FY Results Equity Round Table

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FORWARD-LOOKING STATEMENTS

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Katie Murray: Good morning everybody thank you very much indeed for coming in. I think if it works for you, we'll go straight to Q&A and answer as many of your questions as we can. So, we'll hand over to you.
Morning Ed.

Analyst: Two of your peers have got far more aggressive appetites relative to your MDA.

Katie Murray: Far more aggressive? 13-14% and 13.5%, it feels it's not terribly different.

Analyst: Relative to your MDA, yours is 11.2%, and theirs is 12% you have looked less systemic, it looks like you stress better on the on-line basis, everything points to you requiring less capital. Yet you're targeting something in line on the force par basis, I'm trying to understand where the conservatism comes from. I think the questions you're getting now around Ulster for instance, so you have finance which is relatively small part of the group, and it's a sign that the market is searching for a way to rationalise your target.

Katie Murray: If you look at it, and you will and sure to be asking others their views are, our view is that at this stage we don't yet have a stress delta.
You see in the last ACS, how much we stress by. You all know mathematically, that capital will naturally reduce and come down. We have a philosophy of not hitting our AT1s under stress and that's an absolute golden floor. We can argue, and it is safe to say we had some debates internally, if you're not going to hit AT1s under stress quite frankly why do I have them in terms of capital stack? But that's the philosophy we have as a group so we are more conservative on that basis, I wouldn't read any more into it than that.

Analyst: Where does that come from? Is that institution muscle only? What is it that you calibrate in such a different way to your domestic that there's impact on your return?

Katie Murray: That's well understood in terms of that, but I think given our history, I think there's a desire not to put ourselves into a position that we would ever access that point now. We can debate whether that's right or wrong and can understand what the impacts of that might be, but that is the view we have as an organisation at this stage.

Analyst: Can I ask a few questions on that? Let's mark it down please, should we be thinking of any degree of tax offset to restructuring and disposal losses over the course of the next year or two?

Katie Murray: So it is difficult of course, we have written off a portion of preferred tax but the portion of tax we wrote off was in relation to tax losses and the portion they still have are timing differences. So in terms of the deferred tax losses available to us that can be accepted, we will not use them it is what we have left in terms of the tax assets. So all I can say at this point given we don't expect it to be particularly profitable, is there will be limited tax benefit from those losses.

Analyst: Okay

Katie Murray: And the only thing there might be, depending on if there's some way we move assets from one side into the NatWest bank balance sheet and then using it from there. But that would be very limited as well, there wouldn't be a lot.
For prudency we will take restructuring...

Analyst: Take the gross restructuring?

Katie Murray: I would assume it is a direct impact. All they've left in terms of their deferred tax is timing differences they would expect over time and get benefit from longer losses.

Analyst: Okay, and then in terms of the cost takeout. So I ask the question, I do apologise I wasn't there, but you said the GBP 250 million includes any takeout of great related costs in NatWest market. Can you give us a sense of the scale of that this year and next year as to how much cost will actually come out of NatWest market itself?

Katie Murray: So, what we told you, we said we'd spend GBP 600 million this year, GBP 400 million is disposal losses and GBP 200 million is in terms of the takeout. We'd look at that. If I looked historically and it gets messy with property and things like that, but they don't have that within that number. I would say full GBP 200 million in terms of pay back. When we look at it historically, we talk to a one-to-one pay back. If you're getting one-to-one, and we've looked externally, you're doing pretty well. It is more a 1.2x to 1.3x paybacks and calibrate that GBP 200 million down a bit.
It is good to see the end of the year and you can't see that in terms of their expenses numbers and where the rates were going into the year so their expenses for the year was GBP 800 million direct. But if I look at Q4 their run rate was higher than that, so there's an element of rebalancing back and then putting down a little bit. So I wouldn't take your GBP 800 million and say okay GBP 200 million to get to the new number is… Q4 run rate was a bit higher, because we were in the middle of strategic reviews… We weren't changing things that were happening in the organisation and there was a bit more train-up than there might have been.

Analyst: And just one last one, that was markets for now? You talked about the nominal capital base relating to the RWAs, will the PVA decoction be coming down as well or is that attached to other parts of the business?

Katie Murray: Over time yes. I suspect actually what you might see is increase in the PVA as we go through. There's a moment to take the PVA, so the GBP 400 million loss we've talked there, I haven't put that through capital at all yet. When we talk about these assets, we take a PVA adjustment on that first. In the year, not by the end of the year but in the year, we will have PVA number go up a little bit and then go down again.

Analyst: That's ahead of the disposal costs?

Katie Murray: So basically, we take, say it was GBP 400 million, you would take 50% PVA adjustment once you know what PVA you are looking at, we haven't taken that adjustment but I would suspect to take some of it as we move through the year, but I suspect we have dealt with a lot of it by the end of the year.

Analyst: When we get through 2 or 3 years and this is done, the PVA itself would be a

reduction in number?

Katie Murray: I would suspect so yes.

Analyst: Thank you.

Analyst: Sticking on markets, I think the indication was future run-down costs can somehow be indicated by the costs you're indicating for 2020, so one third in RWA reduction, did I have that right, why would that be the case?

