



NatWest
Group

NatWest Group plc
Q1 2025 Sellside Roundtable Transcript
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Host: Katie Murray, CFO

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Management Presentation

Katie Murray

Good afternoon, everybody and thank you for joining us today. With me today, we have Stuart Nimmo, Finance Director of Retail Bank, Andrew Wells, our Director of Finance, both of whom are up in Edinburgh at the moment. Obviously, Donal Quaid is well known to you as our Group Treasurer. We're also very happy to and delighted to welcome Carolina Romero-Ramirez, the Finance Director of C&I. Many of you will have met at our recent C&I Spotlight event. And of course, Claire is very well known to all.

Before we open up for questions, I'm just going to remind you of the key messages from our first quarter. In case like you, Friday feels quite a long time away actually at this point. Obviously, a joyful bank holiday weekend.

We made a strong start to the year with income excluding all notable items up 15.8% on the prior year and 2.1% versus the fourth quarter at £4 billion. Operating expenses were £2 billion and we're on track for our full year guidance of around £8 billion plus around £100 million of one-time integration costs.

The impairment charge was £189 million or 19 basis points of loans in line with our full year guidance of below 20 basis points. Taken together, we delivered attributable profit of £1.3 billion and our return on tangible equity was 18.5%. EPS of 15.5% was up 48% on the prior year and strong earnings drove strong capital generation before distributions of 49 basis points as well. We ended the quarter with common equity tier 1 of 13.8% towards the upper end of our target range and up from 13.6% at the end of 2024.

Obviously, we're very pleased to announce the acquisition of portfolios from Sainsbury's Bank, which we completed last week, adding a million new customer accounts with around £2.5 billion of loans and £2.7 billion of deposits.

Given the strength of our first quarter, we have raised our full year guidance to be the upper end of our previously guided range for both incomes and returns. With that, I'm very happy to take any questions you might have.

Benjamin

Thanks very much for the time. Two maybe top-down questions, which are a bit more holistic. The first would just be, if you think about the value of a customer relationship, particularly with mortgages, how you

think about sizing that in terms of cross-selling capabilities or effectively where you're benefiting from that relationship outside simply of the margin.

So effectively, if you travel a bit below the 70 basis points, where we can think about you making some of that back in theory. And then the second question is, again, a bit more holistic, but just thinking about the dialogue between loan and deposit pricing and the extent to which, from a central perspective, you just have a treasury basically saying, here's your cost of funding, go and try and beat that hurdle. Or if there is a more nuanced way of calibrating that, and if there is, at what stage of the process it comes in.

Katie

Yeah, perfect. So let me start, and then I'm going to hand it to Stuart talk a little bit about Retail, and then Donal I'll come to you as well. I think what's really important, first of all, is to take a little bit of a step back and to remind yourselves the way that we look at our balance sheet is very much from [a] ROTE [perspective], so that's our driver.

And we will move lending up and down, if we're not happy with how that's balancing. So, there's not a direct correlation from one to the other. And I think when you look at our Retail Bank, with its RoTE of above 20% comfortably, then how we look at them in the rounds.

I think that's important to keep in mind as we go through that. And we spend a lot of time trying to look at the value of that customer relationship, whether there are organic customers, or whether they've come to us via the broker channel in terms of mortgages, and then how far you think you can kind of penetrate. But I mean, Stuart, before I give that entire answer, it's somewhere we're spending a lot of time debating at the moment, and really trying to work out, where's your real valuable customer. Stuart, do you want to talk a little bit about some of the work that we're doing within that space?

Stuart

Yeah, absolutely. So, a couple of builds. I mean, to the question of broader relationship value, we clearly do engage with our mortgage customer base and seek to meet more of their needs than just the mortgage in isolation. So, we can see, through analysis of our customer base, where we've been successful on that. And we've got a reasonable cross holding in the mortgage customer base of other products, which help to augment and enhance the overall value of the relationship. There's more that we can and will do there. And that is a focus area for

us. So, there is definitely broader value than just the mortgage in isolation.

The other lens, perhaps, that I would look at it through is the relationship through time. So as Katie has described the way we look at and make decisions based on the capital we allocate into the mortgage business is very much return led. And we do set the bar in terms of the returns on the deal in front of us. But we can also see that as you go through the life cycle with that customer, you know, the sort of values that we retain, deal in, deal out.

Typically, the customer moves through a lower LTV, which reduces the risk weight, the marginal costs of retention to us – particularly through our digital organic channels – are really low. And you can see a rising return through time.

So, there's a couple of different lenses that we tend to think about. We tend to think about the profitability of the mortgage customer, but as Katie said, right up front, , we're returns and RoTE led in our decision making.

Katie And Donal, do you want to talk about how you make sure that they're using their treasury funding appropriately?

Donal Yeah, sure. And they're probably quite interesting questions. Maybe just one thing to add from Stuart's perspective as well, how the returns of different products evolve through different cycles, because I think that would also come into your thinking. But in terms of the treasury reward mechanism and how the franchise work. They know exactly where they're rewarded from a liability raising perspective. I think the large majority of, the very large majority of, deposits within this institution, within holdings, with the exception of our non-ringfenced bank entities, are income generative.

So, in effect, there is big incentive to continue to grow your liability base in that environment.

Ben Ben Toms from RBC. Can I ask two on revenues, please? First one is in relation to Sainsbury's Bank. Just to confirm, your guidance from here is inclusive of the 100 million from Sainsbury's?

Katie It is.

Ben Can you provide a split between the NII and non-NII?

Katie No

Ben

And are there any ongoing costs in association with Sainsbury's that we need to consider? And then secondly, you talked about the bank's ability to continue at the same cadence in respect of other income, and particularly the FICC piece.

