



H1 Results 2019 Fixed Income Call

Host: Katie Murray

2nd August 2019

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 H1 Results announcement published on 2nd August 2019.

Operator: This is Conference #7788826

Operator: Good afternoon, ladies and gentlemen. This afternoon's conference call will be hosted by Katie Murray, Chief Financial Officer; and Robert Begbie, Treasurer.

Please go ahead.

Katie Murray: Thanks, (Steve), and thank you for joining the call. On the line, you have myself Katie Murray, Group CFO of RBS and I'm joined Robert Begbie our Treasurer and also by Rupert Mingay, NatWest Markets Treasurer and Paul Pybus, our Head of Debt Investor Relations.

We've put some fixed income sides onto our IR website, which Robert and I will now talk through. I'll provide a quick review of our results that were out earlier today, and then Robert will provide a Treasurer's review of the half year. And then, we'll naturally, open up for Q&A.

As you've seen from this morning's announcement, we are a bank that is growing well. We have a strong and stable balance sheet position, however a falling yield curve and a deterioration in business investment appetite and intense competition in the mortgage market are headwinds for our business.

Given these factors, achieving a 12 percent ROTE by the end of 2020 is very unlikely, although we continue to believe that 12 percent is achievable in the medium term.

So, just let me take you through some of the detail of our financials, let me start by talking you through the P&L. Our total income was 6 percent higher than H1 2018. This was very much as a result of the disposal of Alawwal Holdings, which added some 990 million to income. So, if we were to take this out, our income was lower than 2018.

There were three main reasons for this, ongoing margin pressure in personal banking business, 192 million of fair value and disposal gains in commercial in the prior year, and in line with what we see in the market, lower client activity in NatWest Markets, which saw their income in their core business

down 26 million or 4 percent in the half. So, it was up Q2 on Q2 by 9 million pounds or 3 percent.

Moving on to margins, our bank NIM was down 5 basis points in the quarter, mainly due to continued mortgage income pressures, as well as tighter deposit margins as the yield curve flattened, and the structural hedge income reduced.

This particularly impacted the UK personal banking. In recent quarters, the competitive pressure on asset margins, notably mortgages were partially offset by deposit margin benefits following the rate rise in August '18. However, in Q2, we saw the yield curve fall very sharply, putting pressure on our deposit funding benefit, as well as our structural hedge.

Continuing down the P&L, we reduced our costs by 173 million in H1 '19. There were 629 million of strategic costs in H1 and 60 million of conduct and litigation. This combined to create our all in cost to income ratio of 57 percent for the half year.

(Our) impairments were 21 basis points in H1, which includes a number of charges for single names within the commercial business in the quarter. We still do not see any material changes in the underlying performance of our loans and advances booked, though we do see some signs of strain.

Putting these together, we've produced an operating profit before tax of 2.7 billion in H1, up 48 percent on 2018. H1 attributable profit was 2 billion pounds, with a return on tangible equity of 12 percent for the period or 16 percent for quarter two.

Turning briefly to loan growth, in the first half of 2019, we've grown at an annualized rate of 2.5 percent across Personal, Ulster, Commercial and Private Banking. This is considerably better than we achieved in Q1, where our annualized growth rate was .8 percent. Our target for 2019 is 2 to 3 percent, and we are firmly on track.

We have of course, maintained our prudent risk approach and pricing in a very competitive market across all of our businesses. We're very comfortable that

this growth is earning above our cost of equity, as we continue to grow our balance sheet.

Turning to capital generation and returns, I know that fixed income investors like a strong capital number, so I'm pleased, of course, to share with you we ended the quarter with CET1 ratio of 17.1 percent before any dividend accrual.

Our underlying capital generation, if we exclude Alawwal was 15 basis points versus 30 basis points in Q1, down as a result of increased impairments and strategic costs. In line with our 40 percent dividend payout ratio approach, we have reflected 20 basis points against our CET1, and from this, we have declared an interim ordinary dividend of 2 pence per share.

In addition, we've also declared a special dividend of 12 pence or 80 basis points. This is in line with our aim to reduce our capital levels from the 16 percent CET1 ratio that we ended last year on our journey to 14 percent by 2021.

We continue to maintain the capacity to do a directed buyback from the government at any stage they deem appropriate.

Looking at RWAs, they were down 2 billion pounds in Q2, 2019 at 188.5 billion with the Alawwal Bank merger benefits partially offset by increases in core NatWest Markets and UK PB lending.