Katie Murray: We started at GBP 38 billion for the year, slightly below the guidance we give you. If you read a few things coming in the first quarter, that number may go up a tiny bit but not materially, not like Q3. Then in my own mind I'm working myself down from the GBP 39ish billion, it doesn't matter. We know we're trying to get down to GBP 20 billion, so I'm literally going well there's 3 blocks of 8 you might take off. I would hope it is slightly faster than a 3 year piece, but I would take those numbers, in absence of me giving you more, I would take them as a good run rate for what you should think about. I would hope we will update you further so, I would say Q2 would be a good time and one of the challenges of course with these things when you're announcing the restructuring of the team. The team only found out about it the same day you found out about it. While we have a great model, it is a small team that have done that piece, so we'll update you further. In absence of anything else I would take those numbers.

Analyst: Was the indication that there’s GBP 400 million of disposal's this year?

Katie Murray: It is interesting, because, if I look at their balance sheet and I know you spend more time on the NatWest Markets financials. If you look at the split of how the balance sheet goes from under 12 months and over 12 months there's an element of roll off, so you hope it would be less as you move in the second year. But if you haven't done the work to the level of detail, it is let's get through the GBP 6-8 billion for this year and give you more guidance as we move through. Otherwise I'll give you numbers that are far bigger to ensure I don't hit the massive losses, not the number we're willing to give you at this stage.

Analyst: I think the gut reaction at GBP 400 million for the first trench was quite a lot. So, we wouldn't be ready.

Katie Murray: Let's work through it, and see where it is. I think we kind of, very purposely, gave those figures and we'll give you more as the year goes on.

Analyst: Can I ask a couple of questions of the GBP 18 billion, can you tell us how much of that is long dated derivatives? So HSBC announced they're selling down theirs for them, it is not really a revenue impact but it is not a net capital accretive disposal. So just wondered how much of that is yours and if that's really what is driving the disposal losses?

Katie Murray: There's a blend of a couple of things in one of the slides we give you, I'll open it for me, slide 40. We gave you the build-up of the RWA in terms of the GBP 38 billion so we know GBP 6.5 billion of legacy. Within that we know there's GBP 1 billion of the Saudi banks within those costs. I wouldn't expect particular loss on that because

we deal with that particularly and then the balance is into the GBP 17.4 billion in the business. So, as you look at the rate to business, a lot of that would be less than 12 years. There's some long dated but not these enormous 20/30 years undated ones we have sitting within the legacy piece. There will be a portion that relates to the GBP 6.5 billion of legacy and then a portion that relates to the GBP 17.4 billion, but we're not spelling it out in much more detail.

Analyst: But is it fair to assume that some of these positions that are actually just sitting on the balance sheet absorbing capital, they don't have any revenue associated with it?

Katie Murray: It would be fair to assume that yes, sorry it would be.

Analyst: Are they the ones you'd sell first?

Katie Murray: Look I think we'll work our way through the portfolio and actually it depends what the interests are in market capacity. In terms of if you look at legacy, we have GBP 6.5 billion as at the end of this year, we will guide to GBP 6-8 billion. I don't think that will all come from the legacy position, I expect to see a rundown rate in the significant rate position as well. Some of that legacy we've had for a long time and historically it has been expensive to remove. I would imagine in 5 or 6 years' time I would still have a chunk of that legacy left.

Analyst: With you I'm thinking more of the core rates business, which is the bilateral swap with the corporates that you're sitting on. Which don't have any kind of revenue after day one, that you still have which is still reclassified as non-legacy. But you know you could sell them down, not really revenue attrition for the first year. Is that kind of how we should think about it?

Katie Murray: So, we'll be doing a portion of build down of both those pieces. So some of it will be exactly as you say and others will be some other legacy positions. I think as you look at the balance sheet you see how much and not, we will be renewing. What we tried do in terms of the guidance on income is to talk about; look this is the GBP 600 million, GBP 650 million, GBP 450 million, we expect GBP 450 million to come down a portion. But we're trying to match the income, keep income as long as we can, but at the same point we need to pull down the GBP 6-8 billion of our RWAs this year of which a portion will be in legacy, but a significant portion will not. So, I think you have to see how the year develops a little bit and not give any more detail by this.

Analyst: What is your starting base? If you're going to NatWest Markets to break even, what do you consider the start to date to be? When we look at C&I, new business grouping that you got from 2-8% that seems to be 5 by 50 million PBT delta, which is effectively the whole group delta to get you to your target RoTE pretty much. And if we only see GBP 200 million of that in NatWest Markets, where else do we model that up?

Katie Murray: So, I think over time you will see more than GBP 200 million in terms of lost income in NatWest Markets. So what I kind of look for if you keep currency and FX, currency and financials income more or less, there will be a bit of noise on that. But it is not a bad decision. Then I think your rates income becomes nominal in terms of that piece, and that is kind of part of the pull down. Then within the corporate side of the

business, there will be the natural movement that we do within that book as well. In terms of managing some positions in and out because we would accept, we probably still have some legacy things that don't earn the right ROE for us. We'll see a pull down in that side as well, although it is not particularly significant.

Analyst: I understand there's more to come. You know the 2020 base is different to 2019. When we think of 2019 to your medium to long-term GBP 500 million of PBT higher. You know the starting base of 2% in that NatWest market, minus GBP 200 million and therefore you only have GBP 200 million delta there.

Katie Murray: You need to take the Alawwal.

