



NatWest Group plc

Annual Results Sell-Side Update

21st February 2022

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Katie Murray (KM)

Afternoon everybody, hope you've had a pleasant weekend, and weren't too battered by what has been quite windy where I've been, certainly this weekend.

I thought rather than doing any pre-amble, we spoke on Friday and the messaging hasn't been clogged up yet by others as they only start reporting tomorrow, might just make sense if we just go straight to Q&A, so happy just to do that Dave, if we want to see whose come through?

Dave – Operator

So, Katie, our first raised hand is Alvaro from Morgan Stanley, Alvaro please over to you.

QUESTION – Alvaro Serrano, Morgan Stanley

Hi Katie, how you doing? I had two follow up questions, from the results. On mortgages, you gave that chart which you also gave in Q3 which was very useful and I did ask about it but I just want to get your sense of, because my impression was that Natwest lowered pricing very early in January then reversed that, but the broader question around that is, where do you think that mortgage spread is heading or where would you be comfortable underwriting and I completely take your point that you made on Friday that you should look at it with the liability margin and I think no disagreements with that....

But does that mean we could see lower spreads than we've seen in the chart, about 70 basis points at the end of the year is the beginning of a trend, I just want to get some kind of feel on have we seen the worst of it? Is it going to get worse? Some hand holding there to the extent you can give any.

And then, very quickly on cost. I remember asking Alison in Q3 around -4% and she was very adamant that -4% wasn't going to happen. I realise the inflation picture is different, the revenue picture is different, but I'm just curious in terms of logic you followed to change policy, is it as much, to what extent is purely inflation driven? To what extent say if we're going to grow revenue 6/7% or whatever the number is, we should be investing more in the business and how much more should we be investing? Just some thoughts on, what drove that increase, if you can quantify or at least give us some colour on, is it more investment because you don't want to make 'too much money' I'm not sure if there's such thing as that. Are you making sure that you are investing in what you're trying to invest is what I am trying to ask.

Katie Murray (KM)

Yeah sure, so if I talk to mortgages first of all, Alvaro. So, look, first thing. We didn't put our prices down in January, what we've done since October is we've done 17 price changes, 15 have been up, there's been 2 very small point changes on the curve, that have taken it down but they've been very small so they wouldn't have been in a high-density product and I have to admit, I don't know off the top of my head what the product is, don't ask me that question, so, but they're not part of the trend. So, we've done 15 upward price changes since then, sometimes that would be the whole book, sometimes it would be different, it would be bits of the book...

So, the intention is definitely to go up. I think what we also have all seen in terms of the swap movements was a huge ramp up. If I look at the reports today on the five days of change across all, they have all come down quite a bit which is not I guess completely unexpected, given we think they got run away from themselves. So, what we saw exiting Q4 at 70 basis points, I think then we saw more pricing pressure. We did quite a lot of price increases as well but the problem is with the swap curve, it moves faster than we can move, and for the sake of the guys who are doing the pricing, you're changing pricing every single week, it becomes really hard in terms of managing that messaging out to the brokers, so I wouldn't be surprised if given the swap curve movements and our pricing movement, you could probably do a bit of a turn that it

dipped a bit, but I think that we've never commented and I won't today about what's the point that we'd stop writing....

And I think the challenge is you know, we are a very significant player in the UK market, to stop writing would be an unbelievably big thing to do, so I don't think there's a, never say never, but that's not a conversation we have about where do we swap, it's how do we actually balance that up.

And I think it's important to remind yourself as well, it's very easy to take the swap curve on the day and think oh well that's it. They're at 70 basis points now, they must be at 20 because it's moved so much but obviously you've done different hedging, you've moved it forward, so it doesn't all work on the exact same spot day, but I think given the action that you've seen us do, since Q4 you could assume that we're writing at a level that we don't really want to go below.

And actually, we're trying to catch up with what the swap curve has done given that amount of pricing action. We've been pleased that most people are doing the same. There's one player that's noticeably different in their approach and we can ask him tomorrow what he's up to, in terms of that piece about feeding a question to you. But in general, that's where it is, so I kind of feel we're levelling out, more or less, at the bottom and we're trying to work out how we get there, but I think we'll continue to see how that plays through on that piece.

If I look to the costs. The challenge always with Q3 reporting which is really, is always a really difficult time, because you're also in the midst of your business planning timeline as well, so you're kind of, I'm doing my business planning at the same time that we're talking, we're still targeting the business very much on 4% at that point internally, to say look, that's what the plan said last year, that's what we expect you to deliver, you're kind of going through the cut and thrust of actually the individual line by line piece and I think what we found as we got into December and January was that actually the level of inflationary pressure that was coming through was such that if we to continue with the 4% we felt that we would be eating into our investment pot, which we absolutely did not want them to do, we've talked about that we've shaped a £3bn investment portfolio over 21, 22 and 23.

