NatWest Group plc
Full Year 2024 Results, Fixed Income Call Friday
14th February 2025
Hosts: Katie Murray (CFO) and Donal Quaid (Treasurer)

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Katie Murray, CFO:

Thank you for joining our Full Year 2024 Fixed Income results presentation.

I'm joined today by Donal Quaid, our Treasurer, and Paul Pybus, our Head of Debt IR.

I will take you through the headlines for the year before moving on to the financials for the fourth quarter.

Donal will take you through the balance sheet, capital, and liquidity and then we'll open up for questions.

I'd like to start by saying that 2024 was a very positive year for the bank.

A strong financial performance drove upgrades in our income and return guidance and we made excellent progress on our three strategic priorities: disciplined growth, bank wide simplification, together with active balance sheet and risk management.

We also carried out two directed buy-backs in May and November which supported a reduction in the government shareholding from 38% to less than 7% now.

This makes it likely that NatWest will return to private ownership sometime in 2025, though naturally any decisions rest with the government.

This represents a new chapter for the bank, one which is attracting new investors and which enables us to put our future focus on driving growth by succeeding with our customers.

Slide 3: Our business has delivered FY'24 RoTE of 17.5%

So turning to the financial highlights for the year on slide 3.

We continued to support customers through the year and as a result, customer lending grew 3.5% to £372 billion.

Customer deposits across the 3 businesses increased 2.9% to £431 billion.

And assets under management and administration were up 20% to £48.9 billion.

This customer activity underpins our strong financial performance.

We delivered income of £14.6 billion, up from £14.3 billion in the prior year.

Costs were £7.9 billion, in line with guidance.

This resulted in operating profit of £6.2 billion and attributable profit of £4.5 billion.

Our return on tangible equity was 17.5%, driving strong capital generation and the capacity to announce a final dividend today of 15.5 pence, bringing the total dividend to 21.5 pence for the year.

So let me turn now to progress on each of our three strategic priorities, starting with disciplined growth on slide 4.

Slide 4: We are growing in a disciplined way

Looking at some examples of our organic growth.

Over the year we increased our customer base by around 500,000 to over 19 million and we grew both loans and deposits with a 6-year annual growth rate of more than 4%.

In the Retail Bank, we attracted new credit card customers taking our share to 9.7% and in Private Banking, we attracted net inflows of 2.2 billion into our assets under management and administration.

Commercial and Institutional grew non-interest income by 10%, with higher fees from payments, foreign exchange, and Debt Capital Markets.

Last year we completed the acquisition of a £2.3 billion pound portfolio of prime residential UK mortgages from Metro Bank and we expect the Sainsbury's Bank transaction to complete in Q2, adding around a million new customers and about £2.5 billion of unsecured loans and £2.6 billion of savings.

Slide 5: We are simplifying our business

Turning to slide 5, our focus on bank wide simplification is designed to increase efficiency, improve customer experience, and create operating leverage.

We're investing in further digital transformation to become more agile, faster and responsive to customer needs.

In Retail Banking, eligible customers can now receive a mortgage offer within 24 hours and we reduced the average time to make an offer by around 20% during the year.

In Private Banking, we are digitising more savings products, contributing to a tenfold increase in digital net flows to £3.5 billion.

And in Commercial Banking we launched a multi-year programme to transform our digital channel, Bankline, giving clients a single point of access to a broad range of products.

All this has enabled us to keep costs broadly stable and create additional savings beyond our plan.

Slide 6: We are actively managing our balance sheet, enabling strong capital generation in 2024

Turning to slide 6 and our third priority, to allocate capital dynamically and maintain strong risk management.

We reduced our Risk Weighted Assets by £6.8bn during the year using a range of means, including Significant Risk Transfers, Credit Risk insurance and asset sales.

You can see the strength of our risk management from our average loan impairment rate over 6 years, which fell to just 9 basis points in 2024.

This is the result of a well-diversified loan book with carefully managed exposure to sectors at risk, a prime mortgage book with low loan to value ratios and an unsecured portfolio, where we maintain a prudent risk profile.

Managing RWAs, together with our low cost of risk, helped us to drive strong capital generation, enabling us to support our customers, invest in the business and make distributions to shareholders.

