



NatWest Group plc
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Aman Rakkar: Good afternoon, everyone. Thank you for joining European track of the Barclays Global Financial Services Conference. I'm Aman Rakkar. I work in the European Bank's Equity Research Team at Barclays. Delighted to have with us this afternoon... Katie Murray, Chief Financial Officer of NatWest Group. Katie, thank you very much for your time and for taking our questions.

Katie Murray: Lovely to be here. Thank you very much and good morning, everybody.

Aman Rakkar: So just before we kick things off, just a gentle reminder around ARS audience response survey questions. If you are able to participate, and we would really appreciate it, you should be able to see the button to the top right-hand corner of the screen. Just for the benefit of Katie. I've just got you run over what the questions are. If you have a chance to answer, please do so, we'll run through the results at the end. Question one... What would cause you to become more positive on NatWest shares? Question two... What do you expect to be the biggest influence on NatWest revenues in the coming 12 months? Question three... How do you think about NatWest's cost developments versus expectations? Question four... How do you see NatWest's position on capital and dividends? Five... How do you see NatWest's position on ESG?

Aman Rakkar: Six... How would you view significant acquisitions at the group? Please do answer if you get the chance through the course of our conversation, and you also have the ability to submit ad hoc questions in spots, if you think there's something that we've not quite covered. So again, thank you very much for your time... do you appreciate it. Just to kick things off, economic recovery on the way, perhaps lacking acceleration in recent weeks and months, but generally moving towards normalising activity, how would you describe business momentum?

Katie Murray: As we've seen the gradual lifting of all of the COVID restrictions over the past four months, we have seen signs of the economy recovering, and I think some of the best place to see that is where our base case moved to when we did our Q2 results. Our UK GDP growth is 7.3%, which is up from 4.5%. I mean, a really startling improvement within there. And also for UK unemployment to peak at 5.5%, which is down from the 7% we had earlier. So that, and it's interesting as you look at that 5.5, even today, when you look at the number of jobs posting, that can even seem a little bit pessimistic. I think GDP growth feels more in the right kind of way, but look, the outlook does remain uncertain and we do maintain a kind of a conservative approach as the government schemes continue to wind down.

Katie Murray: When I look at a couple of pockets, which are good barometers of the business, in terms of the likes of commercial lending, the current conditions in commercial loans markets are driven by lack of demand,

rather than a lack of supply. And I think it's just reflecting the extraordinary levels of liquidity that were provided by government and central banking initiatives here in the UK, as they were everywhere else as well. We've got the capacity, we're very much looking to lend within our credit risk appetite, but at the moment we can kind of see that high level of RCF, and I'm sure we'll go into that. But the low level of RCF drawings, we'll go into that in a bit more detail. And then as the various schemes kind of come off, we'll get into.

Katie Murray: In terms of retail Aman, you'll remember me talking at the Q2 that we were starting to see a slight uptick in the balances there. So that's kind of indicating a little bit of more economic activity, still small, we'll look to see how that plays out as we go through. And I'll hold off mortgages cause I'm sure we'll get into that as we go through. But clearly the first half of the year was very strong for the UK. As people made a number of lifestyle decisions supported by a lot of the economic incentives as well.

Aman Rakkar: Okay. I mean, primed us perfectly on mortgages. You know, we've seen a very strong 12 months, but conditions are tightening, volumes are normalising post stamp duty. We can observe prices falling as this competition escalates. How do you think about mortgage market? Is it tailwind from here, or new business spreads still a tailwind, or what do you think we're on our way back to kind of painful margin compression weighing on the NIM?

Katie Murray: Yeah, so I think what we saw with the stamp duty, or if you're in Scotland, the land taxes, that were there, we could definitely help that combined with actually we all lived in our houses and realised the houses we had were great for pre-pandemic life, but they weren't necessarily great for lockdown and not necessarily the life that we wanted. So those sort of things all kind of combined together. So what we actually had was a big pop up in the numbers. And I think the reality is, as financial people, we always like the up to continue for longer than it does.