If I look at the CIB division and if I look at other income for the last three quarters, it's been pretty consistent. So maybe you could talk about what you're seeing this quarter and is there any reason that you can see at the moment that you won't continue at the same cadence.

Katie

Yeah, sure. Absolutely. So, in terms of Sainsbury's, I'm not going to split it between the two lines.

It's 100 million that is coming in. And obviously, we're bringing in credit cards and deposits. So, you can do some maths in terms of the fees that might come off that credit card book.

In terms of the one-time integration costs of the 100 million this year, in terms of our ongoing costs, you just expect us to absorb that into our number. I wouldn't think, oh, next year, the 8 billion is going to be 8 points something. We'll deal with that as part of the annual cost cycle that comes through.

I think one of the things, and I can't give you this number because I couldn't find it this morning, and I should know it. Forgive me. But we've brought so few staff over as well.

What it really is doing is really showing actually how scalable our systems are. So, I think some of the costs we would have, but they're more probably financial crime and fraud related, rather than the core kind of running of the book. It's just how you deal with the volume.

So, I just couldn't find exactly the number of staff we brought over, but it was really de minimis, which for us was important. So in terms of other income, the challenge on other income, I think, and I accept and I can recognise what you've said is, as you look at it, within the C&I, particularly in that markets business, we know that Q1 is always very strong. We also know we had a very good Q4. And then if I look at what's happening in April, actually, the Treasury activity has started off quite nicely. So, I think what we're trying to say is not that it will not occur, but just that it may not continue to roll through at the levels that it has been. I think we were very pleased with Q4.

You know, Q1, we always expect to be strong, but I guess the strength of currencies, particularly when you compare it to a year ago, showed

the real strength of that franchise. I mean, Carolina, you live and breathe this every day, what would you say?

Carolina

Yeah, and I think what I would also say is that Q4, but also half two of last year, we saw extremely benign conditions and a lot of increased volatility, which allows leverage and to seize the opportunity. We saw higher activity in debt capital markets versus what we've seen in the past. So, because of those conditions, which you wouldn't expect naturally in the seasonality of the business, that's where we say we cannot assure that it will be repeated as we go into second half of this year.

Also, the volatility, given the recent events, we know that it can fluctuate, and it can go either way. And we're sort of focusing on the behaviour between so far, we have no reasons of concerns, but obviously, so far, the behaviour of protecting and making sure that we are well positioned in leveraging on and maximizing the opportunity that the volatility presents. But there will be other impacts around holdover or changing in behaviour potentially eventually.

Katie

So I think what I'd say, there's nothing that we're seeing in the numbers that we haven't shared with you. I think if we look at kind of history, we know that it's generally stronger, quieter August. Last quarter is fine, and the last few quarters have been a bit different from that. So, it's just it 'may not' in terms of how it might continue to progress. But I would also say that April started quite well. Which is not overly helpful.

Amit

Amit Goel from Mediobanca. And just a question on pass-through rates. Because when we're going through the kind of Q1, it looked like the pass-through rate was quite high, roughly about 75% or so, versus I think 60% was the general guide.

And again, it wasn't completely clear if some of that was related to the larger corporates and now it's more obvious or not. But just curious about that into the coming periods, if we get further rate cuts as market anticipates, you know, is there a timing piece to it? Or can we potentially anticipate that kind of pass-through continuing?

Katie

So the sensitivity we give you is on about 60%. And we feel that for the last couple that we've done that's kind of the right percentage to be using as you roll forward in terms of your assumptions within there. You are of course aware that there are, there's time lags in terms of how long it takes to go through. If I look within the retail business, that's 14 days from notification, it takes 10 days to notify. By the time you get

your letter, you agree, you get it out to all your non-digital customers who are thankfully far less than they were historically. And then C&I, the notification can be a bit longer in general, and it varies a bit more by account, so it's not quite as easy to give you a spot number, so there are some delays as you as you kind of look at that. But I think the 60% we're giving you is a good number. And I think more or less reflects what we've done.

It doesn't mean that's what we'll do each and every time. I think what's happening in our book, what's happening in terms of competition will dictate that. It's clearly a conversation we're in the middle of today, as we expect a rate cut tomorrow, to say actually, what are we doing, where are we going?

And then Donal is preparing something for this afternoon with all the FDs so that it's definitely clear what our plans are and what we're planning on doing tomorrow, depending on what rate cut comes through. But I think that's a good proxy. And certainly, in my own internal models, that's what I use in terms of how we go through. There may be some variations. And bear in mind, there are many different accounts, some of which you have greater or lesser visibility on publicly. But in the round, we think it's a good, a good percentage to use.

Guy Guy Stebbings from BNP Paribas. The first question was coming back to C&I and NatWest Markets and not asking for prediction on Q2 or Q3. But looking back at the last couple of quarters, as you alluded to, they've been strong. If memory served me correct. We used to talk about 800...

Katie We did, we did.

Guy I'm just wondering, given the progress that's been made in the franchise, is that all... I don't know if you want to call it, you know, very out of date now, and structurally does this business earn more than we thought a few years back?

Katie It's interesting. So, we used to talk about 800 to a billion. I think [going further back] we talked about 1.2 billion. But as I look at it, the thing is, we're thinking, what did we want to do with C&I? We wanted to bring together NatWest Markets after it had done all of its work, and its resizing of RWAs into that business. So, we could really offer a real one waterfront service out to customers.

That also is why we're supportive of the ring-fencing narrative that's been going on, because we see it as complexity. I'm not looking to give you new guidance on what the NatWest Markets legal entity might generate. Because also, I think things have moved on a bit in terms of our own sophistication of booking models of where we put things, revenue shares and things like that.

