



**NatWest**  
Group

**NatWest Group plc**  
**FY 2022 Results – Sell-side update**  
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Alexander H. Welcome for those in the room, and also for those joining us on Zoom. Dave has very kindly introduced everyone who was here today. What we'll do after Katie has given a few introductory comments, we'll start off with questions in the room, and for those people on Zoom, we will then bring them in, so if I can. Katie.

Katie M. Sure. Thanks very much. Thank you, Alexander. Good afternoon, everybody. Its lovely to see you so quickly after my presentation. Joining me today is Donal Quaid our Group Treasurer; Matt Waymark, Finance Director of Commercial & Institutional; Peter Norton, Director of Finance; and Stuart Nimmo Finance Director of the Retail Bank.

So, what I thought I would do, we already talked on Friday and so I'm not going to repeat all of those messages. But I know there's been a few Q&As that have come up with IRs on Friday afternoon and then over the weekend. So just to kind of level set us all, I thought we'd just kind of touch on touch on a couple of them.

So first of all, deposit betas. As you know, we had £433 billion of customer deposits across our three businesses at the end of 2022. About 60% of these are interest bearing, which is stable in the third quarter and prior year. The pass-through decisions we have taken so far are equivalent to a cumulative pass-through of around 35% of these interest bearing deposits.

Our sensitivity disclosure, which we've kept fairly static throughout the last number of years, is an illustration of what would happen to income, assuming a pass-through of 50% on a static balance sheet. But to be clear, we're not guiding you on where we necessarily believe the pass-through of 35% will end up. As we said on Friday, the discrete pass-through decisions are less relevant going forward if we are at peak interest rates. Our modelling and income guidance for 2023 sees no further changes in the base rate from here. We do assume in our modelling that the cost of customer deposits continue to trend higher for the following reasons.

- Further pass-through of the most recent 50 basis points rise to 4%, across Retail and Private deposits;
- There's a lag effect of these customer rate changes relative to changes in base rates; and

- Also customer behaviour changes and assume migration to a higher yielding deposit account over time.

This third factor is clearly very uncertain, and we're not providing guidance of the scale, timing or pace of that in our modelling. I'm sure we will talk a little bit more about that as we go forward.

The second item is sustainable ROTE of 14 to 16%. We're confident in our plans to deliver a return on tangible equity of 14 to 16% over the medium term. We expect 2023 to be at the upper end of this range, including a drag from Ulster of around 1.5 percentage points.

Now we've set out very clearly for you our macro assumptions over the medium term and you can see we are modelling for a reduction in the UK base rate from mid-24 and a steady reduction in the five year swap rate.

As Alison said on the call, we are not managing the business to only deliver 14 to 16% returns. There are many drivers which we consider, but I sit here today, and these are tramlines I would give you. Now, very happy to take any questions you might have.

Rohith, Why don't you kick off?

Rohith

Thanks Katie. I might start with a question you can't answer. Just on the deposit migration. I appreciate that none of us around this table understands really what the dynamics are going forward in terms of the timing. But what is it do you think that helps that move in deposits, is it expectations on that question people just get more comfortable with in the outlook, you know at the moment they look like they're trading liquidity preference for a free... I suppose is it that dynamic changes over time or do you just think there's some delay because the rate hikes we've seen particularly in Q4 so far, so we haven't really had a time to react. And I've got another one on the structural hedge fees.

Katie

I'll do that then I'll come back for your other one. So, I find that on Results Day I have to remember three questions in a row, but on these sessions I'm allowed to take some more gaps on that. So, I think is really difficult to work out what it is. I was really personally interested to see what would happen over Christmas when people

actually had some time to think about things, and would that cause numbers move around and it didn't. So, it's kind of not just having a bit more time necessarily. I think the Martin Lewis effect is important. People do pay attention to him, which is why he talks a lot about our Digital Regular Saver accounts because it is a good account and it meets the needs of 80% of our account holders, I think there's a little bit on macro expectation, but I actually think that's probably a tiny bit of the population that can do that. One of the things that for me is I was thinking was to see really what was happening on that NIBBs to IBBs is a number I get slightly later in the process, and I would have expected to see a little bit of migration within there.

In reality, what you're really seeing is people moving around sorry from instant access is kind of fixed term. I'm not sure there's anyone saying that you can go actually what's causing them. I'm not really sure, Stuart, do you have any particular insight in terms of what's in the retail space?

Stuart N.

Well, I think you've covered it. I think historically we would have expected to see 2% rates in the market as a bit of a pivot point, just around interest foregone. But I mean, history on the last rate cycle is only of limited use because clearly it was before things like the iPhone and digital journeys, etc. But I would say what we've seen in the growth and fixed is maybe a little bit ahead of that.

But I think people do continue to have, you know, liquidity preference. And we have not you know, we get into what we've seen in the book a little bit more. But we should point we haven't seen the kind of migration to this point that you may have so.

Katie

You know, I think we talked about on the call all this. I said what we did see and so Q3 and Q4, it was at the upper end of the business was treasurers managing their positions and but they again are highly sophisticated individuals. So, you would expect them to be managing their positions a little bit. So, it's really hard to say.

Do you want to go to your next question?

Rohith

Yeah. And actually links into that last point. So just on the volume hedge notional size you have going forward,

what you talked about is no change in volume or mix of deposits, there'll be a 5 to 6 billion run-off in hedge over the next 12 months or so, it is so strong to kind of keep on how you run the hedge. And is that essentially saying that the outflows that you saw before performance are bigger than you'd anticipated after the rate hikes, and therefore you have to bring that back down to comfort zone?

I mean, secondly, just on the hedge reinvestment building side of the hedge you manage it to maintain the duration and so it's just to check the same is true when you shrink the size of the roughly five year duration. So, we shouldn't just take investment to see that doesn't go on at 3.7% or 3.3%. It's a blend of the 5-year rate?

Katie I think in this case, what we're very mechanistic we do 12-months we're back. So logically, you'd expect deposits were down in the last kind of quarter. You'd expect that to come through as part of the 12-month. Because it's 12-months going to doesn't get to you immediately in there we do try to keep it smooth, I think your point is just because they don't go on now, doesn't mean to say they'll never go on. I think that's important as well, but you would, you always kind of work with that 12-month.

