



Sell-Side Round Table

7<sup>th</sup> May 2020

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0:00:50.9

Dave

Good Afternoon ladies and gentlemen. Thank you for joining RBS's Q1 Sell-Side update. If you would like to ask a question during today's session, please use the 'Raise Hand' button located at the bottom of your screen. This will signal, you would like to ask a question. When prompted, please make sure to unmute your microphone within zoom. If you have dialled in within telephone, please use \*9. I will now hand over to Alexander Holcroft. Alexander please go ahead.

0:01:15.6

Alexander Holcroft (AH)

Good afternoon and welcome. This is our joint Q1 fixed income equity round table, our hosts today are Katie Murray our CFO and also our Treasurer Donal Quaid. We'll have some short introductory statements from Katie and we'll hand over to Q&As to you, so Katie, over to you please.

0:01:36.8

Katie Murray (KM)

Thank you very much Alexander and good afternoon everybody and thank you very much for joining the call. We'll obviously take you through questions as Alexander says, but I thought it might be helpful just to kind of touch on a couple of areas that we know have been of particular interest in conversation with you over the last week or so, since the announcement.

0:01:59.4

The first one of course being impairment charges and the affect of the overlay and then secondly income, and particularly in that Net interest income. You know if I look through impairment, I'm gonna take you through the whole narrative again, we went through that in some detail obviously. I do think we all really do understand well the nature of the uncertainties that are involved, the judgements that were made closing the books in the first quarter, particularly around our MES overlay and the difficulties we have projecting what this looks like for the end of the year and I think that difficulty was only enhanced today as we saw view coming out from the Bank of England as well which we can talk about if you would like to later.

0:02:40.0

Look the world looks very different today than at our update which was 10 weeks ago and forecasting to the end of this year is obviously going to be difficult, so we really sought not to give you a forecast for 2020, and although in the face of the huge kind of analyst range that we see, we've seen that type thing a little bit obviously since last week given the conversation we had, we thought it might be offer, to have a more rational approach in terms of our forecasts.

0:03:06.5

We had quite a lot of discussion on the call about the nature of the overlay, how it differs to a model approach in terms of it's impacts on PDs and LGDs, and how the overlay might change going forward and I thought it would be helpful to clarify some of that for you. Our starting point in reality was by the end of the quarter we could see very little change in the fundamental data, there were no tall trees in terms of what was, what we had experienced, up until that point, and so the outline of

leveraging our existing kind of stress test analysis using variables that we have set out, seemed to be a far more effective way to do it.

0:03:46.5

This got us to the charge of 802 million or 90 basis points, which included the overlay of 628, you know and it's important to remember that overlay of 628 was additive to the overlay we already had, which took the overlay up to the 798, which obviously took our whole provisions up to the 4.4 billion that you're familiar with.

You know and we can see in the coverage ratios by stage and by category which was on page 15 of the IMS. The things that the overlay does not achieve or seek to achieve is, we haven't moved things from one stage to another, we haven't made changes to the detailed LGDs, that's something that we're obviously beginning to work on now as we start to get real understanding coming up from them, the business.

0:04:30.3

All we can do is give the broad equivalents, noting for you that overall the change in the overlay and if equated to a stage two exposure increase of 32% for personal and 65% in terms of that whole sale portfolio.

In future quarters, we obviously will get more confident in terms of the visibility of the data. So, the data we will expect to see some moving in stagements, we'd expect to see movement of the underlying LGDs to be updated in the model and overall for the small part of the stock of our provisions to become more actual rather than overlay.

0:05:04.5

I've heard a lot of conversations in the last week around what might we think it could be in terms of Q2, and I think by Q2 we'll have more answers than we know today but we certainly won't be at the end of the answers so I do think they'll still be a high level of uncertainty as we get into Q2.

Just in terms of income, I'll just talk to that briefly, you know we guided you in some detail around income previously, 200 million impact from the overdraft and high costs of credit review charges, the negative move of 65 base points on interest rates and I think I was relieved that the MPC didn't decide to go any further yesterday which was helpful.

0:05:44.6

Obviously, our pre-existing guidance would be a negative 25 basis points. A reduction in the rates income over the year as RWAs is reduced, excepting of course that they had a sort of slightly better Q1 than we might have foreseen. And then the fact our 400 million will be slightly less than the charges we'd spoken about on our journey down to 32 billion in terms of Natwest Markets.

You know all of this is offset by our strong performance in Q1 and the gain that we made in our own credit as well obviously in the quarter.