But I think what I would say is we're very pleased we hit that guidance when we did, which was part because actually, we felt historically, it would be wrong to be incentivising that portion of the business on a number, rather than actually incentivising the whole of C&I on a collective number, because we really do believe that's the best way that we give.

So, I do think it is old and gone guidance. But certainly, in the last couple of years, I've been very probably quietly pleased as I checked their NatWest Markets accounts to make sure that's the kind of number that they're in. And I really do think it is, you know, Guy, of your question of what does it really look like?

I probably want a few more quarters under my belt of actually, how good is this FX? How, like, how well can it really perform? So, you can actually go, one of the things that Robert used to talk about, okay, I'll open the door on January 2nd, and I'll make X millions of FX irrespective of what happens in the market.

So, what's a flat number, when you've really got it working and it's really embedded in the business. And I think that's kind of the challenges, but I wouldn't, the eight hundred to a billion will say, we're comfortable there, we've made it, I'm not looking to update it.

Guy

Thanks. And then I had a second question on SRTs. I asked the question on the call. And I think your response was very, very similar to Barclays' response in that you don't finance your own SRTs. I'm not clear, frankly, if the PRAs focus is as narrow as that, or if it's a bit broader in terms of contagion within the system, and one bank ultimately financing another bank's SRTs, and that happening. I don't know whether that's something you even have visibility of, whether that's something you could say, you don't do that, or others don't do that. I'm going to work out whether this is a regulatory issue, which we shouldn't really concern ourselves with, because that's often the case, or whether this is a small revenue issue, perhaps, or whether it's a bigger contagion issue.

Katie Yeah, so I think from my perspective, when we do the SRTs, the regulator is obviously notified and is aware that we're doing them. It's interesting, as I looked at the letter when it first came out, first of all, when I read it, I thought, gosh, what's the kick-off for SRTs? Then you discover it's not really that, it's much more about the funds transfer piece, and then how are we going to get there?

So, it's not an issue that I have in-depth conversations with them about at all. So actually, the letter was a little bit of a surprise. But that happens. So, I mean, they often will send a letter to kind of mark up the words in a conversations we're going to have with them over the next number of months. So that may be what comes out. But I don't have any particular insights. Donal, I don't know if you and your treasury community have any other views?

Donal No, I think one thing as well, when we dear a CFO letter goes out to all the CFOs, regardless of whether they think there's activity within the institution or not. But I think it's very, very specific. And when you get into the detail of that letter about repackaging a liquid collateral into kind of a tradable bond format. So, you know, I kind of separate that from a very small activity. But I'm sure it's active across a number of participants. And it is, you know, it is an area that there is some activity with markets, but it's not that we read across to when we talk about significant risk transfers as part of our capital actions.

Katie Perlie.

Perlie Yeah, well, I guess just a broader question. I think in the past maybe yourself and certainly a lot of bank management talked about maybe three slash three and a half percent be quite a good, sweet spot for the economy. If rates were to, I mean, I guess we're sort of tracking that direction anyway, but given everything else that's happening in the world, do you still expect that to, you know, if rates were to come down to those sorts of levels in, say, the next 12 months or so, would you expect to pick up in activity, low growth, et cetera? Where would that come from? And I guess maybe one of the areas I was looking into earlier was looking at a sector level, certainly a Bank of England data would suggest that the fastest growing part is consumer credit.

And equally, I think one of your slides talk about savings rate going up and up. So, it's just who are these people who are spending on credit cards? And it's also an area that you're growing into. So, I'm guessing you probably have some insight.

Katie

So, I guess it's really, that three, three and a half, it feels like a comfortable place to land. If I look at our own views at the moment in terms of where our terminal rate is on our assumptions just now, they're [3.5]. I could easily see them, you know, if I look at markets, it's close to three and a half and sometimes a little bit lower. So that feels at the moment as the current market expectation.

We do think that's a nice place to operate. You know, we've also talked about if it went to three, we'd still be pretty comfortable. But I guess when I look at the pickup in activity that we see. Stuart, do you want to come in on what we're seeing on the credit card book and where our customers are coming from? I would say they're pretty broad based. So, it's not a particular segment or anything. But Stuart?

Stuart

So I guess if we just look across credit and debit spend, as you can see in the system and industry data, we're seeing increases in terms of both volume and value, year on year, from Q1 last year into Q1 this year. And that has sustained April versus April. So, it's not being, while sentiment has clearly moved south following some of the market volatility, recently, we haven't seen that in the spend data.

A little bit more insight is we can see quite a rise in some online marketplaces, including things like Temu, etc. So perhaps a little bit of more tickets with more value in that mix.

But at the overall level volume and value is up in terms of the spend. I mean, clearly, we measure and monitor various things around credit card spend, utilisation of the card in the right way. So, looking at people taking cash out, or people who are maxing their limits, etc.

None of those warning indicators are moving. And the proportion of essential spend is completely flat. So, we're not seeing people misusing what we would consider to be a warning sign of misuse of the card.

Stepping back, lower rates, where might we see a pickup? We've always seen a little bit of an inflection point around mortgage trading around the 4% customer rate level. So, if rates settle more in the territory you mentioned, then it's logical that you would see more rates below that sort of 4% level, and you might see a little bit of read across into mortgage activity.

Katie

Yeah, and I would say on the commercial side, in terms of the pickup on activity, I think there's quite a bit there of sentiment. We service many, many different types of corporate clients in many different pockets and

worlds. But we would probably say that there's definitely, they're dealing with a lot at the moment, whether it's the first month of NIC or wage growth for us as well.