Donal Q No, that's exactly it, you don't say it, to look back 12-month average balances that feed into the structural head so in effect what you've seen is the outflows you have in H2 are just feeding into the notional balance, so that that drives the reduction then of 5 billion, over the next 6 to 12 months. It's not a spot change, and then no change duration so we manage product hedge two and a half years that won't change.

Rohith Okay so it's not that the deposits haven't been as sticky to anticipate, you just assume, you hedge a fixed proportion of whatever you...

Donal Q Yeah exactly, and what we said is you hedge we hedge a high percentage of our current accounts and a lower percentage of our savings accounts. So, in effect that's all.

Katie In the savings accounts, I think is of course, we did this, as Alison made one point, which was a lot of information

about you in that call as well. But look, it's our instant access and not our fixed-term that we hedge via the structural hedge much more akin to mortgages.

So, well, that's a newer product for us. It's hedged in a different way. And one of the things that Alison also pointed out is at the moment our fixed term as part of the total of the book. It's only kind of mid-single digits in terms of percentage of how much is in there, and we don't see that a lot would have to move to make that number very different. We see that's kind of a slow build up in terms of that piece overall.

Alvaro

Yeah, both the related last year, I think every quarter of last year we were pressing you why the deposit costs were not going up in the quarter and you've laid out very transactional. Same reason I would have thought that you had a lot of wiggle room with the structural hedge to increase it or certainly not to decrease it again. We might not understand something about it, I realize it's mechanistic, but you can get a new learning of how to sort of unrate-sensitive the improvement last year maybe you were willing to revise that, or put it the other way around, why haven't you provided it?

I think what we saw last year is something to run by. And related to that as well, is if we look at the deposit outflows in Q4 the some of these Treasuries being more efficient. Is there any sort of pocket of deposits we think could still go? Is there any percentage or anything color you can share there to give us a sense of what the deposit balances may look like from now on?

I'm not sure if part of the expansion of the NIM is we're now going to pay up. We're not going to let any deposits go. Maybe the dynamics of that.

Katie

Let me talk about that a little bit on that. So, in terms of wiggle room in the hedge, there is some so we're kind of comfortable that we do it. You recall last year we did do we put on an extra 17 billion at one point...

Donal Q

24 in total year on year.

Katie

Yeah so some of that was done because we looked at the behavioral life. So that wasn't done as part of the let's do 12 month loop back. It's like actually we've done

the 12 month loop back and we're more comfortable with the stickiness. So actually we're going to hedge a little bit more. You know we did that I think it was Q2 in particular we highlighted it, we probably did it one other time and for a much smaller number as well. So there is some particular movements within there, but it's we do kind of seek to be relatively consistent in the proportion of our current accounts. We hedge the proportion of our instant access account that we hedge, so they're kind of kept relatively similar.

In terms of the deposit outflows, I think what we said on Friday is that we expect it probably to be fairly flat over the year in terms of deposits. What I would say there'll be interesting things quarter on quarter, the tax take is higher this year.

We know that there's been a bit more movement in terms of tax payments and Q1 can often be a bit lower than it kind of it builds that piece. I think we're comforted with bringing in the fixed term account that we've got, the work that we're doing within Matt's world in C&I around, just kind of managing those rates a bit more closely with some of the treasurers and things that actually, you can kind of see that that kind of coming through well.

So, I'm not saying there won't be, rates will leave us. We are managing them quite clearly. So, if all of you have all your cash with me, but you don't have anything else with me and you want a better rate, I'll say that's lovely, someone else can pay it to you, because actually it's not valuable enough to me, to pay up, because I don't want to have to damage the rest of my book.

So, we do that, and we see that much more in the commercial space, obviously not in the retail space, and that's at the very kind of high end. So, we are looking actually what's the overall value, by making some pricing decisions, are we having to drive the rest of the book up to keep one customer who may or may not be overall as valuable to us, but I think we kind of look at that overall, we kind of think there'll be quarterly movements, but we feel kind of comfortable we should be relatively stable.

Donal Q

I would just add a new piece on the hedge to the justification of increasing income and the inflow. And I

think what we did during 21 reflected a decrease of balances and some changes sensitivity. You know, the only thing that would change that and to increasing that, if you felt that actually portion those balances were less interest rate sensitive than you had done in 21, I don't think that's the case just given the competitive nature of the landscape we are in. Thank you.

Omar K. Can I just pick up on that corporate pricing point that you talked about. Because it sounds like if you make a pricing allowance for one corporate deposit, that may choose to leave it, as you said, it might affect the rest of the book. Are these things not bespoke on a customer by customer basis? Or is it a fact that... if you've sort of got to make a volume price judgment there rather than it being bespoke?

Katie So I think it'll be more bespoke when you're at the very top end, in terms of that piece. So you do look over the totality of their relationship with you on that piece. I think it also it can get to be very complicated. So, we haven't historically done a huge amount of bespoke pricing.

I think we're doing a little bit more than we had done. But it gets very complicated in terms of treating customers fairly. And how do you just kind of manage it and what we don't want to have to build up lots of systems in the background to deal with lots and lots of different kind of pricing points.

So, we do it. We don't do it as much as we know some others do, but it is a feature of how we manage it.

Omar I think can I just ask on that assumption that corporate deposits will be, sort of flat in a year's time.

Katie So I'd say out total deposits will be flat in a year's time. So I think you'll see different things happening in different bits of the book.

Omar Yes. I mean, how can we get comfort on that corporate deposit number as it's not going to be 10% lower in a year's time. Just because I guess because rather simplistically from the outside you can come and say in, maybe in liability margins have gone up a lot, you know I don't when there might be a lag in terms of how customers behave. They sort of just look like, let's take



this as a money market funder, get 3% extra. Why wouldn't people do that?

