



**NatWest Group plc**

**FY 2022 Results – Management presentation**

**17<sup>th</sup> February 2022**

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## **Management Script**

Good morning and welcome to NatWest Group Annual Results 2022 Management Presentation. Today's presentation will be hosted by Chairman, Howard Davies; CEO, Alison Rose; and CFO, Katie Murray. After the presentation, we will open up for questions. Howard, please go ahead.

### **Howard Davies**

Good morning, everyone, and thank you for joining Alison, Katie and me for our Full-Year 2022 results presentation.

Against a difficult and uncertain backdrop, with at times turbulent financial markets, NatWest Group delivered a strong financial performance in 2022. We achieved continued growth in our lending and progress against our strategy.

In addition, the UK Government's shareholding fell below 50% for the first time since the financial crisis. They have continued to sell in the market and their stake is now well below 44%.

While the majority stake in itself had no material effect on the way the bank operates - and the government did not and does not interfere in our commercial decisions – it was an important milestone, underlining the progress we have made in recent years.

The outlook for this year remains challenging, with a decline in economic activity expected and a further tightening of real incomes which will inevitably affect spending and borrowing.

But our strong financial performance, continued capital generation and robust balance sheet mean that we nonetheless look forward with confidence.

Our strong capital position also allowed us to continue lending through the pandemic while investing to create a simpler and better banking experience for our customers, and delivering on our purpose, about which Alison will say more shortly.

I am confident that the bank's strategy will ensure we can continue to support all of our stakeholders and to deliver sustainable growth and returns in the years to come.

With that, I will hand over to Alison who will take you through our results and our future priorities in more detail.

### **Alison Rose**

Thank you, Howard and good morning.

I will start with a business overview and our priorities going forward before Katie takes you through the bank's performance for 2022. We will then open it up for questions.

You can see the strength and resilience of our business in the results we are announcing today. In a difficult macro-economic environment, we remain well positioned as a result of our strong customer franchise, disciplined risk management and robust balance sheet as we continue to support customers in order to generate growth. So, let's start with the highlights...

We delivered operating profit for the full year of 5.1billion, up 34% on the prior year, with attributable profit of 3.3 billion.

Our return on tangible equity was 12.3%, up from 9.4% in 2021.

We are reporting income of 13.1 billion and we have continued our tight cost discipline, reducing expenses by 2.9%, in line with our target. This resulted in a much improved cost-income ratio of 55.5%, down from 70% for 2021.

During the year we distributed or accrued a total of 5.1bn for shareholders which comprised:

£1.3 billion in ordinary dividends – above our committed distribution of at least a billion pounds, a special dividend of 1.75 billion announced at the half year, the directed buyback of 1.2 billion completed last March and our third on market buy back announced today of 800 million.

As a result, our Common Equity Tier One ratio at the year-end was 14.2%, in line with our target. We have made excellent progress on the strategic priorities we set out three years ago. Despite the disruption caused by a global pandemic and the Russian invasion of Ukraine we have remained focussed on supporting our customers and delivering on our commitments. We have delivered organic growth as we improved both our offering and service for customers; We have maintained tight cost discipline yet continued to invest for the future in our digital transformation; We have refocused our markets business and made significant progress on our phased withdrawal from Ulster Bank Republic of Ireland, so we are now much more capital efficient.

This has delivered an excellent outcome for shareholders with very significant distributions and a return on tangible equity of 12.3%, well above our initial target.

In an uncertain economic environment our strong balance sheet, high quality deposit base and disciplined risk management continue to give us a competitive edge.

Whilst arrears are currently broadly stable, we are very aware of the pressures that customers face as a result of high inflation, a steep increase in energy prices and a challenging macro-economic environment.

The strength of our balance sheet – evidenced here by our capital, leverage and liquidity ratios – together with the quality of our loan book – which is almost all secured in personal lending with prudent loan to value ratios - makes it possible for us to continue supporting customers and the UK economy through difficult times.

Given the uncertain economic outlook our purpose led strategy has never been more relevant. We have continued to support customers by lending responsibly and helping them save for the future, with lending across our three business segments up 6.7% year on year. We have also proactively contacted customers with advice on managing the cost of living, carried out free financial health checks, delivered hardship funding through charities and offered targeted support such as forbearance for those in need.

Our colleagues face the same challenges as our customers, so we have supported them with targeted pay rises for the lowest paid, as well as enhanced parental leave and ongoing training and development. Three years ago, I outlined four strategic priorities designed to achieve sustainable returns for shareholders, so I'd like to update you on our progress since then.

By supporting our customers across every stage of their lives we have continued to grow organically and built on our strong franchises. Customers want a bank that is easier to deal with, so we have invested in digital transformation to simplify our processes and improve customer journeys at the same time as reducing costs and increasing efficiency.

For example, 72% of new retail accounts were opened with straight through processing in 2022 compared to just 14% in 2019; 88% of retail customer needs were met digitally; and over 60% of our retail customers are now digital only.

We are also using data analytics more effectively so around 12 million personalised messages were acted on by customers last year, up nearly 40% on 2021. All this has significantly improved customer satisfaction. Since 2019 our Retail Net Promoter Score has increased from 4 to 22, our affluent Net Promoter Score has gone from minus 2 to 25, and we have the leading Net Promoter Score for commercial banking in the UK at 22.

We also set out to deploy capital more effectively within a culture of strong risk management. We have reduced our RWA density from 53 to 47%, and by refocussing Natwest Markets and making significant progress on our phased withdrawal from Ulster Bank Republic of Ireland, we have decreased RWA's by 20.8 billion within these entities.

We actively manage risk by maintaining a well-diversified loan book where we monitor at-risk sectors closely.

Our focus on driving innovation and developing strategic partnerships is enabling us to offer customers a wider range of services. As the leading commercial bank in the UK, we are proud of our digital only business bank, Mettle, which now serves 44,000 customers.

And we are building out a comprehensive payments proposition for our commercial customers which includes our payment provider Tyl, and a platform using the UK's open banking infrastructure called Payit.

Our new strategic partnership with Vodeno Group, is just one example of how we are accessing the expertise of others and combining it with our own to deliver innovation. By putting Vodeno's technological capabilities and cloud platform together with banking technology developed by Mettle we aim to create a leading UK Banking-as-a-Service business.

In short, we are now serving existing customers better and gaining new ones as a result of our focus on deepening relationships, digital transformation and the provision of a wider range of innovative services. I'd like to move on now to our plans going forward.

Over the past 3 years we have successfully delivered our transformation - this is now a simpler organisation that is more focused, more capital efficient and easier for our customers to interact with. The purpose and priorities we set out three years ago will not change. We will continue: to be purpose-led helping our customers to thrive, to focus on becoming a simpler organisation that is highly cost-efficient; to allocate our capital and resources on areas that generate the best returns for shareholders; and to advance digitalisation as well as foster innovation through strategic partnerships to better serve our customers.

But we are shifting our investment over the next 3 years more towards growth and we are now focussed on further acceleration: First, by increasing our personalised engagement with customers at every stage of their lives – we've shown that we can generate value for both customers and shareholders by deepening relationships.

Second, by leveraging our competitive edge as a leading UK provider of renewable financing to support customers in their transition to a net zero economy.

And third, by further embedding our services into customers' digital lives – our customers spend more time online than ever before and we have to be where they are. We are doing all this to

deliver sustainable growth and diversification of income as we participate in areas which are set to outgrow traditional banking revenue pools. So let me give you some examples in each of our businesses.

In Retail Banking we start from a strong position with 17 million customers, strong net promoter scores, and a growing share in mortgages and credit cards.

Yet we have capacity to grow further by driving higher levels of engagement and enhancing our customer proposition. For example, we are strengthening our youth and family offering to build on the success of our Rooster Money acquisition, which helps young children manage money. Last year we connected Rooster with our own app which resulted in 90,000 new card openings during the year. We know that customers who join us in childhood have greater lifetime value than those who join as adults, and that when we serve a full family, parents become more valuable.

Supporting households to act on energy efficiency is not just an essential part of making a transition to a net zero economy but also commercially valuable. That's why we are funding a green home retrofit pilot, helping customers to decide what improvements they need to make and then financing solutions such as insulation upgrades, heat pumps and solar panels.