Katie Murray: But if we look at where we are today, in terms of the book levels, we were saying our application margins at the end of Q2, so the business will actually come on the books... Q3 was at 1 45, so it's higher than we were a year ago as well. So it's not all complete kind of doom and gloom, but they are certainly falling. And we will continue to see them falling as we go into this next quarter, when we talked about, like Q2, what we don't really see as a particular, anything that would indicate the slow down in the near term.

Katie Murray: But then I think you've got to backtrack a little bit and actually say, NIM is important, but actually what's happening in terms of the income lines. So are we offsetting volume and margin? And, and I would say we are

broadly, so we're comfortable on that. And also what kind of ROEs do we see on this business? And when we talked earlier in the year, what we said is a mortgage that you're writing at 145 basis points is getting an ROE above 20%... So still very good quality ROE business. So you would expect it ultimately in normal times to come down a little bit as well, but we're kind of comfortable within that.

Katie Murray: But I think when we look at our goal is to maintain an above market growth each year, we also looked balanced with the risk discipline and pricing, so you're not just on a race to the lowest number. We're very focused on retention, as we move through, and we're definitely trying to look to create that sort of sustainable value. And so that we can be a little bit discerning and grow, not necessarily grow above market each quarter, but over the year, you'd expect that we'd be in that space, but look it's definitely a competitive place, but I would still say prices are strong.

Katie Murray: Our economics are for prices to continue to grow. Not at the levels they have grown, but certainly still there. And the other thing that we all forget is that the stamp duty taper is still there until the end of September as well. Only 250,000, but that's still twice what the level was before, so still a very important level if you look at the average house price that we have here in the UK as well. So I would say we are a competitive market, but an important and a very ROE accretive business that we continue to write there.

Aman Rakkar: Yeah. Okay turning to commercial, I guess that loan book has been under pressure related to subdued demand, elevated repayments, and perhaps crowding out from the government schemes... What are your expectations for this book into 2022? Do you buy into the idea that growth can pick up? Should we be hopeful of some kind of reinvestment plays post-Brexit today?

Katie Murray: So I think it's good just to remind yourself of what we observed in the first half of this year. You've large corporates with a very strong liquidity positions. They were reducing RCFs, reducing overdraft facilities, and this is where we have a share of around one in four businesses. And so a strong position within there. We saw specific capital management and risk actions, where we reduced some of our levels of exposure to some of these businesses intentionally, in particular, in terms of some of the real estate finance activity. And you also saw the start of the government repayment schemes, as we got to the tail end of that half, obviously at the beginning, people were still drawing as well. So what we sold within there is overall market share reductions. As you looked in that large corporate market, and in SME business banking, our market share was kind of broadly stable. And where I think re-payments of CBILS are likely to create a bit of a small timing factors over the next year.

Katie Murray: But I think of that was the kind of the first half of the year, what do we see as we go through 21 and into 22? I think the degree of commercial loan growth that you'll see, it does remain a little bit uncertain because of those factors of people reducing RCF. I think it also will depend on the degree and speed of economic recovery, what actually people need in terms of their working capital requirements. I think there's a bit around business confidence and investment spending, and also customer behaviour, in terms of how they pay down some of that government lending. So there's a lot of different things going in that space. If you look at the customer segments, what we see is growth being concentrated towards the mid and large end of the corporate base, with new business coming in from those sorts of areas being driven by infrastructure, ESG in green, and green lending predominantly.

Katie Murray: In the SME market, I think growth will be linked very much to the wider economy, and also the impact of what the kind of bounce back repayment...What have people done. And as I talked to different customers, they've all done slightly different things... Some have repaid all, some have repaid half, they've kept a bit back, and other people used it. And so it's part of a normal repayment schemes, but, we're very mindful that the balances that we've got in that business banking book have doubled since March 2020, due to the impact of the government schemes. So that will definitely have a fall through, into 2021. But overall I think we do feel that growth will be coming back, and then we'll start to see signs of that as we go into the second half of this year, and more so as we go into the next year. We've always managed [...] business returns. You've seen us being kind of active of bringing things on and off Group, which has worked well for us over time. So, we'll continue to do that as well as we move forward.