Katie

Yeah. So, I think I mean, Matt I'll come to you in a moment, it's all just to kind of get a bit of color onto it. So, I think what's interesting is you've got to kind of subdivide the book a bit. It's why I also find it to be kind of this small business banking. You know, it amazes me, I mean, interest rates with our Commercial hat on, that they don't take more advantage of things like target accounts to actually get better rates. You know, 25% of people who haven't yet touched their bounce back loans and it's still sitting in their cash account. I think there's something like a 30 day account or a 90 day account. You've had the same thing sitting here now for two years just to get some kind of return, obviously from banking, CFO perspective, it's fine I'm happy sort of thing, but it is very frustrating, so the reality, people like to be quite liquid in terms of that. People are also doing a lot of things that they're trying to do. And actually the management of a basis point out on your funds is not necessarily something you've got time to deal with, but you're trying to recruit staff to do this, do that, which is why we see it much more as a kind of, you know, in the in the mid cap, it gets a bit better, a bit more tied to finance departments, which will help them in and look at it, but it becomes much more of a type of treasurer situation.

Then I kind of go back to what were the three reasons that we that customer deposits fell in Q4. So, one, is the year end positioning, I was managing the bank levy as well in terms of that piece that these all they're all basically about £4 billion you know, in terms of how you think about them.

The next piece was a significant portion of currency accounts 4 billion that left during the mini budget. UK PLC, thank you very much, we're off, sort of thing, so that hopefully that won't happen again. And then the last four is around us very actively managing that piece. We can see since we've been actively managing it that last four is you know, we know the conversation we're having, we look at the customers we have there, we look at who left, we're comfortable with those that left and how they kind of went. Matt, can you add any more on

that in terms of the conversations you were in within?

Matt

Not a huge line I'd say the point that I can actually see on the screen who asked the question. But around cannibalization, I mean the thing we don't want to where we talked about, if we offer a really good rate to Company A who is multi-banked who can very easily move deposits of hundreds of billions from us to any other institution.

The challenge we have is it's a small area of treasurer. You know Donal speaks to lots of other treasurers, treasurers speak to each other. So, if we offer something to one customer, that we will be known as, if you go and moan to NatWest, they'll give you 100 bps extra or something like that. And we would only ever do that conversation if it's worth it for liquidity value and customer value. So, it's not that we have to offer to other areas. We just don't want to be cannibalizing our entire book through the back door, through that sort of pricing discussion.

I would say that I think at the Top End, given there are treasurers and CFOs usually at these companies, most of those conversations are probably already had.

They will continue and we'll continue to see potential margin pressure there. And I would say we've probably had a lot of those conversations already with the people who are going to have conversations with. They may come back to us again in a couple of months and say we agreed that we would price X, Y and Z, but can we get an extra 20 bps here or 30 bps there? But most of those conversations and the volume discussions would have been had already.

Katie

Lovely thanks, Matt, it's probably while you asked your questions. Just for the purpose of those are the phones. They know who you are, Jason, do you want to go next? Then I'll come to you.

Jason

Thank you. The first one is the 14 to 16 ROTE, which is a medium-term target.

Katie

Yep.

Jason                    Would you say that you can hit that in 2024?

Katie                    So, can I hit that?

Jason                    Yeah. Is it, are you expecting to hit that? And it's more forceful.

Katie                    So 2024. I'm probably not going to give you a specific answer. I think I'll kind of talk a little bit about 2023. So, 2023, 14 to 16, we're very comfortable in the upper half of that piece. So, there is a drag of Ulster, one and a half percent, there'll be a small drag in 2023 as we look at that, we've modeled for 4%. In terms of where we are, I think, so I'm comfortable we'll definitely not be below it if that's what you're asking me. So, I'm thinking in terms of that, we're not aiming to cap it out of that. Let's just see how the year the year progresses as we go through, I think there's a lot to happen this year around pass through and things like that.

Jason                    So not below 14 for next year. Did you say that?

Katie                    Yeah definitely, definitely not.

Jason                    As in 24.

Katie                    As in 24. Yeah. So, I can't work out if you're worrying I'm going to be at a 12 or 13, or if you're worrying if I'm going to be 18 or 20.

Jason                    18 or 20 is not our problem today. So the second question is if there is a reason to suppose the decline in margin from peak will be worse in the beginning of the cycle, than later on, by which I mean it's got to be up in Q1 given the highest rate of change and to get it to 320, you're dropping 5-10 a quarter every quarter for the rest of the year.

Katie                    Yeah. So, I think what would be interesting is how much is up in that. I would agree with you, if you look at the shape, it's going to be something like that. I don't think it's going to be something like that. So, I think we'll see where we're at four for the year. What we have said is that there will be changes in terms of how we do pass through.

                                  You know, you can see that we've done some small pass

through already from the last couple of rate changes that we've done, whether that be the introduction of the fixed term product, which is obviously at 325 or 375 in terms of that piece. So that on an isolated basis was a fairly big piece of pass through.

We've risen, the Digital Regular Saver has gone up to 6%, it does make a huge difference, in reality, the percentage is important. But in terms of that, we've seen a bit more activity in the commercial piece. So I think, you know, I don't think we're going to be heading back to the days when you used to be dancing on the head of a pin for two or three bps on NIM, you know, sort of thing.

But there's definitely, I think, what we've seen over the last year is not what we see in the next in terms those massive movements.

- Jason                    Just to extrapolate why that should be the case before the Bank of England's cap rates would be that you've moved your deposit beta to maturity, and it's gone to where you think it's going to go. Otherwise, the trajectory for NIM just keeps getting bigger.
- Katie                    Yes, so we would say, we've made obviously some assumptions in our modelling that there will be rate moves that are separate from the base rate move. I think that you will continue to see some competition. I think the thing that we're interested in, I know many of you are also looking at it, is what happens to the whole TFSME repayment, and how what pressure does that start to put on us at the end of 23 into 24, as we kind of go through that space?
- Donal Q                Particular point there Katie that you mentioned on Friday was given our forecast, we expect base rate now to peak at 4%. It's less a pass through element, it's more of product mix piece from here.
- Andrew                I mean, I just want to follow up on some of the debates we're having, a couple of extras. In the last quarter you have provided the data split by retail and C&I. This time unless I missed it in your commentary you have divided the overall deposit beta around 35%, so are you willing to provide it this time?
- Katie                    No, sorry, I will give you no more than what I gave you

on Friday. And then what you do have is the funding schedule, things like Slides 48&49 or something like this. Back to slide just gives you a bit of a feel. I'm conscious that's all deposits, so it gives you a feel, but it's not perfect.

