



**NatWest Group plc**  
**Q3 Results 2020 Sell-Side Update**  
**5<sup>th</sup> November 2020**

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0:00:03.2

Katie Murray

Thank you everyone for joining us today. Before we open up for questions I'm just going to make a few introductory comments.

We spoke on Friday about the outlook for revenue for here, and regarding our guidance on the regulatory impact for retail banking income, the impact on 2021 of around £300m is the annualised impact of the changes that came in from April 2020 and we expect the impact on the full year 2020 income to be around £200m.

0:00:34.3

These regulatory impacts are fully included now in Q3 and so we do not see additional impacts on top of what you have seen in the Q3 run rates.

On Net interest income, the businesses were impacted by the pass through of low interest rates from treasury in the 3<sup>rd</sup> quarter. And this drove an increase in central items net interest income. Again, we do not expect this change to reoccur in the fourth quarter, and we should assume that Q3 net interest income in each segment now incorporates most of the reduction of the yield curve.

0:01:05.7

In Natwest Markets, we are ahead of plan in RWA reductions at £30bn for Q3 and we expect RWAs to be broadly stable in the fourth quarter.

Disposal losses year to date have been £75m, however we would expect around £200m of losses by the full year 2020.

Since we last spoke there's been an announcement of a national lockdown, which starts today, for a 4-week period, we note that there's been additional government support announced including an extension to the furlough scheme.

0:01:37.3

It is too early to comment on the possible consequences of this, however we will continue to monitor closely those sectors that are most impacted including particularly retail and leisure.

Overall, we delivered a resilient operating performance in the 3<sup>rd</sup> quarter with higher net interest income, and continued progress in both costs and RWA reductions.

Our balance sheet strength was maintained with a further increase in our CET1 ratio to 18.2% or 17.2% excluding IFRS9 relief.

0:02:10.3

And then I'll happily take your questions.

Operator

As a reminder, if you would like to ask a question today, please do use the raise hand function and we'll bring you into the meeting and that is \*9 if you are using a device that has dialled in.

Our first question comes from Christopher Kant, Christopher would you please unmute and go ahead?

Hi Christopher, it seems your audio isn't coming through, our next question is going to come from Benjamin Toms, Benjamin would you please unmute and go ahead?

0:02:38.3

QUESTION – Benjamin

Katie

Hi Benjamin and Chris don't worry, we will come back to you.

Benjamin

Morning, can you hear me?

Katie

We can yeah thanks Benjamin.

Benjamin

Oh good. So just in relation to payment holidays and thank you for taking my question Katie. The option for customers to top up to 6 months, we heard one CFO last week talk about how in their view there are limited customers who can take out this forbearance, as those that need it are probably already capped out, do you agree with this and if yes, is it a logical consequence that we could start to see a spike in defaults in the quarter? As customers who are feeling the strain won't be able to postpone payments. Thank you.

0:03:12.5

Katie

I think it's really interesting, so when we started out in terms of the payment holidays, what we saw was about 20% of the book that took them. What was really interesting is that most of those people did not need them, but what they wanted was the security, being able to have them, so now we only have 1% that are still on holiday, and what we found was that the vast majority of people that took holidays, are just going back to payments.

Now what you can say, well that was only 20% of the book, it is quite feasible that people who have never taken any payment holiday, who still may or may not need them, will say, actually I've never taken anything but now I really feel that I would like a little bit of protection, so you could have new people coming in that have never touched upon it.

0:03:59.3

Clearly for that small group that are still on payment holidays, if they are maxed out and they're under challenge, we'll start to see those issues coming through, but, we may well see a few more defaults coming through in Q4, what we'd expect given the guidance we'd given you to the £3.5-4.5bn range, clearly we're expecting some defaults to come through in this range.

But given where we are, we've said the lower end of the range, I wouldn't change our guidance on that particularly at this stage. We'd have to see defaults really moving quite significantly to get to be moving up to the middle of the upper range on that point, so, I think we'll wait and see what happens. Given that most people took them that didn't actually need them, then that could mean that you could see people taking them now that didn't need them previously.