We retain our full year 2019 RWA guidance over around 185 to 190 billion. It's quite clear that we have built a strong capital position to organic capital build and optimizing our capital usage.

And so, to summarize, we've continued to deliver a strong loan growth of 2.5 percent annualized or 3.6 billion in the first half. And we have done that in challenging times. Costs are absolutely within our control, and we remain committed to taking out 300 million this year, having taken out 173 million to date.

On capital, we're in a very good place to generate and distribute sustainable returns as we have announced today. We continue to believe that 12 percent remains the right target for the group and is achievable in the medium term. And I am confident that we are delivering on the levers today to take this business forward.

And with that, let me hand over to Robert. Thank you.

Robert Begbie: Thanks, Katie. Good afternoon, all and thank you for joining today's call. While the deteriorating global economic outlook, low interest rate environment and continued political uncertainty are impacting the sector, we have a robust balance sheet, which is well positioned for this environment, given our strong capital, funding and liquidity levels.

As you've heard from Katie, we have a very strong CET1 position, with capital accretive earnings supporting a return of capital to our shareholders.

You will also recall that we achieved a clear pass in last year's Bank of England stress test, as we have divested ourselves of the legacy assets and settled major litigation, further supporting our capital strength. And we continue to manage a level of liquidity we consider appropriate in this environment. Although (surplus) liquidity does somewhat impact our net interest margin, it is at a level we are comfortable with in the face of current market uncertainties.

And as I think about liquidity strategy, I'm also mindful of changes to the banking environment. Open banking, digital technology, challenger banks, the closure of TFS creates sector wide refinancing requirements in the future, and we intend to ensure we have a strong sustainable funding and liquidity in response to those challenges.

On issuance we made good progress with our 2019 plans, leaving us well positioned for the remainder of the year and for any change in market conditions in the second half.

On ratings, last year's positive action by all three credit agencies continued into 2019, with S&P's one notch upgrade across all entities in May, with outlook stable.

And finally, we continued to optimize our legacy liability stack with a further 1 billion euros of tier two securities, called in March.

Turning to the next slide, and an overview of the balance sheet, we end the half year with a solid set of key balance sheet metrics, and our funding reflects a diverse mix of retail, commercial and wholesale liabilities.

On capital, our CT1 ratio at the half year was 16 percent, post capital distributions, and our total capital ratio was 20.9 percent, the total loss absorbing capacity ratio, including senior (MREL) of 32.1 percent, comfortably above our minimum regulatory requirements.

Our loan to deposit ratio remains a healthy 86 percent, with our customer lending supported by solid core deposit base, and we've seen deposit growth across our retail and commercial businesses in the ring fence during the first half.

Our LCR for H1 was stable at 154 percent with a total liquidity pool of 203 billion. This is an increase of around 5 billion in the first half as deposit growth and the proceeds of net issuance we're partially offset by the tier two redemption, payment of the 2018 dividend and a further 4 billion repayment of TFS during May.

This TFS repayment takes our outstanding drawings to 10 billion pounds at the end of June, from a peak of 19 billion pounds, a significant repayment, well ahead of required maturities.

And turning to the next slide, at the full year I guided we planned to issue 3 to 5 billion pounds of senior HoldCo, and I'm pleased that we have already met the lower end of the range, executing three successful transactions during the first half, totaling around 3 billion pounds.

I'd like to thank those investors who participated in our deals this year. Looking ahead and taking into account both (MREL) requirements and liquidity considerations, our year to date progress leaves us well placed to adapt our H2 issuance to prevailing market conditions.

Our total stock of MREL) eligible securities issued since 2016 is now 19.2 billion. As I've said before, we will look to continue to build out the maturity profile of our funding, and I'm pleased that our three HoldCo transactions this year varied in duration from 6 non call 5 to 11 non call 10.

On currency, although the US dollar is still the deepest market for our HoldCo (MREL) requirements, it was pleasing to see NatWest Markets active in the senior HoldCo yen market in the first half, and we will continue to look for opportunities in that market and other markets going forward.

We also successfully completed our first SONIA-linked covered bond from NatWest Bank, raising 750 million pounds and have further capacity to issue more in the secured market, depending on our liquidity and funding needs within the ring fence bank.

As I said at the beginning of the year, given our balance sheet structure and capital requirements outlook, we do not foresee the need for additional tier one in 2019, however there is potential for tier two refinancing in the second half.