Analyst: I have if you take statutory numbers there's a tiny loss and strip out all strategic, minus GBP 150 million core. If you take core it is minus GBP 200 million so I don't know whether we're supposed to give credit for restructuring. If we can only get a zero in PBT NatWest Markets long-term, where do we give you credit for all this restructuring?

Katie Murray: The way we look at it, zero is obviously the end position and if we look at the what. So we bring down the expenses and we bring down the income as well, then what I would expect to see is some improvement on the corporate side which I would have expected to see in many ways. Not completely because actually there's a thing around running it more as combined part of the group. Whereas you're aware what we've done over the last little while, we run it separately so you will get the benefit within there. What you have to think of in NatWest Markets is you're getting it down to a zero and taking out. To take out the costs and to take out the RWAs is where the cost is there, it is not necessarily taking it from a negative return to a high return. What we're saying is you're taking it to a break even return, but then the reason we're keeping it is, it is a combination of commercial business.

Analyst: Can I ask you, I suppose a slightly broader question, I guess you've been cutting that with markets now for like 10, 12 years. Something like that, and each time we get to a new level which we keep being told is the absolute smallest it could ever possibly be to support the corporate franchise. Which we find has to get smaller again, and I'm really struggling to see what's happening that's different this time to what we've had in the last 3 or 4 meetings? Because it feels we get the same slides, the same cutbacks and then it seems to me, my guess is in 3 years' time we're going to be told the last GBP 20 billion will have to go and that's another GBP 2-3 billion restructuring.

Katie Murray: When it got announced in December, in the debacle, we can accept we weren't happy with the trajectory we were on, and didn’t necessarily have the belief that on 6% return and we'd get to the right income levels of the GBP 1.4 - 1.6 billion. So we were all happy something had to change because the model we had built, rightly or wrongly three years ago, clearly wasn't delivering what we anticipated. What we had was an entity that was moving further away in terms of its combination with the core customers and if you look at some of the rates business it is very focused on FIs, and not focused on our kind of core customer base. So, then it was a question of well do you close it entirely?
Or do you shrink it further, so we went through the whole strategic piece or I guess do you grow it and work through 4 different scenarios that gave the best outcome for the

group. And I think burning as little capital as is sensible, in terms of actually delivering that, but actually making sure at the end of it you have a group result that works with the group. So, if we had closed the whole thing, in terms of taking away the currency and financing. Actually our ability to service mid and large corps would be quite significantly reduced and the harm you would be doing to NatWest bank as well would be far greater. And the cost of pulling the entire thing down would also be far greater. So actually where we got to today in the world that we're in today, it felt like the best thing was to actually pull down to the point of, we're not dealing with financial institutions that are not part of our core customer base. We still deal with the small ones like financing in corporates like nationwide and smaller players, but actually to take of some of the bigger end players within that space. So, this felt like the best place to utilise an appropriate level of capital. Still expensive trade, but to actually take some of the volatility out and have something connected to the corporate bank as you have it.

Analyst: But I mean, it is not a criticism of you personally because you weren't here. But from an external perspective that sounds exactly what you said 3 or 4 years ago.

Katie Murray: When you look at what was happening, we were growing an independent investment bank that was not focusing on our corporate customers. So that may have been what people said in the past but the reality as we looked at it, that wasn't what we actually had built. What we built was strong in the rates business and doing quite a lot of capital but as we look' numbers and the three-year trend, we give you on page 31. It shows the rates business itself was on a downward spiral and what you saw in the rates competition is to really play in the space you need to be for more than UK and Euro rates house. We have US but it is tiny and makes no difference at all. It is not big now to offset the decisions made the last time, I'm sure they were the best decisions they could make at that time. But what we say now, given what we've got and seen over the last couple of years and how that business is developing, given what you were seeing in terms of separation more and more of that business, from the main core. Actually it wasn't something for the group that made the right sense to go forward from. What is important in this is actually we're really, really focused on what are the customers that we're serving. So that we're not focusing on customers that aren't actually core to the NatWest group. For me that's the difference, and look I pooled the plans and asked, are we so different and I would say we're more FI than we would have expected to see. I don't think we necessarily were delivering the best output for your customers. In terms of you would have a NatWest Markets team and NatWest banks team visit you and that wasn't necessarily giving you all the best joined up experience within that space.

Analyst: Okay, I suppose relayed to that, this term of the restructuring your GBP 800-900 million, can you give us granularity what is in that number? You repeated the GBP 300 million, it is just sort of, the GBP 300 million long-term runway for restructuring which I guess you will be talking about again for 4 or 5 years.

Katie Murray: I talked a lot about it in the last year as well.

Analyst: Just trying to get a sense of what is actually in that GBP 900 million, how much is ongoing cost and redundancy costs?

Katie Murray: So, we haven't given you the subdivision out and maybe that's a disclosure we can look at doing in more detail at a later stage. If I look at GBP 80.8 million – GBP 1 billion that's obviously GBP 200 million in NatWest Markets which you're familiar with, but I shared last week there's probably around another GBP 100 – 140 million in relation to ongoing regulatory change which we do keep thinking is coming to an end. PSD2 is the bulk but light changes are a chunk of that number as well, and those should be the answer in terms of that.

Analyst: Is that consultancy costs or people in the bank you allocated to it?