So therefore, we did take some forgiveness on the other operating costs in that time, so I think it really was, as we were finalising our plans, in there, what we did seek to do, was to make sure we protected the investment pot.

Alvaro

Thank you, Katie

Operator – Dave

Thank you. Our next raised hand comes from James from Societe Generale, James please unmute and go ahead.

QUESTION - James Irvine, Societe Generale

Hi there, good afternoon to both of you. Katie, I was wondering if you could say a little bit more, please about the combination of your wholesale businesses, so just how big a change is that underneath the surface and should we be expecting any synergies, either revenue or cost synergies from it?

KM

Yeah so, it's an important next step for me. If I look at that business, what we've been doing for the commercial corporate customers, what we've been working very hard on, is to make sure that actually they had one kind of sales approach in terms of what we would be doing with them. So, they wouldn't have

people coming from commercial banking to talk about asset financing and someone else coming and talking about FX, so that's been a lot of how we run the business, particularly over the last 18 months and even more so I'd say over the last 12 as it's become much more business as usual in terms of that piece.

And then also, you might remember as part of the whole ring-fencing restructure that then the RBSI business was becoming much more of an operation for funds business and then that funds business is split across Natwest Markets and also RBSI's balance sheet yet over the past year we've kind of run them as one management team, to sort of say, look when you run that funds business, can you manage it together, work out which is the best balance sheet to book it on, but actually in terms of approaching the clients, and that's been helpful because it's brought in more business, it makes us a much more coherent space.

You then have some really lovely clients that actually go across the funds business, they go across Natwest Markets and they go into commercial and so what we wanted to do was to say actually how do you bring all of them together so that you can have really only one offering that's there?

So, we think it will deliver revenue synergies, I wouldn't say that we've said to them it's x hundred million or something you need to deliver, maybe it's all embedded into the growth of the income numbers, but we do think logically if you have a combined unit, that's approaching and working with a customer, you're going to get a much better customer outcome on that piece and you're able to draw down better skills because you know that customer that much better and also for our staff internally, I think it's a much easier proposition because you're not having to manage across lots of different entities...

So, very much a natural progression of where we're going, we do believe it will help revenue and we think it will help our customers externally and will help our teams internally.

If I look at the 3% cost take out, part of that would be from here, so if I look, some of the things that we've done, if I think of something like Natwest Markets, they had a separate Treasury function, I now do all their treasury, without making some statement of RBSI treasury function that I'm not intending to make.

There is areas there that you can see, actually how can I do this support better, in terms of in the background for those entities so again, we would see some cost benefit of that, and there's small things James that are really important that they're not all on the same system, internally so actually part of it is moving them all onto the same system internally because then you can share IT and just information so much easier, so there's a bit of investment that will happen in that, that will also drive benefits but it's got to happen in the first hand, but, for me, it really is just a natural progression, what we wanted to do was get to the point where Natwest Markets had done what they needed to do, they had done their major volume of restructuring. There is still stuff we need to do in the back office, but they've done what they needed to do in the front and actually let's turn this so it's really focusing on how do I grow the business, not how do I restructure the business.

James

Are we still going to see the separate revenue lines of markets, commercial and RBSI or is it all just going to go into the one?

KM

What we'll show you more is, what's happening to the, this isn't the exact right words... but the small businesses the mid-corp and the large corp, we'll show you that much more cos that's how we're running the business. Now, clearly Natwest Markets and RBSI both probably stand alone, so the information is available as well, but the way that we run the businesses around the small, medium and large and then I

would say James from time to time, when we do a spotlight on bits of those businesses, we'll dive down into a bit more of the detail as well, but the standard will be small, medium and large.

And then we're quite good when there's something notable that we'll call out the notable item on its own. If we had seen something that had happened in rates in the last two quarters, we would tell you, we wouldn't try to hide it in the numbers, but we wouldn't have that as the kind of, otherwise I think that be giving you a shopping list of segments and actually it wouldn't be very coherent in terms of how we'll be talking to them.

James

Perfect, ok, thanks very much.

Operator – Dave

Thank you, our next question is audio only and comes from Omar Keenan from Credit Suisse, Omar please unmute and go ahead.

KM

Hi Omar

QUESTION - Omar Keenan, Credit Suisse

Hi Katie, sorry, my camera didn't seem to be switching on.

So, I just wanted to ask a follow up question on the costs. Can I double check the strategic costs that you think will be in steady state in 23 and could I then also ask a question about the Ulster headwind to the return on tangible equity target in 2023, you gave the impact in revenues and cost but I just wanted to check, how much specifically in 2023 we should still assume there's a headwind there? Thank you.

