity going into this event, and how are you approaching it?

Robert Begbie: Yes, that's a great question. Thanks, Robert. Yes, I mean, in the first half of the year, you have seen, as you said, our LCR go up to 167 percent – three main factors. One, being, we still haven't paid the Department of Justice their \$4.9 billion.

I think there's – and there's a link in there to obviously the intention to be a dividend, but the final paperwork's still being worked through with the lawyers. So we haven't actually paid that out of the door, so clearly, that will impact as and when we pay.

We talked about the pension funds commitment, in terms of the 2 billion, and, again, that's a – that will be in an element of cash that will go out the door.

Secondly, we mindfully accelerated our issuance plans in the first half of the year. In total, across all different categories, we had about \$12 billion of issuance to do this year. We've done 9 billion of it in the first half.

You know, that was intentional, given that the markets themselves we felt were conducive, albeit on certain days, were more tricky than others, but we felt that there was positive headwinds behind our story as well with the Department of Justice announcement.

So, we feel in a reasonable place from an issuance perspective, having done the majority of our issuance in each one, but clearly, that answered the liquidity position. The third one is really the business mix.

We're ahead on deposits and slightly behind on loans, so that net differential between the two has added to it. Now if you think about on a go forward, well the first one of them, we will pay out those cash elements at some point.

You know, I would expect in H2, we still have 19 billion of term funding scheme on our balance sheet that we drew down as part of the TFS – at some point, that has to be repaid.

And we would hope – and this is all to your point about Brexit – you know, Brexit conditions, hope that the economy would continue to do well, and that our lending would outstrip our deposit growth. So those things would kind of guide us to seeing that (end) coming down over time.

You know, we haven't intentionally stockpiled liquidity because of Brexit. We might – we might have to start stockpiling French champagne or something like that, but certainly not liquidity at this stage. But it's – was just really, I think, prudent, and – you know, getting the funding done in the first half, so we don't need to worry about what market conditions are in the second half.

Katie Murray: Yes, I think – I think, Robert as we look at the Brexit outlook, although growth is lower at sub-two percent, what we do know and we will see there is still – is certainly appetite. So we want to make sure that we're able to meet that appetite as we – as we move forward.

So I don't think we're, as you'd say, quite at the stockpiling stage by any stretch of the imagination. Robert, should we take the question that's on the web from Graham Wade at Z Investment Management?

"It would be great to get an update on the thinking around legacy Tier 1s. Previously, the FX was an impediment to further redemptions. Does your view on this change, now you have so much excess capital, and how you should we think about your decision process?"

Robert Begbie: Yes, I mean, I think, to put it in the context of H1, I think I've been fairly consistent in saying that, in H1 this year, that we had a significant amount of restructuring to do within the group driven by ring-fencing.

We've been moving significant legal entities, balance sheets, capital funding liquidity around the group, and that, really, looking at the legacy securities wasn't certainly near the top of the agenda for this half. Now, clearly, given our capital and liquidity position, then it makes sense to start to look at this.

You know FX is not an impediment as such. We know where the FX rates are, we know where they were issued at, and we know where the current revaluation of it is. But I think we've looked at it in the context of both the use of capital, and also any kind of refinancing rates that were associated with that.

So, look, we know we've still got a bit to do, we know we've got a lot of bit of time to do it, and – but certainly, it will become more of a focus in H2 than it has been in H1.

Katie Murray: Thank you. (Sophie), are there any others questions on the line?

Operator: There are. Your next question today comes from the line of David Herrington from Insight Investments. Please go ahead, your line is open.

Katie Murray: Hi, David.

Robert Begbie: Hi, David.

David Herrington: Hi, guys. I have a couple of questions on NatWest Markets, if I could. Performance in Q2 was quite weak – a 50 million loss, having had a hundred million profit in Q1. What – can you give a bit of color around that, and is this the sort of earnings volatility we should expect from this entity post-ring-fencing completion?

And in that regard with the target you put out – 14 percent CET1, four percent leverage – does that earnings volatility imply there should be a little bit more of a management buffer on those figures?

And also, I mean, you've mentioned wanting to do more issuance of that entity, but spreads currently are quite close between NatWest Markets and the holdco bonds, certainly in euros. So how do you think about that relative value? Would you still be issuing NatWest Markets opco at the spreads that are close to the holdco?

Robert Begbie: So I'm going to let Rupert answer the first two, and then, between the two of us, we can probably answer the third one.