Slide 7: Our 2025-2027 strategic priorities to deliver returns

Turning to slide 7 and our strategic priorities over the next 3 years.

First, we will continue to grow our business and customer base with a focus on returns and growing share in key segments.

We will also continue to look at inorganic opportunities that create further value, whether they offer scale or new capabilities.

Second, we will advance our plan for bank-wide simplification by continuing to modernize our technology estate and deploying AI data solutions to improve customer experience and increase efficiency.

Third, the strength of our balance sheet and risk management gives us a competitive edge and we will actively allocate capital more strategically, to optimise returns, and more dynamically in changing market environments, such as we did with mortgages and commercial lending last year.

Slide 8: Strong financial performance

Turning now to the financials on slide 8 and the fourth quarter compared to the third.

Income excluding all notable items was £3.9 billion, up 2.7%.

Operating expenses were £2.3 billion including the annual UK bank levy.

The impairment charge decreased to £66 million or 7 basis points bringing operating profit before tax to £1.5 billion.

Profit attributable to ordinary shareholders was £1.2 billion, which includes recognition of a deferred tax asset and a provision release related to Ulster Bank discontinued operations.

Our return on tangible equity for the quarter was 19.0%.

Turning now to income performance in more detail.

Slide 9: Strong income momentum through year, +2.2% in 2024

In the fourth quarter income was better than we had initially projected.

Growth across the three businesses of £82 million was driven by net interest income, which increased 3.1%, due to strong growth in average interest earning assets, higher deposit margins and positive treasury activity as we took advantage of good market conditions.

Non-interest income was stable as a strong performance in Commercial & Institutional was offset by seasonally lower fees in Retail Banking.

We are pleased with the momentum of income throughout the year, and I'll summarise the outlook for 2025 on slide 10.

Slide 10: 2025 income drivers and guidance

There are three main drivers of income growth in the year, and Donal will cover some of this in more detail.

First, we expect continued disciplined growth across our three businesses, subject to achieving attractive returns.

Second we will actively manage our product pricing as interest rates come down.

We expect to continue passing through changes in interest rates to customers.

Our plan assumes the Bank of England will make 3 further rate cuts this year, reaching 3.75% by the year end. Of course, the actual outcome may be different to our assumption.

And third, we expect product hedge income to increase by around one billion pounds in 2025.

Taking all of this together, we anticipate 2025 income in the range of £15.2-£15.7 billion pounds, excluding notable items.

Turning now to Costs on slide 11.

Slide 11: Delivered broadly stable costs

Other operating expenses were £7.9 billion for the year, up 1.1% excluding higher bank levies and retail share offer costs, in line with guidance.

The main increase came from staff which account for half of our cost base.

This included the average annual wage increase of 4.0% and our first annual share award for all staff.

In 2025, we expect other operating expenses to be around £8 billion, plus around £100 million of additional one-off costs in relation to the Metro and Sainsburys Bank portfolios.

As you would expect, we will continue to mitigate cost inflation by making further savings.

I'd like to move on now to impairments.

Slide 12: 9bps impairment charge in 2024

We have reviewed and made small adjustments to our economic scenarios, both forecasts and relative weightings.

Our outlook for the macro environment assumes moderate growth, higher for longer rates and a resilient labour market.

We reported a net impairment charge of £359 million for 2024, equivalent to 9 basis points of loans and our Stage 3 loan impairment rate remains historically low.

Our balance sheet provision for Expected Credit Loss includes £299 million of Post Model Adjustments for economic uncertainty, a year-on-year reduction of £130 million.

The current performance of the book, combined with our updated economic outlook, means we are expecting a loan impairment rate below 20 basis points in 2025.

I'd like to finish with guidance on slide 13.

Slide 13: Summary of guidance and targets

In 2025 we expect income, excluding notable items, to be in the range of £15.2-£15.7 billion, other operating expenses to be around £8 billion plus around £100 million of one-time inorganic costs and the loan impairment rate to be below 20 basis points, delivering a Return on Tangible Equity of 15 – 16%.

We expect RWAs to be between £190 and £195 billion at the end of 2025.

We intend to increase our dividend ratio to around 50% from 2025 onwards, with buybacks remaining a means to distribute surplus capital and we are targeting a 2027 Return on Tangible Equity of more than 15%.