Katie Murray: It would be a blend but they would be people. So the rule that we operate is if someone is going into structuring cost they don't come back out of it again unless they're going back into a different role. So therefore if there's somebody we're paying for in that space, that's because they know once this project is finished they're terminated and they know they're on a six month notice to end because they're on a specific project. They don't pop back up the Rhine line otherwise you have the problem the other costs are going up and down. There's a fair push of that number that are redundancies to come through for this year and there's a kind of final chunk of tech, trans, foreign mission works we've been doing over the past couple of years. I would hope this year we would get rid of the restructuring costs line, but given what we're doing with NatWest Markets if we shoved it into the other operating costs it is would have blurred the message even more. So the way to think about it is some tail end of some reg changes which PS and Lieber should come to an end. But although I'm conscious they keep publishing more payments but they should come to an end, that's not my gift to the same extent. A bit of transformation and a chunk of redundancy and we've done massive property movements to date. So of the London footprint it is this building, Princess Street and Regent's House in Angel. I would hope at one stage we wouldn't have one of those buildings, so there's a cost with that. Particularly when you get in the secondary level of buildings, the economics of the decision to get out of them can really be painful, kind of points but that's the kind of stuff you have in there, there's no on going costs within that.

Analyst: So just, if we're going to compare your costs say, with some of your peers costs like the regulatory changes and tech transformation costs, they're in there?

Katie Murray: That's why I hope this year to pop that back in, but I thought it wouldn't give you that collar role, given they're in this line last year but in time they would go up absolutely. Which is why we do, we quote our costs at the top number and it is still in there. But I mean, as we look at it, we're managing the total cost number, not just the other operating costs.

Analyst: The aspiration to break even in NatWest Markets includes the revenue share is that right?

Katie Murray: Yes.

Analyst: So, if you exclude that, is it a stand-alone? If you were to compare it with another investment bank businesses, it is a single digit.

Katie Murray: If you exclude that you have a group of NatWest bank directors who say

well you're not paying for me. If you exclude that it would be a low single digit you're right but the reality is the businesses deliver because of the relationships on the other side of the fence. And so therefore you expect to have some kind of benefit of that.
But you're right, if you exclude that you'd get to low single digits, absolutely.

Analyst: And, then the cost takeout, how much of that is, is that all cost takeout? The NatWest Markets take out is that true all to say takeout or is there still central that is still part of the NatWest?

Katie Murray: In terms of the cost takeout, GBP 250 million it is that group so real cost coming out of the piece. In NatWest Markets, you will see some movement between direct and indirect lines. Where you might see that, certainly within the technology space as you kind of merge together the technology functions is a bit more separated. If I think of my own world, I run a treasury function there and another Treasury function in the finance team of NatWest markets. I said to those guys, surely we can push together some of the middle office within that space but, ultimately the cost takeout has to come out of the group.

Analyst: So, when you talk about taking costs out of NatWest Markets to break-even point?

Katie Murray: There would be a little bit of reallocation, but it wouldn't be material there has to be real costs coming out of the group or else we would struggle. We talked about that, you should expect 3-4% cost takeout within the next number of years within the bank. If you were pushing NatWest Markets over, we would be struggling to do that. There's always some element they could be called 'interimly stranded costs' because actually if I take things like the costs of reallocated things like group insurance, it doesn't get cheaper in one year sort of thing. So you end up paying the same kind of number so there will always be some things that don't move but in total it's a cost takeout year-on-year.

Analyst: Focusing on UK PB for a second, I guess over the last few years there's an overarching message that aggregate costs for the group will probably come down or need to come down every year, it will forever.
There seems to be more urgency of promoted scores and being more selective about the tech investment and the experiments. Did you get the need for investment in PB in the next few years?

Katie Murray: They've taken out 6.5% of FTE this year so you're getting a decent run rate. But I still say there's manual processing within that space, so when we think of the GBP 250 million it is not all NatWest Markets. A significant portion of that will come from PB and CPB as well so it will continue to come out. The score is interesting, because if you look at the net promotor score for our mobile app or mortgages or anything that is digital you have really good scores. Then you look at the CMA results and think how can we still be at the bottom? Then we say is it because of branches maybe? I don't know how long does that branch legacy really last is it because of the name, I'm not sure but when you look at what technology does and how it can enhance, we know that as we make it more frictionless, you do get better scores. It is, it is difficult to kind of see them coming through the CMAs.

Analyst: There's no sense you're closer to the end of the road than the beginning to reduce costs in absolute terms?

Katie Murray: I do believe there's still cost takeout and if we look at plans for the next number of years there's significant cost takeout that will come through.

Analyst: Okay.

Analyst: So, what are these manual processes that are still?