0:06:18.3

What I said in Q1 and my view is unchanged. I look at the prevailing consensus of the 10.7 billion. It looks to me that the consensus has taken our guidance in pretty well and that I'm not really looking to see anymore on that at this stage.

On NIM, you know, we again gave you the guidance on the 25 basis points move and the impact that has when that's grossed up in terms of a 65 basis points which gets you to a 400 million annual number, which obviously is 100 and a quarter, so you see that 10 basis points equivalent of the 400 billion coming off more or less in Q2.

0:06:54.1

What I did also say was in terms of, as well as, in addition to that 10 basis points, because of rate movements, we know that we're seeing re-pricing of the book and we also know that the mix will have a bit of a dampening effect on NIM as well, as well as just the kind of general economic activity.

I think that's what you have all understood well and I hope that that's clear, clearly things will change over the next few weeks and we all await with interest what Boris may or may not tell us on Monday in terms of the lockdown and what that may or may not continue, and we'll obviously look forward to giving more update on those particular numbers in the quarter. With that I'll go to Q&A, what I would say is I'm also joined on the line by Richard Lawrence, who is known to many of you as our Head of Accounts and Policy so if you want to get into the weeds of impairments, he'll be very happy to journey with you there. Alexander are you curating the Q&A?

0:07:50.4

AH

They will just come into it Katie, so Dave will just send them through.

KM

Okay, perfect that's great, thanks Dave.

Dave

Thank you Katie, just to remind people, if you would like to ask a question, press the 'Raise Hand' button if you're using the zoom app or alternatively if you've dialled in, press \*9. Our first question comes from mobile phone number ending 2876, I will unmute you, please go ahead with your question.

0:08:16.5

QUESTION

Hi Katie, it's Rohith Chandra-Rajan from Bank America here. You are fortunate in doing this on the day of the interim financial stability report, so I was just wondering if I could just ask you a few questions around that. I mean, firstly, I don't know to what degree you had any interaction with the Bank of England as they were preparing that, and then in terms of some of the outcomes, just I think in terms of they're lost that expectations. They seem a lot more severe than certainly you appear to be guiding to, and also most of the other banks as well, on a relatively similar set of scenarios, I was just wondering if you could shed any light on where the differences might be or what sort of scenarios might lead to something like 15,16% loss on consumer credit and 6-7% loss on corporate lending.

0:09:14.0

KM

Sure, yeah Rohith, so in terms of the interaction, we had with them, we were obviously aware that they were preparing for their financial stability report to be released. I had a call with them yesterday evening at 5.30pm to give me the heads up as to what would be in the report, which actually the call contained almost no information about what would be in the report, as they wouldn't share any of the actual assumptions. So, it was a relatively helpful, in that we knew it was coming but I also thought, gosh that's great it's coming on the same day that I'm doing this. I think that they have an analysts call at 3 o'clock, if I'm right, so.

Rohith

They do yeah.

0:09:55.9

KM

I'll get some good information from there. So it was very little interaction we'd had with them. We had taken them through some of the scenario work that we were doing and how it was developing during April which is probably the next stage of advancement from what we had kind of released, but really it was incredibly high level at that point.

I guess when I look at their analysis, while I look at the assumptions that they're using, they are more pessimistic than obviously what we used at Q1. I think some of them are not outside of some of the ranges that we're seeing in other economics coming out with so I wouldn't say, I wouldn't look at it and say that I think their scenario is flawed from the economic basis.

0:10:41.3

I think what's really interesting is, they had this on the day as well, economics is stage one, and then it really is, you go to stage two and say, what do we think the government help will do, I would say, I probably think their recovery is quite sharp and quick particularly given their view on the level of impairments that we still have, in terms of coming through on that recovery, and would probably be a kind of personal observation on that. But what, I would say in terms, I probably can't give you much more insight into what they were thinking. I note that the results aren't as bad as the ACS in terms of impairments but they certainly are stronger than we have seen but I do also think that that's a result of as we look at our, look at the development of what's happened in the last number of weeks and we'll all kind of await with interest to see how it continues to evolve.

0:11:41.8

I'm sorry, I can't give you much more insight than they shared with you.

Rohith

Ok, thank you very much.

Dave

Thank you, our next question comes from Robin Down, Robin please unmute your microphone and go ahead.

0:12:02.5

QUESTION

Robin Down

Can you hear me?

KM

Hi Robin.