Our green mortgages offer a discounted interest rate to customers who buy a property with an energy efficiency rating of A or B. As part of our ambition to provide £100 billion of Climate and Sustainable Funding and Financing, we aim to make at least £10 billion of lending available for homes with these ratings by the end of 2025, helping homeowners to improve energy efficiency and reduce emissions.

Further embedding our services in our customers' digital lives allows us to improve both customer experience and our own efficiency. A good example of this is our digital only mortgages. We were the first UK bank to offer a paperless mortgage so that an offer could be made within 24 hours. This has completely transformed the process of buying a property, as well as increased our market share, and we are building on this success to grow our share further.

We will also support financial wellbeing by extending our free credit score service, which is currently available just for our own customers, to everyone in the UK.

One of the major changes we have made in our Private Bank is making better use of our asset management expertise to serve our customers more effectively across the Group.

This has enabled us to grow assets under management to 33.4 billion since 2019 delivering a strong performance, despite significant macroeconomic challenges, with £6.5 billion of net new money, and a 60% increase in digital net new money.

We saw new customer inflows of 5% into our Private Bank in 2022, of which a fifth were referrals from other parts of the Group, and we see a significant opportunity to grow assets under management further by increasing the number of referrals.

We also plan to scale our wealth offering which includes not just investing but also saving, lending and financial planning. We want to help more people invest sustainably and have set a target for our own discretionary funds to achieve net zero by 2050. And as we continue to embed our services in customers' digital lives, we are enhancing and expanding our digital investment platform, Natwest Invest.

This week we have also announced our intention to acquire a majority stake in a fintech, Cushon.

This allows us to enter the workplace savings and pension market which is expected to double in size to well over a trillion pounds by 2031.

After a successful pilot last year, we plan to extend their offering to our commercial customers in order to improve financial wellbeing as well as drive long-term fee income.

Last year we created a new business segment bringing together Commercial and Institutional Banking. This is now a less capital-intensive business, helping to extend our expertise in foreign exchange, interest rate management and capital markets to more commercial customers.

As we look to the future, we plan to continue growing our share in start-ups and high growth businesses. We are the number one UK high street bank for start-ups with a share of 16.4%.

Last year we opened 99,000 new start-up accounts, almost 40% of which were via Mettle. This is supported by our regional network of accelerator hubs which offers a programme specifically tailored to high growth businesses.

We also plan to launch a new enhanced trade finance platform to meet more customers international needs.

We have an important role to play in helping our business customers transition to a net zero economy. We are already a leading underwriter and provider of renewable financing in the UK.

We have delivered over £27bn of Climate and Sustainable Funding and Financing towards our £100 billion target; we have led a collaboration with other banks to launch Carbon Place, the world's first marketplace for carbon offsets; and we are rolling out the Natwest Carbon planner launched last summer which is a free platform to help SME's reduce their carbon footprint.

Good examples of embedding our services in customers digital lives include building out our comprehensive payments proposition delivered through Tyl and Payit as well as extending our foreign exchange offering via digital channels.

At the same time as focussing on targeted growth we will continue our strong track record of disciplined cost management and investment. Since 2020 we have made an 18 percentage point improvement in our cost income ratio

We are targeting a ratio below 52% this year and less than 50% on a sustainable basis by 2025. We are now two years through our 3 billion investment programme with a significant proportion going into our digital transformation. We expect to invest in the region of 3.5 billion over the next 3 years but you can see the mix of spend change as our digital transformation advances.

We will also continue to deploy capital effectively across the business. You can see here how our allocation of capital has changed since 2019 with a reduction of RWA's in Commercial and Institutional and Ulster Bank Republic of Ireland, and an increase in the Retail Bank.

This more effective deployment of capital, combined with our strong capital generation, has enabled us to support our customers in difficult times as well as invest for growth, consider other strategic options and make shareholder distributions of almost £11 billion since 2019.

By continuing to deliver targeted growth, to manage cost in a disciplined manner, and to deploy our capital effectively we plan to operate with a CET1 ratio of 13 to 14% over the medium term and deliver a sustainable return on tangible equity of 14 to 16%.

We expect to generate and return significant capital to shareholders in 2023 and intend to maintain our pay-out ratio of 40% with the capacity to deploy any excess capital by making additional buybacks.

Thank you very much – I'll now hand over to Katie to take you through our full year performance in more detail.

### **Katie Murray**

Thank you, Alison. I'll start with performance in the fourth quarter using the third quarter as a comparator.

Total income increased 14.8% to £3.7bn. Income excluding all notable items was 3.8 billion, up 10.9%. Within this, Net interest income was up 10.2% at £2.9 billion and Non-interest income was up 13.2% at £857 million.

Operating expenses rose 12.8% to £2.1bn including Ulster exit costs and the annual UK bank levy. The impairment charge decreased to £144 million or 16 basis points of loans. This brings the full year charge to 9 basis points, in line with our guidance of less than 10. Taking all of this together, we delivered operating profit before tax of £1.4 billion. Profit attributable to ordinary shareholders was £1.3 billion, after the benefit of deferred and other tax credits. And return on tangible equity was 20.6%, including a 6 percentage point benefit from tax credits. Before I take you through our performance in more detail, I'd like to share some of our assumptions about the economic outlook on my next slide.

We are showing you here our current expectations for interest rates and economic activity. Clearly the backdrop of low economic growth and high inflation makes this a challenging time for our customers. There are some signs that inflation peaked in October last year, though it remains high at around 10%.

Our base case assumption is that inflation will fall to the Bank of England 2% target by mid-2024, resulting in interest rates reducing from the second quarter of that year to 3.25% by the year end. We have not modelled any further rise in interest rates beyond the Bank of England's decision earlier this month to increase them to 4%. It is also worth noting that we assume the 5 Year Swap rate will steadily decline from 3.6%, averaging 3.3% over 2023. This is important for the rollover of our hedge positions which I will talk about later. All-in, our outlook is aligned to the consensus of forecasts from economists with both upside and downside risks. We will monitor and react to market conditions as they develop during the year. However, we are pleased that the macro-environment has stabilised since we spoke at Q3, and we note the improved outlook from the Bank of England this month. I'd like to move on now to net interest income on slide 19.

Strong momentum continued as Net interest income increased 10.2% to 2.9 billion. This was the result of higher lending volumes, with growth across all three businesses, and higher margin. We also incurred a one off £41 million

impact from the redemption of legacy debt, in line with our disclosure in December. Net Interest Margin, excluding notable items, increased 26 basis points to 325. Wider deposit margins added 44 basis points reflecting: the benefit of higher UK base rates, which increased by 125 basis points in the quarter net of pass-through to our customers, and higher swap rates on our structural hedge. This was partly offset by a 10 basis point reduction as a result of lower mortgage margins on the front book and a 2 basis point reduction from Commercial & Institutional fixed rate lending. Net interest margin for the full year of 285 basis points is in line with our guidance of more than 280. If the current UK base rate remains at 4% throughout 2023 we expect NIM to average around 320 basis points for the full year. This takes into account: the run-rate benefit of recent base rate increases net of further pass-through to customers; the reinvestment of the hedge into higher swap rates; lower front book mortgage margins; the reduction in deposits towards the end of 2022; and further mix changes in deposits. Average Interest-earning assets increased by 1.5% in the quarter to £355.8 billion, driven by higher lending. The future impact of these assets on NIM is dependent on lending volumes since they do not include the Liquid Asset Buffer. Turning to loans on the next slide...

We are pleased to have delivered a strong year of balanced growth across the Group. Gross loans to customers across our three businesses increased by 6.7% or £21.9 billion to £350 billion, year on year, of which £3 billion was in the fourth quarter. Taking Retail Banking together with Private Banking, Mortgage balances grew by £4.7 billion or 2.4% in the quarter. Gross new mortgage lending for the full year was a record £45 billion, representing flow share of 14%. Combined with good retention this resulted in our stock share growing from 11.8% at the end of 2021 to 12.3% at the end of 2022. Unsecured balances increased by a further 200 million in the quarter to £14.2 billion, driven by higher spending on credit cards. In Commercial & Institutional, gross customer loans decreased by £2.0 billion. This was driven by continued repayment of government lending schemes which reduced by £1.4 billion in the quarter and £3.4 billion over the year. Within this, mid-sized corporates increased borrowing by £1.0 billion, driven by working capital demands and asset financing. This was offset by net repayments from large corporate and institutional customers reflecting usual year-end balance sheet management. I'd like to turn now to deposits on slide 21.