Aman Rakkar: Thank you very much for that. Just as a gentle reminder, to anyone dialed into the webcast please take the chance to complete the ARS survey questions at the top right. Yeah, Katie, so, if we were to switch focus to excess liquidity, that's been a feature of COVID and in particular around your ability to monetise your excess to liquidity position. With regards to the structural hedge, you've got it for a relatively modest drag in the hedge in the second half of this year, and into 2022.

Aman Rakkar: You've seen customer deposits grow by about 25% or close to a hundred billion that's significantly outpaced loan growth. I think you've increased the size of your structural hedge to account for a proportion of this but not totally. And how do we think about this? Is there more that you can do to monetise this excess liquidity position? Either to increasing balances or kind of whatever you see.

Katie Murray: Let me kind of remind people of what we've done within that. And, I think it's also important to remember that we came in with quite a good excess liquidity, which has only continued to grow as we've gone through as result factors will have talked about before. But, if you look at the current yield curve, our expectations for the size of the hedge over 2021, we'd expect the impact from the hedge on income to be broadly neutral in Q3 and Q4 over Q2. So, we've seen the kind of positivity come through, compared to the rate movements, setting off against the negativity from the prior year. We only, as you said, hedge a portion of our deposits, and we do this in a 12 month rolling average, and as such, there's always a timeline between deposit growth and the growth of the hedge.

Katie Murray: But, certainly that growth that we saw coming through into Q1 and Q2 will impact that. What we did say at Q1 was if deposits stayed flat, we'd expect an additional 15 billion of hedging to take place over the next 12 months. But, what actually happened in Q2 was deposits increased by 13 billion. Primarily driven by the expected to increase in the higher deposit balances that we had seen aligning to our 12 month rolling average. But, given that we don't hedge all of it, if and when that unwinds, you don't have a particular issue in the hedge because you'll be able to deal with this moving out of that. If they stayed flat from here, that would be a further 15 billion of hedging. And, we'll just continue to kind of see how that sort of flows through.

Katie Murray: Customer deposits were strong in Q2, but they were slowing, which is the first quarter we've seen that since COVID came. And, we will talk more about that when we get to Q3 in terms of what the Q3 activity has been. We would like to deploy excess liquidity into new lending. We're very well placed from both a liquidity and a capital perspective to lend to our customers. We're also well-placed to benefit from the higher interest rates when that happens. And, we continue to look for opportunities for the liquid asset portfolio to deploy at its higher return levels. But, really it is about lending. And, I think we've talked already about the kind of slight lack in demand for lending, particularly in the commercial space while it continues to be strong within the mortgage space.

Aman Rakkar: Mm-hmm (affirmative). Yep. I guess you briefly touched upon it then. I guess this is a live debate in the market now around the rate policy right now working in the UK as well as elsewhere. But, when I observe it, mid market has been for a while pricing in some kind of rate movement, probably towards the end of next year. Can you help us think about the potential impact of the rate hikes on your business in terms of margin, loan demand, asset quality? Can this be an important step back towards cost of capital ROE?

Katie Murray: Yeah, so look, if the rate rise comes through it would certainly be helpful in our results. We use consensus modeling in terms to get our base rate forecasted. At the moment, we've got it coming through in the second half of next year. And, I can see, as I look at consensus, there's a debate whether there'll be another rate rise, either at the tail end of the year or the beginning of the next year, in terms of that. You'll be familiar and I know you are Aman, with our interest rate sensitivity. And so you know that we split this between our hedge, which has a lag effect and our managed margins, what we pass straight on to our customers, which depends on the very much the pass through of that interest rates on both sides of the balance sheet. Clearly, a rate rise would be helpful to the business and margins. I think there's other factors to consider such as the impact it has on economic recovery and of lending growth, which is one of the key drivers of the ROTE.