0:04:53.1

It's really too early to say in terms of where they are, so we wait and I think it's also quite complicated if I only took the first 3 months and now I take the second 3 months, how do we make sure that we can build all of that in and thankfully we're ready for that from a process perspective, to make sure that we can support the holidays. But, I think we'll know much more in a month, I think once we're a little bit further into this lockdown to see what it really means.

Benjamin

Thank you very much.

0:05:27.1

Operator

Thank you, we're going to ask Chris, do you want to try again and see if we can hear your audio?

QUESTION - Chris

Hello, can you hear me?

Operator

We can Chris.

0:05:37.3

Chris

Thank you for taking my questions. I just wanted to ask you on your comments around Brexit, earlier in the year, I think you indicated that in the event of a No Deal you would expect to move to something akin to 100% weight in your downside scenario, is that still how you would think about it? And in terms of where we are with a possible Deal outcome, obviously the time left for business to prepare for that outcome is going to be fairly short, given that we're now less than 2 months away, and talks are still ongoing, so, do you feel like you've fully captured the possible impact for disruption, even in a Deal scenario within your scenario expectations? Thank you.

0:06:34.2

Katie

Thanks Chris, so I think, what we had was a scenario that we have here where the downside was the downside that had a No Deal scenario in it, and that was 10% weighting. Within that scenario it also had a much worsening impact of COVID as well, worse than what we're seeing now, even accepting the second piece, so I don't think that it's automatic that if we had a No Deal we would move 100% to that scenario, because that would clearly be a very significant downgrade in our economics, but that certainly was the one that had the No Deal impact coming through on it...

0:07:15.4

So, you would certainly see it getting a bit more of a weighting on that.

Look, in terms of time for business, we've obviously done a lot of work with our customers and it's as you can imagine, it works from a decreasing scale, if I'm at the larger end I'm probably pretty ready, I'm in pretty good shape, by the time I work my way through the middle, particularly getting

to the smaller medium ones, while we've done a lot of work, you don't really know what you need until you need it, is probably where a lot of those companies are, so they're certainly under pressure, in terms of that, but we've been having conversations with them extensively for 2 years now, so many of them will have done some preparation.

0:07:53.5

But I think it's really hard for businesses at the moment, if I'm trying to deal with what I've got in front of me today, in terms of COVID and new lockdowns or interruption to supply lines already then actually it's hard to imagine, what more does Brexit bring onto that piece as well, because we can see already that there have been some interruptions, happening just because of the impact of COVID, so I think it's hard to say, but Chris I think you'd absolutely agree, that the sooner and quicker we can get clarity as to what's really happening the better it will be for business which obviously means the better it will be for the bank as well.

Chris

Okay, thank you.

0:08:34.9

Operator

Our next question comes from Guy Stebbings from Exane BNP Paribas, would you please unmute and go ahead?

Katie

Morning Guy.

0:08:45.1

QUESTION - Guy

Morning Katie. I have two questions please. The first one was just on Natwest Markets and trying to get a sense of the impact to income from the accelerated RWA run down. When I think about it, you typically deliver around about £1.2bn of income ex-legacy and credit adjustments over recent years, so on that basis you tend to deliver something on a magnitude of 3% of RWAs in terms of revenue, and I'm presuming the exited RWAs should be less income generative than the average. Is it fair to assume that in 2021 we're ballpark £8bn or so lower average RWAs in Natwest Markets with that alone have about £150-200m tight headwind? Just trying to size the virtues and headwind there.

And then the second question was just on spotlight sectors and slide 19. Some of your peers reported a fall in exposures in Q3 to what they disclosed as one of the sectors but it increased at Natwest this quarter, so if you could perhaps just talk about your approach to those sectors and whether this is really just a function of the guaranteed lending, driving that growth or whether it's extending other support, that would be very helpful.

0:09:58.2

Katie

Sure, happy to try to do that. So, we look at Natwest Markets, what I would say is the currencies and capital management businesses, our capital markets which we used to call financing, they've been relatively stable over the last 2 years, so it's very much within the fixed income business where

we see the majority of the RWAs running down. That fixed income business of rates has been generating between £500 and £670m of income in the last 2 years, and it would also have been the largest absorber of capital, so you could assume that most of the capital that's come out, has come out of that space, so that's the area that's going to be most impacted.