KM

Yeah sure, so if I look at the strategic costs and it's an inevitability that as we make the change there'll be some frustrations from your side, that actually we're no longer going to be disclosing that. I'm sure we all call out when the big redundancy or property type numbers, but in terms of that, I think we're moving much more in line with the rest of the market and just actually talking and bringing those costs into the cost space. I think we're no longer a bank that is doing that transformational spend, so, I'm not going to split that out for you, so apologies Omar.

If I look at the Ulster headwind and I see a couple of broker notes that a couple of you have hit it more or less bang on the head, it's about 1% in terms of that number, I would think on that basis.

Daily it could move a little bit, if we moved faster on some of the sales, if we got the assets off the balance sheet that would be faster, you could end up you could do some accounting, it would recognise with earlier, but I again think of it as about 1%.

Omar

That's great, thank you very much.

KM

Lovely, thank you.

Operator – Dave

Thank you, our next raised hand comes from Fahed from Redburn, Fahed, please unmute and go ahead.

KM

Hi Fahed, good to see you.

QUESTION - Fahed Kunwar, Redburn

Good to see you too. Just a couple of questions. One was on the rate sensitivity and I know we have poured over this a couple of days ago. If you look at how the yield curves actually changing right now, it's not a parallel shift, it looks like actually the short end is going up and the low end if staying where it is, and the yield curve right now is flatter than anywhere else in the world apart from Japan and the UK. How does that affect your rate sensitivity, and the main thing of what I want to get a sense of is, obviously a lot of this is in deposit income which is about the shape of the yield curve, is this really a question about the year 2, year 3 benefit or is it, if the yield curve doesn't go up parallel but actually kind of goes up at the long end and then goes flat, or lower at the long end. Does it affect your year 1 sensitivity? Would be my first question.

And my second question, just a follow on from James's question, when I think about Natwest Markets and I appreciate it will change the way we think about it, it feels like 2023 is that £800m number, on that 2022 £11bn guidance, just what type of recovery have you built in to Natwest Markets, are we assuming it gets to the £800m or is it in-between the 450 we saw in 2021 and the 800 we'd expect in 23? Thank you.

KM

Yeah, so I'll do the Natwest Markets and I'm joined today by Donal Quaid the Treasurer, he loves talking about the interest sensitivity and I've talked about it a lot on Friday so I'm going to get him to do that bit. If we look at Natwest Markets, so, £800-£1bn still stands, what I would say is that if you take the 450, you add that negative that we had from rates and then add on a bit of a positive, and you say, what should a small rates business be earning, obviously list that number up a fair piece, I think we'd then add a little bit of growth, add a bit on James's question about how actually working together would be beneficial, so we would see that 2022 would be a bit of a staging post up to that £800 - £1bn but in the 2023 we should be £800 - £1bn but we would be expecting internally that the performance this year would certainly be much more in line with what you would expect for that rates business..

Now it's started quite well, and they've had rocky few weeks, well the market has had rocky few weeks, and may perform nicely in those rocky few weeks, so that kind of gives you a bit of a, ok, that's good. But, I'm conscious its mid-February and there's an awful lot of water to go from here until the end of the year, but, happy as she goes but I would say, reverse that piece, add in a smallish number, it's always going to be a smaller part of P&L, add a bit of growth and then you can get to the point, you can actually go, well if they can deliver a staging post this year, then actually £800 - £1bn is not impossible in terms of the year after.

Donal, do you want to speak to the rate sensitivity?

Donal Quaid (DQ)

Yep sure, hi Fahed. The best way to look, we disclosed at £329m year 1 sensitivity and you're right, that is based on a parallel shift at 25 basis points, but we rarely ever get a parallel shift across the curve. But if you look at the breakdown, the large majority of that sensitivity comes from the managed margin which is movements in the actual base rate, so, in effect the structural hedge element, which is much smaller is really driven by parallel shift in rates, so, you can take a base rate move, that sensitivity should feed through, if you get 25 basis points, and then from a structural hedge perspective, you know yourself, our product and equity hedge are on 5 year and 10 year terms, so it's really, that's where the big impact in structural hedge will be.

But it's a much smaller component in year 1, obviously it gets bigger as we go through year 2 and year 3 from a structural hedge perspective.

Fahed

That's brilliant, so the managed margin piece is on the short end of the curve, the structural hedge bit as we'd expect... and that comes from year 2, year 3. Ok, that's super helpful, thank you so much. Cheers.

Operator – Dave

Thank you, our next raised hand comes from Guy Stebbings from Exane, Guy, please unmute and go ahead.