NatWest Markets also made good progress against their plan to issue 3 to 5 billion pounds of senior unsecured, with a total of 3.5 billion pounds executed during the first half, including the first US dollar issuance from the newly established 144A program.

And finally, I note the Bank of England's finalization of the resolvability framework this week, and confirm that we see no impact on our (MREL) issuance plans or in our wider activities to meet Bank of England's expectations.

To conclude, we're navigating a period of uncertainty, with a very strong balance sheet, generating strong underlying capital growth, maintaining a healthy LDR and strong liquidity metrics.

We've made good progress with our 2019 funding plans across all issuing entities, we're diversifying our funding, and we've taken actions to further optimize our capital stack.

And with that, I'll hand back to the operator to open up the call for Q&A.

Operator: Thank you very much.

Ladies and gentlemen, if you would like to ask a question today, 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.

Once again, it's star, followed by the digit 1.

Thank you very much, the first question we have today comes from the line of (Robert Smalley). Your line is open. Please go ahead.

(Robert Smalley): Hi, thanks for doing the call in the US hours, greatly appreciated, Paul, Robert and Katie. A couple of questions really around Brexit, could you talk about what your central scenario is for Brexit going forward? It appears that from what you've said in the past and today, that a hard and somewhat disorderly Brexit is certainly what you're preparing for.

And as this would potentially impact SMEs first hardest, could you give us a couple of indicators that you're looking at, maybe even away from some of the macro data, to try and track that and get an early jump on that, if that should occur? That was my first question.

Second question, on the liquidity portfolio, that continues to be built up, how much of that is UK related and how much of that is deployable if the hard and disorderly Brexit should come about? Thanks.

Robert Begbie: OK, thanks, (Robert) for the usual great questions. Let me kick off and Katie might jump in on the – on the Brexit question as well, and then I'll handle the liquidity portfolio one.

I don't know, I think in terms of a central scenario, you've got to look at it, I think, in two ways, one is the economic and interest rate environment and two is our operational readiness, maybe start with operational readiness, and I'll come back to the economic and interest rate scenario.

I mean we had planned for and prepared for effectively a no deal Brexit as at the end of March, so I think, as we've touched on this morning on the Equity Analyst call, we are operationally ready for a no deal Brexit.

We have NV and Frankfurt operational as our – as our offices to take care of that and you know, a number of other things are going on internally to make sure that we understand not only from a geographical point of view, but from a – just an operating model point of view how the bank would operate in that type of – kind of scenario.

So, operationally while you've always got to – you know, make sure that you keep looking to make sure you haven't missed anything, and clearly if we end up with a no deal on the 31st of October, we would stand up our usual framework for dealing with those types of – you know, instances. What – we feel like we're as prepared as we can be for that.

I think on the economic and interest rate front, I mean look, it's a – it's an evolving picture, I mean you listened to Mark Carney yesterday and you know, it might be this or it might be this. And there is obviously a certain amount of uncertainty around what we're going to see, both in terms of economic activity and interest rate outlooks.

We do expect a consensus – consensus certainly from an interest rate perspective, it has been moving around in the last two, three months, but you know, we don't try and second guess where we think the market's going to go on this stuff and plan for that.

I'll now just hand over to Katie just maybe on the SME and I guess your question really relates to any sort of impairment type stuff and then I'll pick up the liquidity portfolio.

Katie Murray: No, thanks – thanks, Robert. You know, we look at SMEs, at the moment, the reality is that the book is actually – you know, growing within sort of SME and Mid-Corporate kind of sector, so people are certainly still borrowing, but in terms of what we look at, it's very much – a lot of it is the feedback that we get from the relationship managers who are out talking to those smaller businesses and actually what is the mood on the ground.

And other things that I think are very helpful to us – I think that some of the CBI surveys, where they're actually out talking to far more of the SMEs than we can necessarily get to – to get those kind of feedback, but this morning, we talked about the TMI index and what we do see is that it's falling both on manufacturing and a service basis. That's fallen sort of to or below 50 in the last couple of months, and that's really a big measure for us of the investor confidence.

So, it's interesting, at the moment at the smaller end, we see lending, we see activity going on, you know, we're at really low levels of unemployment in the UK, and that really helps that kind of SME sector. So, (it is) actually trying to get where the feeling is for the mood music.