And both of those things are, some customers will obviously be concerned about tariffs and the ripple effect of them rather than necessarily if they're not directly impacted. So confidence is important. When we still grow the book, we still are expecting where there is growth that we'll take a good portion of that.

But I think sentiment is the thing. I think in commercial I would say more than rates. I don't think it's quite as rate, it's not as rate sensitive, but you can see that from the customer rates when you see the slide further back in the graph as well.

I'm just going to go to Sheel on the line. Thanks for joining us.

Sheel

Great. Thanks. Just on the liquid asset buffer, it's sitting at 164 billion at the moment. Two questions on that. Should we expect that to grow with the balance sheet going forward? And secondly, how much scope is there to optimise this given migration trends are slowing and you're not constrained by any LCR or leverage ratios? So, is there more to come on the optimisation front, please?

Katie

Yeah, sure. I mean, Donal, I'll let you take that as you're in the room.

Donal

I think there is more scope to optimise. I think when we talk about optimising, it's really reallocation away from cash back into securities. Obviously, we saw the opposite effect through 2021, 22, probably early parts of 23.

It really comes down to a trade off because, I suppose, when you start buying securities, they sit on asset swap, capital volatility does feed through fair value OCI. So, when we look at that optimisation, it is getting to an optimal point of securities versus the amount of capital volatility that we're comfortable running through fair value OCI. But I think in general, we feel we have more scope to allocate into securities when we feel we're at right levels on asset swap.

I think in terms of the quantum, I'd say if you look back, it's been quite steady. So, I'm not expecting any material increase in it over the coming year or two. So, I think probably best case in terms of planning is roughly around these levels for the next one.

Katie

Thanks Sheel. Other questions in the room? Yeah, sure, Amit.

- Amit** So just to follow up on the previous question I asked, just to check, because I get the point about maybe 60% is a good assumption to use going forward. But I thought, at least based on our numbers for Q1, the passthrough was actually higher. So, the timing lag would have worked the other way. There's a lot more pass through than I anticipated. So, NII was a little bit better. So, is that something you recognise or not?
- Katie** It's probably something I'm not going to be drawn on, really, to tell you the truth. I think what we see is we use a 60% assumption. We know that the benefit of the structural hedge is coming in as well.
- Timing of when in the quarter you have both this rate cut and the impact of the last rate cut as to whether you're then getting a full quarter of it versus a partial quarter of it. But we do really seek to actively manage that percentage. So, we're not trying to manage to the 60% on the dot, we're trying to manage to what we think is the right thing to do for customer retention, customer reward, and also what's happening in the market.
- Claire** Amit, just on slide 24, you see the cost of interest bearing. I mean, it's rounded to only one decimal place, but you can see the lag effect. It does probably, if you just take the points, it can look a bit higher in one particular quarter, but you'll see it's lagging the change in base rate.
- Ed** Hi, it's Ed Firth from KBW. I guess, yeah, it's a broader question. If we look out over two or three years, it sort of feels like we're in a sort of glory spot at the moment. Hedge is rolling, interest rates at three, three and a half, et cetera. But if you're looking out two or three years, it feels like we might be at or even past peak earnings now in the sense that we've probably got 75 basis points off interest rates in the last three or four months. And some of the tailwinds are going to be becoming more like headwinds or at best sort of flattish. I suppose, firstly, is that fair?
- And secondly, if that is, what can you do to offset that? I mean, for 10 years, we talked about costs the whole time. We don't really talk about costs. Is there stuff you can do on costs? Is there something to keep momentum going or do we just accept that you're going to be a bank in the UK growing at 1% and you'll be making us a high teens, low 20s return? We should be happy with that and that is effectively it. I'm not criticising that, but is that sort of picture we look at or are there other things you can do?
- Katie** I think we'd all be happy with high teens or low 20s return for the total bank. It must be somewhere ahead of my guidance. So I think when I

go, when I kind of look forward in here, we're confident in the income growth through to 2027.

We know that what the hedge does is it has a two-and-a-half-year life. So actually, if rates change dramatically in the short term, then you'd see that kind of start to come through more in 2028, 2029. So that would be something to kind of look at.

What I would say on costs is we're not talking about them so much externally. That's probably because you're not asking as many questions externally. But it's a very strong conversation internally all the time. And I do think it's something that we can continue to drive what Paul and I are really trying to do with the business. So, people have got their cost targets, which we agree with them as part of the planning cycle. We then see where they're going on a month-to-month basis. I bank what they're not spending and take it away from them. There's always a wee bit of negotiation, we don't bank it this month, maybe bank it next month. And that kind of happens. But Andrew spends a huge amount of his time doing that whole process for me. And then what we try to do is to work out in terms of the capacity, where might we spend it? And the spending of that capacity that we create is very much about how do I give myself a better run into 26? How do I do things that will help in 27?

Then there's a shopping list that I have that the businesses have given to me and some things I like on the shopping list more than others. And that's where we look to create that capacity, which is why we're so confident on this year, we're going to spend 8.1. Because if we've got capacity, I'll spend it on the shopping list. As long as it's good payback, and there are sensible things to do, which of course, that's what we seek to make sure we have on that list. And that's all to help the future years, which is why we've managed, we've got a little bit of help with Ulster roll off, obviously, but that's how we've managed to keep costs down at the level that we have. So, I do think costs are still a very strong conversation.

And I think we would also recognise at the moment, payments were a bit higher, our income is growing, we expect it to continue to grow over the next few years as well. We're very comfortable out to 27, where our guidance is, which doesn't mean we have discomfort, but we haven't given you any guidance beyond that point.