Rupert Mingay: Sure, thanks very much, and hello, everyone, on the line. I'm Rupert Mingay. I recently joined as NatWest Markets treasurer, and I'm very excited to have done so. I think exactly as the question says Q2 was a weaker quarter. It was weaker relative to a strong quarter this time last year, and also, weaker relative to a strong quarter in Q1.

But from our point of view, as Katie said volumes were holding up; there was just less volatility in the market, and there were one or two issues in the – in the bond markets, where the performance wasn't as strong as we would've hoped.

So I think on a – on a forward-looking basis we are looking at the income in the order of 700 million pounds, and we're comfortable in terms of that – how that would sustain a return with a cost base in the order of a little more than a billion pounds.

Katie Murray: And I think, Rupert, if we look at NatWest Markets over the last few years, it's – so 1,400, 1,500, 1,600, and we've talked with the market that it's around about the 1,500 is somewhere that's good for you to think of in your models. And I think our performance this year is not out of line with that guidance at all.

Rupert Mingay: I think that's true. Obviously, I'm conscious that we've got some disclosures on a franchise basis that would include some non-legal entity in Plc, and obviously, the Plc entity itself has some non-NatWest Markets business in it. So I also think ...

David Herrington: OK, yes.

Rupert Mingay: ... that you'll get a clearer line of sight over the coming couple of quarters.

Katie Murray: Yes.

David Herrington: OK.

Rupert Mingay: Just on the – on the capital point, we are going to be a – well, we are – we shall be a non-ring-fenced bank. And therefore, we shall take our capital from our parent, and that will be in the form of CET1, that'll be in the form of – for both Tier 1 and Tier 2, and some MREL support.

But we will be looking to issue unsecured debt to the – to the markets, and I think that will just be a part of our normal funding structures. So we – we're really driven, I think, by a different consideration between those two different kind of security types.

What I – what I would say is, our rating is on positive outlook from all three agencies. As you well know, the rating for NatWest Markets from a Moody's point of view is a little more of a fundamental rating, and the rating from the other two agencies is a – is a little more of a top-down.

But clearly, we would have a focus and expect that, with the business performing well in the future that those ratings on an upward trajectory would move towards the single A category.

And just in terms of the funding for the balance of the year, we – we've guided, I think, previously at about 2 to 4 billion of issuance per year.

Clearly, with this transitional phase, and with the kind of – the factors going on that Robert was talking to there may be a slightly different number that we look to issue as we're launching. But effectively, what we're looking to do is set up a self-supporting, self-sustaining balance sheet that will be adequately capitalized for BAU and for stress.

And just a word on future issuance also, we – appreciate we've issued in the euro markets three times so far this year. Obviously, we're looking to those markets to support us in the future, but equally, to diversify and find other sources of funding – other markets to tap over time.

Katie Murray: Anything to add on MREL?

Robert Begbie: No, I think ...

Katie Murray: Do you want to ...

Robert Begbie: ... I think it's linked to Rupert's point, really, that, I mean, if we issue as a holding company, we'd have to MREL, you know. And so – and we do want the operating companies to be self-sufficient from a day-to-day perspective, in terms of the funding requirements.

David Herrington: OK. So it would still make sense to issue opcos from NatWest Markets, even if spreads are the same as the holdco in theory.

Robert Begbie: Yes, I think so, because they're – I think they're for – well, they're for two different purposes, really. And, I mean, we probably would issue an MREL to meet our group MREL target, and also, to then downstream (that) MREL from a resolution perspective into the individual operating companies.

I think it will – it – you can see by the tenor of the securities themselves, our MREL issuances tended to be five years and out, and our NatWest Markets issuances tended to be kind of four years and in, so, they really are for different purposes.

David Herrington: OK. OK, thanks so much.

Robert Begbie: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press the star key followed by the digit one on your telephone keypad. And your next question today comes from the line of Joe Hopkins from Morgan Stanley. Please go ahead, your line is open.

Katie Murray: Hi, Joe.

Joe Hopkins: Hi, guys. A couple of follow-up questions on liquidity. So can you give some guidance on where you expect LCR to settle in a steady state, once you're through these – once you're through the DOJ settlement, et cetera. And then secondly, what sort of positive impact would that have on your NIM?

Robert Begbie: Yes, so I think what you see is the group-disclosed LCR metric, which includes a number of different things.