Andrew                    Okay. And then the other two questions. One additional question for you on the cost point from Barclays, where for fixed bonds within the Treasury portfolio, are higher cost carry points, there's nothing in yours at all is there?

Katie                        We're not, we don't have, no.

Andrew                    Okay. And then the final one, just to try and move it on to NII, your non NII was actually quite strong in the quarter.

Katie                        It was.

Andrew                    Do you view Q4 as a better run rate from here, or should we be looking at the average experience across the quarters?

Katie                        So we were 3.2 for the year, so 19% up. I think you can all do the math that, part of that 19% came from NatWest markets having a good year and they had a particularly good year in currencies and capital markets and an okay year in rates, in terms of that piece. So that kind of gives you maybe rates seems to be much more of a Q1, early Q2 kind of activity.

We said trading was kind of where we were expecting kind of where we are. So, I don't think I'd go as far as say multiple it by 4. I'd be a little bit precise but we're pleased with how its progressing. I think customer sentiment is going to be important.

So, it was basically trying to look at our macroeconomic assumptions for Q1. You know, as we look at that, what we can see is people are a bit more confident. You know, the recession that we don't like to talk about isn't, you know, is a little bit better, growth's a little bit better, so those things all kind of help in terms of giving you some comfort that non NII has recovered a bit and that was that was good to see.

Operator? Can we get you to Raul please, on Zoom

Katie Sure hi Raul.

Raul Hi. Good afternoon. Sorry I couldn't be there in person, but, and sorry to move away from NIM. But I've got a couple of questions on capital, if I may.

Katie Delighted

Raul The first one is just coming back to the 13 to 14% range. Can you talk a little bit about, you know, where within the range you're comfortable going to during the year?

And the reason for asking this is obviously we're expecting the directed buyback at some point Q1, Q2, obviously that's going to have an impact on capital and then obviously you're going to generate through the year. But there is a lot of room there within your capital target range to perhaps go, you know, maybe towards the lower half of the range and do another buyback at Q2.

So just trying to understand how you think about that range, whether economic uncertainty plays any factor within that and whether you'd encourage us to solve to the midpoint of that range going forward.

The second one on capital is just around this Basel 3.1 consultation paper. I just wanted to get a little bit of color from you in terms of what are the key areas that that really are moving the dial for you.

You know, whether it's the SME treatment or whether it's CBA, any of the kind of main moving parts, if you would call them out, that would be really helpful.

Katie Sure. I'll start on DBB and then Donal can talk about Basel. Okay. And so just on the DBB and comfortable within the range, we're comfortable to move up and down that range. You know, you could do the math if we do the directed buyback, you know, we have permission to do 1.5 billion, which is 4.99% sort of thing in terms of if the share prices moves around a little bit you might be kind of out there, but that's kind of the permission that we have. Clearly, if I do that on the 27th of March, I haven't yet got verified profits. I'll go quite far down

towards 30%. And so, we're very comfortable with that. Then as we kind of work our way through the year, I'll get proper verification, I'll accrue dividends and things like that, and then I'll potentially get to declare the dividends.

The thing that's interesting for me is what happens on procyclicality in terms of actually do we start to see that coming through? We haven't really yet. And that feels with the guidance we're giving you on impairments, we should start to see some of that coming through, which would dampen us down again, obviously. And then as we go into 2024, we need to think about, well, depending on how Basel comes in, the opposite end up your back up in the range because you want to make sure you got the right capital there. So, I would view that we're very comfortable kind of to move around that range, depending on what's happening in different, different times.

Donal                    The midpoint's probably not too bad then, I think from that range for you to look forward to 23.

Katie                    I was going to say that, but I'll leave them to it yeah exactly, but yes, I wouldn't disagree with my treasurer, but so if the DBB happens in the last week it'll be a lower print you know, in terms of Q1 and we're very comfortable with that.

Donal                    I think in terms of that Basel 3.1, I think that the two you mentioned, SME and infrastructure I think will be key focus from our perspective, just given that the structure of the bank. CBA will have an impact, but we don't see this huge material versus some of the other global investment banks.

Raul                    Got it. And in terms of the sort of transition period that the PRA has talked about and the offsets to Pillar 2A as well, that they mention, I think it looks like operational risk is almost completely offset in pillar 2A. Would you think that some of that whatever little RWA inflation you see is going to see some almost an equal and opposite reduction in pillar 2A as of first Jan 25?

Donal                    Very, very hard to know given basically you haven't even started the consultation on pillar 2A and that's probably one that's expected in 24. So, there's a bit of a timing

mismatch there. So, I think we'll just have to see how it plays out over the next 10, 12 to 24 months.

Raul Thank you.

Katie I think the conversation I have with my regulator is that, we're in meetings with the regulator, is we would say to them, we don't understand the confidence that you're saying that this has no impact on us on day one, because when we look at the numbers that may mean they're going to move faster in terms of that timing mismatch, it's going to be bigger than we're expecting, but we I mean, I think we've all given you some guidance today about what we think the impact of that would be. My 5-10 includes procyclicality and this. This is obviously from the spot at the end of this year. So, but it doesn't feel like it will wash its face as neatly as they would suggest publicly would be the view of what we see of those conversations.

Raul And sorry, just last one this is a question that we do get from clients. You know, in terms of the second quarter last year, you obviously did a special dividend in the second quarter of the year. If we were to get to the second quarter of this year and your capital ratio is well above, let's say, the midpoint of the range somewhere in the upper half, should we automatically assume that you would you would do a share buyback at the second quarter?

Or do you think, you know, just to understand what is a natural expectation the market should have in terms of the periodic nature at which you would look to return capital?

Katie Yeah, I think we've been very clear that our aim is to return excess capital to you. And I think what we'd also be looking at is what's happening on the consultation on Basel, what's actually happening on procyclicality, whether that's an up because of a particular event and we see it kind of down coming through. The board will talk about it in June and July, sort of thing.

So I think we're in the process of doing some pretty big first kind of redistributions and let's see how it goes.