Customer deposits across the Group were £450 billion at the end of 2022 - down 4.8% in the quarter. This includes a reduction of £5.1 billion in Ulster Bank as customers moved to other banks as expected. Across our three businesses deposits amount to 433 billion, over £80 billion more than loans, resulting in a loan to deposit ratio of 80%. During the fourth quarter, deposits reduced by 15 billion of which 12 billion was in Commercial & Institutional. When I look at this 12 billion:

One third was the result of typical year-end movements including a reduction in system liquidity. Another third was caused by lower foreign currency balances as a result of market volatility. And the final third was balance



attrition where we took the decision not to compete aggressively on price for balances with low margin and low liquidity value, given our strong funding and liquidity position. Across Retail Banking and Private Banking, deposits were down £3.5 billion, as a result of lower current account balances, in line with trends across the UK banking sector. Around 60% of our deposits are interest bearing and 40% are non-interest bearing, in line with the third quarter and prior year. Within interest bearing balances there is some migration from instant access to term accounts, which is positive from a relationship perspective but clearly has an impact on deposit margins. We launched a new fixed term savings product for Retail customers in January to meet rising demand and this is going well. We remain competitive across our customer savings rates and continue to pass through higher interest rates. Including recent pricing decisions after the base rate increase to 4%, our cumulative pass through is now around 35% across interest-bearing deposits, up from 25-30% at Q3. As I said earlier, in our current modelling there are no further base rate increases from here and we expect rates to start coming down in the second quarter of 2024. Our disclosures show the third-party funding rate for our three businesses, which reflects the average cost of all deposits, including those that are non-interest bearing. Here you will see that the rise in customer deposit rates has lagged the increase in base rates. The outlook for customer deposit rates will be a function of customer behaviour as well as competition. We expect the average cost of customer deposits to continue trending higher in the coming quarters as a result of recent pass-through decisions as well as a change in mix, as customers move to term and higher yielding accounts though the pace of this change is clearly uncertain. Turning now to our structural hedge on slide 22.

As you know, we hedge the majority of our current accounts and a smaller proportion of instant access savings, so from deposit balances totalling £450 billion, 184 billion are included in the product structural hedge. The notional amount was stable during the quarter. Given the reduction and mix change of deposits in Q4 we do not expect to reinvest all the balances maturing during 2023, which is approximately 40 billion.

As we show in the chart, before we consider reinvestment, product hedges already written will deliver income of £2 billion in 2023. In addition to this you should consider the reinvestment yield available with 5Y swaps - we model an average reinvestment yield of 3.3% for 2023 compared to a rate of 3.75% today and relative to an average redemption yield of around 1.1%. The volume of hedges that are reinvested will be a function of both the flow and mix of deposits.

If there were no change to year-end deposit volumes or mix, we would expect the product hedge notional to reduce by 5 billion over the next 12 months. I'd like to turn now to non-interest income on slide 23...

Non-interest income, excluding notable items, was £857 million, up £100 million on the third quarter. This was driven by Fees and commissions which increased £62 million to £615 million, due to higher lending fees, increased

investment fee income and the end of our no fee Foreign Exchange offer for Retail customers. Looking back over the full year, we are pleased that non-interest income, increased 19% year-on-year to £3.2 billion. There was a more stable trading performance following the completion of our Markets restructuring. And net fees and commissions grew 8% as a result of increased customer activity, combined with the impact of inflation on nominal spending. Going forward non-interest income will be influenced by economic activity and customer confidence as you would expect. I'll summarise our income performance and outlook on the next slide.

2022 income, excluding notable items, was 13.1 billion, up £3 billion or 30% year on year. This exceeded our expectations largely due to our strong lending performance and the pace of interest rate increases which resulted in net interest margin of 285 basis points. In 2023 we expect group income, excluding notable items, to grow about 13% to around £14.8 billion, with Net Interest Margin of about 320 basis points. This is modelled on the assumption of a stable UK Base rate of 4% throughout the year with full run-rate benefits into the second quarter. Income will also be driven by the positive impact of our hedge reinvestment; the negative roll on mortgage refinancing; volume and mix development across the balance sheet; as well as consumer and Markets activity. Turning now to Costs on slide 25.

Other operating expenses for the go-forward group were £6.6 billion for 2022. That's down £201 million or 2.9% on the prior year, in line with our guidance. This was driven by continued automation of customer journeys. I am going to break down our cost base to give you full transparency on this and our ongoing tight management of expenses. Now that Ulster is in central items, we start with £6.6 billion for 2022; we incurred £221 million of Ulster indirect costs, which we expect to reduce over time but as these costs are shared they will not disappear completely. This takes us to £6.9 billion. Ulster direct costs of £433 million include £195 million of exit costs, most of which was booked in the fourth quarter. This brings us to Group other operating expenses of £7.3 billion, as per the Income Statement. Turning now to 2023 costs on the next slide...

We start with 6.9 billion of operating expenses for 2022, excluding Ulster direct costs. Acquisitions include the impact of both Vodeno and Cushon, which we announced this week. So, proforma for acquisitions, 2022 costs are around £7 billion, which I view as the business-as-usual cost base of the group. In 2023 we expect this to grow by around 5 per cent to about £7.3 billion. And with another £300 million of Ulster direct costs, this takes us to expected group other operating expenses of £7.6 billion. We also expect a further improvement in operational leverage with a reduction in the cost income ratio from 56 to below 52% for the year. Litigation and conduct costs totalled £385 million for 2022 and we expect them to be broadly in line with this in 2023, though as you know these costs can fluctuate. So let me tell you more about the drivers of cost in 2023 on slide 27...

Staff costs represent around half our operating expense, a further 23% are admin costs with the remainder Property and Depreciation. In 2023 we expect

other operating expenses to increase 4% on a reported basis to around £7.6 billion, including reduced Ulster direct costs. This increase is driven by Staff and admin costs. We manage salary costs carefully and will continue to do so. Staff costs were broadly stable in 2022 as the impact of a 3.6% pay award and cost of living support was offset by lower average headcount. In 2023 the average pay award is 6.4% effective from April, and in addition we made one off payments of around £60 million to staff in January to support ongoing cost of living pressures. Admin costs increased 8% in 2022 as a result of strategic investment in data and financial crime prevention. We are now seeing higher inflation feed through into supplier contract renewals which is the main driver of growth in 2023. We expect Premise and equipment costs to be broadly stable this year and for Depreciation and Amortisation to increase slightly as a result of higher investment. I'd like to turn now to credit risk on slide 28...

We have a well-diversified prime loan book. Over 50% of our Group lending consists of mortgages, where the average Loan to Value is 53% or 69% on new business. Overall, we have low levels of arrears and forbearance in our mortgage book. 92% of our book is at fixed rate, 4% are trackers and 4% is on a Standard Variable Rate. Two thirds of mortgage balances are on 5-year fixed rates and a quarter are 2 year. 17% of the book is interest only, most of which is our Buy-to-Let book with the rest concentrated in our Private Bank. Our personal unsecured exposure is less than 4% of group lending and is performing in line with expectations. Our corporate book is well diversified, and we have brought down concentration risk over the past decade. For example, our Commercial Real Estate exposure represents less than 5% of group loans, with an average loan to value of 47%. Whilst we have a well-diversified, high quality loan book with a low level of defaults we are mindful of the economic uncertainty so let me tell you how we have addressed this on slide 29...

We have four economic scenarios where we have updated our forecasts and relative weightings. For 2023, this has driven a slight improvement in our weighted-average expectations for GDP but a deterioration in levels of employment, which are the two key drivers of expected loss.