When we look at the macro, the realities in terms of growth, our assumption last year was at 1.6 percent. It's only really moved to 1.5 percent. So, if you can imagine that if it stays at that kind of level, I often think that the rhetoric is actually worse than the numbers are suggesting on the ground.

So it is – it's hard, like you say I think you just have to pull input from lots of different places, but I think the most important things is talking to your customers and then sticking to your risk and lending principles as you work your way through to them to make sure you're in touch with them.

Robert Begbie: And on the liquidity portfolio I mean I might answer it a couple of ways. I think – you know, the (start) point with running any liquidity portfolio is to

match the liquidity assets you're holding versus the outflow assumptions you're making, both in terms of product and currency.

So, as we've become a more sterling based bank over the past number of years, then our liquidity portfolio really reflects that. Now, that's not to say we just hold UK gilts, because we don't, but you know – and then in NatWest Markets, they will have a more multicurrency approach, because they're a more multicurrency business than the ring fence bank is.

So, really matching that off – and that's on the primary side. If you think about secondary liquidity and things like the discount window facility, you know, the assets that we have pledged at the Bank of England are pretty much mostly UK mortgage based assets, so they're sterling based assets that would be prepositioned there.

I think the other interesting point to this was that – you know, the Bank of England announced the – what's called the ACS scenario.

And they've put the scenario itself this time around for the banks on a market wide UK liquidity stress, which I think – you know, it's designed really for two things, one clearly to test at an overall level the bank's resilience to a liquidity test scenario for UK banks, but I think also to inform the Bank of England and the PRA about – you know, what tools they have in their armory and are the sufficient to respond to a UK bank type liquidity stress scenario.

So, I think there's lots of good work going on, just to make sure that you know, if there is any sort of disruptive Brexit, or disruption in the marketplace, that the UK banks are able to – you know, cope with that. And you know, we're not the only UK bank that's running a significant surplus liquidity position, and I think if you – if you (top) all that up, there's a very big cushion out there in terms of UK banks and their liquidity positions right now.

Katie Murray: Thanks, Robert.

(Robert Smalley): Thank you. The detail is very helpful. Greatly appreciated.

Operator: Thank you very much. The next question today comes from the line of (Corinne Cunningham) from Autonomous. Your line is open. Please go ahead.

Katie Murray: Hi, (Corinne).

Robert Begbie: Hi, (Corinne).

(Corinne cunningham): Hi, thanks very much. One very quick one – sorry, wasn't able to dial into the call this morning, so you may have already said it, but what are the implications from losing the (GSIB) status, so what would be your – a (DSIB) buffer you'd apply across the group? And are there any other implications for losing the (GSIB) status?

And then just an update on plans for Ulster Bank, when I look at divisionally, that does still seem to be such a long way behind the other divisions, so I'm just wondering what the plans are there? Thank you.

Robert Begbie: (Corinne), I'll pick up the first one and then Katie answered that second question this morning, so I'll let Katie cover that one.

Yes, I mean the (DSIB) buffer was as expected for us. We expected (DSIB) to come in, so as the – until we lose the (GSIB) status, which is at the 1st of January next year, then effectively there's a net set off between what we have to hold as a (DSIB) versus the (GSIB) buffer.

So, net-net, it was in the plan, so there was no additional capital requirements that came out of that. The only benefit from us losing the (GSIB) apart from some operational reporting things that we don't need to do now, is the MDA at group level. So, they – obviously the (DSIB) doesn't apply at the group level, so effectively, MDA will drop by 1 percent as at the 1st of January next year.

Katie Murray: Thanks, Robert and if we look at also – look, it is behind, and I think we've always been quite open about that. I think that the – I mean I would probably say I mean it's a few years behind where the rest of the bank is, but as we look

at what they do do there, they're making good progress, so they're at you know, 2 percent ROE for this year.

What I would expect to see is over the next number of years is that we just steadily build. This year it's very much around get the remaining conduce and control kind of issues behind you, they're very much on track to do that. We're hopeful to get a bit of dividend out (of them) at the end of this year, which I think would be – would be very much appreciated, as it will help to normalize their capital base a little bit.

I mean there's still – there's still more to go on that, and actually over the next two to three years, we should just see it continuing to move forward. What is nice is that we're making progress on the NPLs. The old tracker book is curing quite a bit as we go through (I think) it was 400 million that cured in the first half of the year, and we're seeing some nice growth in the – in new businesses coming on.