Robin Down

A bit of a novice when it comes to zoom meetings. So can I follow on from Rohith's question, the other kind of stand out thing from the Bank of England report this morning was the expectation that risk weighted assets would rise by 33%, I think only kind of 4% or so of that coming from actual loan growth and the rest being rakings migration. I just wondered if you had any thoughts on that number, whether that number feels reasonable to you or whether you raise an eyebrow when you saw it and thought that looks a bit pessimistic as well?

0:12:43.5

KM

Yes I mean if we look at their RWAs, if we think of what, if we look at what happened in the ACS, we had from within RBS, we had RWA inflation, so £52.8 billion that number will be familiar to you, when we take what they did and prorate it, the number felt quite punchy to us in relation to that, and so, we I think were a little bit surprised in terms of the level of RWA inflation and what we particularly how quickly it potentially, they've brought it in to those RWA calculations, because it was higher as we prorate their numbers, than we would have seen in our own ACS stress test, which again feels quite kind of interesting when you have impairments kind of lower in those first couple of years, it feels that they're bringing more in from information that you would only understand later.

0:13:41.5

Robin Down

Is that something you've had a discussion with them about? Kind of post ACS or last night?

KM

So, no, because they didn't give any information, it's interesting, you're getting a briefing, and we haven't had any briefing from them today at all, so no we haven't. So, we do, we would observe that it feels that they prorate, that they go a bit higher, and they certainly go higher than what we would be expecting some of our current scenarios. Hopefully we'll be able to get more conversation with them in the coming weeks.

Robin Down

Great thank you.

KM

You're welcome.

0:14:15.4

Dave

Thank you, Robin and next question comes from Jenny Cook, Jenny please unmute your microphone and go ahead.

KM

Hi Jenny

QUESTION

Jenny Cook

Can you hear me?

KM

Yeah perfectly.

Jenny Cook

Brilliant. Firstly, I didn't want to labour the point around income but I just wanted to check on that 10.7 billion, is that inclusive of both the lower disposal losses and the 155 million of own credit you took?

KM

So what we'd say is in the round 10.7 doesn't seem unreasonable, and I think that I look at the own credit we took, the thing to remember there is also, and you can see in the impact that we obviously had losses on other peoples credit that we hold on our balance sheet as well, so what you would imagine that you would see is some, while those two positions will not be perfectly correlated, if as that own credit number starts to unwind as markets improve and tighten, which we've seen already, you would also see some of the other losses that we had within the financing team unwind a little bit as well, so it won't match, obviously that would be too much to hope, but I think that you will see them kind of come together a bit.

Jenny Cook

Okay so you assume that that kind of trends to zero in terms of net impact on this year's income?

0:15:38.3

KM

Yep so, its never a zero but we're not looking at it, we don't budget for it moving particularly, we kind of take what we have and then move on from there, but I would expect those, given there's a, there's not an equal and exact opposite offset but you can see what caused ours to flare, also had negative impact as you would expect that to kind of work itself out a little bit over the period.

Jenny Cook

Okay, okay. And secondly can I just ask for your assumptions around the rate of growth in unsecured credit? So, it's maybe one point where it seems quite different to what the MPC is assuming. In terms of what we've seen in the market so far?

0:16:17.5

KM

Look our unsecured credit, I mean in terms of where we are, our book itself is sitting, it's a small book, I think it's about 12 billion overall, and what we actually saw was, we saw it kind of shrinking towards the end of Q1, not dramatically but it almost felt that the growth that we got on credit cards had kind of shrunk back again in terms of, in that Q1 position so I think that we are probably not assuming a huge growth in unsecured credit, given that we're such a small player within the market anyway, as we kind of take that piece forward. Which I mean I think the unsecured credit is probably more impactful for other organisations.

Jenny Cook

Thank you.

0:17:06.2

Dave

Our next question comes from mobile number which ends 6632, please go ahead with your question.

Chris Cant

Good Afternoon it's Chris from Autonomous, thanks for taking my questions.

I have one more on trying to understand what's going on with the stress test, I know we've only had that today but just interested in your thoughts.

When we think about how RBS RWAs are behaving in the stress test scenarios, not the one they put out today, but the ones that you were running so for instance the 2019 test, how much of the RWA inflation we see is coming from the mortgage book versus the other books and I guess largely the corporate book, I'm also a bit surprised by the 33% number they put out today given the HPI scenario they're running is more modest, historical ACS's and the fact that in previous stress test result documents they've always pointed to mortgage outgoing inflation as a really big driver.