You know, what you don't see is the internal LCR metrics in terms of Pillar 2 add-ons from the PRA and other things that impact the overall risk appetite in the – in the bank itself. So whilst it looks elevated, and is elevated relative to where we would expect it to be that's not – kind of not the whole story, really.

And, as I said, I think if you look at the business drivers behind how we would see LCR coming down, if you put it to one side, we got, let's call it, the equivalent of 4 billion pounds went to the DOJ, and then, you've got a couple of billion going to the pension fund and so, there are – that's definitely outflows.

You know, the other things that are clearly available to us, we have some covered bonds in the plan for the rest of this year. I think, given where our liquidity position is, it's unlikely we would come to the market with those other things – all the other things being equal. So, you got another couple of billion there.

As we talked about this morning on the equity call, our mortgage business has picked up, certainly in the last quarter. And ideally, what we want to do is, is lend our way out of that surplus.

The other point to this is really linked into interest rates moves, because we have the interest rate sensitivity to balance sheet, which we're quite

comfortable with, and certainly, we were very comfortable yesterday as base rate went up.

By running surplus liquidity, it certainly gives us options around repricing our deposits as rates move up, and not having to necessarily chase the competition, if rates start to move up more aggressively because of higher rates, but also, as we start to see the refinancing of the term funding schemes starting to potentially kick into the deposit markets.

So for all of those things we would – I'm comfortable, as I said, running a long liquidity position. You should expect to see that coming down from where we are now. But given some of the uncertainties and so on, we – you know, we wouldn't look to get it to an absolute number.

Joe Hopkins: OK, thank you.

Robert Begbie: Thanks.

Katie Murray: Thanks, Joe.

Robert Begbie: Thanks, Joe.

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

Katie Murray: Lovely, thanks. So before we do that, I'll just take the one question that had just come through on the web. It's from Folkert Jan van der Veer from Cairn Capital.

"What is the current status with Alawwal Bank, and in relation to that, what is the view on the capital position of RBS N.V. once the RWAs related to Alawwal Bank fall away?" Rupert, do you want to start off ...

Rupert Mingay: Sure.

Katie Murray: ... and we can jump in?

Rupert Mingay: Absolutely. I think I'm not going to comment on current status, because it probably is being governed by discussions with third parties that – and

whatever's in the public domain is the current status. But we're holding in the order of 6 billion of RWAs – 6 billion sterling – for the effective consolidating – the RWA on to our books.

So effectively, that will fall away. Clearly, at that point, on the – on a simple prudential capital measure, I would expect RBS would be relatively overcapitalized. And, subject to discussions with the regulator, we'd expect that that capital would be released up through the system.

But what I would say is that, more broadly speaking, RBS N.V.'s, or NatWest Markets N.V. is, I think we'll be thinking of it going forward would be an important part of our Brexit solutions.

So within the franchise, we're thinking of N.V. as being part of NatWest Markets, and therefore, we'd look to normalize the capital – again, subject to regulatory approval – to support the business we'd be running in the future.

Katie Murray: Lovely, thanks, Rupert. And I guess all I – what I would add to that is we look at the transaction, what we think it's something that at this stage is likely to take effect in Q1 2019.

You know that, when we've always talked about the group RWA targets for this year, we – what we said that we would see a reduction of five to 10 across the group in the year. And what we would say is, we're likely, at this point, to be at the higher – the lower end of that range, of five, as Alawwal Bank now looks like it will move into the – into the next year.

So to conclude, we're pleased with our H1 results set against a backdrop of less supportive operating conditions, and the resolution of the major legacy issues in H1 reinforces our confidence in our improving investment story.

We continue to generate an attributable profit in H1, continuing from full year 2017, and we delivered a strong 16.1 percent CET1 ratio, despite

absorbing significant CET1 impacts from pensions, DOJ provisioning, and after accruing for our intended 2 pence dividend.

We remain confident in our 2020 targets. However, we note the increasing uncertainty around Brexit, and the resulting downside risk. We end H1 with a strong investment case – we've derisked the bank, delivered a safe and sustainable balance sheet, and are seeing positive momentum on ratings.

I would like to reiterate Robert's appreciation to those of you who continue to support our investment case. So thank you, (Sophie), and thank you all for joining the call today. If you have any follow-up questions, please contact Paul in our debt IR team. Thank you very much.

Operator: Thank you.

Robert Begbie: Thank you.

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

END