Katie Murray: But, I would say the levels of rate rises that we're expecting to see in the short term are pretty nominal. At the moment, consensus only has us going back up to 25%. So, we don't think at those levels, it will have a particular impact on our impairment charges at all. They're very manageable and certainly quite far away from the tolerance that we would test affordability with our customer base. So, overall, I would say the rate rises that we're seeing consensus would be a real positive for NatWest Group.

Aman Rakkar: Yeah. Again, I'm just going to touch upon a topic that's coming up via the questions as well, as it's something that I had lined up anyway, but around NatWest Markets.

Katie Murray: Yes.

Aman Rakkar: This has obviously been a source of restructuring at the grid level for a couple of years now. Performance in H1 described as volatile, perhaps. How do you think about the impact of restructuring on this business versus, I guess the impact of restructuring has been clouded by pretty poor market backdrop. I mean, how much of this is restructuring, how much is left to do and do you think this division can still be profitable?

Katie Murray: So, in NatWest Markets, if I take you back the transformation to a simpler, less capital-intensive business, overall, which is what we set out when we talked about it in February of 19, is progressing very well. We're reshaping it to focus on the corporate and institutional customers in areas such as interest rate risk management, foreign exchange, and capital markets. And, I think that's very important that it's just those three products so it doesn't have any other comparison. Why did we make that decision around NatWest markets?

Katie Murray: It was because it was, before we took action, it was consuming too much capital, it's costs were too high, the income was too volatile and it was producing very unacceptable returns. And, we intend to largely complete our focusing of this restructuring this year in terms of the income side. And then as you know, costs just always take a little bit longer to come out and the business is now very much trying to focus on that growth. Our performance in NatWest Markets compared to the first half of last year, largely reflects the lower levels of, of market activity, similar to others, where we saw the fixed income business shrink quite significantly. And also I think it was impacted as the business has reshaped in terms of just, which is an impact a bit more peculiar to NatWest Markets as we went through there.

Katie Murray: But, however, as I look at this business in the medium term, we're comfortable that it will stabilise and we'll recover from the impact of that reshaping. And, along with our growth opportunities in currencies and capital markets, we do believe this is a business that should deliver a kind of 0.8 to a billion pounds of revenue.

Katie Murray: And, you say, "Well, why might you be confident of that Katie?" And, I think there's three things to see, the stabilising of the rates business. We also are pivoting to growth in our capital markets and our currencies business. We've got very strong ESG expertise, which is really driving a lot of that activity. And, also there's a bit of improved funding costs that we'll see as a benefit of the improved credit ratings we've had over the last couple of months as well.

Katie Murray: But, when you look at NatWest Markets, we believe is a low single digit ROE business. And, then you combine that with our corporate and institutional customers. And, then what you see is we view that overall is that 8% kind of illustrative ROE in the medium term. And overall, we think that's a kind of acceptable level to see from this business and through the kind of strong franchises, the growth opportunities and the ongoing simplification, we do believe that we'll get to those required returns. So, yes, income a bit disappointing this year, but very confident about where we're heading in the future.

Aman Rakkar: Okay, thanks. I guess the other area of restructuring, more strategic action more recently has been Ulster Bank. You've announced the proposed commercial loan book sale to AIB, prospective mortgage sale to permanent TSB. How is that rundown progressing versus your expectations?

Katie Murray: So, I think we've made good progress on the phased withdrawal plans. Obviously AIB as you've done, it is a binding transaction. We think that that will that's progressing well, and that will roll off following kind of regulatory approval, probably early 2022. We've got the non-binding

MOU with PTSB, which we'll finalise during this year. And, then that completion will go through the similar kind of regulatory process. So, I would expect that completion will be sort of 12 to 18 months later from the point of now.

Katie Murray: And, I think it's important there that we signed an MOU so ultimately the final transaction may differ a little bit, but it will certainly be in the right sort of phase of that. So, within those two transactions, there are about 60% of the book that we've got left.