QUESTION - Guy Stebbings, Exane

Hi Katie, thanks for taking questions. The first one was back on rate sensitivity so maybe it's one for Donal. I guess, if I look at your unhedged deposits, the new NI sensitivity for managed margin, it looks like you must be assuming a close to 70% deposit beta for a 100 basis points move, which given the lower initial deposit beta means that we're drifting up towards 80% or so, once we go through a couple more hikes or we're north of 1% base rate. Just trying to work out, if that's fair, I'm just trying to think about it in the context of how much additional upside it would be versus the plan in a higher rate cycle, especially if that comes with potential higher inflation pressures, small impacts to impairments, that sort of thing, so any sort of colour around that would be useful and then...

Back on costs, I mean 5% delta to consensus was before, is a reasonable shift, I appreciate you don't want to get into whether that's strategic, non-strategic costs etc... but, can you maybe talk about what's changed the most versus your previous expectations, is it performance related costs, and you just need to pay out versus the industry. Is it inflationary expectations to come through on normal wage growth, or is it investment costs, I'm just trying to understand what's been the biggest delta and therefore from that, what might need to change further for you to have to change guidance in the future? Thanks.

KM

Yeah no, thank you, so I'll let Donal do the next piece on the rates bit, but if I think of the cost side of things, if you look, you can see in the red report that the standard rate inflation and it's never as simple as this but the standard across the bank was 3.4%, so you can see that, that's in there. Now, if I was recruiting someone in the Quant space or if I was, some of my specialised stress testing people, or some of the data guys, I'd be paying out much more than that.

So, there's different pockets or places where the rate would be much higher in terms of that because there's a huge demand for those kinds of staff. So, I think that's a big part of it. We also do, we've been doing quite a lot of work on how you move from managed service workers, which actually is a positive, rather than to have, people that I get from Accenture or something like that.

So, where you are bulk buying resources, having them internal, that helps, so it eases off a little piece of it, so there's that kind of inflation rate aspect I think which is the main driver to it, there's also, I think there's a little bit of some of the time on delivery of investments as well, not that things are going slowly at all, I think they're going well, but actually you need people a bit longer, if I look at India last year, we were due to go live with a GL, a very big GL release last year and because of the COVID impact in April it meant that it's moved into this year, so that has impacts as well, so there's some little bits in there that are also causing a bit of pressure, something as simple as the NII change that we've got. The NII change is going to cost us £24m, now £24m in a £6.8 bn cost space is almost irrelevant, it's really important when you're talking about a 3% net cost reduction because it's in essence, it's 10% of that number, so you have to double it to get to the same negative, so I think there's a few of those, all of those things coming together at the same time...

There's not one big message of, investment is not working, that's definitely not the case, but continue to invest as much as we've had, but actually the inflationary pressure plus the wage increase, plus other things like NII and bits like that, they all just add together to put under a bit of pressure.

DQ

I'll take the rate sensitivity, we all disclosed specific pass through, but we've been clear previously and we've seen through the first number of hikes that the pass through has been quite low but we do expect it to increase over time but the way we do our sensitivities, we build it up based on our best expectation of what the pass through will be, the deposit beta you mentioned there would look high in my view, in terms of what's been, of what you stated, but there is definitely a levelling off probably above the 120/125 point, point 50 basis point level that we think on past to.

What could change that is competitive environment, so we've already seen some of the challenger banks move on savings account more so than the larger banks, and then the outright levels of liquidity, obviously, a lot of banks are running in levels of excess liquidity, so hence I think pass through will be lower than we've seen in previous rate hikes and cycles for the initial couple of hikes.

Guy

Good, thank you.

Operator – Dave

Thank you, our next raised hand is from Chris Cant from Autonomous, Chris please unmute and go ahead.

QUESTION - Chris Cant, Autonomous

Good afternoon, Katie, thanks for hosting.

I just wanted to ask about the path you're assuming within your rates assumptions, so on Fridays call you said you assumed 125 by the fourth quarter, obviously markets have been ahead of that and in terms of the level, but also the pace of rates and we're trying to understand the more than £11bn revenue guidance and just be very helpful to understand what are you assuming in terms of the path for the current 50 to the 125, and you assume something like one hike a quarter which is the kind of assumption which I guess would make sense within whatever you're assuming and then base our own assumptions around that, that would be really helpful...

And then, on Ulster, the cost take out that you're targeting by 2023, feels quite modest for the quantum of investment that's going into that exit, in terms of the costs to achieve. What are you hoping to achieve into say 2024, how much of the cost is actually just going to drop back into the group, because obviously you've guided for the exit to be capital accretive but if we think about what the 2023 P&L's going to look like, it's going to be a pretty meaningful pre-provision drag and you've talked about that 1% ROTE drag, being sensible place to think about things for 2023 specifically, longer term, how much of the cost if just going to turn to Group, because it feels like we really need to get some more guidance around that, I think the consensus had some pretty crazy high, low ranges for Ulster and it would be good to get a bit more of a steer on costs in particular because I was surprised by that 2023 cost out of £200m given that £50m of that is already in the discontinued operation pot, thank you.