In terms of sensitivity, 100% weighting to the Extreme Downside scenario would increase Stage 1 and 2 Expected Credit Loss by a further £1.6 billion or around 40 basis points of loans. In this scenario, Stage 3 Expected Credit Loss would also increase though this is not modelled here. The net effect of changes to economic forecasts in the fourth quarter is an increase of £171 million in the good book Expected Credit Loss provisions. Overall, Expected Credit Loss reduced during 2022, reflecting the phased withdrawal of Ulster Bank Republic of Ireland, stable trends in portfolio performance and a related net release of post model adjustments and write-offs.

The Post Model Adjustment for economic uncertainty decreased by £193 million in the fourth quarter to £352 million. We continue to be cautious on the release of these provisions as we have yet to see the full impact of economic and cost of living challenges play out. Turning now to look at impairments on slide 30.

We reported a net impairment charge of £144 million in the fourth quarter, equivalent to 16 basis points of loans on an annualised basis. This took our charge for the full year to £337 million, equivalent to 9 basis points of loans.

You can see that our impairment charge has largely been driven by unsecured lending and commercial property, where we have relatively small exposures. You will also see that our ECL coverage of unsecured and property exposure compares favourably with pre-COVID levels. As you know, our through-the-cycle impairment guidance is 20-30 basis points, and I continue to see this as an appropriate level for 2023, given both the economic outlook and relatively benign trends in our book. Turning now to look at Capital and Risk Weighted Assets on slide 31.

We ended the fourth quarter with a Common Equity Tier 1 ratio of 14.2%, down 10 basis points on the third quarter. We generated 59 basis points of capital from earnings. This was net of deferred tax credits, which are not recognised in CET1 capital, and changes to IFRS 9 transitional relief.

This was offset by accruals for shareholder distributions of 79 basis points and the final pension accrual of 5 basis points. Given the strong funding position of the pension fund we have reached agreement not to make a final £500 million cash payment in 2023 but have set it aside in case of future need, which we view as a low probability. We do not expect any further capital deductions for pension contributions going forward.

RWAs decreased by £2.4 billion due to lower counterparty credit risk and market risk partly offset by a 0.4 billion increase in credit risk. Our phased withdrawal from the Republic of Ireland delivered a further reduction of £2.6 billion as the majority of the residential mortgage portfolio was transferred to Permanent TSB. Procyclicality has remained positive throughout 2022 leading to a total RWA reduction of £4 billion, of which £0.5 billion was in the fourth quarter.

Changes in risk weightings are typically driven by events that increase the probability of default, so we would need to see an increase in defaults and stage 3 charges before RWA's are meaningfully impacted. We expect a normalisation of risk parameters in our medium term RWA guidance.

And we anticipate an increase in RWAs of 5-10% between the end of 2022 and 2025, which includes possible procyclicality and the day 1 impact of Basel 3.1. Turning now to our balance sheet strength on slide 32...

Our CET1 ratio of 14.2% is moving towards our range of 13-14% as planned. Our UK leverage ratio of 5.4% increased from 5.2% at Q3 and remains well above the Bank of England minimum requirement. Our CET1 ratio of 14.2% is moving towards our range of 13-14% as planned. Our UK leverage ratio of 5.4% increased from 5.2% at Q3 and remains well above the Bank of England minimum requirement. Our liquidity coverage ratio of 145% is down from Q3 due to higher lending across our three businesses and the reduction in surplus deposits and we maintained strong liquidity levels, with a high-quality liquid asset pool and stable diverse funding base. Headroom above our minimum is £52 billion. Turning to guidance on my final slide...

In 2023 we expect: income, excluding notable items, to be around 14.8 billion, Net Interest Margin of about 3.2%, and group operating costs, excluding litigation and conduct, to be around £7.6 billion, delivering an improvement in the cost income ratio to below 52%. We anticipate a loan impairment rate in the range of 20-30 basis points, and together we expect this to lead to a Return on Tangible Equity of 14 to 16%, and to be at the upper end of this range. As Alison said earlier, we expect to return significant capital to shareholders in 2023 and we also have permission from the PRA to participate in a direct buyback from the UK government of up to 4.99% of issued share capital. With that I'll hand back to Alison.

### **Alison Rose**

Thank you, Katie. As I look back over the past 3 years, I think it's fair to say that we have dealt with the shock of a global pandemic, the invasion of Ukraine and economic uncertainty by remaining focussed on supporting our customers and delivering our strategic objectives. We now have a simpler more capital efficient organisation which is benefitting from digital transformation and growing customer franchises.

We have met our targets by growing income, reducing costs, and making significant shareholder distributions which has helped to achieve our 2022 target CET1 ratio of 14.2%. As we continue to focus on delivering long term sustainable value for shareholders, we are investing in growth in three ways: by accelerating our engagement with customers at every stage of their lives; by supporting customers in their transition to a low carbon economy; and by further embedding our services into customers' digital lives.

We expect to operate with a CET 1 ratio of 13 to 14% over the medium term and to return significant capital to shareholders in 2023, with a pay-out ratio of 40% and with capacity for additional buybacks. By building on our strong customer franchise and continuing to deliver targeted growth, to manage cost in a disciplined manner, and to deploy our capital effectively, we plan to deliver a sustainable return on tangible equity of 14 to 16% over the medium term. Thank you very much – we'll now open it up for questions.

### **Q&A**

**Operator** Ladies and gentlemen, 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 star nine to raise your hand. Star six to unmute, once prompted. We ask that you limit yourself to two questions each to allow more of you a chance to ask a question.

We will pause for a moment to give everyone an opportunity to signal for questions. We'll take our first question from Raul Sinha of JP Morgan. Well, please do unmute and go ahead.

**Raul Sinha** Hi. Good morning. Thank you very much for taking my questions. The first one is on an NIII and kind of your NIM assumptions. Thank you very much for the long list of assumptions that you've made. They do look very conservative. I guess the one question I have for your assumptions is around the deposit pass

through. I think you talked about 35% so far on interest bearing balances. Can I ask what you might have assumed on that going forward? And I guess related to that, perhaps, Alison can I ask you at the Treasury Select Committee meeting, you talked about how 80% of your depositors had less than £5,000 in their accounts. Can I ask about the customer behavior for the remaining 20%? Are you seeing elevated levels of switching amongst people with higher deposits and do you expect that to be a driver?

Then related to that, if I can ask on the NII medium term, just to try to understand, given your rate assumptions, you obviously expect rate cuts in 2024. Is it, should we assume that NII follows the direction of interest rates medium term? Or do you think that some of the positive drivers, like the structural hedge, the growth in your loan book and unsecured could offset and you end up with a more flat outcome for medium to long term on NII. Thanks.

**Alison**

Great. Thank you very much. So, I'll let Katie pick up some of those. Let me pick up the point around customer deposits and what we're seeing. Look, I think we are we've got strong capital and funding levels. What we've focused on, particularly on consumers, is helping build the savings habit so that 80% of customers with less than £5,000 in their deposit accounts, we've really targeted something called our digital regular saver on that.

And building sort of saving habits that the balance between our NIBBS and IBBS is remained broadly stable which is which is what we're seeing from a behavioral perspective. And then in terms of competitive products, we've offered some fixed term products out to our consumers around the 3 to 4%, we've seen good uptake on that which remain competitive.

So broadly, you know, we're seeing customers engage a little bit more in their financial capability and management of their deposits, but NIBS and IBBS broadly stable. We've got competitive products and we're targeting regular savings. We're not seeing any shift in customer relationships and the liquidity value of outflows have been very low. Katie, do you want to pick up the NIM assumption on pass through?

**Katie**

Yeah, sure. Absolutely. So, as we look at the pass through piece, you obviously at 35% just now, we give you the structural hedge sensitivity in terms of that. That works, as you know, on a static balance sheet, but that is worked on a 50% pass through. I think that's probably a good kind of proxy to go through.

You know, as we go into 2024 and the kind of drivers that you're thinking of there, I think we would expect similar kind of drivers. You can see in our economics that the rate does start to start to fall off at the end of Q1. So hit kind of from Q2. I would say, and it's clearly some uncertainty of how rate rates do evolve in that time.

But we do see benefits coming through on the structural hedge in our assumptions. I talked about in my speech, about 3.33% is the average. You know, if you look at your five-year swap rate stakes a little bit higher, that will give you a little bit of a benefit as you as you move through from here today.