But we're also very aware, this is the moment to make sure you take action. So that if things are more challenging in 28, 29, you're not

waiting to that time to make sure you're doing that, which is why that cost, and that capacity conversation is really important. You have seen, and we talked about the tie up that we've got with open AI, how we deliver and really try to work out how we really automate these benefits.

And then you've also heard us talk a little bit more about FTE exits than you have done historically, to actually go right, that FTE number is coming down now, how to really manage it further down, and really push on it to make sure that you're really getting the benefits from that digitisation. And I'm not just spending that benefit casually on the next interesting project I have in front of me. So, I think there's a huge amount, Andrew and I spend an enormous amount of time working on those lines, which is not something we talk about as much externally.

But I think that's also because at the moment the line is doing what we want what we wanted to do. But because there's an awful lot of activity in the background, and I do still believe there is a lot of opportunity within the organisation. And that opportunity comes from our historic complexity, but also from the new investments that we're making, and the new technology that's kind of coming through as well, as well as changing customer behaviour.

Ed But could we see costs actually going down? I mean, if you actually started to see income headwinds, could you actually...?

Katie I think if we were to see, and I'm not giving you a new bit of guidance on it, I don't think that's impossible that you would see that, particularly if we see inflation really flattening out, as to when we'd see, we start to see costs moving the other way in that space. I don't think it's impossible.

Jonathan Can I ask a question on impairments? Your sensitivity in the full year accounts, stage one and two required ECL holds the PMA steady across the scenarios. So, if I take that out, the base case requirement is about 900 million, the downside one is about 1.1 billion. You're holding, including the PMA, about 1.3. So, if you like, you're already holding a general provision that's more than adequate for a downside scenario. When I think about your model updates moving forwards, would it be fair, therefore, to assume that if we revise the base case or towards the downside, the PMA will just get released pretty much one for one?

Katie Yeah, I mean, so I guard it quite jealously. So, I probably wouldn't assume completely one for one, because I wouldn't like to do all in one

quarter or in the next few quarters. So, I think I would quite like to think, we've got a portion of it, we'll use a portion of it this year. So I've got some assumptions of there. I also do have an assumption that we will tend to the downside at this stage. But then actually, how could I carry it?

If I was getting a bit worried about this year, I'd probably like to carry a little bit into the next year. And it's a question of can you support that? When we talked about that we didn't release that portion this year, it was only about 20 million that we held back. And that was really just looking at what's happening in April and release, and then potentially increase. I think we'll start to take our views on provision stock at the end of May to see what economics we might land on in that space. But there would definitely be some benefit of that.

I guess the other thing, if we're moving to the downside, you would also see happening, we would see the base impairments increasing as well. So, there would be some absorption of the PMA. But I've always talked about it being a multi-quarter event.

And I'd like even from now to think of that as a multi-quarter event, I would be a bit disappointed if I released all in one quarter.

Jonathan

Can I also ask on deposit growth? Obviously, there's lots of focus always on what's happening on the asset side of the balance sheet. But at the industry level, M4 is up about 5% year on year. Non-interest-bearing deposits are up 1%, I think, at the industry level on this time last year. How do you see that playing out? It's much stronger than we probably would have thought 12, 18 months ago. In your planning assumptions, what are you assuming for deposit?

Katie

Yeah, so we assume that we grow with the market growth. So, whatever you're seeing on kind of M4, you should assume that we're assuming that. We're not assuming that we're taking more share than we have, but we're kind of holding our positions relatively steady. We do have lumpiness in our deposits, particularly in Carolina's business, particularly in the RBSI space where there's more funds business, and you can see them move a couple of billion at quarter end, and then it comes back in again. Because of that, there's always a bit of lumpiness within there. But overall, particularly on the retail side, very much growing in with markets.

Jonathan

I'm hearing a short while ago where you were flagging QT dragging money back down to the system, understandably.

Katie Yeah, I'm not sure that we flagged that quite so much as others did, just because my view has always been that the money came into the system in many, many different ways. And I always think of it as all these little threads coming in, and QT takes out quite quickly because somebody will buy, or they'll buy back that debt from an individual. So, we did a lot of work on our balance sheet to sort of say, actually, is that going to impact us particularly because of the people whose money we're holding? Are they going to be doing this? We weren't – it's not something over time we'd expect to see it, but it's not something that we're expecting to see as a particular event going through. Donal, I know we've talked about this a lot.

Donal Yeah, I think our expectation is QT was going to reduce level of reserves, but not have material impact on our deposit base, and what we've seen today is exactly probably as we expected.

Katie I think it took us a little bit of time to get comfortable with that, but I think it really was because it came in in so many different ways, and its departure is done very differently.

Donal But yeah, the M4 trends have been strong.

Guy Can I ask about capital? The environment's maybe a little bit more uncertain than we might have expected. There's also quite intense debate at the moment around whether you would look at acquiring something, and therefore, maybe it's helpful to run with a bit more extra capital. I just wondered, is that something you, I would say, recognise, but right now, would it be fair to think maybe we run with slightly more capital? Would otherwise be the case?

Katie So, no, for that reason, we're not building a war chest or anything like that. I mean, our capital, and we didn't mean for it to be unclear. So our capital distribution narrative is kind of unchanged, you know, our intention in terms of that, of the return of capital to our shareholder.

I guess what you've started to hear is a little bit more about M&A, because we are, like others, very aware of consolidation in the markets. We do actively look at those things. We've talked a lot about that there has to be a very good strategic, operational and cultural alignment in terms of anything that would be meaningful.