Raul Thank you, that's really helpful.

Katie No problem. Thanks, Joe.

Joseph Yes. Just can you walk through what your strategy is on mortgage so you over the years have been a good share gainer in mortgages? I see that in Q4, the mortgage balances from about two and a half percent quarter on quarter. So that's actually quite healthy growth. And you've also had if you net out the kind of one off, you've got about seven bps of contraction quarter on quarter, seven bits of headwind in Q4 coming from mortgage.

As you continue to take share, is that factored into your margin guidance? You assume that there's further attrition on the margin side? Well, there isn't simply just churn in the fourth quarter. You see pressure.

Katie I'll start and then I'll pass onto Stuart. So, as I kind of look at it, I don't think we don't say that we compete on price particularly in terms that. So, I don't think that we are taking share because we're always at the top one or two of the table. In fact, we probably try not to always be the top one or two, but we're very conscious that you move around that table really quickly.

So you could be at the top one or two for two days and then you'll be back down in five or six. So that kind of movement is pretty speedy, but we don't think that's why we've been taking share particularly on price. I wouldn't look at that that and you're right about some basis points that we can then go or they made they did that decision so that they could get a bigger share is more that we what we believe is the market is rational but it is fast in terms of the movements that we see within there, we expect that to continue as we go into this year. And what you do have is have a book that was 143 is now rolling off to kind of 126? I said the other day, I don't like to talk about mortgage margins. I'm conscious I've not actually said anything about it since Q1 last year when we were down at 45 and I said they need to go up to 60, the way I think about it over the many quarters is if I'm running around about 80, that can be a bit up or a bit below?

I'm pretty comfortable in terms of the way we're running, and I've got to deviate from that number when we talk over the next number of quarters as we kind of go

through. But I mean, Stuart you live and breathe the mortgage dynamics, what would you add?

Stuart

Yeah, I think you've covered a lot of it. On the strategy point, we still see scope for growth. We like the returns on mortgages at the margin levels that Katie's outlined. Clearly, there is a headwind there is a structural headwind on the mortgage book given that front book pricing is relative to the book, I think that's well understood as we look ahead into 2023, clearly we've got a more depressed market than we've seen in the past few years.

And we also have a reasonable proportion of the roll offs happening this year in relation to the two year business that was written in 2021. And you can go back and look at the margins we were writing at that point and they were very healthy indeed, 180 basis points sort of territory. So, clearly, we've got quite a quite a focused period of margin headwind through 2023, I don't think we're any different to the market in that on that basis, but it will ebb and flow over the years. There will be a year in two years' time from now when actually those 45 basis point margins that Katie absolutely detested will also be rolling and that could be a positive. So, it will move around and in absolute terms, we've demonstrated our ability to grow. We've demonstrated our ability to do that without being consistently top of the market. I would say we're in a very price competitive period right now and we will fight to retain our customer base. But we've demonstrated a consistent ability to grow over time. That absolute growth should also come through to absolute income levels. There is a point where that dynamic does the tail off, and as I say, 2023 is a focused example of the pressure.

Katie

Lovely, thanks.

Ed

I have two questions. One was, I'm still struggling a little bit to see what's changed in the last three months, because, you know, we can all make lots of assumptions about deposit betas and corporate repricing, whatever. But back in December, people were looking for just short of 340 basis points of margin. And you see we've already comfortably back.

And even I remember Alison was speaking at a

conference and she was asked about the role of the hedge and the implications for the market. And I think she said something like, do the math, yeah, which is all very bullish, very optimistic, very positive. And yet two and a half months later, we're suddenly saying 320 to 330 is pretty much peak. And we can argue whether it's. I'm just what I'm trying to get to grips with is and I think it's important simply because of the dynamics going forward is? what changed your thinking?

What is what has happened that has suddenly seen that sort of transformation in how you see the margin. But so that was my first one, I've got one more.

Katie

I'll come back to you in a second. So, I think what's kind of changed that you saw in the Bank of England's data as well is I think that people started to move their deposits around. You know, we saw a lot of movement in retail, people going into fixed term. It's a huge personal frustration to me that we didn't have a fixed term account sitting there waiting to go.

We stood it up in January 17th, so I was pushing the whole in the background as we saw movement, now and what we saw is that once you had that there, actually that movement seems to have stopped. It turns out that January is always a bit complicated in retail because everyone pays their tax bill, and it's kind of hard to work out.

You know, you got to see what's kind of going on within there. But and you can see that in the you know, if I look at the headlines in October, in November, it was the two single biggest moves of all in the Bank of England data in the fixed term. I didn't have an account, so that was very, so that's a short term thing that would change, but actually the speed at which people were moving was quite quite interesting, I think that the other thing that we also saw, as we've talked about already on this C&I piece, is that treasurers, we're getting a bit more active in terms of managing their positions, not that I think we were being lax on the management of I think we were very much in those kind of conversations.

But that also was a little bit of the outflow as well. So, I think actually what kind of change there is that people were managing their excess cash. But what we saw

wasn't just a chasing deposits, but also that continuing to pay out. So, actually balancing between their own assets and liabilities to make sure they were kind of getting the right kind of piece.

So for me, I think it was something you so very much in the industry overall and in terms of actually that movement of people being a bit more active. And what we know is if you've got the right accounts and you keep them on your balance sheet, they cost you more to keep, because they move from instant access to have to have kind of fixed term or a higher interest account or something like that.

But you need to make sure you've got all the right the right product suite on your balance sheet.

Ed                      So in terms of the dynamics this year, that's the key thing you should be looking at in the market generally ...is how that flow is going, rather than specifically pricing products, or?

Katie                    I mean, I think how that flow is going and how people are managing their both sides of their own balance sheets, I think is really important. So might not be flowing anywhere but actually that they're paying down debt, things like that, you know, and we can see that that's what they're continuing to do, I think as it goes through.

Ed                      My other question was, if I look at stage two and stage three balances, they swung all over the place. I can only assume these are some sort of a change in...?

Katie                    So I think it's the movement, when they actually take a step back although the stage 2 balances have moved they're not kind of 12.8 billion what you actually see says you know we've got a very low SICR threshold so therefore we move things into stage three very quickly.