Katie Murray: One of my favourite examples is cheques. So some of you will bank with Lloyds, you know when you get a cheque I can scan it on my phone and don't need to go to the bank. We don't have that tech yet, but it will come, it isn't long away. If you are a small business you can't do that, so you have to go to the branch. In the branch you think you're scanning your cheque or paying your cheque in, what you don't realise is I have a man that comes around the back of the machine opens the machine takes your cheques out. I have a man with a motorbike who picks up the cheques from every single one of our branches and drives them all to a clearing centre. There will be various drop-offs around the country, I don't think it's a man comes from John o groats, but there's a process that happens overnight in terms of getting cheques in the right place. So that's a kind of classic example that actually as you get much better cheque scanning and instant recognition of those cheques, the collecting of the pieces of paper is interesting but actually not important any longer so therefore there would be some other mechanism that would happen. So that's a good example. Obviously there are costs associated to the branches, I think we've made a fundamental difference on a lot of the branch infrastructure costs but still, as people are coming in to do manual things there will be a number of branches that would have more staff than you want because they're dealing with a lot of manual queries, helping with that. Whereas we would rather they dealt with financial health checks and helped with products in terms of with our customers.
So, there's still a lot of different things within that space. And you know, I'm surprised that the amount of mail that I still get, there's some manual processes that happen around that, even though you've deselected paper because there's certain things you have to be told in terms of the government. I saw only this week the conversations around the concerns whether the Chancellor is going to do anything around insisting of cash and making sure that cash is still there, that will have a natural cost, cash is an enormous expense for us to deal with in terms of moving that around. And while a lot of us have moved away from cash it is still a big part and then if you're trying to enforce people to retain the use of cash that retains additional cost in it as well.

Analyst: So, could I ask one commercial question on interest income? Alison mentioned there was a pipeline for the full year results, and I haven't seen any tangible change in January or February in terms what is happening with activity. It is the UK budget we're expecting things to happen, what exactly needs to happen?

Katie Murray: Well it is interesting so one of the things that we have seen is, nice activity particularly within the financing space in terms of people taking their pocket debt and taking to market. We have nice activity from the commercial customers and working in NatWest Markets and trying to raise that, that's tangible. And obviously they're advertised when they happen. So you can see them happening as well in terms

of, what we would say on the small to mid term is that people are kind of getting themselves I feel more ready so we've had more inquiry, but it isn't actually turning into greater drawdown and I'm not sure yet that it necessarily is. I think it will be interesting to see what the February month numbers are that we get obviously next week, because I think that bit is interesting. There's a lot of debate, people say is it because they're waiting for what the trade agreements are, I'm not sure that's really for me to say, you're really waiting for those things. But I'm not sure that's really turning into greater drawdown of the facility. But there are people getting facilities ready.

Analyst: Can I ask you about the hedge?

Katie Murray: Sure, why not.

Analyst: I mean, if I look at your bits and pieces it looks like you're guiding to revenue down a billion something like that?

Katie Murray: Yeah. That's a good number.

Analyst: Is that?

Katie Murray: It is not a good number, but it is the right number, every time I think of that number.

Analyst: It is better than GBP 2 billion. But if the hedge was within that, the hedge in the guidance, I'm not sure where the hedge is popping out and what your assumptions are about that?

Katie Murray: If I talk you through the circa, your GBP 1 billion number because obviously GBP 400 million of income of losses from NatWest Markets. Take a view on that, what you might have in terms of income loss within there, there's the GBP 200 million that we've talked around the regulatory changes and what we have baked in our numbers is a rate cut. You know we had it built in from coming in from Q2, I think consensus has it about July and so you know in terms of hedge what we know of the 25 basis point cut. Costs are up GBP 170 million in a year as and when it happens across the whole curve. What I would say and you'll observe this as well in the first couple of months of this year you'll have seen the swap curve come down anyway, so we are feeling some of that pain, if there isn't a rate cut that will have a beneficial impact as well.

Analyst: So, given the long end to come down already, wouldn't the rate cut itself be beneficial for your hedge, because the short then will come down 25 basis points?

Katie Murray: So, I mean it depends where we are in terms of the 5 year, the 10 year mix but at the moment it is coming off about 1% and we're putting it back on this, week it will be 63.5 basis points putting it back on. In December, we're putting on 80 basis points so there will be an impact coming through, so I don't think it will make it. I might soften a portion of that GBP 170 million, but of that GDP 170 million there's the mix of the manage margin which you can pass through and the structural hedge piece which is GBP 170 million of that so a slight meeting of that affect but it won't be significant.

Analyst: Can I follow up, if you're underlying 2020 revenue down GBP 600 million, next disposal losses are you saying that's a net number in including growth assumptions and everything else?

Katie Murray: That's what we tried to give incredibly clear kind of revenue guidance but yeah, I think if we're looking at the notes that have come out, some of you are pretty much in the right space yeah. I think that would be the right number to think. You have structural hedge, you can decide whether I'm right or wrong in terms of optimism or pessimism on the hedge, you know and that's as a GBP 170 million number, GBP 200 million for the impact and regulatory change, it will come on from Q2, and then a view as to what kind of rates income we might lose in the year.

Analyst: Can I just ask on the GBP 200 million and GBP 300 million can I ask you a steer on how that breaks down in other income?

Katie Murray: We haven't kind of shared that number out with you. So, I probably just need to start with GBP 200-300 million, it is volatile so you will lose the fee portion of that. I think overdrafts we charge £6 fee and you're charged balance in interest, as we move forward you won't be charged any fee and it will all go in the interest piece. So it is kind of, it is complicated so I don't want to get in the next level of detail on it.

Analyst: In terms of the margin dynamics in CPB in direct change impact you talk about mortgages and gave a bit more commentary on what you call in terms of the atlas to atlas book or similar move, and talked about as the whole thing. When I am listening to your peers, both Barclays and Lloyds commented that as of right now it is better sprayed, so I suspect it is partly how they're commenting on it versus how you're commenting on it, but I just want to invite you to comment on the same basis. It is literally like the stuff you wrote 2 years ago, that is better or worse because your guidance and the way you comment.