And then obviously, mortgage headwinds and how what happens with them as we move from 2023 and into 2024 will be will be a bit of a movement as well. I hope that that helps you a little bit. Rahul.

Operator Thank you very much. Our next question comes from Alvaro of Morgan Stanley. Alvaro, if you could please go ahead.

Alvaro: Good morning. Hopefully you can hear me. To follow up on margins and another one on cost, please. On margins, just to help us assess the headwinds, I don't suppose you can share with us in the proportion of term deposits within the bunch that are balances. And on the mortgage side, I realise there's been some adjustments to it in the product margin of mortgages in the quarter.

But to assess the headwinds going forward, could you share with us the application margins in Q4 and early trends in January, maybe? And the second question on costs, it's more about a sense of how much visibility you think you have now on costs. Obviously, a year ago you were looking for a reduction, 3%. Now, it's more like five.

Do you feel you've got more certainty now? The outlook has narrowed in terms of curve going forward or you could expect and when I think about Ulster cost or when should we expect that to effectively shut down, is that included in your less than 50% cost income in 2025? Thank you.

Alison Great. Thank you. So let me start with that. Fixed terms, mid-single digits and they don't move very quickly. Cost visibility. I think we're giving you some really clear visibility on costs and some guidance there. We're starting to see inflation come down and we actively manage our costs, as you can imagine. So, I think, yes, on that on Ulster costs. Yes, those are included. So, I think that covers that one. Mortgages. Katie, do you want to pick that one?

Katie Yeah, sure. I'll take that. So, in terms of the mortgage piece, as you know, Alvaro, we try not to get drawn too deeply on the ins and outs on particular quarters. And I guess as I look at it, the group back book declined from 150 sorry 141 in Q3 down to 126.

And if we think of how we're kind of managing this book and how we think about it, what we seek to do is to kind of manage it with an application margin that's in a range around 80 BIPS. It will move a little bit up and down, but that's kind of how we think of the managing of it.

I would, of course, as you'd expect, encourage you to focus on the retail NIM, which at 274 is very strong, up 47 basis points in the quarter as well. That that should help you a little bit on your math.

Alvaro Thank you much.

Operator Thank you. And next question comes from Chris Cant of Autonomous. Chris, if you could please go ahead.

Alison Hi, Chris.

Chris Hi. Good morning. Thanks for taking my questions. If I could just come back on the on the margin debate, really on your mortgage comment just then is the 126, is that the whole book or is that just the fixed book? Please. And in terms of the manifestation of that headwind, when I think about the 320, it doesn't actually feel like that's going to be as pronounced as I might have guessed, given that two thirds of your book is in five years, is there anything in particular you call out on the progression of the mortgage churn through 23. Is there a particularly fat spread piece of the back book churning, which means it's more acute headwind because given that two thirds think five years, I guess that's going to play out over a slightly longer period than we might have anticipated. And then if I could just come back on a previous question really around your deposit pass through assumptions, again, thinking about the various puts and takes it, it feels like you must be making a fairly conservative assumption in respect of deposit pass through this year.

Can I again just ask around your expected migration upwards in that deposit beta assumption, the 35% across the interest bearing book. How high are you assuming that goes in a couple of quarters? Thank you.

Alison Great. Thanks, Chris. Well, let me let me do deposit pass through. So, as we said at the moment, our average pass through is around 35%. We're actively managing very carefully the size of our balance sheet. The guidance we gave you previously was as interest rates go high, we would expect to pass a higher proportion through and the assumption we talked about, as you should broadly assume, sort of 50%, we're currently sitting at 35% on pass through and we'll continue to actively manage that based on, you know, the competition, our need for funding and liquidity.

And you can see our funding and liquidity and capital position. So, I think that probably gives you a sense of how we're managing that. On mortgages, obviously, we have a predominantly fixed book, as you know, we have a small SVR book and tracker book mix is 66% on five year. And we know exactly which customers are rolling off during the course of this year.

And, you know, we contact them with six months before they roll off their fixed. So, we'll actively manage that book and will continue to target in the same way we have done. And I think you've seen we've managed pretty turbulent markets very well, the balance between volume and value. Katie, you want to pick up anything else on mortgages?

Katie Just on the on the mortgages to us. And so, one of your quite specific points. So yes, there is the whole book in terms of what we're talking about, 4% tracker 4% SVR, 92% fixed. As Alison says, in terms of the kind of call out, you're absolutely right that the fact that the book is now 60%, five year, that that kind of dampened some of the effect little bit.



But I would probably encourage you, Chris, to cast your mind back to 2021 and what margins we were writing there. And they're obviously rolling off a little bit. It's not particularly significant as a drag on that. But and so there's nothing exceptional to call out, but there will be a little bit of an impact from that piece.

Chris Thank you. So just to confirm, we should be thinking that within the guidance, it's something like a 50% pass through assumed. And then with regards to the mortgage book, that's a little bit of lumpiness in on, I guess the two year piece that you would have been writing in 2021. But effectively, the big headwind, I mean, you're essentially guiding for NIM down versus 4Q levels, the big headwind here is really that progression of beta implicitly. I think.

Alison So what I would say on the beta is we're at 35%. We always assumed it would maybe get to 50. And so, I think that's assumption will actively manage it based on competitive dynamics. So, you're right, but what I would say it's now less about pass through is more about customer behavior. And we're keeping a close eye on that, and I touched on that earlier.

Chris Thank you.

Alison Thanks, Chris.

Operator Our next question comes from Aman Rakkar of Barclays. You could please go ahead.

Aman Good morning, Alison, good morning, Katie. Yeah, could I ask the question around the deposit commentary? Thanks very much for kind of elaborating on that. I just want to kind of work out how you guys have factored in the potential deposit outflow dynamic or what kind of risks you see going forward from deposit outflows. I guess the observation is that you've probably been the standout beneficiary of deposit inflows since 2019 of the various support schemes that were announced that allowed you to kind of outperform your own rate sensitivity, kept deposit betas very low, but looking forward, clearly, you know, the outlook is evolving. How do you think about the risk of outflows, you know, your particular deposit mix and profile? And could you help us understand the potential earnings impact that you might expect, in particular what you may have actually assumed as part of that 320 basis points NIM Guide.

The second question was around the mix of net interest income and fees. So I think your guidance is pointing to a shift towards a bit more fee income than what consensus has. But I think, you know, taking your guidance at face value, you know, you're still set to generate around 77% of revenues from net interest income. I think that compares to kind of mid-sixties in 2019. I'm just interested in your assessment, probably once I was around whether that mix might evolve going forward, what do you see as your kind of steady state fee income contribution? And the thing that I guess I'm interested in is, is whether you think you can achieve that kind of in-house by virtue of some of the investment that you've announced today or actually, you know, inorganic ongoing inorganic acquisitions, potentially part of that path. Thank you very much.

Alison

Okay. Let me let me talk about deposits. So let starting point deposits are still up around 80 billion, even with outflows this year. And as you can see, we have offered competitive rates across our balances. We look at deposits very much as through a number of lenses. Firstly, we have a strong funding and liquidity position which is underpinned by our leading customer deposit franchises.

And so that up 80 billion gives us a competitive advantage. That advantage has allowed us in recent quarters, as rates have risen to be very disciplined and manage our deposits for long-term value. And that's a combination of relationship margin and liquidity value. We have a very disciplined approach in terms of how we're looking at it, will defend the deposits we need to and we won't chase volumes at the expense of our back book or detriment of existing relationships.

We've lost no customer relationships and the liquidity value of outflows that we've seen have been relatively modest, reflecting the nature of customers and balances. So, you know, what I would say is, you know, it's something that we manage very well. It aligns with our strategy to help customers save. And we've got competitive products that we have out there, so I think that's really how we're thinking about it. And when you look at the deposit outflows, the way I would think about it is we're managing volume and value and being very disciplined about it. The strength of our funding and liquidity is a good point, and we're a net gainer of new customer relationships across our franchises as the result of our strategy there. So, I think, you know, I think about it, we're managing them for value and we're being competitive and we're able to retain them. Clearly, customer behaviour is changing. There is an excess of deposits from pre-COVID level. But I think we're managing that sensibly. Katie, do you want to pick up the...?