0:18:11.7

So just curious what your view is on how sensitive you are on each side of that equation, and I guess inclination has to be assume less mortgage inflation in this COVID scenario and then in terms of the numbers and thinking about modelling out, you said less than the 400 million are disposal losses, this year, but you haven't given us a number, but I'd be surprised if you were telling us less than 400 million unless it was going to come in some way below that.

When we discussed at the full year stage how to think about the disposal losses over the run of the Natwest Markets restructuring, you said you just take that 400 million and kind of prorate it forward so if you're dropping 8 billion this year, take the 400 against that and prorate it for whatever you are assuming in the subsequent years for RWA relief and reduction.

0:19:07.5

Should we be doing the same now, but just with 200 and 300 million number, shouldn't we be prorating forward a lower run rate of disposal losses for RWAs, because it did seem very high and



obviously the first update we've had is it won't be that bad now, so can we roll that forward or is that an unreasonable assumption. Thank you.

0:19:29.6

KM

Chris let me try to help you there now, I know that you feel that we're kitchen sinking and we're not honestly trying to do that but it's a good question, the number will be a bit below but also bear in mind that we talked about going from 30-32 billion, but we think at the moment it's only 32, so that will account for a little bit of that reduction, in there and you know if you look at the rates book, quite a lot of the book it rolls off sort of naturally in terms of there.

Look, in terms of the forward guidance, I think what you suggest isn't an unreasonable approach, I honestly, I don't have anything particularly better to give you at this stage, I think if you look at where pricing is and how difficult and interesting the markets have been at this stage, we're comfortable with our end position, we're comfortable with what we're saying on the 32, you know what we'd always said is that we didn't have multiple year losses for you, so you could naturally assume that if we were a bit better on the, on getting to the 32 then hopefully depending obviously what happens in the market, you would see a little bit of a benefit coming through from that as we move forward as well, so that doesn't seem unreasonable.

0:20:39.1

In terms of the mortgage inflation, I've had a very frustrating moment where my entire system has collapsed and the only way I can get back onto it is to switch all of you off so we'll just kind of run a little bit blind on this one, but it'll be fine.

So, as I look at in terms of what the Bank of England have done and we look at their inflation, sorry the impairment piece. They were very clear that 50% of the impairments were coming from UK versus off shore and that impairment was pretty much split between unsecured and the corporate book, so we know obviously in terms of the stress test that we would have been expecting anticipating some of the mortgage floors coming on as well, so I think it's a fair conclusion that a lesser amount of that is in relation to mortgages, even accepting that mortgage floors have now really moved, but given how low the relative impact on mortgages were, I think that it can't account for a large part of the inflation in terms of that piece.

0:21:43.6

Particularly as their HPI number was so much lower as well.

Chris Cant

If I could just ask one more quick one on Natwest Markets. Outside of financing where it sounds like some of those marks might come back a little bit against OCA, you did have a very strong 1Q, you know rates and currencies was about 50% of what you printed in 2019, so, one of your peers talked quite bullishly about markets activity remaining very healthy into April, I was just wondering if you could give us a sense of what you're seeing there and how we should be thinking about the underlying markets revenues going through this year. Just feels a bit healthier than maybe we would have thought at full year 19? Thank you.

0:22:31.8

I mean I would agree with that, I say that when I asked Robert Begbie the question on just how would he describe out of market, I mean they've had a decent kind of April, is how I would describe it, it's been a bit more activity, not the level of activity that we had in the latter bits of March, but a bit more activity. What we also see them doing is taking, given that the corporate debt market has opened, you see them doing more activity on that than they were doing as well, so I think they've had a, we would describe it as a kind of steady but decent enough kind of move into April, so I wouldn't expect it to, I wouldn't blow out the water but it's a nice kind of run way that they're building behind them as they enter this period of change which I think is very helpful.

0:23:16.5

Chris Cant

Thank you.

KM

Thanks Chris.

Dave

Thank you Katie, our next question comes from Fahed Kunwar, Fahed please unmute your microphone and go ahead with your question.

KM

Hi Fahed

0:23:33.9

QUESTION

Fahed Kunwar

Hi, sorry, this is Fahed Kunwar from Redburn.

KM

Lovely to chat to you as well.