Katie Murray: And then you look at the balance in the book, predominantly that is a tracker portfolio, so low yielding, but a good quality asset. And we'll move on to looking at that now. And then there's obviously just, so there's money bits and pieces on the balance sheet, whether it's some non-performing loans or things of that, which you've got a good track record of dealing with. What we will give you greater clarity on as we move forward is actually what's the disposable and restructuring costs. A lot of that depends upon the timing of the exits of these businesses. But we are comfortable with the level of capital we have in there. We believe that overall, the transaction will be capital accretive to us, and we'll start to see some of that capital coming upstream as the various transactions start to close out. So, comfortable with progress, these things obviously take longer than you think that they should, just in terms of role, the whole regulatory approval things, but they're also complicated things to deliver. So it's very much delivering in time in line with our clients.

Aman Rakkar: Yeah, I guess the aspiration for that is that still to be a capital accretive exercise.

Katie Murray: Yeah, and to date, we don't see any reason why that aspiration would be misplaced. That certainly what, when we look at the various transactions, that's certainly what they're setting up to be.

Aman Rakkar: Yeah. Turning to costs, you've delivered absolute cost reductions for a number of years now. And your targets are to continue doing so until 2023. How much longer can this go on for? Can you carry on delivering absolute reductions in the cost base beyond 23?

Katie Murray: Okay so when we look at it, I mean, we've obviously got a very strong history of doing that. Then if I look at H1, we were at 5.9% and Amman, you'd have heard me say on the day, do not take this as representative for the whole year, because they come out as lumpy, but we're comfortable it will be at 4% for the full year. And then the years that follow that out to 2023.

Katie Murray: And I guess to me, the question is why do you have that comfort where we've done so much already? And the simplest way for me to explain it, is a lot of the cost saving we've done today has been in the various verticals. But actually what you then do is you look across the bank, you see that actually there's still naturally inherent complexity and duplication within there. And that's why we set up the one bank transformation program to really kind of drive that pan bank piece of work so that we can prioritise where we're investing our investment spend, so you don't end up kind of salami slicing it. So everybody gets their piece, which is always the danger when you're going in the kind of, the silo.

Katie Murray: We've got our investment portfolio, which is multi-year. And it's very focused on the areas of greatest friction within the organization or greatest benefits. If I look at something like customer journeys, it counts for about a third of our cost base. So investing in transforming them end to end through simplification and automation, we know we'll have significant sustainable multi-year benefits they will deliver. We also know that those benefits that can be quite, some of them can be quite transferable from one product to another product. So you can reuse a lot of what you have done and that's really what we're focusing on in terms of that delivery across those customer journeys. So, comfortable that we said up to 2023, we're comfortable with that. That's still the right thing to look at in terms of the absolute cost reduction.

Aman Rakkar: And do you expect any of this to need ongoing strategic consulting? You've guided for 21, but do you see the need for materials [...]?

Katie Murray: Yeah, no. So, if I look at what once happened in strategic costs, there were 1.4 billion in 19, a billion in 2020, .8 billion in 2021, but there's clearly going to be a little cost attached to Ulster, which we haven't shared into yet in terms of what that could be. But if I look at strategic costs, what are they? They're basically redundancies and they're property exit costs. There's a little bit in there around the reshaping of NatWest Markets as you would expect as well. So there's, as we continue to reshape the business, you will see that that redundancy is always going to be a part of the narrative.

Katie Murray: And what we like to do is to call it out so you can see very clearly what is it that we're spending as an output of the transformation we're making in the business, so you then have the clarity of it, but obviously our targets are including that strategic cost line number. But I do think, within a business, you are going to have a constant level of, kind of re investments into those kinds of buckets of those costs, but the downward trajectory is something we're very focused on.