Katie

The revenue guidance, in terms of as we look to the impact of deposits. Alison's absolutely right. I'd use that sensitivity that will give you some guidance. We've got the 4% base rate assumption in there, so we're not modelling any further increases in that. That obviously has an impact on the NIM. And then the other place that I would suggest that you have a think about, you know, is the guidance I've given you on the hedge.

So if we assume no further changes to volume and mix of deposits at the end of 2022, we would expect that product hedge to reduce gently over the year by about 5 billion. Bear in mind it's averaged so it comes through relatively slowly but given the reduction balances in the second half of the year, that will have a little bit of an impact.

It's obviously offset by the fact of reinvestment yield that we're getting on that, which is 3.7 as we kind of sit here today. So, there's a few kind of moving parts, but those are the bits I would be thinking of if I were you.

Ahmed Cool and then on the mix between NII and fees, kind of how do you think about the structural balance between those two? And you think you can achieve it by virtue of your investment spending?

Katie So, look, I think if we look at the mix, if I'm probably not going to get too drawn on that, the way that I think of revenue and particularly of the sort of 14.8 billion of guidance, three things you want to think about, you know, NIM, we've spoken about already volume and we've seen volume growth this year in terms of the 6.7 growth that we had.

And we do expect to continue to see growth certainly in the mortgage market and commercial will obviously be more dependent on the macro environment. In terms of non NII we're up 19% this year. Very pleased with the NatWest markets performance. We wouldn't expect that to grow at the same kind of pace as we go into this next year and as it's linked to kind of spending and confidence but comfortable with its performance, probably not going to get drawn on a relative mix in the medium and long term. I think we guided you to that 14.8 for the year, and the sustainable ROTE of 14 to 16%.

Ahmed Thank you so much.

Katie Thanks Aman.

Operator Thank you. Our next question comes from Benjamin Thomas of RBC. Benjamin if you'd like to go ahead.

Benjamin Morning both and thank you for taking my questions. Firstly, on your ROTE guidance of 14 to 16%, which is considered sustainable in the medium term. And by saying this target sustainable, presumably you feel you can hit the target under a range of base rate outcomes. What's the lowest level that you think rates can go to and the bank still hit a 14 to 16% range? Or I guess put it another way what rate assumption does the bottom end of this guidance assume please? And then secondly, sorry if I missed the answer to this question, but in relation to Ulster costs, by your full year 23 guidance assumes 300 million in direct costs. What will that number go to over time and how long would it take to get there? Thank you.

Alison Thanks. So, look, I think we've got, we're very comfortable with the guidance we've given you on the 14 to 16% as a sustainable number. There are a number of elements in that is, as you know, you've got our economic assumptions. We're assuming a 4% interest rate through the course of this year. And then that will gradually reduce.

Don't forget, the number includes a 1.5% ROTE drag in 23, which we'll reduce. So, there are a number of factors in there. But what I would say is we're very comfortable with the guidance as you go forward, lower drag from Ulster, there will be a reduction in interest rates and a number of different factors in there, but I think we're pretty comfortable. Apologies if we didn't cover Ulster.

Katie Let me just close off the Ulster question. So, you're absolutely right. Direct costs expected to fall to 300 million end of this year. We've always said that we'd be

largely complete in sort of 2024. So, you would expect another material reduction and that I'm not going to be drawn on the specific number, but making good progress, really delighted with what the Ulster team are delivering.

Benjamin

Thank you.

Operator

Thank you. Our next question comes from Omar Keenan of Credit Suisse. If you could please unmute, and go ahead.

Omar

Good morning, everybody. Can you hear me okay?

Alison/Katie

Yes. Morning, Omar. Good morning.

Omar

Yeah. Good morning. Thank you for taking the time to answer the questions. I'm afraid I've got another question on deposit migration, and I didn't really want to throw too many numbers around because it's not fair to do that on a conference call, but I just wanted to double-check my thinking around some of the assumptions, so the idea that you know the cumulative pass through on interest-bearing deposits at NatWest is currently sitting at 35%, and the assumption that will end up at 50% with Bank of England rates fairly unchanged from where they are today at 4%. I've just done a bit of back of the envelope maths, but it seems to imply we need to get to that number. And given the 400 bps of rate hikes roughly we've seen so far, that you're assuming an interest increase in deposit costs, all else equal of about 60 basis points. And if I look at the difference between fixed-term deposit costs and instant access accounts, I've just come up with a number that looks like you're assuming that about a quarter of the interest-bearing deposits migrate into time deposits. Can I just double-check ballpark whether my thinking is accurate on that, that the deposit migration assumption within the interest-bearing account looks to be around 25% moving into time deposits. And then I've just got a second question after that.

Alison

Yeah. So, look, I'm not going to comment on your assumptions, that's not an appropriate one to make. Let me take a step back for you. So, we will manage our pass through as we have consistently said, taking into account our liquidity and funding and our competitive position that we need to on deposits. Our liquidity and funding position is very strong. At the moment, we're at around 35% pass through. We've not said we will end up at 50%, but we've said that's an appropriate level to think about as an incremental level of pass through. And what we are seeing is broadly stable between NIBBs and IBBs. We are seeing customers take advantage of some of the fixed term deposits that we're offering which are which are competitive. I've given you some guidance around what the deposit levels of our customers in terms of what they have in their accounts. And we're very comfortable that we're able to compete effectively, and we're a net gainer in terms of new customer accounts coming into the business. So, you know, the uncertainty in all of this is customer behaviour. And we continue to track and monitor that very closely.

Very comfortable we can compete with the market and we're very

comfortable with our position. And of course, our liquidity and funding remain very strong. So, the way I would think about it in terms of how we're thinking about our deposits we'll manage volume and value and we'll keep it broadly stable over the period. That's what I would think about for your assumptions and leave it there for you to model.

Omar Okay, fair enough. I think we can play around with that rate numbers, but that's very helpful. Thank you very much.

Alison So you had another question, Omar?

Omar Yeah, just the next question. Sorry, another one on costs. I know you don't want to be specific around, you know, how quickly stranded Ulster costs may come down when we look forward into 2024 and 25. But perhaps could you talk around some of your maybe inflation assumptions beyond 2023? Because I guess we can look at, you know, your inflation forecasts. But do you think there's any lagged inflation effects from high inflation in 23 that we need to consider 24, 25? Or can you help us a little bit with the absolute moving parts looking beyond 23?

Alison So I think on the hopefully what we've given you and I think Katie covered quite a lot in in the presentation of the mix of our costs. So, you can see really clearly what's happening. I think with regard to Ulster, that's all included in our numbers as we go forwards and Ulster indirect, they're part of BAU. There will be some reductions, but there are lots of puts and takes in costs. And so overall we're very comfortable with the guidance. I think in terms of our economics scenarios, those are in the presentation on what we're assuming on inflation. But I think what we've given you, I think is clear guidance on where we expect costs are today, our cost income ratio and that we're actively manage our costs as we go forward.

Omar Okay, lovely. Thank you very much.

Katie Thanks Omar

Operator Thank you. Our next question comes from Jonathan Pearce of Numis. Jonathan if you could please unmute and go ahead.

Alison Hi, John.

Jonathan Hello, can you hear me?

Alison We can. Hi, Jonathan.

Jonathan Hello. Good morning. I got two questions. Sorry. Back on this short and medium term, ROTE guidance of 14 to 16%. Still struggling a bit with it. I mean, the NIM has obviously got this circa 7 basis points, of course, a tailwind coming from the hedge for the foreseeable future. I mean, even if the hedge is reduced in size, the overnight rate is now ahead of the five-year swap rates anyway so I'm not sure that's particularly relevant, except in the near-term mortgage headwinds are, you know, bit bigger than they might be moving forwards because of the two-year fixes from two years ago. Coming off you got the deposit migration. But again, those latter dynamics should recede I would think, later this year and

into next year. But you've still got that powerful hedge tailwind. But you're telling us into 2024 that, the ROTE is still going to be 14 to 16%. You're also telling us, of course, that the income this year of 14.8 billion is a very specific number six weeks into the year. My question getting to the point, it feels to me that you've almost decided that a 14 to 16% ROTE is the maximum acceptable return in the medium term, and you'll do whatever you need to do on pricing, particularly deposits, to prevent it going above that. That's not necessarily a bad thing. Of course, it's going to make the ROTE more defensible when rates start coming back down again. But is there anything in that? That would be my first question. And then I got a question on some accounting movements in the TNAV if that's ok.