So even though they don't have a lot of ECL attached to them, the gross number moves. So, if you look at our stage three mortgages, it decreased actually by 90 million even though the loans themselves went up. So therefore, we go we're watching them more a bit closely, but we're not yet at the stage where we're a raising big increase against that.

So that's something more of a theme of our numbers over the years in terms of that piece, we're not concerned by the migration. If I look at what happened in the unsecured, we also saw an increase there from 12.8% to 13.2% in terms of that piece, but again c. 4% of the loans, we're kind of comfortable with that, that kind of coverage.

And when I look into the underlying behavior of what's happening in those portfolios, there's not things there in the opposite specific concern, but it is that SICR trigger that kind of makes the gross loans move in. But as I say, the ECLs were down by 90 million.

- Ed (?) But stage two particularly?
- Katie Stuart's coming in to help me. On you go Stuart.
- Stuart I was just going to say, I think you misspoke. You said stage three on the SICR, it's the stage two...
- Katie Oh, sorry forgive me, thank you.
- Stuart ...the second half of the final quarter of the year. Exactly as you described, stage three balances increased on mortgages in the first half of the year as a result of the new definition of default models, which essentially fills in what's called a softer level of default. But to Katie's point, not accompanied by an increase in ECL, more generally across the retail book, I would say it was a little bit of a game of two halves, in that you know H1 we had an improving macro picture. There was a new model implementation and the definition of default piece, but generally a reduction in stage two balances, including the removal of part of the covid legacy, covid PMA, which was stage two oriented. And then in the second half of the year, the new MES and the low SICR threshold increased stage two balances, particularly mortgages.
- Chris Yes, thank you. Just two quick ones, really. Firstly, how should we be thinking about interest earning asset growth. You've given us a NIM guide, talked about wanting to grow ahead of market, I don't think there were any numbers there. Quite strong growth on 22 versus 21. I guess, that's going to slow down, in terms of interpreting your guidance.

And then the second one is on mortgage pricing. So, you talked about 80 basis points, I guess we're heading back to kind of pre GFC levels of base rate, you've got quite attractive viability now in terms of your earnings profile. Fighting back to pre GFC mortgage asset rates, would be 20 basis points, 25 basis points or something over the few years pre GFC, so much lower than the 80. And I think you would have talked about the 80 to 100 corridor, when the base rate was 50 basis points. So, is there no sort of anticipation of a pricing response and tighter asset spreads than you were getting when base rate was 50 basis points and some of that not going to get competed away, or do you think that 80 is sustainable?

Katie

So I think on the 80 we think is pretty good, we think we'll move around it as it kind of goes through, we think the market does behave relatively logically in terms of, how they kind of are trying to do the pricing. I'd also say that if I look at some of the prices as well, we've got quite strong, kind of excess liabilities which kind of help us with the spreads, others are not in that same position. And we will see people paying up on that side to get their funding numbers in, which I think that we might prevent, I think with mortgages kind of falling, but at the moment, we're comfortable, from what I see today, I'm comfortable on that. On the average interest earning assets, 6.7% growth, I guess we had to our lending mix this last year, if I look at where we are just now, Stuart's already talked about the fact that the mortgage book is naturally smaller this year in terms of the market, so we wouldn't expect to see a 45.1 billion of gross new lending we saw. You wouldn't expect to see that at all this year, I think very focused on making sure that we do the right thing on retention of the mortgages. As well on that, but that doesn't have the same kind of pull-through on that piece.

I know commercial is going to very much depend, I think on a lot kind of sentiment of the corporates every year. It started well, but we need to think a little bit further into it before we take any real conclusions, and we've not given loan growth guidance for the full year.

Chris

In terms of expecting to grow ahead of market, do you expecting to deliver some of the positive growth?

Katie                    So I think on mortgages, I'd be very comfortable on that, probably even go as far as saying credit cards would be at 4% of the book, it doesn't move the dial particularly. Commercial, I mean, I think given that we are the market, we will grow in line with that.

Aman                    Yes, a couple of the questions. One on NIM, can you help us think about funding cost?, what you refer to as funding and other. What was the kind of the 5 bps in Q4, and what are the drivers of that one then going forward?

Katie                    Yes, 5 bps was definitely a one-off. We called it a debt security and because of the LME, it went through that line. So that's why it was there.

Aman                    Some underlying NIM... has funding and other...

Donal Q                In Q4 we issued some Tier 2, we issued some MREL, that'll be feeding through there as well.

Aman                    So should we expect that to be an ongoing negative for run rate?

Donal Q                I think if you look at our, kind of there'll be a timing element from our issuance plans, but in effect, what we're issuing is only upcoming maturities.

                              So again, the timing of actually when we issued that versus when it would mature, will just be the timing element that will feed through. But no, no significant, you'll see from our funding plan on Friday there's no real change in terms of what's due to mature. It's quite static.

Aman                    And then just on costs. Thanks very much for the cost guidance of 23. How can we think about cost growth going forward? What's the underlying run rate for costs?

Katie                    You'd like me to answer to run rate for costs, at the end of 23?

Aman                    Well, but I guess you've kind of stepped away from cost guidance for a number of successive courses, you're going through an underlying inflation that is different from what we saw before. Inflation is different. I think one thing I'm not sure actually came out from Friday was your approach to investment, particularly around getting fee income growing. So, I guess I still would make this

observation.

I think you've acknowledged this point before that you are really over indexed , particularly given the rates tailwind. Presumably yourself, and Alison are thinking about things on getting that going. So, I guess what are you doing in house to get the fee income growing, what impact is that going to have on the cost base in 24? I'll repeat the question on Friday, is it inorganic part of the answer?

Katie

For fee income it has to be inorganic. So, I mean, if you kind of read 90% growth and non-interest income last year and some of that is a result, some of the investments that we that we make within there, we've done three acquisitions this year, Rooster, Vodeno and Cushon, particularly the last two. They're really focused on fee income, but they're small. And the reality is that those are businesses that we will build will have impact.