Fahed

Listen just a couple of questions. One was, just sorry back to the Bank of England stress scenario, if you put those assumptions in your model, do you get different numbers because I think the key assumption here is, the unemployment rate stays elevated in 2021 at 7% that must drive a lot of the unsecured and corporate losses. If you were to assume as slow a rebound, do you get the kind of losses or anywhere in the ball park, the kind of losses and RWA inflation the banks getting? Or do you still think it looks quite toppy, that's my first question, and I appreciate a difficult question to answer, considering it only came out a few hours ago.

0:24:22.7

And my second question is on the payment holidays, do you have a sense of how many of your, how much of your customer base is for load right now? I guess my concern is that we don't know how much off people who are for load are actually unemployed, so do you know, if you think about your customer base and you think about your mortgages, corporates unsecured... do you have the kind of

visibility to understand how much of those customers are furloughed right now? And which of your kind of cohorts or books of lending are most exposed to those furloughed people becoming actually unemployed, thank you.

0:24:58.6

KM

Yeah, no thanks very much, look, at the moment I would say if we look at obviously what we did at Q1, then clearly the, what they have published today is topmy in terms of the comparison in terms of what we would have. It's a very kind of interesting number given some of their percentage impacts. What we do know is that what they are using is a huge amount of our transactional data as well, that they've got from business, in terms of databases that they run naturally in terms of business trends, so maybe they're able to see more in terms of the April activity than we were seeing in our book, certainly at the end of March and obviously we're running a lot of April activity just now, which I think is really critical in terms of that.

0:25:54.7

So, it does seem a bit higher just now in terms of where we are. I think you feel relatively brave to say that they're wrong in terms of where they are and it's interesting, it's higher in segments where, we're not a million miles away on their view on mortgages, how I would look at it in terms of what we're there, in terms of the lesser impact on mortgages and then it kind of comes into a view of where are you on secured ware, of course we have less than others, and on some of the impacts on some of the larger corporates. So, it did feel quite strong. I know that they built it up from different kind of bases.

0:26:38.7

In terms of the payment holidays, so we know and Alexander, correct me if I get this figure wrong, about 25% of people are kind of furloughed across the country, is that fair?

AH

6.3 million is the last number I saw.

KM

So, we obviously have got some visibility as to which businesses that is, not least because we obviously work with the department of working pensions to actually make any number of the furlough payments which is a process we're working us through there.

But I guess the follow-on question from that would be is, what industries are we seeing, they're probably not going to go into that kind of level of detail. But we know within it, you've got our exposures, we know that things like retail and leisure and travel are the ones that are going to be first hit and we know the challenges that are obviously in real estate as people try to delay their payments, and we know that in there that we're relatively comfortable in terms of the quality of our books that we have in that space.

0:27:42.5

In terms of the loan to value of around about 50% I think Alexander in that space. I think it is about 25%.

Fahed

Can I just ask one quick follow-up, just on the first question again, so if you were to take their assumptions and using their transactional data, say ok well that GDP shock and the unemployment lingering longer than perhaps the banks and the IMF thought a while ago is right, do you get the same level of corporate stress on your book or do you think even with the assumptions they have used, their corporate stress seems elevated and you probably have the clearest view on that corporate exposure considering you're kind of position in the UK bank sector, yeah do you think even using their assumptions your corporate books should behave, hopefully better than they are assuming?

0:28:38.1

KM

As I look at it today, in terms of the assumptions that we have made which continue to evolve, I would say that it's quite a robust number that they've put out, but I guess I'm not yet at the point of saying that they're wrong but it would be quite a robust number that they put out.

Fahed

Ok that's great thank you very much, cheers for your time.

KM

You're welcome, thank you.

0:29:00.5

Dave

Our next question comes from Martin Leitgeb, Martin, please unmute your microphone and go ahead with your question.

Martin Leitgeb

Yes hello. I have two questions, and the first one is just in terms of broader strategy, obviously on one hand the uncertainly related to the current disruption and how long it will last and on the other hand, you have one of the highest capital and leverage ratios amongst UK banks, to what extent do you see this as an opportunity to maybe to push a bit stronger in certain areas where historically you are underrepresented like mortgages, could this be an opportunity as and when things stabilise that one could see RBS using that capital more to grow in terms of increasing the mortgage market here as an example, just you know the perspective being if there is a potential delay in terms of capital, that the capital is being put to work?

0:30:03.6

And the second question I was just wondering to what extent the current environment impacts the capital upstreaming plans from Ulster in Ireland, thank you.