Aman Rakkar: Yeah, I guess, just a final reminder to anyone joined on the call, please do take part in the ARS survey questions at the top right of your screen. And we'll run through the answers shortly. Asset quality, again they're not such a hot topic in a way that it has been perhaps 12 months ago, which I guess is telling in and of itself. You've indicated the possibility of further ECL releases if there are no unwelcome economic surprises between now and out to your end. And I know that in particular, you've got about 1.1 billion pounds in the form of post-model adjustments. In what timeframe could this realistically be released?

Katie Murray: So if I look at our ECLs overall, so 4.9 billion at the end of Q2 down from 5.8 billion in Q1. So that's been quite a significant release, but that was very much in what I would call the core ECL, rather than the PMA that sits on top of it. You know, when I look at that PMA, there's different shades within it. And the bit that I think is sort of the most judgmental or interesting without wanting to do the other bits down, is the beats that relate to the kind of economic uncertainty, and that's all around how does the economy recover as all of the government support comes off? So that reduced a little bit, that, we brought that down by sort of 53 to 834 million it's, I'm conscious the number is kind of, suggests a level of kind of accuracy and complexity within there.

Katie Murray: But that's really important. Now some other PMAs went up to the kind of 1 billion. Those are often because of issues in your modeling and things of that, which wouldn't be unexpected that at this stage. But when we look at our PMA and particularly looking at that piece around the economic uncertainty, it's now a large proportion of overall ECL coverage. It accounts for about 22 basis points. And the remaining 109 is very much in line with our 2019 levels. I think all of us would say to be sitting today with an ECL that was the same level as 2019, wouldn't feel logical. So therefore the PMA is definitely necessary to make sure that you kind of account for what the models just can't deliver.

Katie Murray: As we look forward to how that might unwind over time, the driver of this will be what really happens in the wider economy, how do customers react to the unwind of government supports, do we as we all read in the paper today, do we face kind of more restrictions in the winter months, and so actually does economic goals change again in the kind of short terms. And then we have to let all of these things kind of wind through and as they wind through, we'll continue to assess that PMA, we'll look at what's happening in the wider economy. We'll either see it being consumed, or we will start to release it.

Katie Murray: What I would probably remind you of, is we've had this kind of economic uncertainty previously as well when we were entering into the Brexit time, that was about 340 million there. So it's not unusual. So what I wouldn't expect that you'd see one quarter that was there and in the

next quarter it wasn't, I do think it's something you'll see gradually kind of unwind either by consumption or by releasing to the income statement.

Katie Murray: Really what we did say, as we looked at this year is that we certainly would expect the number to be positive for this year. So we wouldn't see a particular consumption happening through of that number into this year as you go forward. But I would expect that we'd see that little bit of upside into this year and then certainly as we move into 2022 as well. But I do think it's to get the right balance of not releasing it too quickly so that you don't kind of regret it later. You know, one of the things I think we can all remember is that after the big global financial crisis is that it was actually almost two years later that people started to suffer a lot of their impairments, because actually you kind of recover and then you go through and then actually it becomes more difficult to deal with sort of two years down the line.

Aman Rakkar: Brilliant. I appreciate the outlook is relatively uncertain in this regard, but it does sound as though essentially ECL releases, if they were to come through a kind of 12 to 24 month period, it could be the kind of thing that might support a below normalised ECL charge in 22, maybe into 23. I don't know if you have a view on that.

Katie Murray: Sorry just say that, my line went funny just for a moment there. Forgive me.

Aman Rakkar: Basically, do you think that the ECL releases you were talking about and the pace at which they could be released, is that the kind of thing that could support a below normalised ECL charge perhaps next year and the year after or...

Katie Murray: Yeah, I mean, look, I think it's a great question. So if I did the maths today and I took my last 10 years of activity, I would tell you that 30 to 40 basis points is bang on in terms of a kind of through the cycle piece. I think we need to get into next year. And I mean, you're very familiar with our numbers and if I look before COVID, we were posting numbers that were 21, 22, 23 basis points sort of things. So they were below already. I think it's very hard to call what will actually happen in terms of that number. But as of today, the 30 to 40 basis points through the cycle is a good number, but I think let's get a couple more quarters and half years on, on the, on the scoreboard so that we can then take them from there.