So, the underlying is kind of heading the right way, but they still have some of their legacy issues they need to deal with.

(Corinne Cunningham): Thank you. So, just in terms of – I'm not sure I quite understand, the (MDA) will only apply at the group, so it -- literally wherever you have to as a (DSIB) at the UK ring fenced, doesn't it get reflected up at the Group?

Robert Begbie: That's right. I mean it gets reflected in our total capital requirements for the group, but it doesn't impact the group MDA, (inaudible) ...

(Corinne Cunningham): Right...

Robert Begbie: ... ring-fenced bank level.

(Corinne Cunningham): And the impacts, in terms of the group (SREP) equivalent, would that – would that be roughly sort of 75 bps?

Robert Begbie: I don't think we disclose that, but yes, that seems a bit high, but ...

(Corinne Cunningham): OK...

Robert Begbie: ... yes, we –that’s not – it's not a number we disclose. And we're not – we don't double count put it that way so we (inaudible) from the (GSIB) versus the (DSIB) buffer ...

(Corinne Cunningham): Yes.

Robert Begbie: ... (inaudible).

(Corin Tunningham): OK. Thank you very much.

Katie Murray: Thanks very much.

Operator: Thank you very much.

The next question today comes from the line of (Lee Street) from Citigroup. Your line is open, please go ahead.

Katie Murray: Hi ...

Robert Begbie: Hello.

(Lee Strict): Good afternoon, thanks for taking my questions. I've got three here. Firstly, just on IFRS 9 provision, I know there was a few questions this morning and you specifically mentioned the appendix one, giving the sensitivities.

Obviously, we're all trying to get our head around this, but would you be able to give us any indication let's say if you – you know, if the downside one scenario went from being a – let's say 29.7 percent to say a 40 percent likelihood, I guess (if that's) base case – what that might actually mean for – you know, provisioning levels and what additional provision charge you might take sort of – you know, this question is not related to Brexit, it's more just related to a general weakening and the outlook.

Secondly, I know you've mentioned various headwinds in terms of (inaudible) capital in the past, mortgage laws and the like, can you just give us a quick recap on what we should be expecting in 2020 and what (inaudible) each one would be.

And then finally, obviously you're – you know, very well capitalized at the moment, 16 percent – you know, on a pro forma basis, now. You're obviously targeting 14 percent – you know, on a look forward basis, I suppose the question is, just – you know, why is that 14 percent – how'd you come up with that 14 percent number, you know, given the – you know, given your requirements (for your peers), what way is 14 percent the correct number for you on a look forward basis?

That'd be my three questions, thank you.

Katie Murray: Perfect, thank so much, I'll start with the (inaudible) then I'll hand the balance over to Robert. I think probably the best way for you to have a look at the terms of the downside one becoming more of a base case is actually to have a look at the sensitivities which we had in the accounts at the yearend.

I want to say it was something like page 220^{ish} or something, so but in terms of what they sort of showed is that actually, in various kind of downside scenarios, the impact would be about an extra 300 million.

Now, it's (intense) and when you look at that you think 300 million if you consider it with the size of the loan book that we have, you know, that doesn't seem particularly impactful, but the reality is we'd have that that as a first stage impact, and then later, as you saw businesses (T rate), you will see more come through as you got (inaudible) duration. But, 300 million would certainly be your immediate kind of impact.

But if you have a look at them, and if you've any further questions, I mean happy to kind of take them offline with you as well. That, I think, is good place to start.

Robert, do you want to ...

Robert Begbie: Yes, so on the RWAs, we didn't really talk about it today, because there was plenty of other stuff to talk about. I mean it's – previously we've guided to about – you know, 10.5 billion as a – as an initial indication just on the mortgage floor piece and then 5 to 10 percent covering the rest of the RWA impacts from Basel 3.5, 4, whatever you want to call it.

I don't think we've got any further information that would – that would change that guidance at this – at this stage. I mean I think clearly, it continues to evolve, in terms of how the guidance is going to work and how it gets implemented kind of locally in the UK. But I think those are the – those are the numbers certainly we've got plugged in the capital plan at the moment, and you know, we haven't changed that at all certainly in the second quarter or the first half of this year.

Your question then 14 percent, I mean essentially, it was where we get to 14 percent is looking at – essentially our go forward – roll forwards stress delta. So, we have our stress delta that gets calculated and reported every year through the bank in England – ACS stress test.