KM

So in terms of capital and how we could use it for different opportunities, what we've said is that we are open to acquisition if that is something that makes sense, we've said that for the last couple of years, we've obviously had some of the capital to be able to do that, but at the same time we're very

committed also to the capital return to our shareholders and I think it's how do we kind of balance that so that by the time we start to come out of this, we would like to think that were returning back to capital return. That doesn't necessarily exclude any kind of acquisitions but I think it obviously will depend as to where we all land in terms of our capital strength by the time we get to the end of this process.

0:30:57.3

And I think you all know that we start from a very strong position so you would certainly hope that that would have, would mean you would still have capacity as you get to the end of that piece so I think that's something there, and I've completely forgotten your second question, I didn't write it down, forgive me...

Martin

No, problem, I was just wondering to what extent the current environment impacts the capital upstreaming plans from Ireland?

0:31:21.5

KM

Yeah so no thank you very much, so, it's definitely we've had capital back from Ireland, we got 500 million just before the end of December, we reckon as we look at it there's 1-1.5 billion euro that's still sitting in their excess given where their CET1 position is, but I think, what I would certainly say is that I wouldn't expect it to be coming back to us in the short term because they also will restrict their capital flows certainly until they see themselves coming out of this other crisis, so you would expect to see some of that excess capital consumed as they go into it, in line with all the conversations we obviously don't know how much but I would say at this point, certainly in my own capital plans I don't have any particular flows coming from Ulster, probably throughout 2020.

0:32:11.5

Martin

Thank you very much.

Dave

Our next question comes from Aman Rakkar, Aman please go ahead with your question.

KM

Hi Aman

0:32:21.0

Aman Rakkar

Hi Katie, can you hear me? Thank you very much for the question, just a quick one on income and net interest margin, so one thing I've struggled with a little bit is the guidance regarding the impact of the 65 basis points Rakar only being 10 basis points. I guess, that number sounded a bit low to me when I first heard it and I guess what I'd be really interested in understanding is, on the customer margin part of that, which I'm assuming is the primary driver of that in Q2, what are the customer balances that you're assuming there, because very roughly, I think about you having 220 billion

pounds of unhedged deposits, to me, I would have thought, given where your deposit costs were going into this downturn, at best you could have passed on 50% of it, so 30 basis points. To me, when I run those kind of numbers I get kind of double the rate impact than what you're disclosing, so I'd be really interested to understand if there's something in that modelling that I'm getting wrong, either in the size of the balances or the starting point in terms of your savings rates please?

0:33:40.9

KM

In terms of the savings rate, we had a kind of average rate of, for our customer deposits of 38 basis points at the beginning of the year, we've obviously cut that down more or less to 1 or 2 basis points, that obviously means that you're passing through just over half, so about 60% of the rate cut but you're kind of at a minimum sort of level, so I think the way to think about it is, take the analysis we've got on the page 177 which says that you lose 158 million in year one for 25 basis points and then you prorate that through, and then I would use, and make sure you're using the right average interesting earning assets which are 420 billion and that will help you get to the right piece and what I would say, the 10 basis points is the impact of the rate cut, we'll still see a little bit further impact as we've seen each quarter of just the change and the shape of some of the margin, but that would be single digits, it wouldn't be a significantly high number. But I think maybe the average interesting earning assets might help you a little bit.

0:34:51.0

Aman

It does really sound like you're really, really quite comfortable with that guidance, so there's nothing regarding the assumptions, that might need to be tweaked, that's really your best guess is it?

KM

At the moment you're always concerned and I really hate giving you new guidance because history has taught me that it doesn't serve me well, but the maths there, we run the structural hedge analysis, we've been giving that to you for some time now, and we think it's pretty good in terms of what we've done, and where its sitting, so I think your 10 is your base and then add on what you think there might be in terms of mix as we go into the next quarter. Obviously, we, the impact of a little bit of central liquidity will have a bit of an impact on it but again that's all single digits, we're not talking about some of the 30 basis points that we've seen elsewhere.

Aman

Thank you.

KM

Thanks very much.

0:35:48.4

Dave

There are currently no further questions in the queue, just to remind people if you would like to ask question, please press the 'Raise Hand' button if you're using zoom or \*9 if you've dialled in. I'll now pause and wait for further questions.

0:36:07.3

Dave

We have a question from Alvaro Serrano, Alvaro please unmute your microphone and go ahead.