And with that I'll hand over to Donal

Donal Quaid, Treasurer:

Thanks Katie. Good afternoon and thank you for joining today's call.

I will start by sharing some highlights for the full year before moving into more detail on the balance sheet covering capital, liquidity and deposits. I will then give guidance on our funding plans for the year ahead.

Slide 15: Key capital and liquidity metrics

Starting with an overview of the key metrics on slide 15.

We ended the year with strong capital, MREL and leverage positions; comfortably above the regulatory minima with a CET1 ratio of 13.6%, a total capital ratio of 19.7%, a total MREL ratio of 33%, and a Leverage ratio of 5%.

Our Liquidity Coverage Ratio was 150%, giving us comfortable surplus over minimum requirements. Our Loan to Deposit ratio was 85% and our Net Stable Funding Ratio was 137%.

The group's funding is very well diversified, with a strong retail, private and corporate deposit franchise as we ended the year with around £434bn of customer deposits.

Our wholesale funding was £86bn at the year end and we successfully completed our 2024 funding plan with £7.5bn Sterling equivalent of benchmark issuance from the Holding Company across Senior MREL, AT1 and Tier 2 capital securities and £5.8bn Sterling equivalent from our operating company, NatWest Markets. We also issued a £750m sterling covered bond from NatWest bank, our first since 2019.

Thank you for your continued support for our transactions.

In November, I was pleased to see further progress in our credit ratings, with Fitch moving its outlook from stable to positive across all rated entities.

Slide 16: Strong capital and leverage positions provide confidence and flexibility

Turning to our capital and leverage positions on slide 16.

Our CET1 ratio at the end of the year was 13.6%, within our target range of 13-14%. We operate with 310bps of headroom above the Maximum Distributable Amount of 10.5%, equivalent to ~£5.7bn of nominal CET1, supported by capital generation of 243bps this year.

Our UK leverage ratio was stable at 5%, leaving around 115bps of headroom above the bank of England minimum requirement.

The slide also shows the impact of the Other Systemically Important Institution buffer applied to NatWest Holdings that results in a Group risk add-on for NatWest Group of 1.2% for CET1 and 40bps for Leverage. Although not part of minimum regulatory requirements or combined buffer requirements for NatWest Group, it does from part of our minimum supervisory requirements, resulting in a buffer of 190bps or ~£3.5bn of nominal CET1 capital and 75bps for Leverage.

Slide 17: Strong capital generation supporting distributions

Turning to the drivers of the CET1 ratio on slide 17.

We ended the year with a Common Equity Tier 1 ratio of 13.6%, up from 13.4% at the end of 2023, equivalent to £24.9bn of nominal CET1 capital.

In 2024 we generated 243 basis points of capital before distributions to shareholders. Distributions to shareholders were equivalent to 218 basis points through ordinary dividends and directed buybacks.

Risk weighted assets were broadly stable in the year at £183.2bn.

Business movements, which reflect our strong organic lending growth, added £6bn of risk-weighted assets and the Metro Bank mortgage portfolio added a further £0.9bn.

These increases were largely offset by active capital management, which contributed to a £6.8bn reduction in RWAs, with a number of actions successfully completed in the year through different levers including 4 Significant Risk Transfer transactions.

Following the delay in implementation of Basel 3.1 to 1 January 2027, we now expect risk-weighted assets of between £190bn and £195bn at the end of 2025, although where we land within that range will depend on a number of factors including the timing and quantum of CRD4 impacts.

Slide 18: Total Capital above requirements

Turning to our total capital position on slide 18.

We currently have an AT1 ratio of 2.9% with £5.3bn of securities outstanding. Two of these securities, with a total nominal of $2.65bn, have their first call periods commencing in the second half of this year.

Our Tier 2 ratio is 3.2% with £5.9bn of securities outstanding.

We are currently running with excess headroom in AT1 and T2 compared to our minimum requirements having taken advantage of very positive market dynamics last year.

However, over time we expect to return to optimal levels of AT1 and Tier 2 capital, relative to our minimum requirements.

Slide 19: MREL position well established

Turning to our total MREL position on slide 19.