It's something we would definitely look at, but we're not building in preparation for that at this stage. I guess what we would say, the government still has 2%, if an opportunity for a DBB came up, it would

have to be in the next few weeks. We would look to participate in that if that came through. But otherwise, the board will talk about on-market buybacks as part of our June [board]. I was going through the board paper list yesterday, and we're taking a paper, as we always do in the June board, to say this is what we're thinking about, dividends and buybacks. But we are very mindful of that this is a period of consolidation. But as we look through it, we work out how we would fund it as we were actively getting into it, rather than trying to build up an amount for that conscious of the drag that would be on ROTE, and I think also the distraction it would be for what we're actually really trying to deliver.

Alvaro

Hello. Thanks for doing this once again. I had a quick question on the provisions, the 19 basis points. Over time, you've trained us to expect a low provision in Q1, because any issues would typically be covered in Q4, so I wonder if there's anything to read in that 19 basis points. Is that consistent with the long-term 20 to 30 that you've spoken to in the past, and any potential releases, is what's going to drive below 20 basis points, or what should we expect in the next few quarters, and how should we interpret that 19 basis points? Thanks.

Katie

So, we're still up towards the below 20 basis points quarter, but I'm also very conscious that I have trained you that Q1 would be lower than you expect, because we do such a big drains up in the quarter [bottom up approach], so it's probably a little bit higher than we expected. A couple of basis points of that is because we held back 20 million that we would normally release, so that would have taken you to 17.

One of the things that will happen in Q2 is also the Sainsbury's ECL of 80 will come on. That's a couple of bps as well, so if you see it's a bit higher than you think of that, that's come through. But what I would also say is it's not an unusual number if I look at what we had in Q3 last year, which was 10.8 to the sort of 19, so the number does move around a little bit. So nothing that I would particularly call out within the numbers, but just it was a little bit higher this year, but there's not any specific trends that I'm worrying about or looking on within there.

Alvaro

Great, thank you, Katie.

Ed

Can I ask you about the whole sort of lending argument? Because I know you're under a lot of political pressure to lend money. But if I look at pricing in the market, from a shareholder perspective, I struggle to see why you lend at all.

Because your cost of savings is like 200 basis points. So, you're making over 200 basis points spread on savings. You've got absolutely no capital to put against it at all.

And you've got no credit committees, no lending officers, nothing. So that's a massively profitable business. And yet lending you're making, we are arguing whether 70 basis points on a mortgage is good.

So, firstly, are those numbers correct? And secondly, internally, how do you manage that? Because it seems to me the best way to enhance profitability is just not to lend any money.

Katie

Yeah, so I guess I would probably come back to the fact that we're a bank. And so therefore, that's our purpose for being. And it's one of the debates. It's interesting. It's a conversation we have a lot where we think of something like mortgages. So, we talk about around 70 bps.

We're happy with the return. We're not unhappy when it goes to 60 bps. We're not as happy as we were. We start to get a bit squeaky at some point below there. And then you start to think, well, do we want to? Do we not want to?

Then you also start to have to get into the conversation that we started with Ben - the value of the customer. When you look at the value of the customer going forward, if you don't write any mortgages today, I certainly won't renew them in two- and five-years' time.

Because my mortgage book was 75% odd-ish of retention. So I think you've got to think about what the different cycles are. So, at the moment, we all love deposits.

If I go back four years ago, three years ago, we weren't that keen on them. Because actually, they didn't make us any money at all. We didn't hold any capital, but there wasn't something that was really additive. So, I think for us, it is about how you work your way through the cycle.

Ed

Assuming rates don't go back to zero, one assumes that deposits are going to remain broadly where they are today.

Katie

Yeah, and in fact, even in the conversation we're having, we'd expect them probably to grow from here, given the retail 12% savings [ratio]. But I think it's not a conversation we have about actually, let's stop lending and only become a deposit house. Because we do think that ultimately, you will run out of road in that equation.

Ed But how do you incentivise people, for example, as the government supported C-bills and stuff will run off? I mean, how do you incentivise people to replace that? I mean, I see the numbers are just not just you for the sector, people just not lending to small business. All the business lending is done at the large end.

Katie No, it's done at the large end. And I think then you come back into appetite. So, then it's to work out how do you make it - how do you make sure you're in the right place with the startups, where we know we're 20% of the market; how do we make sure that in the mid-market space, things like Bankline is effortless borrowing, some of the things we've done around the availability of schemes, whether it's via broker lending, rather than direct bank lending, which is becoming more prevalent in that smaller end, I think currently, we can do 750,000 by those new schemes. So, I think it's about how you make borrowing at that lower end, as effortless as it is when you get to the mortgage side in terms of how digitised it is. And also, to make sure that one of the big challenges you have when you're at the very small end is we know that those entities don't, they never borrow enough.

And actually, they're sitting as huge benefit for us on the deposit side, but actually their borrowings are so low in comparison to that. So, it is working with that team in the smaller end with CMM to actually make sure people understand the benefit of borrowings as well to expand their business. And then to make sure that our waterfront is big enough that when there is activity and appetite going on there, that you're part of that.

Aman I just have two questions. One on deposits and one on your CET1 target. So, I guess the backdrop for deposit compositions surprised us. We talked about a year ago around things like TFSME, refinancing issuance of MREL, you know, the need to replace term funding, might put a squeeze on the market in terms of competition, but we haven't seen it. So, do we think this is enduring, this level of deposit competition in the market?

And I'm interested relatedly if we think about any effects of some of the Bank of England's liquidity as we're progressing through QT and taking reserves out of the system. Do we think, like, are you envisaging any kind of cliff edge as we approach the kind of minimum level of reserves where that bid for funding steps up from here? And then...

Katie

I'll come back to you for your second question. Let's see with that one there, to save us all doing a wee memory test, other than for you of course.