KM

Hi Alvaro

QUESTION

Alvaro Serrano Morgan

Hi hopefully you can hear me. Right thank you. Thanks for your time, Can you remind me, I seem to remember that at the beginning of the year you had already reduced deposit remunerations somewhat, obviously not expecting the 65 basis points but just as a normal course of managing your margins, is that playing a role in the relatively resilient NIM that you're seeing into Q2? And of the most recent reduction, remuneration, when does that actually kick in? thank you.

0:36:58.7

KM

Thanks Alvaro, you're absolutely right, we had done a small adjustment which I think was January and Alexander will know and he'll nod as I say this, I think takes about, we have to give 3 months notice of changes we they come through, I think that was a 10 basis point cut that we had already put through, so you'd have had a little bit of an impact of that but really very minimal in terms of your Q1 results I would say.

And then, we obviously did the next two and we did them as one trans in terms of making that change. The reality is that for the majority of our book, we pay very little, in terms of deposits, 50% of the book doesn't get any kind of deposit income and both of our rates were sitting round about 10 basis points so it was some of those higher earning ones that took more of the impact which is why the impact is not as significant as it may have been elsewhere.

Alvaro

Thank you very much.

0:37:59.6

Dave

Our next question comes from mobile number ending 6277 please go ahead.

QUESTION

Ed Firth – KBW

Yeah hi, I think that's me. Ed Firth here from KBW.

KM

Hi Ed

Ed Firth

Hi, yeah I don't know if this is a question or a plea really, but are there any efforts amongst the major banks to try and provide any form of consistency in terms of economic assumptions, because I had understood you all working together and you're working together with the Bank of England on all this stuff, and yet, you've all produced completely different bases for provisions and I'll be perfectly honest with you, it makes the sector almost uninvestable, because there are so many moving parts, we can have no idea whether you're way ahead, way behind or anywhere so, I don't know before Q2, is it at all possible that you guys can all get together and agree some form of sort of consistent basis, because on the basis that none of us know what's gonna happen, it doesn't matter what you choose, it just has to be something that's the same?

0:39:03.6

KM

So Ed, I think I'll take that as a plea, rather than a...

Ed

And it's meant with good grace, because I would like people to invest in UK banks.

KM

You and me both. So, I think what we think may happen, that what the Bank of England has published whether you end up seeing some coalescing round, some of their economic assumptions. I think it'll be interesting to see what consensus does, obviously consensus has been a disaster in the last little while naturally, so hopefully by the time we get closer to Q2 we'll start to see a little bit coalescing roundabout many of their assumptions which I think will make it a bit easier for you. And then you'll be able to compare what we said with at least what the Bank of England have said, but I think let's see how the next few weeks progress. I'm conscious that the 7<sup>th</sup> May, there's only about 7 or 8 weeks left till the end of Q2 so, a lot can be...

0:39:57.1

Ed

It doesn't even have to be in line with the Bank of England, I mean if just all of you guys could come up with something that's broadly consistent, because some of you have shallow long downturns, some of you have got short, sharp big recoveries and it's impossible externally to know what that really means in terms of the difference.

KM

Yep. Yep.

Ed

Thanks so much. Haha.....

KM

I hear the plea in there, we'll see what we can do.

Ed

Okay thank you.



KM

Thanks a lot Ed.

0:40:27.4

Dave

Our next question comes from Fahed Medburn. Fahed please go ahead.

KM

Hi Fahed.

QUESTION

Fahed Medburn

Sorry, I just wanted to follow up on another question on margins, Katie, just to make sure I understand. You were saying the margin hit in the future years will be lower single digit basis points, did I hear that right and can we get an update, so I think in the FY19 there was around, I think it was like 650 million of incremental hedge income. Where is that number now after you take the hits of the 10 basis points, are we talking about a few hundred million and it's gone down to basically nothing? Thank you.

0:41:09.4

KM

So you can see in our disclosure, in the full year, we can show you, you can see what it was in the different years and if you then just did the maths you'd get to the next number, so what I'm saying is, take your rate cut which accounts for about 10 basis points and then onto that 10 basis points you need to take a view of there's probably a few more basis points you need to think about because the mortgage book is re-pricing, in terms of what is happening in that piece so that's the kind of more of the single digit number there, so what I'm trying not to do is, I'm trying not to get you to 20 something, but 10 is also, would be the minimum that you would kind of expect, but I'll leave you to work out where you might be in that range and that'll be around about the business that we sell and things like that.

0:41:53.0

Fahed

And that 640 million incremental hedge income from your structural, from your product and equity hedge, can you give us any sense of where that number is now in Q1?

KM

Alexander do you want to...