0:10:46.6

So what I would probably say without getting in too far, but if you look to page 40 of the financial supplement, you can see what the currencies and capital markets have done over the last couple of years, we'd expect that to be kind of more or less continue and it's the rates business that I would encourage you to bring down from there.

0:11:10.1

I guess the other piece we've always talked about, it's a kind of break-even kind of business.

If we look to the focus areas, what we've seen happening within our customer base is, in reality, very little non-government lending, so where there have been increases, it will be increasing because of the government lending schemes that are going on.

And then, what else has been happening is that, we've been seeing the repayment of RCFs coming down, so within those sectors where you do see an increase, it really is that they're taking on some more government lending and that space is really what we've got that is not government lending, is very, very diminimus.

0:11:55.4

Operator

Our next question comes from a mobile number ending in 4919 would you be able to please unmute and let us know your name and the company you're calling in from, so ending in 4919 and it is \*6 to unmute. Thank you.

QUESTION – Tom Jenkins

Yes, hello it's Tom Jenkins here from Jefferies.

0:12:19.6

Just a quick one on the fixed income side from me, and it probably is both for you Katie and for Donal as well but, about 6 weeks ago, maybe 7 weeks ago you guys delivered the LME for 4 bonds legacy structures, where declining regulatory capital and TLAC ineligible as you stated, in particular I'm thinking that's more so on the perp side but others are there as well.

I'm just wondering, what was it that drove the timing for doing that at that stage, it's a little bit early in terms of losing all regulatory capital benefits etc... so the rationale on timing is interesting and obviously you got a very good take up but it did cost a bit of cash on the FX I imagine...

0:13:16.9

And then, I suppose, correlated with that, what's the theory behind how you're doing a deal with the remaining and there aren't many admittedly, but the remaining legacy losing capital value securities and has your thinking on that changed at all, after the EBA announced their opinion update, whatever it was 10 days or so ago, 2 weeks ago, has that modified in any way, so it's kind of a why now and what next I suppose?

0:13:55.0

Katie

I didn't mention that Donal was on the call but you obviously are aware, so Donal, do you want to take that one?

Donal

Yeah I'll take that one, so I think rationale really Tom when we look at it is the Tier 1 legacy tier one security so we're talking about, they are viewed as barriers to resolutions, so for us in terms of just getting ahead of that until the end of 2021 was beneficial. You mentioned, early considering they still have regulatory capital value until the end of 2021, completely correct but just given our current capital position, it was just a way for us to optimise the balance sheet.

0:14:31.7

It was £324m day one loss but it did deliver coupon savings of about £74m per annum, so you can see the benefits there over time, obviously that's not into perpetuity as some of those securities mature particularly the Tier 2's in 2022 and 2023.

In terms of the remaining capital securities, we continue to look at it actively, we've been quite clear that we don't see any of those securities having any capital value beyond the end of 2021 and I suppose you mentioned the recent EBA paper, our view on that has not changed, so we would still be very comfortable with what we've previously guided.

0:15:08.2

Tom

Ok, thank you. And also, I note you're not the only ones to do it, but in your pillar 3 annex which, us fixed income side, I sort of live and die by as a bible, these things. Recently split out, or not recently split out, sort of bonds that were regulatory capital and TLAC or regulatory capital only, in a way, why did you do that? The conspiracy theorists in me would suggest that, that is highlighting bonds that are even less useful to you than others and therefore perhaps would be maybe higher up the list of the legacy stats that you'd like to see, removed over time shall we say.

0:16:02.2

Donal

I think that's fair in terms of just giving open communication, ties in with communication we've given as well as where we don't see these legacy instruments having that capital value just making that clear to the pillar 3's has been beneficial to fixed income investors.

Tom

No, it has been, that's great, thank you very much indeed.

Katie

Lovely, thanks Tom and the team that do the Pillar 3 will be delighted to hear that you pour over it, because it's not one that we get quite as many questions on, so thank you for that.

0:16:30.7

Operator

Thank you, our next question comes from Andrew Coombs of City, Andrew would you please go ahead.