They themselves are not significant in terms of their own cost base, so they're not particularly going to move that dial. We're very aware that we're kind of one third, two thirds to change away from 1 third, 2 thirds, particularly when you got the strength of interest rate in the stream flow through on things like the structural hedge, you know to even retain that percentage is pretty difficult in terms of that amount it's not even one third, two thirds I think. So, to make that move significant, it would be a very significant acquisition. We've always said the things that we look at that we're much more interested in buying kind of capability and volume in terms of that. As you've seen in this last year, some moves around some acquisitions things have happened in areas that we would be interested in. But we haven't been there, we've not done them. So that there, we also view as quite a high benchmark. And when we're sitting here with a 14 to 16% ROTE, that makes it quite a high benchmark to add something in that's more general to this. So, I do think actually the way we've got, I look at my plan, and I can see the growth. I go to the best that I can see next five years, you know although the be an imperfect kind of science, but I think we're making the right investments to continue to grow that fee income line. But I think you're always going to be at this level of imbalance. I mean, it's 3.2 [total non-interest income in 2022]



compared to the 2.7 [in 2021] previous.

Aman It's just something about the ROTE guide medium term, that is a little bit hard to reconcile. So, you're going to be at a top end of 14 to 16 this year, then you're going to get a 1% tailwind into 24 from Ulster.

Katie 1 and a half even, yep.

Aman Yeah, exactly. Maybe even more. So, the underlying ROTE.

Katie A little bit, it won't be as much as one and a half because there's a bit left over in Ulster for next year, but it's pretty deminimis.

Aman So, the underlying ROTE into next year actually is pretty high, and I appreciate there's this kind of peak NIM discussion, but you are going for structural reduction in cost income long term. So, unless there's a meaningful step up in revenue, it's an improvement in the operational performance of the business through to 25 on a high staff on ROTE. I mean there has to be a big negative somewhere that we're not quite sure what it is.

Katie Yes, so I think say that there's no new negative that we're not telling you about, there's no big charge that's sitting there coming through. What we've tried to talk about is we've got this sustainable 14 to 16% ROTE. There are different peaks and troughs that can happen throughout that piece, whether it's things like the deposit pass through, obviously the Ulster pieces is beneficial for us in that time.

You know, interest rates, whether they move, they fall quicker than we expected, or they got more that can go in either direction in terms of in terms of where we're looking at it. And I think the other thing to be mindful of is that build up in tangible equity as well. We talked a little bit about the 13 to 14% CET1.

How we see that kind of that kind of build within there, something I think, to have a little bit of a think about within that space. But what we're kind of saying is that we're comfortable that sustainably, as you look at this business, we can see that we can deliver 14 to 16%. We

don't view the 16 as a cap. So, if I get further than that, we absolutely will.

But we would certainly not seek to be I would not be living below the floor either in terms of that piece. So, I think it is to try to think about, you know, this is a business that if you're buying into it as an investor, you can say to yourself, actually, they've got the right levers of power sustainably. Absent any big economic moves are not in our thinking today, you know, they would have to be, you know, relatively big. They're actually they're comfortable as a management team, that they can deliver 14 to 16, because we keep delivering on what we said we would deliver in terms of that will continue. We'll continue to do that.

Mathew I'm Matt from Mediobanca. At what point if depositors haven't moved into buying up accounts, do you think you can take a view that they're not going to?

Katie I'm going to push that question back to you. So, and if they don't move, then what do I do? Do I change our hedge positions? Do we hedge a little bit more in terms of that piece? And we think we've done quite a lot active management in terms of what we see in our liquidity volume but kind of comfortable the way the hedge is structured at the moment and that piece, I think what we've tried to do is to make sure that we're paying up for the tiering levels in the fixed term.

And then if people are staying where they are, we will kind of keep looking at that from the liability value almost comes back to Rohith's point earlier that you might not hedge it today, you might hedge it a few quarters down the line because actually really hasn't been the overall shape of the deposits haven't moved enough.

Mathew So if you look back sort of 12 month, is it enough, is this the right kind of period?

Katie That we feel it served us quite well to date? So, it's not something we're looking to change.

Donal I think the important thing to note is what we haven't been in a rate cycle for 10 or 15 years. Right. So, it affected the level of data and historic analysis that you can use is quite limited, because previously this was a

very different time as well, Rate pre regulation, pre banks running significant amounts of liquidity. So, you know, it's kind of learning as you go off the data.

Katie James, can I come to you? I'm sorry you've been trying to get in for a while.

James That's alright. So, the first is this buy now pay later so you launched that last year when it was a lot more popular. So, on your website, I'm just wondering if you're actually doing much volume on that, and if there's anything which you can say about it. The second one is on QT. So, I think one of the sessions you said that you weren't worried about QT, because none of your clients would be the buyers of the gilts. Has it panned out like that, are you still very comfortable with that statement?

Donal I'm not sure if I was as optimistic about that. But no, you're right. So, I suppose the big thing for me it's relatively I suppose the volumes we've seen so far have not been huge. Right. So, it still has to play out over the next few years. Around who those marginal buyer gilts are if they are MBFIs as you know, we don't sit with huge amount of cash or liquidity from those MBFIs.

So, you know, it's not as if they're sitting on cash that they would deploy to gilts, and we would see outflows to that degree. I think, again, it's uncertain how we'll play out, but I don't think, you know, our own expectations today are not expecting any material production imbalances on the back of QT.

Katie Stuart, can come to you on that buy now pay later. I mean, it's kind of a small product enhancement. It's not something that's massive for us. But do you want to talk about little bit?

Stuart Yeah, sure. I mean, just as you see and it's probably not something that's going to feature in any way materiality in anybody's models in the room. We are still doing small volumes. We do have intention to invest a little bit more in it in 2023. I think we were clear at the time, our intention was to move into that market, to give people a better option than some of the other market practices. Our product model works much more akin to credit card experience or credit card rails.

And our affordability criteria is very strict and in fact even stricter than it would be on net free funds to take over credit cards. So hence we are doing, small volumes to customers that we're very comfortable on the credit quality of, but we've got no plans to do anything else and to keep it on sale and to put a little bit of modest investment into it this year to improve certain parts of the customer features.

Robin I think we've got time for one, maybe two quick questions. Who else? Andy?