Aman Rakkar: Okay. I'm going to turn to a key topic, capital, capital return.

Katie Murray: Yep.

Aman Rakkar: I think it's really important for the NatWest investment case. You've announced the 750 million pound market buyback, and that's currently being executed. And this comes in line with UKGI's various drip-feeding shares in the market.

Katie Murray: Yep.

Aman Rakkar: How are you thinking about that capital return outlook, and the mix in particular between ordinary, specials, and buybacks? And, I guess I'm thinking ... Is UKGI's drip-feeder shares into the market, does that increase the propensity for doing additional open market buybacks, perhaps [...]?

Katie Murray: Yes. I mean, as we look at it, what we've always said, there's a real balance between our ordinary dividend, which is the most important thing, then after that the directed buybacks, because of the impact that has on the government shareholding. What we are keen to do to... We're working to add a kind of in-market buyback onto that because it's something that you can deliver more simply in many ways, because it kind of carries on in the background. What we're pleased with is how ours has been performing to date we've made good progress on that since we've come through this time.

Katie Murray: So overall, I think, when we look at 2021, we'll have distributions of 2.9 billion pounds out to the market over the various dividends, direct buybacks, in-market buybacks. So, a very strong distribution year. I would see all three of them being features of things that we would use as we go into next year. We had said that we would do a minimum billion pounds in terms of dividends. You'll be familiar in terms of the level of capital that we have to return back to shareholders, so you can imagine that specials would also be a feature of that at some stage. And that's kind of why we said this billion, to actually get away from the noise of a special up and a special down, but you say that there's a floor, that we'll always continue to do and we'll continue to deliver that. And whether it's called ordinary or special, it was kind of not that relevant in reality.

Katie Murray: What we want to do is to make sure that we've got the right flexibility to run through this economic time, though conscious that things are obviously looking more positive just now. As you know, this is a big conversation we have with boards in February as we move into it and as we'll continue to give guidance to the market as to what our plans are over the next couple of years, but we have been pleased with the progress that we've made this year, and I think also the UKGI has also been quite fleet of foot in terms of their activities, which has helped the overall ownership structure, and changing quite significantly over this year.

Aman Rakkar: You see any kind of material upside or downside risks to the capital returns out? I think you already helped them in terms of your disclosure at Q2 in terms of the moving parts.

Katie Murray: So I think in terms of the downside risks, I think we've got them all very well documented in terms of what they would be. There's a lot of regulatory change coming at the beginning of January, and we've done our best to kind of give you some real guidance on that.

Katie Murray: I think the upsides as we look at it, we all expected some pro-cyclicality to hit our RWAs and that hasn't happened yet at all. I mean, we've actually had negative ... I mean positive pro-cyclicality. It doesn't feel logical in this time, but I know it's what we and other banks are also experiencing. So if it never comes through, you could see that as an upside as well. Obviously, the yield curve with income growth that would be an upside also.

Katie Murray: And then I think the other question will be, is what actually happens with lending. You know, I would rather that we added more lending, all of which obviously consumes RWAs, it generates capital as well, in terms of in returns on that. So at the moment, I think we're well explained on the downsides, and I think there is there's room for some optimism on the upside as well. And just how and if and when that pro-cyclicality comes through is probably one of the key ones.

Aman Rakkar: Okay, great. Thank you very much for that. Okay. I'm going to briefly race through the ARS survey questions. So, unfortunately Katie you can't actually see them [..]

Katie Murray: It's alright. It's why I've got my pen poised.

Aman Rakkar: I'm going to read these out just for your benefit. So question one was around revenue, what would ... Sorry, what would cause you to become more positive on NatWest shares, and actually broadly split is positive revenue surprises, and stronger capital, and higher distributions. I think that that kind of makes sense, I don't think that you found anything surprising in that.