Our total MREL continues to look very healthy at 33%, significantly higher than our risk weighted asset requirement, leaving us well positioned for the expected growth in risk-weighted assets by the end 2025.

Having built out the maturity curve of our MREL stack, we have an annual refinancing requirement of £4-5bn over the next few years.

Slide 20: Disciplined approach to loan growth: +£13bn, +3.5% in 2024

Turning to loan growth on slide 20.

Our solid capital and liquidity position leaves us well placed to support our customers and gross loans to customers across our three businesses increased 3.5%, or £12.7bn, to £372bn.

There was strong growth in Commercial and Institutional and personal unsecured lending throughout the year, and we returned to growth in mortgages in the second half.

In Commercial and Institutional we grew lending by £12.0bn, excluding the impact of repayment of

Government loan schemes, primarily in Commercial Mid-Market and Corporate and Institutions.

Slide 21: Strong liquidity metrics and a high-quality portfolio

Turning to liquidity on slide 21.

Our liquidity position remains very strong. At the end of 2024, the LCR ratio was 150% or 151% on a 12 month rolling average, reflecting around £53bn of surplus primary liquidity above minimum requirements.

Our total liquidity portfolio was £222bn, comprising primary liquidity of £161bn and secondary liquidity of £61bn.

Primary liquidity increased during the year, driven by growth in customer deposits, together with HoldCo and OpCo issuance, partially offset by increased lending, the Metro Bank mortgage portfolio acquisition and capital distributions.

Secondary liquidity reduced due to the normal amortisation of collateral prepositioned at the Bank of England.

Slide 22: Primary liquidity comprises cash and highly rated securities

On slide 22 we provide a detailed breakdown of our primary liquidity.

Cash balances of £89bn placed with central banks represent around 55% of total primary liquidity, with Level 1 high quality government and SSA bonds of £58.8bn making up a further 37%.

The remaining primary liquidity is a smaller percentage of Level 1 high quality covered bonds and Level 2 LCR securities.

Our central bank cash balances are solely denominated in sterling and Euros with the Bank of England and the European Central Bank, and our securities balances are primarily held in core currencies including sterling, Euros and US dollars.

One point to call out here is that the mix of cash and securities in any given quarter is impacted by both active investment allocation decisions in Treasury between cash and securities and the net Treasury repo activity.

Slide 23: Strong deposit growth across all 3 businesses: +£12bn, +2.9% in 2024

Looking at customer deposits on slide 23.

We operate with a strong and diverse deposit franchise, with a mix of retail, private and commercial deposits, across interest bearing and non-interest-bearing product offerings.

Customer deposits across our three businesses were £431.3bn at the end of the year, up £12.2bn or 3% year on year, with a gradual increase in balances every quarter.

Growth in the fourth quarter was mainly driven by instant access accounts across both Retail and Private Banking.

There has been a gradual shift from non-interest bearing to interest bearing deposits throughout the year, but the pace of migration has been significantly slower than 2023 and has continued slowing throughout 2024.

Non-interest bearing balances were 31% of the total, down from 34% at the start of the year and term accounts were stable at around 16% of the total.

Slide 24: Structural hedging provides a multi-year income tailwind

On slide 24 you will see the structural hedge continues to be an important driver of income as we move forward.

As we show in the chart, before taking into account further reinvestment during 2025, around 80% of hedges are already written for 2025, and these will deliver income of £3.4bn, already £400m above 2024, with additional growth to come.

When the impact of the additional 20% of reinvestment hedges this year is included, we expect 2025 product hedge income to be around one billion pounds higher than 2024.

The product hedge notional reduced to £172bn during the year, which reflects our 12 month look back of average eligible deposits.

We expect the notional to be broadly stable in 2025, based on our anticipation of a more stable deposit mix.

Beyond 2025, we expect annual growth in product structural hedge income each year through to 2027.

Slide 25: Stable and diversified funding sources

Turning to slide 25 and our funding composition.

Although customer deposits account for over 80% of the Group's funding, we also have access to stable and diverse sources of wholesale funding across a range of products, maturities and currencies.

As part of that mix, we have £12bn currently drawn under the Bank of England's TFSME scheme, with £3.8bn repayable in October 2025, and the remainder repayable from 2027.