QUESTION – Andrew Coombs

Good Morning, just a quick question on capital return. I appreciate you can't comment on discussions with the Bank of England but taking a step back from that, can you just remind us on your thought process on how you consider buy backs, special dividends, the ability for the UKFI to participate within that as well, thank you.

0:17:02.6

Sure, thank you and our view on the stepping back is really not changed what we would like to be at. There are target pay out ratio around 40%, we've not given any fresh guidance on that, there's obviously the complexity issue that you're loss making so what does that mean and I think we'll talk more about that in February once we've had conversations with the regulator as well but I would say, looking forward, that would still be our position.

We've always said that our preference is to do a direct buyback, in tandem with ordinaries, but even at that level, given the 5% restrictions that we have, I don't think that would use all of the potential that we have for repayments back out distributions so therefore you'd see a bit of a blend of specials coming in.

0:17:58.6

I think what we got quite frustrated with, which is why we declared the special at the end of 2019, was that we were waiting and waiting for the buyback to happen, so I think it's a question of we won't wait forever and so actually how do we get to come up with some kind of blend. What we also know is that specials they can make a lot of noise in your share price, that doesn't actually add real volume to you, so I think we still need to work through that bit. Certainly, we'd like to return to ordinary, and directed buyback is seen as something that's very core to us as we move forward, but I guess the last special that we declared is that we also recognise that we can't sit and wait for that to happen.

0:18:40.9

Andrew

Ok, and on the point, I mean the whole debate around directed buybacks is that the UKFI is not willing to sell at these prices, so is it possible to pursue a generally buyback without doing a directed buyback or does that just then mean the government stake ends up going up and you're reluctant to do that?

0:18:55.6

Katie

I think, we spent a lot of time talking to various investors on this and while, if you look at the price today and certainly the prices we've been at, even before some of the dividend issues, it would have made sense at that time, that you would do an in-market buyback, the reality is that, in the round our investor base, the government, would be rather that we did a directed because ultimately all we



do is we reduce the free float and even further and actually it makes it more difficult, so, it wouldn't be our preference and I guess that's why you've not seen us do it to date.

Andrew

So, you're in this quandary where UKFI is not willing to sell out at these prices then specials potentially is the only way forward?

0:19:43.8

Katie

Which is not a great place to find yourself in, so I think, it's something that we'll continue our philosophy and narrative hasn't changed, directed buybacks are absolutely the preference, and we'd like to be on a sustainable delivery of ordinary dividends which we look forward to returning back to as well and we'll talk more about it as I say in February.

0:20:05.6

Andrew

So, I guess the final one on this one and then I'll let it drop is your previous aim was to move to a 14% core tier 1 ratio by a set time frame. What's more of a priority, to do the capital return in the form of directive buyback in which case you're more dependant upon the UKFI timeframe or to get that capital return done?

0:20:29.7

Katie

What we had talked about historically is not the same date that we're working towards, now we know it was by the end of next year that we would be down at that 20/21 and I think what we demonstrated with the specials that we did was that we would move forward with specials if there was no other action on that side of things, so, if history is an indicator of the future, that's where you would see if moving forward as well, but I can't comment on where they are, in terms of their buyback and their pricing, clearly with the interest rate falls that we've seen, irrespective of the added COVID pressure that all the bank stock prices are under as well, that's going to have an impact on fair value. Just because of the level of interest rates, I think we wait to see where they come up. We need Brexit to be done and this lockdown to be short and then there to be some positive news at the end and then we'll see.

0:21:30.4

Andrew

Thank you.

Katie

Thanks very much, thanks for coming on in the picture as well, it's nice to talk to you virtually, thanks very much. Thanks Andrew, have a good day.

0:21:38.0

Operator

Thank you, our next question comes from Fahed Kunwar from Redburn would you please unmute and go ahead.

QUESTION – Fahed

Hi good morning Katie, I had a couple. The first was on the business banking, so I think the business banking was up 3 or 4% Q on Q, the markets were down 3 or 4 bips. I would have expected more margin to come through from all the state guaranteed loans, can I just ask, if we get a further mixture towards the state guaranteed loans, which I assume we will because of the maturity of them then versus your normal book, what kind of margin pressure should we expect as that mix shifts more and more towards those state guaranteed loans?