Andy I will ask one more. Just to follow up on the Nil versus the Non-Il point. Lloyds has obviously come out with a similar rationale point with an aim to grow Non-Il. Part of that through growth in wealth. If you were to look at wealth as an initiative either organic or inorganic, how much of a headwind is the regulatory environment compared to where it was, say, a decade ago, pre-RDR?

Katie So we do think there's, you can see that we have made quite a lot of investment wealth in terms just even from creating increased capability is a kind of center of excellence for the whole business. What we've done with RBS Invest and NatWest Invest, I talk about I think four years to get our first billion in one year to get our second billion. 5.6% growth as a percentage of opening assets of that money, that's a really good percentage.

The problem is our numbers are still quite small. You know, in terms of 34 billion of AUM. But what we can see is that by focusing on it organically, we can make a real difference on it. I think the other thing we spend a lot of time doing is ensuring that we get the right number of referrals into that product from our kind of personal bankers and also from the commercial side, to make sure that customers who are having an equity going into Coutts, things like that as well.

So, it has got a lot of focus. You know Cushon is part of that narrative. We did a pilot with Cushon before we bought them to go, actually, is this something that's attractive for our Corporate customer base? You heard Alison talk about also has a kind of a commercial or a corporate kind of savings aspect to it as well, which is interesting. We will see how important that is. So, we do think it's got real opportunity within there. We do look at

inorganic opposite opportunities. So, if something came up, it's something we do spend some time thinking about.

And I would kind of go back to the 14-16% ROTE. And we will make sure that it's the right use of our funds. And if you look at where we are now, when you're sitting at 16 to 18% CET1, you need a bit more cash to do those things, so they've got to be is a better value than doing it for a further stake of the directive buy-back. I can make arguments as to why that could be a very good case on a multi-year basis which we do still kind of continue to look at them, but it's got to be the right culture and the right product because I think what we have seen is many others struggle to make it really work. And I would say making it work internally has taken us some time. It feels like we're on that journey now, but it's a different kind of beast.

Aman Can I sneak one more in by any chance?

Katie You can sneak one more in, go on.

Aman What happened to the mortgage margins in Q4? Because I think. So, if you've got like 13 billion of maturities, the spread compression on the maturities is something like 200 basis points. So, it feels like something strange happened or we booked zero/negative mortgage profit margins.

Katie I'm going to have that straight to Mr. Nimmo. Stuart, you do you want to take that one?

Stuart Yeah, I'd like to go through the maturities number with you. I don't quite see that. So, we told you we did about 11 billion of GNL. We had switch volumes in the quarter, not quite as much as that. But you should think about those volume is rolling off against redemptions and in roll off redemptions and typical capital paydown that you would see in any quarter. But I don't recognize the roll off. So, churn margin there in your numbers.

Aman Sorry is my is my roll up number big? Because it sounds like it's too big.

Stuart Yea, perhaps Claire and Alexander, if you want to set out your workings, I would happily help out where I can.

Katie I want to go to Ed for one last question. See if we can end more joyfully.

Ed No, I mean, I just I suppose to get a sort of broader question. Going back to what Chris was saying, I guess we're all looking at trying to work out what banks are going to look like in a higher rate environment. And if I look back to sort of pre-2008, you know, margins were better there.

You go back that out but actually credit through the cycle is quite a lot higher. There's like 50, 60 basis points. And I guess the two explanations, one would be that you're better targeting now, the other would be that actually at a higher rate environment, problems crystallize more quickly. You would do okay if you borrow money, and you make a mistake, it actually does crystallize more quickly. I just wondered what work you've done thinking about how that that credit, is there a danger that we're looking at margins shooting up but keeping a sort of low interest rate provision rate assuming that stays forever and that that may be an area which might disappoint.

Katie No, look, I think we spend a huge amount of time looking at credits. I think our book is very different. We've done a lot of taking out of a lot of things that caused us pain in the past. So that that kind of helps. I think I do kind of feel that I go each quarter "oh procyclicality is about to come" and it's not and it will. It feels slow in kind of getting here, you know and even if I look at the 9 basis points for the year, I wouldn't have been surprised to be at 12 or 13 necessarily but actually as the fourth quarter went along, it's kind of like, no, that is still the right number. And that's what the models were saying. But you kind of couldn't quite believe that would be the case. When I spend time with the credit guys, and I go to look at the heightened monitoring and I find out what's happening in mortgages, and it has less of an impact obviously, but we're just not seeing it coming through.

But you do feel it must in terms of that piece. So, I think that's kind of we just have to kind of keep watch watching it. So, I think you then come back to, you know, the 14 to 16 is one of the best bits of guidance are in the markets. We've got we've got a clean book which we spend a lot of time cleaning make sure it's there.

We do have a tight grip on expenses as we go through and our funding costs are, you know, some of the tightest that you can find some things where we are very well positioned so that I think it's about how do you manage that interest rate and actually how do you make sure that credit isn't accelerating underneath you as you go through?

We do think the investment that we're making will do the right things to the non-interest income line, but they will be slow. And you know, while I can look at total income continue improving, but the mismatch of the shape is something that's hard to change.

Ed But if peak impairments are 30 basis points say, by worst case, so we go through this with four quarters of negative GDP growth, we get 30 basis points. At what point do you then lower your voice and say, actually, you know, 7% on an unsecured is not necessary because we're not making any losses. The two should be related in some way.

Katie Yeah, they should be.

Ed I'm just thinking at what point, if 30 basis points is worst case then you could do a lot more volume at a lot tighter pricing. Is that fair?

Katie I guess our 20-30 is through the cycle guidance and what I'm saying for 2023, I expect to be in that cycle. So, what you would expect for other years it was much higher. I just don't think that's going to be this year. I'm not guiding you to be nice to or either sort of saying I guess it was obviously in 21 sort of thing but I think what we look at is the experience that we continue to manage our models to try to kind of take it to the right place, hand-in-hand with the regulator who would naturally probably be more pessimistic, but it will come at some stage. So, I think it's how you kind of continue to move that forward, and which we're trying to. Thank you very much for the time I know Alison will pop in if you're still hanging around and having a coffee very happy to have a chat offline as well for the next half an hour or so.

Okay. Thanks very much.