Excluding TFSME, the large majority of our wholesale funding is MREL and Capital issuance from NWG and Senior Unsecured issuance from NWM.

Slide 26: Strong support in 2024, with ~£14bn issued across 21 benchmark transactions

On slide 26 you can see that we were very active in 2024 in the wholesale funding markets, issuing from both the Group holding company and operating entities.

From NatWest Group, we have issued £4.8bn Sterling equivalent in senior MREL, against our guidance of £4-5bn for the year.

In addition to issuing MREL, we also issued $1.75bn of AT1 and £1.3bn Sterling equivalent of Tier 2 capital during the year.

While for NatWest Markets plc, we issued around £5.8bn Sterling equivalent in Sterling, Euro, USD and Swiss Francs, against our £3-5bn guidance for 2024.

And from NatWest Bank, we issued a £750m covered bond, within our guidance of up to £1bn for the year.

Slide 27: 2025 wholesale issuance guidance

Turning now to our 2025 funding requirements on slide 27.

From NatWest Group, we expect our senior MREL issuance to be in the range of £4-5bn this year, primarily to refinance maturing securities.

On capital we plan to be active in both AT1 and Tier 2 this year and expect to issue around £1bn Sterling equivalent in each, providing flexibility for expected increases in risk-weighted assets and looking ahead to upcoming calls later in the year.

Actual issuance, as always, will be subject to both the evolution of risk weighted assets, market conditions and any decisions on calls.

From our operating company, NatWest Markets will have public benchmark senior unsecured funding requirements of £4-5bn in 2025, primarily to refinance maturing legacy debt, of which we have already issued €1bn EUR in January.

With that we can open up for questions.

Operator:

If you'd like to ask a question today, you may do so by using the raise hand function on the Zoom app. If you are dialling in by phone, you can press *9 to raise your hand and *6 to unmute once prompted.

We're going to start with two questions from Lee Street at Citi:

“Firstly, looking across your two main business lines of retail and commercial, in what product does it make most sense to grow when considering the risk-adjusted returns?

Secondly, there was some talk of inorganic growth on the call this morning and the comment was that the hurdles rates are high and opportunities compared it to shareholder distributions. Can you explain simply how you make these assessments?”

Katie Murray:

Sure, thanks very much, Lee, for your question.

So, a couple of things.

When you look at a product, obviously you'll be familiar with the different risk weightings that you can see. Mortgage is obviously lower, then you've got credit cards a bit higher and then within commercial it will vary across the different sectors.

I guess the thing to think about is that we are a broad spectrum bank across the whole country and region, so it's not as simple as saying we'll grow into that one or this one.

What we really try to seek is to have real balance across the book.

What you do also see though, and it's a great example in mortgages at the tail end of 2023, where we actually pulled out because we weren't happy with the risk-adjusted return that was happening when margins were coming under a lot more pressure.

So, I would say that we don't have one product preference to another product.

They all have to kind of hit a hurdle and then once you're above that, we'll look to see where we can get the return to kind of pivot a little bit, but very mindful that we want to make sure that we maintain the diversification of the balance sheet as well.

In terms of inorganic, what we look for there is a very high kind of hurdle rate in terms of making any acquisitions and we do compare it to the other uses we could do for that investment.

So, a good example would be something like, you know, when you look at the directed buybacks and actually what kind of IR and cost of investment you would get from those, compared to if you're looking at more of a traditional acquisition.

We've talked previously that internally we kind of worked on 11-12%, obviously now that we're sitting with our guidance of a greater than 15%, you've got to be mindful of that as you go through, but it's very much comparing the different opportunities and you know that we did two transactions this year, meaning the Sainsbury's portfolio and the Metro Bank book as well.

They compared well, so therefore we were very happy to do those transactions.

Happy to go to the next question.

Thanks, Lee.

Operator:

Our next question comes from Robert Smalley. If you'd like to unmute by pressing *6. Robert, if you would like to unmute by pressing *6 on your phone, then you can go ahead and ask your question.

Robert Smalley:

Hi, sorry about that. Thanks for taking my question. A couple.

On the call this morning, there was a discussion of £330 million in PMAs that'll be released over time. Could you talk a little bit about that and where you see that going forward, particularly in light of the projected loan loss provisions for 2025? My first question.