0:22:14.6

Katie

Yes look those loans are relatively positive from a margin perspective. They are relatively margin positive what we were trying to do is make sure that we weren't doing business that was that much lower and I think the ongoing funding has helped us a little bit in that space as well, so I think there, it's a little bit to do with, what other volume do you see being added, we talked about, it was £2.9bn of government loans, most of that would have been in that sector, that we did in the last quarter, with the extension of them and the extension of the repayments of them we'll continue to see that margin coming through. But at the moment it has been accretive to the margin.

0:23:06.3

Fahed

It's very accretive to returns as well cos the risk rates are quite low as well, so the margins...

Katie

Yeah I mean the risk rates are quite low, they're below 50%, I can't remember Alexander the exact number, sorry, in terms of where they are, but they're not as low as I think that we first thought, because of some of the operational impacts on them, so it's closer to that sub 50%, and Alexander will correct me if I'm wrong on that, but it's in that kind of range, he's nodding at me, in that space, so they're not as low as you think they are, but they're designed to be hurdling above cost of capital product and I think with the volume that we've seen coming through on them, where there was any bit of margin, which is still positive as well, that's offset that piece.

0:23:52.0

I think overall for me the big story of them is, what happens on impairment and if there are any issues in terms of calling on the guarantee, and if the guarantee becomes a big process, call upon, or the collection of money has become very labour intensive then while you might get the guarantee, the cost to affect the transaction will be that much harder.

0:24:14.5

Actually, can I just follow up on that, do you think there'll be a timing issue where you have to book some loan losses while you're waiting for the government?

Katie

I think we're still working our way through that because if we think about it, the first payments only really start in May in terms of from the individuals, so that's only when we'll really start to see that piece, we would hope that we can get the proof that actually they're a good payer and we've got the right comfort that we would work our way around that, but at this stage it's probably a little bit too early to comment, and I would imagine we'd probably only really give you more insight on that actually when we get to Q1 when we start to see what's kind of happening. Because I think it's one of those things that, all the good conversations work but it's when you're actually getting to the point of actually getting it pooled, I think it will take a little bit of time to come through on that.

0:25:00.8

Fahed

Ok, and then just on capital, can I just ask, there's obviously a few headwinds and tails winds but headwinds on capital over the next couple of years, pension contributions, PRA, mortgage floor, Basel IV, restructuring charges, can I just ask you to set them out very clearly, because obviously capital return is a big priority, I know you have done in the past... and last question on that as well is, does the PRA like the ECB have any thought about caps on pay-out ratio? Or is it all about your capital generation, is there any, do they give any mind to that at all when they think about distribution or is it all about capital checks really and capital levels, thanks?

0:25:45.3

Katie

I'll deal with that one last, so for me, the conversations that we have historically I've had with the PRA, it's very much on the capital side, they don't talk much to pay-out ratios, they don't like progressive dividend policies, but that's from a capital perspective, they're very guided, not by our statutory accounts but by what's happening, kind of our capital accounts. So that's where we are.

So, if we look at the capital movements that we know are coming, so pensions, you're absolutely right, £500m pre-tax, so £364m post tax, that gets paid out when we pay dividends, or do share buybacks or do direct buybacks or any capital distribution to other shareholders is matched and in theory that will now come through 2021/22/23.

0:26:37.8

If we were to declare a 20 dividend, we would recognise that at the same time. And that, would be a helpful thing to do given that also in our own triannual cycle that, that's coming up as a valuation process that we'll go through next year, that we're not particularly worried about that.

So, that's the first one. We've obviously got a small build that will come through if all the rules go through as we expect them to, on software capitalisations so that will be about 20 basis points that will come through then, we then also have the mortgage floors coming in, 1 January 2022, we've always guided you to be about £10.5bn, we've had a bit more growth in the book, so the number could be a bit bigger than that, but also, we would expect some procyclicality to come in, so we'd actually see that coming in next year, the £10.5bn is still pretty decent guidance.