Katie Murray: We look at whole book. So, actually I think to give exact answer I haven't got it to hand in terms of having a look at it. So, we do talk over, they talk specifically if something is maturing today, then what does that actually mean. Sorry I don't have it. If I looked at kind of a 2 year deal from you know 2 years ago, then I want to say it was 98 basis points and now it is 101 basis points is the difference is not that significant. But if I also look at totality of the book what we have done over the last 2 years is we moved from 40%, 30-40% 5 year to 58% 5 year and that's a significant move. So I think at this point in time if I take this exact mortgage and compare with this exact mortgage today and tell you I'm writing at a better rate for me it is what is my total book doing which is more interesting. So, I think it is exited the year it was at 145.

Analyst: So total would drive the income?

Katie Murray: It is not the individuals it is what is happening to entire book, so that's driving that space. So and I mean I'm happy to be guided if that's not helpful but it feels like it is a better way to look at it

Analyst: From your 80-100 new production, that's your new to bank customers, X buy to let, X retentions both of which would be a better?

Katie Murray: Would be a better spread yeah.

Analyst: And 145 back books are customers SVR?

Katie Murray: Everything. Yes.

Analyst: Tier 1, down to 14% at the end of the next year? Historically you said you want to do that fairly linear fashion.

Katie Murray: I think we said it wouldn't be linear, I think we said, but linear was as good a guess as any as we sat there. I stood up last February and said I never would imagine it is as nonlinear, as it has been in year one of that trajectory but yeah.

Analyst: Okay, so I mean obviously you got the mortgage clause coming in this year, and guidance if Government wanted to sell down a block of stock.

Analyst: (Inaudible)

Katie Murray: Yeah, we would be absolutely. I mean yeah we would be so the way I think about it, and it is not the maths isn't quite perfect but, I think last time they sold at 271p so I've given them a certain number of dividends in that period. You look at it and think well they have their own view of fair value we know what happened in the curve in fair value of the stocks, your various price targets as well. So say they've a point they can sell at 240p, no idea if that's a number that's in their heads, I suspect they could argue to a number that's lower than that. If we work on 240p price GBP 1 billion of capital, if we could do the entire 5% we are allowed to do it. That's how I think it. The good outcome is if we got to the full 5% they were in the right value to their piece, 240p feels higher than they would sell today just given what's happened on the banking stocks. But straight, what we saw last time, less dividends they receive gets to that number and that's how we think about it in terms of the amount of capital we'd like to do.

Analyst: Okay.

Katie Murray: And we'll see you know, I'm very conscious at the beginning of the last year I said it was a clear path. I think the path is slightly clearer this year but their Chancellor secretary get their fair value, I get my fair value opinion from our brokers that evening, they get theirs 4 months later from the National Audit Office and that's a very different experience to be in, because they're working entirely with the benefit of hindsight. And it will be how they choose to do it, whether they do entire placement with us, which you know it is done at the end share price on that day and their challenge is that the National Audit Office has given them a whole block and given them no premium for that block. So whether they do in market placement which means we do less than GBP 1.4 billion number, so we'll see how the year progresses but it feels both the majority they have, that it is in a better, it feels there's more clear air to actually get something done.

Analyst: Would you hold back on say nothing has happened, to all this, would you hold back on any additional special distribution?

Katie Murray: That's a debate we'll have there.
It's a very difficult thing, I think we all agree that specials when we meet our long-term holders they like them, they're comfortable with them, I don't think they're great for your share price. It's great on either the day you announce them or the day you pay them and they're very much forgotten about, about the time, within weeks if not days of you having done them sort of thing so it is hard, but it is a debate we'll have. I think at that point we'll look to see how anything happened, is there any likelihood of anything happening because it is definitely our preference. But you know we look at specials you know, we have long debates about them in terms of what we would do and we'd imagine if nothing happened we would have another debate but they're definitely not our preference because I don't believe they really served this year price particularly well. But some of the long-term holders they're positive about them but I don't think they're a great mechanism. The amount of capital we know we have to give back over the next couple of years and want to give them specials will be a blend of that narrative.
But, but I would personally hope it would be less for blend this contrary than last because we were able to do that transaction.

Analyst: Just to stick with the mechanism for sell down for a second. My sense was there had to be replacing alongside a buy back because you can't not get a discount for buying of the Government because the rest of the shareholders deserve that, because it has to be a way that it operates so I think there was a time that there was a sense the buyback was replacing equal size to have defendable rediscount is that my…

Katie Murray: The permissions we got from our shareholder was for three different things; One was for the market placement and at that point the way we always talk about it, in market we would initially be taking half of it, so GBP 500 million so we were a third of the total placing. The other is do a direct placement with us and we take the share price at the end of that day. And then you can imagine that could end up being a slightly bigger. It could not, it is one of those, I don't know the conversations they're having down the road other than when other banks tell me the conversations they've had. But it is, it is kind of hard to say or they then go in our training plan and basically that would be similar to our placement that every evening our broker would talk to their broker and whatever was sold in the day we take 50% on top of it, which would be a slow version of version one.
So, the shareholders have given us the option to do both.
And so therefore, we don't get any push back on the fact that if they did a placement and know what they approved, was to do it to the closing price of that day, so that's well understood. If you're sitting at 220p, compared to TNAV, it is still a good trade but, I don't know, I don't know what I'm happy with, I think they certainly would have liked to have done something by now and are equally frustrated.