And then secondly, just in terms of issuance, I did notice that you haven't really visited the Aussie or Sing dollar market for tier two yet. Can we expect that the Tier 2 and AT1 will be generally, you know, dollars or euros, potentially some sterling? Thanks.

Katie Murray:

Sure. Thanks, Robert. Lovely to hear your voice as ever.

So if I look at the PMAs, so we've got 299 left of the kind of PMAs, which we are called for economic uncertainty.

They are different PMAs that come up because of different events.

They're much more kind of cost of living or inflationary type PMAs today. Historically, they'd be more COVID related. And then we had way back in time, Brexit one as well.

So what we've said about these is that they would be a kind of multi-quarter event in terms of release.

What you can see in this last quarter is that we released about 130 million of them.

And that wasn't done quarter by quarter by any means. It was, I think it was quite a bit in Q3 and a little bit in Q2, but then very little. In fact, the number went up very slightly in Q4.

So when we consider the guidance of less than 20 basis points, we have a little bit of an eye to that, but we don't necessarily see any typical or planned release of those along a particular timeline.

So we do just have a look at them each quarter and just sort of see where are we in terms of the causal factors that caused them to be created? And how are we sitting in that space just now?

But they are a slight feature of the guidance that we've given, but not necessarily very meaningfully.

Donal Quaid:

Hi Robert, good to hear from you.

On AT1/Tier 2, I think your assumption is probably right, but we expect dollars, euros and sterling to take up probably the large majority of the issuance of what we're laying out for the year for AT1 and Tier 2.

We will obviously keep our options open on Aussie and Sing in Tier 2 if there is opportunities there, particularly maybe if it's a smaller size transaction that we want to do.

And maybe just while we're on the topic of issuance on MREL, again, I expect probably the large majority to be issued across the three core currencies.

But again, we'd like to look at Japanese yen, I think from an MREL perspective, and also we'll look at options in other currencies if they are available during the year.

Thanks for the question.

Robert Smalley:

Terrific. Thanks and thank you.

Operator:

Our next question comes from Alexander Latter of GIB Asset Management.

Alexander, if you'd like to go ahead and ask your question.

Katie Murray:

Hi Alexander.

Alexander Latter:

Hi there and thanks for the call.

I just wanted to follow up on Robert's question and then one more.

So on the sort of PMA point, if I look at your kind of stage 2 coverage or your stage 1 plus 2 coverage, those numbers are lower than they've kind of ever been in the IFRS 9 era.

And that includes kind of the remaining PMAs.

And then if I kind of go back to 2019 when PMAs weren't such a big deal, or at least not in the broader market, you were still quite heavily covered versus where you are now, despite having more optimistic weighted average scenarios than you currently have.

So can you just comment a little bit around sort of whether or not the models have been materially changed in terms of their conservatism or their sensitivities?

I'm just thinking that kind of if those PMAs go away again, then you're getting to sort of very thin levels of coverage in this kind of era of accounting.

And then to sort of add on to that, I just note that your stage 2 loans ticked up a little bit in the quarter.

It seems to be coming from sort of the sovereign book.

So if there's any sort of comment on that.

And then finally, on capital, so 190 bps to the requirement, 150 bps if you were at the bottom end of your target range.

That's now screening at some of the lowest levels in Europe when I look across kind of the continent.

What makes you comfortable with if you hit 13% capital running at 150 bps the capital requirement?

Katie Murray:

Donal, do you want to start? I'll come back on the PMA.

Donal Quaid:

Yeah. Alex, how are you doing?

On capital, very, very comfortable with both our CET1, I suppose, endpoint 13.6, but also our target of 13 to 14% and the buffers we run.

You know, I think even at the 13% that you're alluding to, very, very comfortable with the extent of buffers.

And I suppose what you're talking to there around screening across the rest of Europe, you know, one thing we always call out is the capital stack in the UK.

We've got a 2% UK countercyclical buffer. We're obviously seeing smaller countercylicals across different European jurisdictions.

And we're also carrying 120 basis points of OSSI group add-on, which feeds into our 11.7% supervisory requirement.

I think even at the lower point of our 13%, it's still, you say, 130 basis points. It's 2.4 billion of nominal capital, just to put it in that term.