AH

I would just say, if you go to Page 17, can you hear me? We show that for 25 basis points in year one it's a -27 number, on that, so I would use that as a way to calculate.

Fahed

Perfect, thank you.

KM

It will give you a very good view of the answer.

Fahed

Thank you very much.

0:42:35.1

Dave

Next question is from Rohith, Rohith, please go ahead.

KM

Hi Rohith

0:42:42.5

QUESTION

Rohith Chandra-Rajan

Hi, thank you again. I was just wondering if I could come back to impairments, one of your peers' commented particularly around when we're all trying to compare coverage levels, particularly on consumer credit, write off policies have vary across the sector and speed to right off has an influence on coverage levels particularly around consumer credit. I was wondering if that was something that you recognise particularly as a differentiating factor across the UK banks?

0:43:16.1

KM

I think Richard Lawrence, do you want to come in on this because you I know will have had actual conversations around this with the different banks, you'll be able to give a bit more detailed insight?

Richard Lawrence (RL)

Yeah, no I think the answer is I think we think it will do, because we know that again because you have in one camp, you have a couple of organisations which become closer to the American's which obviously have a very fast write off policy and then those organisations that have a relatively long write off policy. I think many of them will put details in their year end accounts, so I think if you trawl through those you can often pull those out. Certainly, if you look at ourselves, our write off policies are relatively longer and the longer write off policies will tend to lead to higher coverage.

Rohith

Thank you

00:44:08.6

KM

Thanks, and thanks Richard.

Dave

There's currently no more questions, just to remind people again if you'd like to ask a question please press the 'Raise Hand' button if you're in zoom or \*9 if you're on the phone. I'll now pause for more questions.

0:44:26.6

KM

Maybe we have the disadvantage of publishing on the same day as the PRA but the advantage of it being the night before the bank holiday weekend.

Dave

We have a question from Jenny Cook, please unmute your microphone and go ahead.

KM

Hi Jenny.

QUESTION

Jenny Cook

Jenny Cook

Just a couple of follow ups. One for Richard actually, if you could talk through how you would expect mean reversion to impact future provisions that you're going to take that would be quite useful and secondly for Katie, just wondering, it seems like you're pointing to underlying income, so if I add back the disposal losses, for this year of around 10.9 billion, and then if I think about next year, with NIM that seems between 10-20 basis points lower, obviously rolling off Natwest Markets, rolling off Williams & Glynn, there seem to be a lot of downwards pressure into next year, but the consensus its again got underlying income of around 10.9 billion, do you see it realistic that income would hold flat into next year? Thank you.

0:45:23.1

KM

Rich do you want to go first?

RL

Sure, so we partly introduced mean reversion actually to buffer against over rapid reversion to the mean, so actually to slow our reversion to mean and holding it closer to what we see as being the true underlying credit position. So actually as we go into a more adverse scenario, actually that mean reversion will reduce in terms of the level of pull, because we will naturally be coming closer to the core credit conditions, in terms of our look forward and then actually potentially giving us an upside because actually it will pull us back as we start coming back in, it will move us away from our current positions to future conditions faster.

0:46:09.8

So, it probably increases our provisions coming into a down turn and will help reduce our provisions as we start to see the backside of that down turn.

KM

Lovely thank you and in terms of the income Jenny, look I'm probably not going to be drawing anymore on the income, I think, I note where consensus is and I'll leave you to take 2021 at this stage in terms of where you might like to take it, depending on any number of factors that will happen in the next little while, so sorry to be unhelpful.

Jenny

No thank you, appreciate it.

Dave

Our next question is from Aman Rakkar, Aman please go ahead with your question.

KM

Hi Aman

QUESTION

Aman Rakkar

Dave

Ah he may have immediately lowered his hand, apologies for that. In that case we have no more questions and I'll hand back to you Katie to close.

0:47:06.3

KM

Thank you very much and what I would say to everyone is thank you for taking the time today. As ever, if you've got anything that you'd like to follow up with, Alexander is there, these are indeed unusual times for us, for us all as we watch this pandemic unfold and what we in RBS have come for, in that we are being led by our purpose, in what we're seeking to deliver out to our customers and our staff, and our shareholders importantly, in that we are in a very strong position as we enter this crisis.

And we're working very hard to make sure that we retain that strength as the crisis unfolds. So, thank you very much for your time this afternoon, and those of you who will get the bank holiday tomorrow, please do enjoy and we'll chat more in the coming weeks, thanks very much, goodbye.