Analyst: Can I have some clarification on that? So if you did a 5% limit, if you did direct one twelve month period and use up your 5% allowance, can you then participate in the sell down or do you have to take shares in the market after they've been sold down?

Katie Murray: So, it is 5% in any calendar month in any calendar year sorry, so it is a rolling twelve-month kind of experience. But yeah, you're absolutely right, so one of the things we've looked at is could I go back to shareholders and get my 5% topped up

again, absolutely not, the UKLA is very clear on it. It's a 5% in a rolling twelve-month period. So, what you have to say is do we want to go further than 5% in this period? If so as they're selling down we would do normal share buyback knowing we get a portion of their stock at that time and that we have a 10% limit of. So, there's a lot of capacity for us to participate in.

Analyst: So, 10% of all shares, so 5% plus another 5%.

Katie Murray: No, I think it is 5% plus another 10% so it would be another 10%. So, in any 1 year I wouldn't see us doing that sort of level, but our preference would probably be to say actually rather than do that, let's wait a few months because if you managed to use your whole 5% in my mind, I think of £2.20, it is GBP 1.2 billion you've spent. That's a fair kind of cheque you've written so it is better to wait and then do that again in twelve months' more.

Analyst: Okay.

Analyst: How are you with the 40% ordinary dividend pay-out? Because clearly the statutory Earnings is going to be all over the place in the next few years and ordinary is supposed to be the element of the distribution that's a bit more stable.

Katie Murray: Yeah, so, we don't want to have a progressive policy in terms of dividend policy so therefore we are pretty wedded to the 40%. If we look at that, this year we did make obviously the one adjustment in relation to FX and wouldn't be expecting to adjust that number going forward but you're right that means you have a dividend that I think particularly in terms of our restructuring guide is given to you for the next couple of years. That actually is going to do that and then go back up again and that's not great but we prefer the stability of the 40%.

Analyst: Can I ask you your guidance GBP 10-15 billion I think you said between 2021 and 2023?

Katie Murray: GBP 5-10 billion.

Analyst: Depending who I speak to different banks tell me different things so that 2023 is the total GBP 10-15 billion or is that the bit coming in 2021?

Katie Murray: We have GBP 10.5 billion on mortgage floors coming in this year for the PRA, and then what we then see is GBP 5-10 billion additional that's coming in 2021-2023. I would agree in terms date, we haven't changed our guidance it doesn't necessarily feel we'll come into 2021-2023, but by the time you get to the end of that you have the guts of the increase on the end of our books and anything that comes later we just deal with as part of the normal management of our RWAs.

Analyst: So, GBP 10-15 billion to your mind plus GBP 10.5 billion.

Katie Murray: Includes the GBP 10.5 billion, so that's the (inaudible).

Analyst: And includes the GBP 10.5 billion.

Katie Murray: GBP 10.5 billion and GBP 5 – 10 billion in additional to that yes.
So the GBP 10.5 billion this year we're comfortable on, I think, I had a recent meeting with all the other CFOs with the PRA and they were saying I have two sets of instructions on Basel three we will send you to which you will comply and we're not sure which one I'll send you, so when you know that would be great. 2021, that will slip out maybe but it will slip out for everybody in terms of quantum we feel GBP 5-10 billion is a decent number, why we're deciding to the lower of that range is NatWest guidance has built it in in terms of the GBP 20 billion.

Analyst: Oh okay.

Katie Murray: So that includes it.

Analyst: So just to be clear then that it is essentially covering a standardised counter party credit risk next year? Assuming there isn't anything coming in 2020 is almost certain, is there anything in 2022.

Katie Murray: That I can think of.

Analyst: The way we have it modelled in is the 10.5% this year, and then we've modelled it in terms of it coming in 21, 22, 23, we would expect that to move out a little bit probably but at the moment that's what we've modelled it into. It is essentially covering everything out of the floors, output floors so credit risk and market risk changes as well.

Katie Murray: Yeah so it could cover all of that, what we tried to do as we guided you to theatrical GBP 200 million number so say that's the all in, of NatWest Markets down and other increases coming up.

Analyst: Sorry I was just going to ask about the RWA guidance for this year, obviously there's a couple of million range on NatWest Markets, group range is GBP 5 billion that's not big in the scheme of things what would push you to the lower to 185 to 190 bps, is there limits to do because that was providing a big benefit to the end of last year?

Katie Murray: So, the lower end, I feel would be lower lending growth rather than anything more technical.

Analyst: Lower as in closer to 3. As opposed to below 3?

Katie Murray: I feel I'm dancing on a pin, I think lower lending, low lending growth would be where I would probably take you. So, ...

Analyst: Another detail - why are your pension deficit contributions foreseeable, what's different?

Katie Murray: So, I.

Analyst: Dividends I would say you are the least foreseeable than anybody's contributions.