KM

Yeah lovely, thanks, thanks Chris. So, if I think of the Ulster piece, so, if I look at their indirect expenses, you can see them in the accounts in the slide we give you as well, so there's 373 of direct and 211 of indirect. So, what we know is that of those directs, some people costs will go with people because we've signed two

TUPE type agreements. But what we're saying is that £200Mn cost take out that we'd get by 2023, that will be spread across direct and indirects. There will be some element of indirects that will come back into the group, but it should be a smaller portion.

A small portion in total, but the reality is that the costs continue into 2024 and I don't want to say in an elevated way because I don't want you to think oh god there's huge cost numbers there, but it really takes almost to 25 that you see a really big sharp step down. So, they will reduce year on year, so you'll get that 200 cost take out in 2023, but there's still significant cost take outs to come in 2024, and some of that will come as the benefit of the spend that you're spending in 2023, so it does take longer to take the costs out, the challenge is, that you have, while we still have liabilities, and I think we'll get to move them quite quickly. We still then have whole functions of people in the background, doing work, so it does take a bit longer, so I would say that, you'll see good cost reduction in 2023, but you need to see the 2024 ones come through and I wouldn't, discontinued and continued, is a really frustrating kind of accounting issue, so you can only put things into discontinued as I'm sure you're aware when you believe that they will have real ability to go off your balance sheet in the next 12 months...

You can't put things like funding costs in, because they're your costs and you never get rid of them until you repackage them, you also can't put some of the other indirect costs into them, because they're not really related to the Group.

So, it's only the costs in relation to the Group, which is why we'll continue to give you that slide, which shows you the total Ulster picture, so you can see what's really happening in the continued and discontinued pieces there.

DQ

Do you want me to answer the, on the rate, I think a hike quarter seems reasonable assumption to me, Chris
Chris

Okay that's helpful, it's just to try to calibrate my own thinking and it's probably helpful to others as well to calibrate their thinking versus what you're assuming within the great 11.

On the Ulster piece, just in terms of the costs taking into 2025, are you just going to be left with a deposit book with nowhere to go?

KM

No.

Chris

That's just going to sit there and run off really slowly and that's why the costs are so sticky, or?

KM

No, no, it's, look, it'll take a bit longer, it's truly amazing how little movement happens when you make announcements and this has been very well flagged in the press and also, it's been quite brutal at times in terms of the press commentary. Yet still people don't lose their money, you know, it's quite incredible. So, I think it's just more, that it just takes time, so it's not so much that we're worried, and you could assume that we're making plans to make sure that we keep moving on the liquidity piece. We're going to be happy to sit here with, sorry with the liability piece, for an extended period of time, so I'll continue to work on that, and I think there's going to be a lot of activity, I think you'll see over the next couple of months as well as we really try to push that piece, but the reality is that winding down an entity, if you think that we'll have book

transfers, the ones we've done today, we think there'll be many done by the end of the year, vast majority but there'll still be some that will go into 23...

NPLs and the Tracker books you know, they could be into 22, into 23 so they just take a bit of time, I mean I do have the cost piece that goes into 24, I mean what I would say is that we're working hard to make sure it goes faster than what we've kind of predicted but we've given you the best guidance as we have at the moment.

Chris

Okay fine, that's helpful, thank you.

Operator – Dave

And Katie, our next question comes from Rob Noble from Deutsche Bank. Rob, please unmute and go ahead.

QUESTION - Rob Noble, Deutsche Bank

Morning Katie, just on costs again, sorry.

Digging into the back of a long way into your Annual report, the property and equipment costs underline structural costs from Rose in the year, and we spent most of the last 18 months, talking about office closures, I was just wondering if you know what that is, and why it's gone up?

And then if we take that disclosure forward, I mean, we should be expecting I presume, branch closures over 2022, more office closures or are we done with that? Employee cuts but then obviously wage inflation, more variable comp although I presume the accounting for the variable comp increases the charge and the P&L as well...

More or less depreciation, amortisation, you get a bit of a break down from that kind of disclosure on what you expect, because it feels like realistically if you net everything off, your property charge should be coming down, your employee numbers coming down, your infrastructure coming down, I don't know why it's not more positive than you're highlighting apart from the wage pressure?

KM

Yeah, no look and well done for getting so far into the ARA as well, which is good to see. Look, so, we do expect to drive cross statements from property equipment, I think we've done the really big building type savings, so, if you think during COVID in 2020, we closed Regent's House which is a building in Islington. We've got these two buildings in Manchester, which we're converting into one, that's a relatively complicated transaction which has certainly produced some costs attached to that as well and that's our last really big building and the rest of that would be smaller ones and you're absolutely right on branch closures but the branch running costs, they're not big numbers so you would see them coming out but they're not, they're in the single digit millions, they're not in, like, we need to close down our branches, it's not a huge saving that you'll have from any one, it's gets more meaningful obviously when you do 30 or 40 of them, in terms of that piece...