So I think while the ratio is very important, I think it's equally important to look at the amount of nominal capital held and also the extent of capital generation that the underlying business is generating on an annual basis.

Again, at the end of 2024, we held 25 billion in nominal capital and generated 234 basis points of capital.

So that's 1 billion of nominal capital per quarter in terms of capital generation.

And I think the other element is just the de-risking of the balance sheet that's taken place over the last few years.

You're seeing that evident not only in the cost of risk of 9 basis points last year, but also evident from the reduction in stress drawdown in the Bank of England stress test over the last number of years as well.

So I think all that should just give plenty of comfort from a fixed income perspective in terms of our capital position and the buffers we run.

Katie Murray:

Thanks. Thanks very much, Donal.

Alexander, when I look at the PMAs and the models and kind of coverage overall, we are comfortable.

And I think it's important also to go back and think a little bit about what's happened to our book since kind of 2019.

So certainly our mortgage book is growing. You'd expect that to be lower levels of impairments.

Importantly, Ulster Bank has exited. And that was an area that we had higher levels of impairment, so therefore higher levels of coverage. Also use more risk weighted assets as well.

So the changing of those will probably be why you see that kind of when you look in a five or six year basis, they kind of fall in the coverage levels.

We're very comfortable how our coverage looks today as we as we kind of look at that.

The models are very continuously updated. So there's no, I'm not worried about that.

One of the things you do find when you look at the PMAs, we've got different classifications of PMAs.

One is for the kind of model overlay.

And that's when you see new things or things developing coming in that we haven't managed to get into the models yet.

And that's often an interesting one. If you're looking at a multi-year basis to see how that one moves, because you'd expect numbers to come in there.

And then over the next year for them to go back out because they're getting built into the base underlying.

But I mean, our models are very regularly looked at.

I don't believe that they're overly conservative or the opposite either.

So comfortable. I do think it's thinking about how the book has changed, which has been really quite significant since then.

When I look at the sovereign piece, I mean, if I look at the kind of total numbers of sovereign in terms of the total loans, I'd say actually over the last year, they've come down by about a billion from 2.6 down to 1.6.

What's interesting is obviously, we've seen a bit more of an increase in the FI sector.

And that's reflecting some of the corporate lending that's been going up.

But no concerns in terms of the levels that we have within sovereign, where you can see that there is, you're absolutely right, in that stage two, it's gone from one last year to 133 this year.

But we're not worried about that.

That's is a kind of one of those issues of kind of good book moving into the top end of stage two, but we are comfortable with our positions in there.

Thanks, Alexander.

Alexander Latter:

Thank you.

Operator:

Our next questions come from Paul Fenner-Laitao of Societe Generale. If you'd like to press *6 to unmute and ask your questions.

Katie Murray:

Hi, Paul.

Paul Fenner-Laitao:

Hi, team. Thanks.

Thanks for doing the call and taking my questions.

I've got three quick ones, please.

The first is I noticed, this is one for Donal, I noticed on your supply slide that you mentioned the six month window for one of the AT1 calls.

You obviously were thinking about that when you put it on the slide.

I was just wondering how much value you apportion to that window. We noticed that one of the very recent issues in the last few days removed that 6 month window.

So a little comment on that would be great.

And the second question is my standard question, but I think it's as important today as it's been for the last year.

In terms of forward looking indicators for asset quality, what is it that you're seeing deteriorate, if anything, or where are you first looking when you come into the office on a Monday morning or the first of the month?

What would be the trigger for what you see as deteriorating asset quality, which evidently from the numbers is not there at the moment?

And the third question is really a strategic, I guess, partly philosophical question.

When I look at your revenues, interest income versus non-interest income, you're very evidently an intermediary bank. 80% of your revenues, or just shy of it, are interest income. Is that the right number?

I mean, it wasn't so long ago that everyone wanted to rebalance and do a lot of asset management, take a lot more fees.

How do you think about that over a strategy period?

And what is it that you can sensibly do about it through organic and or inorganic means?

Thank you.

Katie Murray:

Sure. Thanks so much.

Donal, I'll take two and three and I'll come back to you on the first one around the six month call.

So I'll do is to go in reverse order.

So when we look at that strategy, I think we've always been very open as a bank.