Alison

Okay. I'll let Katie take TNAV when you get to it. So let me let me try and get you comfortable on ROTE. And the answer very simply is what we want to give you is a very clear view on the sustainable return on tangible equity of this business. There are a number of economic scenarios that we have given you and the assumptions that we have there. We're actively managing the business to deliver sustainable ROTE and certainty for you. I think what I would say is on your point that the hedges are positive tailwinds. There are some economic uncertainties which we are taking into account. We're very well placed with strong capital, good risk discipline, capacity to grow. And so, what you can expect to see is us continuing to deliver a strong position. I'm not actively managing the business only to deliver a 14 to 16%, which was, I guess the opening part of your comment. I think that is a good performance of our business in pretty turbulent markets, and obviously there are headwinds and tailwinds, but we're very comfortable with the guidance that we've given to you. What I would say is when we think about some of the ups and downs, you know, UBIDAC is no longer going to be a material drag once we get through the end of this year. Interest rates, you know, we would expect to decline as we go forward. We've got customer behavior and competition and the some RWA procyclicality and regulation coming in as well. So, I think you should feel comfortable that we're managing the business well for growth and that 14 to 16% is sustainable without huge peaks and troughs within that. Do you want to ask your TNAV question to Katie?

Jonathan

Yeah that's really useful. But sorry, just a quick follow up on that, this point on sustainability, it's really important to the question before me. Sustainable ROTE, the word sustainable, I think is used about 30 times in the slides today that the message coming out is regardless of the income guidance and all the rest of it this year, that looks perhaps a little softer than consensus. Your very clear message, is it going to be 14 to 16%, and that is going to be sustainable for the next several years, not just this year and next year.

Alison

Yes, that's right. We're giving you a view on what our ROTE will be. And, you know, we don't give out targets without a great deal of thought and analysis, they're based on sort of various economic scenarios. And we've tested them against upside and downside risk scenarios. So as a result, based on the economics given today our current views of market competition, customer behaviour, we're confident on the ROTE range we've given you.

Jonathan Okay, brilliant that's helpful. Second question on this TNAV, is my understanding on the pensions correct? That the 500 million is going to be kept against capital, but there won't be a TNAV hit this year from that pension fund payment? And then can I also ask on a cash for hedge reserve, that's a negative 30p at the moment within the TNAV. One or two other banks are suggesting a lot of that will unwind this year rather than it being spread over three, four, five years. How do you see that progressing over this year? I'm just thinking again about the denominator in the ROTE.

Katie Yeah, no, absolutely. So, you're absolutely correct Jonathan, as I expect you to be. No impact on TNAV from that pension deduct, it's purely something that's hitting our capital line. In terms of the cash flow hedge, we did see a fair amount of unwind in that in certainly October, early November last year probably you know over time, you know that line, it kind of IBBs and flows depending what's going on within the different bits of hedging that we've externalized from the group. So we don't kind of think it would unwind, particularly this year. It's kind of got a life of about five years. It's how we think about it. But I wouldn't expect to see it all come back. We've had some benefit already and we'll see how it kind of goes through.

Jonathan Okay. Brilliant. Thanks a lot.

Katie Thanks, Jonathan.

Operator Our next question comes from Rob Noble of Deutsche Bank. Rob could you please unmute and go ahead.

Katie Hey, Rob.

Rob Morning all, thanks for taking my questions. Two, please. The behaviour assumption change that you made on your mortgages through the effective interest rate. How long does your average customer stay on SVR within your current assumptions? How much has that shifted? And is there a difference between what you have in your assumptions now in the stock and then what you're lending on? Is there a flow and stock difference between your assumptions on EAR and the mortgage book? And then secondly, just on the deposits again, so how much of the structural hedge is based against commercial deposits versus retail deposits? And then I think I heard you say that you think deposits would start to come down at the end of 2023? Is that more driven commercial or retail, in your view? Thanks.

Alison Okay. I don't think we said deposits would come down at the end of 2023. We said this sort of customer behavior, what you're seeing actually is on the commercial side, because I haven't touched on that already, that generally there's a lot of liquidity still sitting in commercial balances. And just to give you a sense, you know, with the bounce back loans, 25% of those are still sitting in cash on people's balance sheet. So, there is still a lot of liquidity sitting there. On your SVR question, at most customers, I mean, SVR is a relatively small part of our book. It's around less than 4% and about and most customers are on short term SVR, which is about 3%. On the behavioural life we haven't adjusted for a couple of years, and update moves to a more stable

position, it depends on the customer's time on SVR. But it's a very small part of our book and it's largely short term. Katie, do you want to pick up the structural hedge point?

Katie Yeah, absolutely. So, of the structural hedge, 230 billion, 184 billion of that is sitting on deposits. What you know of our hedge is that it's mainly based on our non-interest bearing assets, so those kind of transactional accounts that we have that forms a large part of the hedge, then a smaller portion is then the instant access portion of the balances that we hedge, but that is much smaller. What we can see when we look at our customers, they generally do prefer to stay in transactional. What's been really interesting for Alison and I is that NIBBs and IBBs number, hasn't moved really since the end of 2021. So proportionately, it's still there. So, therefore you can see the kind of robustness of the hedge position within there. And I gave you some guidance earlier as to what we thought it could maybe do if we did the kind of 12-month look back from here.

Rob Thanks. So just a follow-up on the SV EAR point. So what... the spreads that you quote on in terms of application rates impact with margins, which she said on the back, includes the SVR. So, what proportion of the spread on new lending will be attributed to people staying on SVR? Is it maybe 10% of the kind of profitability of the spread of the mortgage that you're expecting?

Katie So if I just going to give you some... it's a tiny, it's 4% of our book in terms of that piece, and that kind of back book is 126 basis points for the entirety of the of the book. So, I'll let you do your math yourself. But in terms that it's not a significant feature at all.

Rob Okay. Thank you.

Katie Thank you.

Operator Our next question comes from Jason Napier of UBS. Jason, if you could unmute and go ahead.

Katie Morning, Jason.

Jason Good morning. Thank you. I'm afraid I'm going to come back to NIM. Um, and I think Jonathan's right. The response on sustainable ROTE is super important. But if you are to average 3.2% NIM for the year after being up 25 basis points in the last quarter and with rates going up in Q1, it's got to start falling sequentially during the period. So, I wondered whether there was anything at all you could say about the rate to which that happens in some kind of sense as to where the exit margin is for this year? Um, I think there's some danger in the market that people don't believe the NIM guidance that you've given today. And then secondly, whether there's anything that you might say about the size of the balance sheet into next year, it's one of the few missing pieces when it comes to the 2023 guide and how we should be thinking about average interest earning assets, including, I guess yielding liquid asset buffers and the like. Thank you.

Alison Thank you. Katie, do you want to pick that up?



Katie I'll kick off and then jump in Alison. So, look Jason, you know, we've modelled at the current base rate of 4% and throughout 2023, we do expect it to be around that 320 basis points. I do think that we've probably hit the end of those kind of these huge increases that we've seen in NIM and coming through that we all have got very comfortable with over this last year and actually we'll start to see it being much kind of more muted as we move forward from here. I'm not going to give you an exit rate sitting in February in terms of what the NIM will do. You know, there's a number of different puts and takes within there, whether it's the structural hedge reinvestment, the negative roll off on the mortgage refinancing, what happens on deposits, which we've spoken a lot about this morning and in terms of that, so I'll probably leave you to kind of work it through. But we're comfortable that that 320 is in a good position. If we look then in terms of the book, I mean, really, I guess most of what our thoughts are on loan growth and what we're assuming as we move forward, we delivered really good loan growth this year, 6.7%. Overall, we do expect to grow at or above market in our chosen sectors and products and volume of the year will of course, be dependent on business and consumer confidence. But for our modelling and our guidance, we're not dependent on significant volume growth from here.

Jason Thank you.

Katie Thanks, Jason.

Operator And our next question comes from Andrew Coombs of Citi. Please go ahead.