We clearly look at that and how that evolves on a go forward basis. And as you will have seen – as we have dealt with legacy position, issues, conduct, our stress deltas continue to come down. And so, what we do is we'll look at the minimum levels that we would not want to fall below in a 1 and 100 year stretch, which is effectively the ACS stress.

And then that solves for – you know, around a 4 percent stress delta, with the 9 percent kind of – our over 4 percent stress delta. So – but I think – and (Ross) touched on it a little bit this morning.

I think – you know, one of the things we're starting to work through is that – you know, as we – as we become normalized as a bank, and we look at the stress resilience of your balance sheet, you know, these are risk appetites we've had in place for a number of years as we've been – you know, restructuring and putting the bank back on a firmer footing. So it is something we're kind of looking at at the moment.

But wouldn't expect us to change that target quickly. I think that target is our best estimate at the moment that we will have to hold from 2021.

(Lee Strict): OK, right, thanks very much for those answers. That's most helpful.

Katie Murray: Thank you.

Robert Begbie: Thank you.

Operator: Thank you very much.

As a reminder today, to ask a question, please press star then 1 on your telephone keypad.

The next question we have ...

Katie Murray: While people are doing that, I've actually got one on the line, which I'll take, which is from – I think it's (Jan Falkirk) from Cairn Capital, does the transfer of the ownership of NatWest Markets NV need to be completed first before any potential LME exercise of their legacy instruments can take place? Do these legacy capital instruments have any longer term purpose within the Group?

Rupert, that sounds like one for you.

(Rupert Mingay): Oh, thanks very much, Katie. I think the answer to both of those is no, effectively. As we've said in the IMS, we do expect actually the change of ownership would happen during the course of H2 and NWM NV would become a subsidiary of NWM PLC, and obviously once the legacy instruments lose all their capital recognition, both within the legal entity and structure and also the consolidated group, they just effectively have a debt characteristic with whatever coupon they've got.

Robert Begbie: And I think – I mean we have as a goal, LME'ing some of these securities in the past with some success, but certainly not huge take up. I think historically, some of these securities have resided in detail type investors hands, so it's quite difficult to get them back, even with a kind of attractive tender.

Katie Murray: Thank you.

(Steve), are there any more questions on the line?

- Operator: We have one question on the phone, from the line of (Tom Jenkins) from Jefferies.
- Katie Murray: Thanks, (Tom).
- (Tom Jenkins): I echo Mr. (Smalley) and say thank you for holding the call at this time, particularly since it's during the break in the cricket, so it's very convenient ...
- Katie Murray: Well, we will get you to report ...
- Male: (Inaudible).
- Katie Murray: ... we'll get you to report back on the score at the end.
- (Tom Jenkins): ... no just – I was sort of echoing (FJ)'s question just then on NatWest – on NatWest Markets, I notice in the –in the end of the NV report this morning that you issued (250 million AT1) up to the Group in H1. I don't know if you can give us the terms of that detail. I'm assuming not. I'm assuming that's sort of semi market terms at least. But more to the point, I'm trying to get my head around why now?
- It seems relatively superfluous to be issuing an (AT1) when you're running a 33 plus percent CET1 ratio, so sort of why now? And again, I suppose in relation to (FJ)'s question, how that fits in with what you want the capital stack at NV to look like CET1 (AT1) to perhaps over the next year or so?
- And then just following up – going back to on a group level, and again, it's about legacies and you mentioned legacy optimization call in the Tier 2 earlier in the year. Again, is there any chance you could give us a – a sort of 10,000 feet view of what you want the – sort of in terms of any ratio terms of RWAs and what you want (AT1) Tier 2 to look like, (inaudible) year end or so, if you can help me on those, that'd be great.
- Robert Begbie: I think Rupert's going to pick up the NV question, and then...
- Rupert Mingay: Sure – thanks for the question – yes, so NV issued that (AT1) as you say, just before the half year. It was issued internally through its holding company structure. I would expect that we'd align the ownership of that to PLC also in

the second half, and therefore, effectively, PLC would acquire that (AT1) issuance.

We've really just done it to make sure we sequence the various capital transactions we've got. There's no particular reason it was in place for the end of the half, given as you say, the very high capital position that we had.