0:27:29.5

And then obviously the Bal regulations will come through as well, we'll clearly be doing Bal as in the PRA Bal they talk a lot about that they'll be in line with Europe but at the same breath they also talk about that Europe's not completely in line with Basel so I think that they'll be a little bit of noise in

the detail of that, but again we're not expecting that to be impactful. I think the other important thing to remember is we're obviously still looking to take about £10Bbn RWAs more out of Natwest Markets, so that's a strong benefit as well as we go through. I think that covers all the known things, add onto that a bit of procyclicality, a bit of loan growth coupled with a bit of loan reduction depending which bit of the book you're sitting, looking at.

0:28:17.5

Fahed

Ok. Can I just follow up just a little bit on that, sorry. Just to be absolutely clear. So, Basal floor you were saying the 5% uplift, that will come in on 1 Jan 2022? As it stands, based on the PRA accepting?

Katie

1 Jan 2022 is the mortgage floors, the Basal floor piece will come in I think much more into 2023. The exact date for the Basal piece we haven't got for them yet, their next set of draft regulations are due out in Q2 of next year, so when I get the opportunity to speak to the very senior bankers, as part of the EBA who are drafting the regulation at the moment, they are not for moving their dates, particularly but I could also imagine that with some pressure that might move around a little bit as well.

0:29:00.9

Fahed

Outside of the £0.8-1bn of restructuring charges and the £300m disposal loss, for next year, is there any other one off P&L hits that we should think about?

Katie

That guidance is for this year, for 2020 so then the other thing for this year obviously is what actually happens on impairments, we all look and watch with huge interest. You know that we've got a handful of conduct issues remaining, at the back of the accounts, there's not so many of them, but if any of them were to resolve quickly in the next few weeks then that would be something you would see but we've had to retrain the organisation to think of conduct not in billions but in 10s and 100s of millions, so they're not so impactful but at the moment there's nothing to update you on in that space.

Fahed

Perfect, thank you very much Katie. Cheers.

0:29:49.2

Operator

Thank you, our next question comes from Robin Down of HSBC, Robin could you please unmute and go ahead.

QUESTION – Robin

Good Morning, I think Fahed has slightly touched on my question but it's really around bounce back loans and it looks like you've kind of done somewhere between 250,000 and 300,000 of them. And they do mostly start to repay in Q2/Q3 next year. So, its really just a couple of questions, one in

terms of the cost of recovering those loans, am I right in thinking that you're bearing that cost in terms of the staff and the recoveries unit, perhaps appointing solicitors?

Second question is how far do you actually have to go in terms of that recovery process? Is the government expecting you to take people to country court judgements or can you just write a solicitor's letter and then cut the process off there? And I guess it all reads round to the question of can these costs be accommodated within the normal BAU costs of Natwest or should we be expecting some kind of uplift in Q2/Q3 if you had to deploy a lot more people towards recoveries, I was just interested in your thinking on that?

0:31:18.6

Katie

I think at the moment, you'll be aware that there's some work going on through UK finance, to work out, could we do some kind of industry solution. We're very conscious that these loans were all self-certified on a digital basis, the cost of deployment was incredibly low. What we want to do and what the industry really agrees and the government is involved in the conversation is also the acceptance that we can't then have it mirrored by an incredibly high cost of collection because that just wouldn't work. So, we're still working our way through actually how the mechanics of that would work.

0:31:55.8

What I would say is that given the volumes of them and given the fact that when you're first having a problem, as a borrower, you're not going to go, I'm having a problem, let me just go onto that website and say I'm having a problem. You're going to call first of all into the bank. So, we are staffing up the DMO units in terms of that and what we're trying to do is work out, how do you staff them up in the right way, recognising that it takes time to train a lot of these people up as well but looking to absorb the cost, and we've always talked about 3-4% cost take out. This would be one of the growth areas that you have to compensate somewhere else in terms of that space, which is where we are, but trying to get past, once you have that initial contact, then it becomes a relatively automatic piece, but there will definitely need to be a bit of an uptake on that...

0:32:45.4

And obviously what the government has also done, is they've given concessions that where these loans started at 6 years, they're now out to 10 years of repayments. And so actually the right solution may be for that individual to move onto a much longer repayment, rather than go into an impairment situation and that again, we have to work out how to make that as digital as possible, but there'll definitely be an increase in contact from that.