Andrew Good morning. If I could just come back to the remark, about 80% of your deposit customers having less than £5,000. I guess my first question is a very simple one. How many retail customers do you have?

Katie You're throwing us by the simplicity Andrew.

Alison So, 80% of our deposit accounts, which is in retail, have less than £5,000. In terms of the numbers of customers we have in retail, we have 17 million customers and all of them will have deposit accounts with us. They will have different products across the piece. But when we look at our deposit accounts from our customers, 80% have less than £5000, which is why, you know, we think about our strategy around helping people save and building a savings habit, which is more about a long-term strategy about helping people build financial resilience.

Andrew Okay. So, my second question would be you've got 17 million customers and 80% of those, so 13.6 million have less than £5,000 of savings. If I look on your savings website, it says your Digital Regular Savers product join over 840,000 NatWest customers who save every month with our regular savings account. So, of those customers, is that a case of only, 6% actually are in the Digital Regular Saver product?

Alison Andrew, I'm probably not going to give you that comment. For a lot of our customers, they have more than one savings account, so they may have an instant access, they may have a digital regular saver. What we've seen is our

fixed deposit accounts when we launched them in January were very popular and we saw that being competitive to our customers. So, it will vary. One of the things that we talk about a lot is the level of savings that exist in the UK. One in four people in the UK do have less than £100 savings in their accounts. Helping customers build financial resilience is a positive strategy for us. Things like our Round Up tool, which sounds very simple, over a million people are using that on a regular basis, which helps them build savings. I'm very comfortable, we have a good suite of competitive products that allows us to compete, that meets the needs of our customers and targets our long-term strategy of helping people save.

Andrew Okay. My final question on this is 80% of your customers have less than £5,000 of savings. Can you provide an idea of what proportion of the total deposit balance those 80% of customers account for? I assume it's a much smaller proportion.

Alison Yeah, I'm probably not going to go into that level of detail with you. I think what you can see is we have a very strong funding and capital position, a competitive position in terms of deposits, and a good acquisition and track record of bringing customers into the bank. So, you can see the strength of our deposit franchise, you can see the strength of our funding and capital, and we're very comfortable we are able to be competitive. And you can see that through how we're managing our deposits for volume and value.

Andrew Thank you.

Katie Thanks Andrew.

Operator Thank you, our next question comes from Fahed Kunwar of Redburn, please do go ahead.

Katie Hey Fahed

Fahed Hi Alison, hi Katie, thanks for taking the questions. Just a couple of quite direct ones, I guess. The first one is the go-forward cost base in 2023 based on the guidance, it seems to imply around a kind of 6, 7% year on year growth versus 2022. Obviously, that's still generating tons of operating leverage in 23 given the revenue growth, but going into 24, it looks like consensus, 3% revenue growth, 3% cost growth. Do you think operating leverage remains positive in 2024? That would be my first question. My second question would be on the Basel 3 guidance, the exit rate of RWAs in 24. Are we looking at about a 200 billion number based on that guidance? And if I can sneak in a really quick question on the third one. Your peers at Barclays talked about corporate deposit time mixed move into time whereas household isn't. Obviously, you've got a very big corporate deposit base, especially in current accounts. Are you seeing differences in behaviour between your SME customers and your household customers? And do you think you will see differences in behaviour in 2023? Sorry to sneak in that extra question. Thank you.

Alison Okay. Let me... we're very happy to answer all three. So, on the cost base, we don't talk about the go-forward cost base. I think we've given you really clear



nature of rate hikes in 4Q and obviously for the rate hikes in 1Q, which would suggest quite a material headwind to be a little bit particularly this year. And then secondly, on cost, just briefly. Obviously, historically very strong focus on reducing the absolute cost base of NatWest group in terms of efficiency measures. Should we assume this efficiency measures are now mostly done? So, the cost base to grow broadly in line with inflation? Or do you still see scope for the cost base to lag behind inflation in terms of cost growth from here? Thank you.

Alison Thanks very much. And we'll look on consumer deposits. It's very early days. And what we're seeing is, you know, very strong funding and liquidity from our perspective. We're seeing real stability in NIBBs and IBBs. We are seeing customers engage more actively in their deposits and we've got competitive rates. But I think it's very early to say. Obviously, there is you know, if you take a step back, there are excess deposits from post-COVID. You know, people will increasingly spend those deposits. We'll see more seasonality. Don't forget, seasonality and deposit flows. You know, January's a big tax month. So, you'll definitely see a bit of activity in January. And then we expect it to return to more stable levels. But I think from our perspective, what I would say is we have a very disciplined approach. We have very competitive products. We've not lost any relationships. We're managing our liquidity. And it's very early days in terms of customer behaviour. On costs we have a good track record. You would expect us to continue to manage costs, actively our continuing investment in customer journeys, digitization, which a part of our strategy will continue, obviously. We factored in the impact of inflation and Katie's giving you some really good visibility on what's happening on our costs. You've got our guidance going forward of what we expect to see on costs. And you can expect those, Katie and I, to continue to manage costs very actively going forward.

Katie Absolutely, absolutely. And Martin, in terms of your NIM guidance, I wasn't that so I'm not totally clear what your question was. I think I've probably said everything I'm able to say about NIM. So, if there's something I'm missing, please do jump in.

Martin No, no, there wasn't any more question on NIM specifically. Just to understand whether the headwind of deposit accretion is pretty much front end loaded and then and then that base part.

Katie Good, yeah, I think Alison has dealt with that. Thanks very much. Thanks, Martin. And have a good day.

Martin Thank you.

Operator Thank you. Our last question comes from Joseph Dickerson of Jefferies. Joseph, please do go ahead.

Joseph Hi. Good morning. Just a quick one from me. I mean, the NIM has been beaten to death. The um, just on slide 22, can you just clarify what you mean by the already written? Is that assuming no further maturities in the hedge are effectively reinvested so we get the pickup in 23 from the existing book by 24

and 25 respectively, not reinvesting, it's quite significant in the outer years is that's where a lot of you call it two thirds of the rate sensitivity in the out years comes in.

Katie So thanks.. I'm glad we didn't we haven't left without talking about this slide, the IR team worked hard on it so as I think you say the already written is the hedges we already have in place that are going to just roll through. So, what I'm trying to tell you here is 2 billion, 1.6, 1.4 of stuff that's already kind of in the tank. What you know is that we have maturing each year about 40 billion pounds a year, it comes across the year. So, you have to think about averaging of returns there. In our own models, we've modelled 3.3%. In terms of that, I would note that today, if I was putting on today, it's closer to kind of 3.7. But I would expect in addition to this already written, there's the reinvestment of that 40 billion per annum. What I talked about as well, if I looked as of today, if balances didn't change, if they stayed very static, I would expect that the size of the hedge would reduce over the year by about 5 billion. But there certainly is a significant reinvestment to come as we go on top of this, this book that's already written.

Joseph And that reinvestment is not effectively embedded in the forward revenue guidance?

Katie Well, it's naturally in the ROTE guidance. What it's not in is in that 2 million, 1.6, 1.4, but it is very certainly in around 14.8 for the year and the sustainable, so 14 to 16% in there. So, I've clearly made some assumptions on how of that reinvestment and rates on that. But it is in addition to the grey boxes that are on this slide.

Joseph Okay. All right. Perfect. That's what I wanted to get out.

Katie Lovely. Thanks very much.

Joseph Thanks, Katie. Take care.

Operator Thank you. I'd now like to hand back to Alison for any closing comments.

Alison Great. Thank you. Well, thank you, everyone, for your time and your questions, as always. I guess the message just to leave you with, I think from our perspective, we are very well positioned for the current environment. We have a well-diversified, largely secured balance sheet, which means we're positioned well in terms of the macroeconomic for any downside risk and we're also positioned well for the future. We have attractive growth opportunities, very strong franchises with capacity to grow. We will maintain our proven experience on expense and investment discipline as we go forward. We're well-diversified, we're de-risk. We have a high-quality loan book. We will effectively manage our capital and deploy our capital returns to shareholders. So, I think good and sustainable returns and attractive capital distributions as we go forward. Thank you very much, everyone.

Katie Thanks for your time.