The use of it really is that it's got regulatory value in terms of being an efficient way of supplementing CET1 for large exposures and other regulatory requirements. And obviously the ratios were run on NV will be a function both of what the DNV requirements are and then how we calculate risk appetite, pretty much on a similar way to what Robert mentioned.

So, we have, I think given guidance that we'll be running with about 15 percent CET1 and about 30 percent (MREL). And I'd expect that 15 percent of non CET1 (MREL) would predominantly be in the form of (AT1) for an efficient amount, in other words, several percentage points and then – and then the balance of combination of sub debt, internal issued and debt when it's probably issued also to us.

Robert Begbie: And just on – the other part of that question, and (given) details of the transaction, I mean if we do, as far as possible try and reflect, you know, the real market costs of any of the downstreaming into any of the legal entity, which it's partly around ensuring that we're not running undue risk and the holding – the group holding company which clearly the Bank of England are keen to ensure is part of the resolution that we don't run undue (inaudible) in the – in the holding company.

Did you want to ...

Katie Murray: I was just going to add on to the NV piece of it, we got about 9 billion euros of RWAs, I think within the NV business as well ...

Rupert Mingay: Yes.

Katie Murray: ... 9.

Male: The target ...

Katie Murray: Target, yes, the target number (inaudible) sorry apologies, target of 9 billion as well.

Robert Begbie: And just to your second question on the group piece, I mean we – you know, we – we're consistently looking just the (inaudible) as possible you know, considering the pillar one and two year requirements and (debt cost) so it does – you know, we think that we are fairly rigorous and transparent as we can be around how we're going to deal with some of these legacy securities, but you know, it's a (inaudible) and not a strength, and – but we're kind of (well) the way down the path now in terms of dealing with the stuff that (inaudible) going forward.

(Tom Jenkins): OK ...

Robert Begbie: I mean – I mean we said we would look at Tier 2 in the second half, and you know, (Scott) and the team are looking at it at the moment...

(Tom Jenkins): Right.

Robert Begbie: ... and just seeing whether there's a feasible transaction there for us to do. But it is in the context of overall optimization about overall capital stack and the cost of using it.

(Tom Jenkins): OK, because a question I often get is Brexit, you know, are you waiting for Brexit to happen before anything – you know, goes on in terms of optimizing the legacy stack, is Brexit a consideration now or is that just like a side show?

Robert Begbie: No, I mean you know, if – I mean with the capital and liquidity ratios we've got, those are our ...

(Tom Jenkins): Yes.

Robert Begbie: ... defenses against Brexit really, in terms of CET1 and liquidity. So, we're then – I mean we've been active – we were active in the – you know, retiring

that tier two security, so it's not really a factor – Brexit's not really a factor in terms of how we approach that.

(Tom Jenkins): That's good to hear, I couldn't imagine it was. OK, that's me done. Thanks very much, indeed.

Robert Begbie: Thank you.

Katie Murray: Thanks very much.

(Steve), do we have any other questions on the line?

Operator: Thank you. No further questions on the line, but as a reminder, it's star then 1 if you'd like to ask a question.

Katie Murray: I've got one question now just coming in – a bit more of an equity question, I guess, but happy to – happy to take it, (John).

So, can – (John Cronin) from (Goodbody) in Ireland, can I please ask you to elaborate a little further on your comment in relation to small signs of strain in the loan book, does this point solely – does this point solely relate to commercial loan book? Thanks.

Look, thanks for the question, (John). You know, it really is just that there – we do see some small signs. Actually, it's not necessarily within the commercial loan book. We – we've tightened a couple of our risk appetites on the personal lending side, just to make sure that we're staying very much in line with where we want to be.

You can see that in our provisioning – we've moved our provisioning case more to the downside than to the – than to the base, which is where we were more last time and we're pretty even across the downside and the upside.

We see a few – not very many but some small increasing numbers that are going into the GRD space, so just the odd little bit of (spike there), I would be very cautious to suggest you don't blow that out of proportion and we need just some small signs, but they are signs that we felt it was important that we share with you.

And (Steve), if there's no more questions, I'll just say thank you to you and thanks to everyone for joining the call. And obviously, if you have any other questions, please don't hesitate to contact Paul Pybus in our Debt IR team, he'll be very happy to deal with them for you.

Thanks very much indeed for your time, and hope the cricket goes well in the afternoon.

Robert Begbie: Thank you.

Operator: Thank you very much. Ladies and gentlemen that does conclude today's (call). Thank you for your participation. You may now disconnect.

END