0:33:08.2

Robin

So, we're likely to see bounce back loan payment holidays coming in next year?

Katie

Yeah well I think in terms of the, if you defer it over to 10 years you've probably in some level of payment holiday in there as well and in the rules there are constructs for, you can defer and not pay for these 6 months, we've got a helpful note which I can get Claire and Alexander just to ping out to you just in terms of what some of the rules on that piece as well if that's required, but they're quite

well known, so there are opportunities for them to stop payments and recommence payments which makes them more complicated to administer.

0:33:40.9

Robin

The bottom line there is the government guarantee only covers you for credit losses, it doesn't cover you for administration costs involved.

Katie

Obviously when we agreed the pricing to the government, we made some assumption on the admin costs both for issuance and collection and we'll see how they evolve.

Robin

Great thank you.

0:34:05.3

Operator

Thank you, our next question comes from Robert Noble of Deutsche Bank, Robert, would you please unmute and go ahead and you may need to press \*mute just to help you unmute on your device.

QUESTION – Robert

Katie

Hi Robert...

Operator

We're going to move swiftly onto Martin Leitgeb from Goldman would you please unmute and go ahead Martin.

Katie

Hey Martin.

0:34:30.8

Martin

Hello, can you hear me? 3 questions from my side please and the first one, just to come back to negative interest rates, so if the Bank of England at some point was to go negative and cut rates further from here, what would be most helpful from your perspective to mitigate partially the impact of lower rates, would that be some form of depositing as we have it with the ECB, would that be a change in TFS pricing, would that be the ability to charge higher mortgage rates, what would be, if you could articulate what your wish would be, what would be the best offset for that scenario?

Secondly, just looking at your unsecured market share in the UK which remains markedly below the market share you have in current accounts and deposits, would the current cycle be potentially an opportunity to skill up your exposure to retail unsecured, particularly cards in the UK, could you imagine a scenario that as we go from weak unemployment that from a risk return perspective this could be an attractive entry point to scale up your market share there?

0:35:44.4

And the third question, just to go back to Ulster Bank in Ireland, I think previously their function was that you would be able to reduce the Q1 ratio by a dividend upstream but I think you cautioned that such a thing wouldn't happen in one go, that this would be multiple steps. Is this still the case that if the blanket dividend ban would come off that you could aim for an upstream sometime next year, thank you.

0:36:24.1

Katie

Yep, so, let me talk through negative rates and Donal I'll come to you to see if there's anything else you want to add onto my response. Look as I look at it, in terms of the TFS pricing, so that would reprice as well as it went to negative so that would be a bit of a help but it wouldn't be significant given the level of TFSME that we've got, you're aware that we've repaid a lot of our other pre-existing TFS. So, what I think you would see happening is obviously a number of our businesses would immediately reprice at that point, so those that match that kind of flow would be helpful, there's obviously some flaws than others which would take time to re-negotiate.

0:37:12.3

When we look at what's happened elsewhere, it's very much been the commercial businesses that have taken it first, in terms of the impact of negative rates. I would expect that to happen here, and then it follows through more slowly into the personal customers and generally it's followed through in deposit tiering but we're not at that point in terms of that conversation. As we look at it just now, we do see it as something that's not immediately likely and I think we'll continue just to monitor and track how that goes.

Obviously the impact on negative rates, we talked in the meeting of around £450m by year 3, that's a big number to have to recoup backwards, and so therefore you'd have to go and say, what can you do on charging, continue to do the work you're doing on cost but given that we're really very steady in that 3-4% cost take out space, that again, there's not a magic lever that you can switch, so I think you do need to look to see, what more can you do with customers. But at the moment our expectation is that it would be focused more on commercial than on personal.

0:38:18.8

And certainly, as we look at how it's happened in Ireland and at RBSi businesses that has been the case initially.

Donal is there anything else you'd add on that and Donal, do you want to pick up the dividend and then I'll come back on unsecured after that. The dividend upstreaming.