So let me, I was going to do a couple of words. First of all, I mean, I would have said, so prior to some of the consolidation we saw last year, we were probably a bit more worried about funding. But actually, some of the consolidation that happened, if you looked at people like Virgin's kind of LCRs, once you took out their TFSME, I don't think it was accidental that they were absorbed, because they actually weren't in a great position.

So, I think some of the little changes that they made on the TFSME also helped. So that's pushed things out a little bit. I think we also had good debt markets over the last little while.

So, actually, it was easy for them to raise to deal with that. So that definitely takes some of the pressure off, I think, in terms of that overall piece.

We don't see a particular liquidity cliff edge that we see coming through, but we do actively watch who's repaying and managing the TFSME comes through. And then, I mean, Stuart, do you want to talk a little bit about some of the competition elements you see within deposits? And then Carolina, I'll come to you for this.

Stuart

No problem. Just a quick build. I guess I understand some of the nature of the question when it comes to perhaps some of the industry pass-through in terms of instant access, etc.

But I would probably point to quite strong competition in, for example, the fixed-term market and particularly fixed-term ISA at the moment. But more generally, there has been fairly consistent competitive pricing across the main incumbent banks and other challengers in the fixed market for quite a long period at or around the prevailing swap rates. In fact, more recently, we've seen in the ISA space above swap-type pricing in fixed ISA, and one or two competitors are priced fairly significantly above.

So, I understand the picture you're getting at, but there is definitely deposit competition out there. And if you look at the market direction of travel, so some of the higher frequency data like CACI data, you can see an increasing amount of the flow in the market heading towards

those kinds of products fixed-rate products. So, I think there is competition, and I think that that is attracting its fair share of the flow.

Carolina

Yeah, I think in the C&I space, you also see competition across the board, but very different behaviour. So, on the upper end, you have what we call non-standard rates and large corporates chasing rate and benefit, and that depends. We deal with it on a case-by-case basis, looking at total value of the relationship, the opportunities, and judging it accordingly.

And then on the lower end, you do see obviously a lot of competition from the neobanks, and very niche propositions aimed to attract those kinds of activities. And we deal with that in terms of making sure that we are providing full service to those smaller companies. I mean, you have seen probably our accelerator news.

We put a lot of effort into understanding that part of the customer base, whether they need seamless activity with us, that they can see the future of their business with us, and that they understand that we offer a lot more than a single monoline product offering. And it's working really well, given our share, as Katie mentioned, on startups. Having said that, I mean, the competition is there.

And as I said, different on the two ends, but we actively manage it to make sure that what we offer to the customer helps them choose us, not only for the rate specifically, but also for the wider service that we provide.

Katie

Super.

Donal

Minimum reserves. So, I think what I would say is the path to date has been very smooth. I'm not expecting that to change. I think a lot of that's down to the bank facilities that have been put in place.

So short-term repos have been very successful. We're going to get some tweaks to ILTR. And the fact is that all reserves in the system will be drawn through those two facilities. So, I think, you know, it's been very, very smooth sailing today.

Aman

So my understanding is your medium-term target is a kind of gold plated, bottom plated kind of minimum, right? So, I think my understanding of your medium-term target is that you should be able to kind of withstand various downside scenarios.

You should be able to print greater than 15% return on tangible equity, even if it's way worse than the base case scenario that most of us project. I mean, you can see it in the consensus, we're forecasting comfortably in excess of 15. So, I guess my question is, is that a fair characterisation of your medium-term target that actually, it's emphasis on greater than; designed to withstand scenarios that are significantly weaker than perhaps we're projecting?

And is there any scenarios that you would offer up that we should think about when, you know, you're trying to think about how things might derail us other than rates?

Katie

I guess, you know, you obviously have a lot of visibility into our scenarios, in terms of where they sit. So clearly, it's not designed for the extreme downside, you know, as you look at there. But if you look at it, we have a base, you know, which is that and then we have a weighted average of all of them, we're 35% of the downside, that's a bit more impairments than business plan, I guess.

But if you think, when we give you the medium-term guidance is three years in advance, you know, you can imagine I'm sitting with a business plan, it's got a number greater than that, you know, which is why the greater than is really important.

And then you're going to think, well, what's going to happen between here and there. So, we will do some downside testing of that to make sure that it's something that we can hit.

But what we really try to do on guidance is to give you guidance that we just know we're just going to do a bit better than, actually, that's in the year, that bit's a different size to the three year, but what we know is a disaster is when we come out and downgrade guidance. So, the greater than is important. And, but it's something that we would expect, sitting when we set that in, must be late 23, as we were setting that number, say, what could we think could happen between now and then, so that actually, we'll have a level of comfort that number will more or less evolve.

And since then, rates have been a bit better, deposits have been a bit better. So that's all helped, which is why your forecasts are maybe more today priced in mind, but I'm very happy with where I'm sitting this now, because what I don't know is what's going to happen next week. And what happens with Pakistan and what happens with Trump, what happens here, what happens there.

So, I've still got another kind of 18 months to run before I hit 2027. And there's a fair amount of water that can come under the bridge in that time. So, we're trying to balance it.

Chris It's Chris Cant from Autonomous. Just to follow up the last question, if I frame it slightly differently, are you uncomfortable with consensus being so far ahead of the 15?

Katie And you know that I generally try not to comment on consensus. So, I think what I would say is we're comfortable with our greater than 15. We continue to see, expect to see income growth through to 2027.

All the answers you're used to. We will manage on costs. Payments were a bit higher Q1 than we normally see, but that inflation, we would expect probably a little bit more to come through. We do think that we can do more operational leverage. And that's something that's a real focus for us as we continue to go. Tangible equity will grow, that'll put a little bit of pressure on it. But I did see on the call that I was more comfortable with your tangible equity now than I had been, therefore, not going to my behaviour of not commenting on consensus.