But at the same point, there's quite a lot of inflationary pressure that's going on in terms of rent and rates and utilities, so you do see in that one line a little bit of an offset across the costs. Depreciation, there might be some modest increase in that, but I wouldn't see that as something that would be significant and the reason why I talk to that modest increase is obviously we've been doing this billion of investment, as that goes on the balance sheet and as investments come online, now it doesn't all go on the balance sheet,

you've got capitalisation factors as how much goes on, but as that goes on, it starts to depreciate so you get to the point of kind of, neutrality over time but there might be a small increase in that...

And I think also the last couple of years we did have some extra costs of COVID, around branch opening times, cleaning regimes, PPE and all that kind of stuff. We obviously saved some costs, because people were working from home, but maybe I'd probably say more in the early days, than we did in the latter days.

But the offset that you see that's why the numbers are not going down is really very much around inflationary pressures around rent rates and utilities.

Rob

Right, thanks very much.

Operator – Dave

Thank you, our next raised hand comes from Ed Firth from KBW, Ed please unmute and go ahead.

KM

Hey Ed, sorry to have missed you on Friday, it's good to have you today.

QUESTION - Ed Firth, KBW

No, not at all, not at all. Sorry my videos not working, I've got a stack of books on top of my computer, so I apologise.

KM

Good to have you here Ed. What can I do for you?

Ed

Well, I'm going to ask a really boring question I'm afraid, it's just back to Ulster. So, I do apologise for that, but I'm just really trying to... if I assume I've got my math right, what you're telling us is that the costs in 2023 will be £250/260m, something like that, so, should we then assume that, does that go to zero by 2025? Is that what we're saying, cos that seems to be to be quite ambitious in a sense that you're struggling to get people to go and you're, I assume we can't assume all functions will be closed by then, so, I mean, what is the sort of, what should that number be? Will the business still be running in 2025?

KM

Our working assumption is that we get the majority of it done by 2022, some further transfer books in 2023, you can assume we're working hard to make some kind of arrangements on the liability side, so that we're not left there supporting it forever, so we're then thinking we would hand back the license, 24 maybe into 25 and then once you see that happening then clearly it folds off significantly. But I think we've given you guidance to 23, I think we need to get a bit further on, and the movement of those books are critical but I think, I would be disappointed if by the time we got to 25 if the costs weren't pretty de minimis, if anything that was there, but I think it all depends about the return of license and things like that, and make sure that none of the groups are taking longer than they should have done.

Ed

Okay, I guess it's an understandable concern that we've seen a lot of banks close divisions over the years, and then when we get to within a year of the end people roll it all in and there's actually still a couple of hundred million of cost still in there and a load of risk rated assets and they just say oh forget about those...

KM

Yeah, no, so, I think that we've had Ed as you know, we closed down our entire European network, what that hasn't done is left a lot of random costs for places like Spain and Italy and all of those kinds of places. We do obviously still carry costs in Germany because of the access to the Euro piece there, we've obviously got our NV section but that's for different reasons, not because of the inability to close down, so we're quite good at getting rid of costs where you have the visibility of them and the nice thing about when they're all in country costs, then you have very good visibility.

So, we would consider that, that's something you would have to continue to push through on, to make sure you weren't then carrying any material amounts that you should be getting rid of, so I would hope to see them go off.

Look, you might have a small amount that's dragging on, but it should be pretty de minimis. What kind of happens is you end up emptying the office and then you end up handing some bits that have to be done in country to some kind of professional services firm and then you're able to then track those bills and then how do you get them out, and what we do a really interesting page at the very, very back of the annual report, I can't remember what page number it is but it shows you the taxes that we pay in country and the amount of people that are employed in country and it's a really helpful piece for analysis because what you want to see is the over multi-year period that, that list is really diminishing and what you can see if you were to put 5 years of financial statements beside each other in that report you'd see that yeah, they would definitely, they really have got to zero in these countries, that they have left so we've got a good track record of doing it, we'd like to think it was all done by 23, that's absolutely not realistic, but we would certainly hope that we would be done in the timeline that you're talking to.

Ed

Right and I just had another question on corporate loans. What's your view of that, because I noticed in the fourth quarter, they had gone negative and I mean that can just be a year-end thing, I don't know, but what's your expectation. My sense in the markets, it's all quite lack lustre, but I don't know whether that's just sector data?