Katie Murray: So, if it is almost worth stepping back a little bit so when we did the transaction called Project Mall internally, we did the Project Mall with the pension funds to give them GBP 3.5 billion for them to enable us to move over the ownership of the scheme from what was Royal Bank of Scotland and NatWest bank in terms of our own scheme you will be familiar when we look at our trustees. The way that it works is that we agree that to make any payments we need to recognise them into capital at that moment. If I look at what Barclays did, they'll pay for they're say GBP 700 million, for the next number of years. We will need to recognise that because we have no access to any surplus so it would come through immediately as a capital charge. So what we did in Project Mall, we said here is a GBP 2 billion cheque and the other three elements we would do them once they're dividend linked. So the reason we recognise the GBP 3,500 million that we'll pay to them this year, is because in 2020, we know today that we just declared 2 pence and 5 pence special dividend which will be paid in 2020 so they're highly foreseeable.

Analyst: So that's linked to the 2019.

Katie Murray: But the payment of it in the year. So if I look then to the end of 2020, you could imagine a scenario where we've managed to get great directive buy back, our dividend falls and there's no special and actually at that point then I wouldn't recognise the GBP 500 million. I would recognise the portion of it that matched to the final dividend at that point which would be a bit less than the GBP 500 million and then the balance of the GBP 500 million you would expect I would recognise, it would be recognised as interim dividend in August 2021.
But in our own mind we know in each year we're pretty comfortable we'll be paying GBP 500 million of dividends. If you in one year imagine the restructuring goes on and it costs more a lot more, etc. and ordinary dividends stays suppressed forever, we never gave you a special ever again, rather than it going down in 3 years. It would happen in 4 or 5 years but the expectation would be greater than GBP 500 million dividend paid out in the 3 years, which is why they're foreseeable at this point for the 2020 dividend only.

Analyst: Ulster Bank, how long are you kind of prepared to let it run at very low single digit returns?

Katie Murray: So, I think what we're pleased about with the Ulster Bank is the progress they've made in the last year in terms how they've moved forward. What I think we need to get to is to get the NPL staff and regulatory they'll be dealt with, substantially be dealt with now but we have to complete the transaction and things like that so you have to get to the right place. We have EUR 3,500 million of excess capital that's in there, we would like to get more out, we think there is another billionish excess capital we'd like to take out. So within there you have a balance of the speed which you can withdraw that excess capital, the minute you say you're doing something different you can be sure the doors are closed with withdrawing any excess capital so there's element of getting the excess capital out given that view that actually when you do something different there's also an element we all know, the cost base is far too high. While I'm pleased for some of the revenue lending they're doing, their revenues are not a great dynamic businesses if it could get to a single digit return I think you've got an entity that's relative clean and with registrations behind it, taken out excess capital and some optional entities we'll do that next, whether that's 1 or 2 year outlook we'll see how

Jane gets on this year in terms of delivering that.
And then I think we'll look to see what it really means in terms of what is the story for, is there some advantage to have that entity in Europe, how do things actually evolve.

Analyst: Could I ask one follow-up, what is the substance of your conversation with the Irish regulator? It sounds they're cautious of capital coming out. When you say you're doing something different, then they'll say nothing will come out.

Katie Murray: They're difficult and if any of you saw, this you would be exceptionally good but if you look at distributor reserves there, they are pretty low, we took out dividend and made application to increase the dividends reserves by the dividend we took out, and that, that is a conversation that was done with the regulator. If you compare that to the UK regulator a few years ago we created GPB 35 billion of additional distributor returns in NatWest holdings and the group would mean there's never a discussion around flow or dividends, whereas here we're matching our movement in distribution to the same movement we see, and you know if you were in the halls of documentation that is something you would see so the conversations are really very tight in terms of the movement of dividends.
You know, we took a GBP 1 billion out in the beginning part of 2018, to then kind of wait to the end of 2019 to take GBP 500 million out when we know they're sitting at incredibly high C:I ratio they are difficult conversations.

Analyst: The regulatory justification for holding you to such a high level is what.

Katie Murray: We would go relatively inadequate.

Analyst: There isn't a good one.

Katie Murray: I mean this is recorded I'm probably not meant to say that. But, she grunted at that moment but I think it is not that easy. Look also when I'm there, I'm amazed how I will do once or twice a year, I'm not here I meet the PRA and talking to 3 people I talk to regularly there. I'm talking to 12 people because I've got the local regulator, ECB, and different people from here and different people from there, and everyone has a different accent, they clearly don't have relationships between their different departments so I think that the model is really difficult.

Analyst: Just to follow up, you did say you're effectively expecting an interim dividend expecting another dividend this year.

Katie Murray: We are expecting another dividend this year, absolutely, we are expecting another dividend this year, I'm disappointed if it takes to December to get it but we're expecting another dividend this year.

Analyst: Do you think there's any headline ratio there, sticking, it seems 27 was the number?

Katie Murray: But I don't think so. Because only some of the peers, they're not as high as that, John you're better placed to talk about this as well, I don’t think so they're really going slow. We had to deal with a whole bunch of registrations which they're largely complete but not complete and then they have they've moved down on the

NPLs and we did self-harm when no-one could get paid and the transactions couldn't go through and that makes the regulator nervous again so I think the problem is we're not a clean entity that's sitting really nicely with all of the right kind of highly profitable and legal entity basis is why they don't make it easy for us, we don't always make it easy for them, but Jane and her team I think it is a vastly improving situation.

Katie Murray: Thank you very much have a good day.