But as we look through, we're guiding you to about 15. I'm not going to be disappointed if you're left through with somebody who's taking me way ahead of that at this point. So, I think we're comfortable with the above 15 guidance.

Chris And I think I ask this question about once a year.

Katie We like traditions.

Chris Predictable. Just to add to Ed's question, I guess in a way, the aggregate level of system profitability is increasing. The hedge dynamic is fairly entrenched everywhere. It's not just your balance sheet, everyone is benefiting.

Are you thinking longer term that spreads will increase more meaningfully? So, if I think back to pre-GFC, mortgage spreads would be in 20-25 basis points, wouldn't be anywhere near 70 basis points, much thinner. So, do you think there's risk we go back from in terms of the system sort of competing away the incremental hedge benefits from here through asset side compression?

And the bit I always ask about once a year, because we don't get great data on this from Bank of England is around corporate asset spreads.

Are you seeing any signs of changes in the competitive environment around corporate asset spreads?

Katie

Yeah, no, I mean, the market, corporate spreads, I think, so one of the comments I said earlier is that the margin for corporates is not as tight and competitive as it is elsewhere. So, we're not seeing that as a real change that's coming through at this point.

And you can see that [on] some of the data in the charts we give you further back [in the results pack] that you're seeing that number is relatively stable. There's always a risk that it goes back to that 25-basis point number, but that's not a base case that we're operating to. And it's not a downside we're operating to at the moment, but if things were to change and the market was to move, it's something that you need to look at.

And then clearly when you were at that level, people must be looking at the lifetime of their mortgages. But I'd also say, it was quite a different world there and we had quite a different balance sheet and all the banks had a very different balance sheet. So, you made your gains in different ways as well. So, it's quite hard to compare. So, it's a risk.

I can see Stuart in the back in Scotland, desperate to come in. So, let me pull him in as well.

Stuart

Yeah, I just thought I would add the banks were very different. The capital rules were extremely different. And I remember around the time of the GFC, the sort of capital ratios, RBS was running in totality and just completely different to today. So that's a huge factor and 25bps today would be very uncomfortable level against the new capital rules.

Chris

I take the point on the capital being different, I guess, in terms of where the system seems to be settling. You know, pre-GFC 5% of system deposits were non-interest bearing. Now it feels like it's going to settle at a much higher level. So structurally deposit profitability is likely to be better than it was pre-GFC.

Katie

I would agree with that. And I think there were differences then. So, you did see more what are in our current account. We all are interested in them. It will be very minimal sort of level. So, I think if you're looking in the 10, 15-year range, we would look at all of those kinds of options, what might happen if, what might happen if, but it's not a base case that we're running at this stage. But I guess if it were to come closer,

then you'd see us start to talk more about it. So, I think it's something that's worth challenging on.

I mean, the capital point is really important because you're carrying completely different capital. If we look at our own mortgage base, even just the last few years, we've gone from like 7% to sort of 17 plus, you know, and that was greater than we had before then as well. So, I mean, that just means that you have to be getting better margin coming through.

Perlie

Oh, I'll just have a very quick follow up since we're on the topic of regulations. And I guess, why is it that ring fencing was brought up as a topic? Because I imagine there's so many things you can ask regulators. And in fact, there are lots of things that they talked about in the last few months, you know, making it easier for first time buyers to get a mortgage, reducing stress test thresholds, etc. There seems to be a lot of things that would be easier to ask regulators for instead of ring fencing, because, well, I guess it's a big sunk cost and to reverse that, I guess, it's probably a little bit harder to sell than just saying, well, you know, we're helping first time buyers to get on the property ladder. So, I guess, was it intentional that that piece got the attention that it did? Or was it just a bundle of things you've asked regulators, and it just so happened that this one...

Katie

We are in a number of conversations with regulators on different things. And you're very aware that the government has asked for what people believe could be done to help stimulate growth and for us stimulate growth to make more capital available for lending and to reduce some of the burden that we have and that we carry here in a system that we're the only country in the world that operates it. Where we're also one of the few countries in the world that operates such strong, high quality resolution system as well. So, we've got a lot of things.

So therefore, I think it was something that was very much viewed as it is a barrier to do business that adds complexity, adds a fair amount of cost for all of us as well. And it was something that I think as a collective in the banking industry, except they're not a complete collective. Actually, we had a very strong view on that.

Actually, this is something if you want to do something that really didn't change some things was there. I think we're very pleased with what we're seeing happening on first time buyers and things for ourselves,

we went from 8% of flow to 11% of flow this last time around. So I think that that has also been very attractive for us as well.

We quite like what's done on affordability. But bear in mind, it hasn't changed things so dramatically, it's lowered the stress test a little bit to make sure that it's there. But there would be other things that we'd be continuing to talk to the regulators about as to how do we actually take some of the complexity out whether that might be things as mundane of the volume of reporting that we do from the finance function into the regulator, which sucks up huge resources, the ad hoc queries they ask for, which can easily run to a few million pounds of spend, they give some data that may never ever be used from what we can see. I think there are lots of different things.

But I do think ring-fencing is a really clear one that's so obviously different from the rest. And I think the reason it got as much attention into this reporting season was around timing of the letter.

I think we're done. Look, as ever, thank you for your support for your challenge. It really is appreciated. If we can do more or have exposures on the things you want to see, I know obviously yes, but we do always listen.

So please do let us know. And I look forward to talking to you again, many of you over the next few months, but also, we will speak again in July. Thanks very much indeed. Take care.