KM

Yeah, when we spoke at Q3, Ed, what I would have been talking about was, we really thought at that point that the next quarter would pivot much more into growth once you adjust for the noise of the government repayment schemes. I think that what we saw there was, we saw nice growth in our invoice financing and our asset financing business, but what we didn't see was such strong growth coming through in the core mid to large corps. We see that some limits internally, we can see that they are proven, you can't really see that externally because they get lost in noise of movements, but to see that is helpful. But at the same time, we also see that the RCF is sitting at 19% utilisation whereas we would have viewed 24% as much more standard.

They have much more liquidity, so that's very understandable, but I think that growth in invoicing and asset finance is a nice tick, but I guess we'd all like to see it get a little bit more than that so when it goes into real growth of that line as well, so Ed, we do think it will come, we can see activities, their relationship manager conversations, we can see that they're coming, but how do we just continue to see the benefit of that.

Ed

So, you would expect it to steadily pick up during the year, is that the way?

KM

I think that that's fair, yeah, I think that that's fair. I think steadily picking up as the year progresses.

Ed

Great, thanks very much.

KM

Lovely thanks Ed.

Operator – Dave

Thank you, our next raised hand is from Aman Rakkar from Barclays, Aman please unmute and go ahead.

QUESTION - Aman Rakkar, Barclays

Hi Katie, good to see you as well. 3 questions, quick ones if I may. First one was on rate sensitivity again, sorry to ask. I guess for the movement from base rate from 10 basis points up to 100 basis points, I guess one of my takeaways or interpretation of the sensitivity is that maybe the prior disclosure that was given in H1 is probably more of a meaningful guide in terms of NII upside and then things from 100 basis points and above, maybe disclosure hasn't presented on Friday. First of all, was just to check my understanding there, secondly would be, from the commentary and the discussion pass throughs early in the cycle are low, when I track your retail savings pass through I can't really see you to have passed on much at all, maybe certain term products and ISAs and notice accounts, so it does seem as though deposit betas maybe very low, I was interested in, if you weren't able to talk about the pass throughs specifically, I mean how does your NII uplift compare to what you disclosed in H1 for the 15 basis points we had in December and any comment you can make about the February hike we've seen as well?

Is it in line, is it above or is it below for some reason? Whatever the moving parts there would be really useful.

I guess second would be around loan growth, sorry, I don't know if we actually ran through this the other day, but what are your expectations for loan growth for the go forward business in 22 and 23? And I guess related to that, would be, expectations for consumer credit, I'm interested in how you're thinking about consumer credit, particularly your current environment, the real wage squeeze that we're all worrying about, do you see that as a headwind or is that a tailwind as house odds smooth consumption, how do you think about the credit quality of those customers, how are you safely picking credits in this environment? Thank you.

KM

Yeah sure, if I miss any of those points, do come back to me. Look, so a couple of things I would say is that the guides we have given above £11bn that's obviously working on a rate increase that gets you to 125 basis points by Q4, so that delta from 10 basis points up to the 125 basis points, is kind of assumed in there, but I would also say Aman if you looked at the one that we published in June, where it was basically publishing off a 10 basis point rise, to now, you can see that there was more benefit to the shareholder than there is now, so you do, above the 100 basis points, which is where the December rate was cut, the pass through is kind of pretty steady. So, it doesn't, once you go from 100 to 125 to 150 it doesn't move a lot in terms of those numbers, so if you were to compare the two, I'm slightly loathed that you'll get me comparing different rate sensitivities over lots of different quarters, so, but the way you're thinking about it is appropriate because they were cut at such different rates, but the pass through up to the 125 is all built into the above £11bn piece there.

And ultimately, it is important to remember that whatever our pass through does, while we build it product by product, with the businesses as we're looking at any of the assumption changes, ultimately it depends on what happens in the market, and so, given that we haven't seen a lot of pass through come through at that 50 basis point rise, you could question whether that was a variance from what our assumption may have been.

So, I think, and I'm not going to get into the, that probably gives you enough guidance in terms of how you might think of it, but the comparison between the two is interesting definitely, but it is smoothed out.

In terms of loan growth, we feel pretty positive on loan growth as we go through. We still expect mortgages to increase, we're at 11% market share, the flow share of 11.5 for the quarter, 12.3 in December, so that's quite positive in terms of that piece, we've got to balance the volume and price conversation which we've spoken about earlier on this call.

In terms of consumer credit. I think for us, we're in a bit of a different place than some of our peers on that, because we are so low, we're 6% of the market, we give credit to our customers, we don't give credit to a whole of market offering, now, in a different question, we would talk about how that is also a limitation, as well as a comfort in terms of that piece, we're comfortable with the growth that we're seeing, we're comfortable with our new card issuance, we do see the balances growing but they're growing slowly and we know that credit card balances, they do grow slowly, it's not something that you see huge growth in there, so we're very aware of that...