We are more focused on the NII as a means of our earnings.

We believe that non-interest income is very important.

And we also recognise there is that sort of slight ill balance in terms of the 80% and 20%. And it's generally about that kind of level.

The reality is, you know, in terms of that 20%, we've been very pleased with the growth we've seen in that on the non-interest income.

We had 8% growth in that line in this last year.

If I look at our private bank, you can see that their assets under management have gone up 20% in the year.

And then that's obviously bled through into their income as well.

And then within commercial and institutional, that's where you've seen a significant mark of the other growth is we've really embedded a lot of our kind of FX and debt capital markets and knowledge, moved it much further across the bank.

So they've got a much wider kind of customer base.

So although you can look at the imbalance between the two, I think you also have to look to go what's happening in non-interest income.

You know, that level of growth, I think is very respectable in any one year.

And the reality is to change that level is something that becomes quite a difficult thing to do absent some very large inorganic kind of activity.

It takes quite a long time.

So we're not uncomfortable with the level that we have.

I think what we want to do is we make sure that we're growing both lines well and really continuing to develop that the NII and the non-interest income as well.

But it is something we do pay a lot of attention to.

And certainly commercial and institutional and private are the two main contributors to it.

I mean, retail is less naturally because of the world of UK retail banking, in that it's far less fee generated.

And there you can see the real value coming through in the NII.

So I do think for me, it's about the maintenance of growth across both lines, rather than necessarily seeking to get them more evenly balanced.

In terms of impairments on the forward looking indicators, the best indicator is unemployment in terms of what's happening there.

We obviously understand how the book reacts to rate movements in terms of the swap yield and things like that.

But the real indicator of actually problems coming on impairments, it really is around unemployment levels.

In the UK just now, we've got, you know, incredibly low levels.

And even if I look at our economics, we range from a kind of, in 2025, from a level of 4.4% in the base case, down to 5.4% in the extreme downside.

You know, one of the things you'd have heard Paul and I talk about over time is that when you start to see that number getting to 6 and 7, that's where you get more concerned on impairments.

So I would say I don't probably check unemployment every Monday morning, but I do, obviously, it's something that I track quite closely, because that is where we start to see the kind of challenges coming through, if that was the beginning to release, and that would then cause deterioration.

Donal, do you want to talk to the 6 month window?

Donal Quaid:

Yeah, sure.

Hi, Paul.

So on the 6 month par call, as you say, we're seeing a few different approaches being taken by issuers, so some removing the call option, we kept it in our last AT1 issuance in Q4 last year.

We still assign some value to the six month par call.

I think less so in a BAU environment, probably more so if it was a volatile period where maybe you're restricted from refinancing an upcoming call at some stage in a kind of a non BAU environment.

That's really kind of high level how we would think about it.

Paul Fenner-Laitao:

Thank you.

Operator:

Our next questions come from Jack Deegan of Polar Capital. Jack, if you would like to unmute and go ahead and ask your questions.

Katie Murray:

Hi, Jack.

Jack Deegan:

Hi there. I hope you can hear me okay.

You spoke about the Bank's kind of strong capital base and issuance plans, I just wanted to touch base on legacy instruments, and just whether you feel any pressure to tidy up the remaining instruments that are outstanding, such as preference shares and things like that.

Donal Quaid:

Yeah. Hi, Jack.

So I think from our perspective, legacy is kind of immaterial for us going forward.

It's now sub 300 million, you know, there's no instruments there that we haven't kind of attempted to address on numerous occasions historically.

That's not to say we, you know, we wouldn't look at it again.

But what we found is that the take up on any LME exercise on those remaining legacy instruments just reduces down every time we try.

So no pressure, I think from a Bank of England perspective, but something if we felt there was appetite, we would be happy to look at again.

Operator:

There are no more questions at this time. I would now like to hand back to Katie for any closing remarks.

Katie Murray:

Lovely.

Thanks very much, Oliver.

Just as ever, look, thank you very much for the continued support to our issuance throughout the year, we really do appreciate and we value you highly.

It's great to have this chance to just catch up with any of your queries today.

If you've got any further questions, Paul from our IR team will be very happy to help you.

And we look forward to chatting again collectively in July.

That's great.

Thanks very much.

Have a good day everybody.