Katie Murray: No, I wouldn't be surprised by that.

Aman Rakkar: Question two, what do you expect to be the biggest influence on NatWest revenues in the coming 12 months? Broadly evenly splits, and marginally ahead is volumes followed by policy rates. And I think we've kind of touched upon both of those things in terms of volume and the rate sensitivity. How do you think about NatWest's cost developments versus expectations? Three quarters of respondents have said likely to meet expectations. That's a relief. I guess 20% of people have said essential to

bid, given additional cost savings initiatives. So maybe your well established track record there is raising expectations somewhat.

Katie Murray: Yeah.

Aman Rakkar: Question four, how do you see NatWest positioned on capital dividends? A hundred percent of respondents see upside surprise potential, with two thirds of people saying upside surprise from better earnings in the future. The balance coming from ordinary capital requirements. Question five, it'd be good to get your view there, Katie. So, how do you see NatWest positioned on ESG? Broadly, half of respondents have said in line with average, interestingly a third of people that said they are not sure and haven't taken a view on ESG yet.

Katie Murray: Yeah, no, no. So that one, I think, is really interesting. I think that we've been really quite ambitious on ESG. We're the principal banking partner to COP26, and I think we are doing a significant amount of work, not only in our own internal activity where we're already kind of zero consumption, but as you look at what we're doing with our customers to get towards that 50% balance sheet reduction.

Katie Murray: We're signing up to all the science-based targets and things like that, so I think at this point I would actually view us as quite a market leader in the ESG space. I think with your audience, it would suggest we've got a little bit more work to do to make sure that they understand that better. That's something we can spend more time on.

Katie Murray: But I think it's a really important point. So I'm sitting in Islington, if you could see out my windows you'd see their full of Victorian houses, and you've probably heard some of the cars that go past. How do you make these houses so that they're not as carbon consuming, and how do we change kind of automotive ... I think there's huge opportunities for banks as we move forward, and I think how we work with our customers and also with government will be really critical as we are all collectively make this transition.

Aman Rakkar: Okay. Finally, our last question. So how would you view significant acquisitions at the group? Fifty percent of respondents would prefer the capital to be returned to shareholders, a third would view it marginally positive. I guess that reconciles with the importance of capital return for the NatWest investment case.

Aman Rakkar: Okay. In the final couple of minutes, then I think I'll just try and squeeze one more question in there around your ROTE ambitions. You plan to achieve a 9-10% ROTE by 2023, and what are the key assumptions behind this, and how do you think about [...] in terms of how you get there?

Katie Murray: So I would say, first of all, is we remain comfortable with that 9-10%. I think as I look at the key assumptions, achieving the above market lending growth across the UK and RBSI in commercial businesses is critical. Cost reduction, which we've talked about, NatWest Markets meeting its medium term outlook on income, as well as continuing their transformation on costs. We've got to take that strategic cost reduction number down as well, and we've touched on that, and I think there's a bit of normalisation of impairments. Given the amount of time we've spent and some of the expectations back from the survey, getting that CET1 ratio down to the 13-14% is also very critical.

Katie Murray: I think risks to that number? Rate rises, that would be helpful to us. I think the pace of economic recovery, loan demand and activity levels increasing would also be helpful. And then competition, what happens elsewhere and how well is it behaving naturally always have an impact on that. We are making good progress on things like Ulster, we'd expect that Ulster cost base to disappear off as well, as well as their RWAs as we move through.

Katie Murray: But overall, I think we're very well placed in terms of the ROTE guidance that we've given, and we look forward to the work we need to do over the next two years to make sure that we deliver it, which I'm very confident we will.

Aman Rakkar: Well, I think we're just about done for time. So Katie, thank you very much for making yourself available. Thank you very much for taking our questions, we really appreciate your time. Thank you to everyone who's dialed in to the session, thank you for participating, and I wish you all a very good day. Thank you very much.

Katie Murray: Take care, have a good day. Bye, then.