We talked quite a bit in the call on Friday but we're not yet seeing signs of the real wage squeeze but I also don't, people today have a fear of the real wage squeeze rather than necessarily the squeeze cos we know energy rates are only going to be moving in April, if you are on a 2 year mortgage deal, if you wasn't expiring in the last 6 months, your deal hasn't changed, you've still got an incredibly low rate, so when you come up for that renewal piece, we haven't seen that yet, but I think the thing for us, because we are lending to our own customers, then we have a bit more visibility in terms of where they are, we aren't seeing the underlying metrics.

Then if I think of loan growth going further down, we just spoke about commercial, a moment ago, so I won't talk more to that, but we would expect to see that come in as well.

And then happy, I think I hit them all there Aman?

Aman

Yeah, no you did, I guess I was just thinking around the NIM benefit that you might expect from consumer credit, as that positive asset mix might come through, is that something...

KM

I think it did help us a bit in Q4, so if we look at Q4 there were 2 basis points from the structural hedge and yield curve movements and 1 on mix and pricing, and so that was definitely helped by a bit of the growth in that space, so we would expect it to help us a little bit which is an area which is why we're giving it so much focus to make sure that we, so we've gone back to 6%, still pretty small for the market that we have, and the customer base that we have, so, it's something that we do see as an important other leg to have to be able to do something with, so it's definitely something of focus.

Aman

Okay, thank you so much.

Operator – Dave

Thank you, our next raised hand comes from Tom Jenkins from Jefferies, Tom, please unmute and go ahead.

QUESTION - Tom Jenkins, Jefferies

Ah hello there, how are you?

KM

All good.

Tom

Super. Just a couple of quick ones moving to the debt side of fixed income, give you a breather from interest rates and sensitivities. I've got a couple of questions, they're really quick answers, first of all, thank you for the fixed income slide deck, it's always very useful. The capital actions you've announced so far, this year, versus the legacy stack you have outstanding. Now obviously, you've probably been single most active in terms of redeeming retiring your debt stack, legacy debt stack, you've still got, I'm guessing, about £850m taken out so far this year, so that still leaves, what about, 1.5 maybe a little bit more left outstanding, just rough number, 1.7 maybe.

The couple of questions on this, one is, I know in the past you've mentioned that you have a budget, that you set a budget to annually as to what you want to take out and I'm guessing that's a moveable feast anyway, I'm not asking for the number but I'm thinking, in terms of what you've got left say that 1.6/7 bn, if you're still doing the budget angle is there enough to cover the whole number do you think or are we looking at maybe scaling that?

KM

I'm going to let Donal go in, his area of specialist knowledge, Donal, what's your plan, I have to say Donal is an absolute shark, no matter what number he has, he always seems to tell me he's beaten the budget, so....

KM

Donal, how would you answer that question?

DQ

Yes so, I suppose, what's been taken in Q1, you've seen we've already disclosed the capital hit on the FX retranslation, 16 basis points, so that brings us to a sub £2bn outstanding of which, if I look at that, we talk about £1.3bn which will actually mature this year, so, in effect, maturity obviously no impact, so if you strip that out as well, that's a small remaining pool of £600/700m of which there's further maturities in that, so I think, really overall the way I would look at it is, from a budget perspective, it's not gonna be material compared to some of the actions that we've taken in previous years as I look forward.

Tom

Fine, and then, for those that are left outstanding, that do extend, is there a focus to priority for the Group or for subsidiaries or is it just whatever suits at the time?

DQ

Yeah so, and we don't really differentiate, ideally, we want as we said a kind of cleaner stack as possible so there is definitely some long dated subsidiary debt in there that will obviously take a bit of budget to address. Also, as well we know that it'll be through liability managed with exercises so we know there will be a drag and we're not going to clear out the bulk of the remainder there, so there will be a tail I think for a

number of years. But I think, the way I would look at it, post the end of this year, we're looking at a £600/700 million figure, which then we'll address over the next few years through ongoing liability managed exercises etc...

Tom

Okay, that's lovely, and then finally just on Ulster stack bonds the Prefs, I know they're tiny, they're minimal, is there, maybe I should know this already, are those going to be transferred in the sale or do you anticipate yourselves still remaining responsible for that liability should we say or those two liabilities?

DQ

Just working through the legal implications of that, so hopefully we'll be able to provide more guidance as we go through the year.

Tom

Okay, thanks very much indeed. Much appreciated.

KM

Lovely, thanks Tom.

Operator – Dave

Katie/Donal, we have no further questions so Katie, I'll hand back to you, to close the session, thank you.

KM

Lovely thank you very much Dave and thank you everybody for your time this afternoon. It really is appreciated that you take time to spend with us, I know it's still a busy week for you all as well. So, have a good week and I'm sure we'll catch up with many of you over the next coming weeks. Take care, thanks very much.