0:38:31.8

Donal

Yeah so in terms of, I think with your comparison to Europe, there's no doubt that the TLTROs has been a lot more lucrative for banks than TFS, in the UK and I think if we do see negative rates, I would expect TFS just to follow the base rate as opposed to in Europe where it's significantly low both the deposit rate and EURO-ref rate as well.

So, as Katie said, it's still not our base case that we see negative rates in UK and I think given what we saw from the MPC this morning about £150bn of further QE, QEs definitely seem to be their chosen route, in terms of monetary policy for now.

0:39:10.0

In terms of the dividend upstreaming, I think it's something we look at just once we get through the next year end and have just more clarity on the macro economic environment, then we will look to start distributing excess capital from our different entities as well. Obviously, that will all align in with whatever decision we get from the PRA on external dividends as well and we'll just try and tie it all together.

0:39:35.4

Katie

And then on unsecured, look, we are low, if I think back Martin to the year end when I spoke really proudly about our growth in terms of the unsecured and how great that was, to actually really starting to be entering that market, so, what we've seen since then obviously, is that growth has completely disappeared and more. So, I think, it's helpful to us this year but absolutely as you say it is an area we need to continue to work out, how we continue to grow in that space. I'm not sure at this stage that we're particularly open to a particular transaction to go much, much further on it but it is something that we are certainly looking at internally to say, what's the right way to grow this, in this cycle, so that we're doing it very cautiously.

0:40:22.0

We'd always said, even before this, that we felt that it was time to start to return to the unsecured space but to do it in a very cautious and controlled manner. I think that, that is even truer now than it was before.

0:40:40.0

Operator

Thank you and as a reminder, if you would like to ask a question today, you can raise a hand if you're using Zoom or you can press \*9 if you're dialling in and please do press \*6 to unmute yourself afterwards.

Robert Noble, shall we see if your \*6 will work for your phone line, would you like to try once more for me and we'll see if we can have your question.

Katie

Hi Robert

0:40:59.9

Operator

Hi Robert, it might be that perhaps your device can't do it this time round. Our next hands up comes from John Kronin, would you please unmute and go ahead John.

QUESTION – John

Katie



Morning John.

John

Good Morning, can you hear me clearly?

Katie

Perfectly yes thanks very much.

0:41:17.2

John

Great, just one from me please, just coming back to your comments on potential to scale up. Clearly, you've a lot to consider there but just theoretically, we've seen the paper from the ECB earlier this year in terms of the potential usage of negative good will. What would be your expectations in a broad context around the PRAs position on that matter taking into account the OSB charge record precedent and then secondly, what would be your thoughts, appreciating that's clearly case specific but, your thoughts on a broader context again in a potential pillar to A or up risk RWAs inflation context were you to acquire anything? Look I appreciate that's a very broad question Katie, but interested in your views on what the PRAs thinking is really there. Thanks.

0:42:18.6

Katie

So, I mean look, obviously any in particular acquisition that we would do, we would do cautiously, it's not something that we're actively looking at, at the moment. But clearly when there is something in the market, we do look as everybody does, so I think in terms of how we structure it and what it could look like, what the PRA would be interested in, is what it does to the capital in the rounds.

And particularly to that kind of level of excess capital that we hold today. What it could be in terms of a downside. So, it's certainly something that, if it was appropriate to do for us, I think they would be supportive of us doing it as long as it made sense for us financially and then also obviously for the target that we're looking to purchase, so, John I probably don't have anything more really to say on that, other than it's not an active, when we think of our return of capital, it's a return of capital for the shareholders, and we'll probably look at opportunities if and when they arise but it's not the main thread of what we're doing on a day to day basis.

0:43:25.1

John

Yeah that's fair, thanks.

Katie

Lovely, thanks John.

Operator

Katie it looks like we have no further questions. I'll hand back to you.

0:43:32.4

Katie

Great, thanks very much Dave and look let me just say to everyone, thank you for your time, and your ongoing support, if there's any other questions or anything Claire and Alexander are very happy to deal with them and I look forward to talking to many of you via various Sales Force meetings or until we meet again in February. Thanks very much and good luck for the next 4 weeks. Take care. Thanks a lot.