



**NatWest**  
Group

**NatWest Group plc**  
**Q1 2024 Results Call Transcript**  
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## Management Presentation

**Paul**

Good morning and thank you for joining us today. I'll start with the headlines; Katie will take you through the financial performance and we'll then open it up for questions.

I said in February that we are driving returns in three ways: first, by continuing to grow our businesses in a disciplined manner, second, by driving bank-wide simplification, and third, by deploying capital efficiently and maintaining strong risk management.

We are focussed on these priorities in order to generate capital to both reinvest in the business and make further shareholder distributions. We have continued to make good progress in the first quarter and the year has started well so let's turn now to the financial headlines.

Supporting customers and the UK economy is central to our strategy, creating greater value for customers results in greater value for shareholders.

Customer lending increased to 361 billion, making this the 6<sup>th</sup> consecutive year of lending growth. We are seeing early signs of improving demand in mortgages and our net lending to large UK corporates continues to grow as business confidence improves.

Our deposit balances have grown to 420 billion, ahead of expectation, with migration to higher-rate savings accounts slowing as expected.

And assets under management and administration grew to 43 billion, up 2.3 billion since the year end. This customer activity underpins our strong performance in the quarter.

We generated income of 3.4 billion, with costs of 2 billion, delivering operating profit of 1.3 billion and attributable profit of 0.9 billion.

Taken together this resulted in a return on tangible equity of 14.2%.

Strong earnings added 10 pence or 3.4% to Tangible Net Asset Value per share which was 302 pence.

Our CET1 ratio for the first quarter increased to 13.5%. This includes an accrual of 367 million towards our interim dividend, in line with our targeted ordinary dividend payout ratio of around 40%.

We have completed last year's 500 million on-market buyback programme and started the 300 million buyback announced in February, which we expect to complete by the end of July.

We have capacity for another Directed Buyback when the window opens in late May. You will be aware that the government has reduced their shareholding to below 29%, a reduction of more than 8 percentage points since the year end, in line with their intention to exit fully by 2026.

This is a shared ambition which we believe is in the best interests of the bank and our shareholders. We will work closely with UKGI and the Treasury if the government does decide to launch a retail share offer.

With that, I'll now hand over to Katie.

**Katie**

Thank you, Paul - I'll start with our performance for the first quarter using the fourth quarter as a comparator.

Income excluding all notable items was down 0.8% at £3.4 billion. Operating expenses were 4.7% lower at £2.1 billion, which includes the new Bank of England Levy. The impairment charge was £93 million or 10 basis points of loans.

Taking all of this together, we delivered operating profit before tax of £1.3 billion. Profit attributable to ordinary shareholders was £918 million and return on tangible equity was 14.2%.

I'd like to talk now about our income performance in more detail. Overall income, excluding notable items, of £3.4 billion, was down 0.8% on the fourth quarter.

Excluding the impact of one fewer day in the quarter, income across the three businesses increased by £14m. Retail Banking was down £30 million due to lower mortgage income and a reduction in card spending fees.

Private Banking was broadly stable as lower mortgage income was offset by higher fees from assets under management, which grew 1.9 billion or 6% in the quarter. Commercial & Institutional increased £44 million driven by stronger markets income. This was partly offset by a reduction in the Centre of £13 million.

Group Net Interest Margin was 205 basis points, up 6 basis points from the fourth quarter. However, it was broadly stable across the three businesses, excluding notable items and volatility in the Centre. This stabilisation of margin is pleasing to see after a reduction over the prior three quarters.

Moving now to lending. We continue to be disciplined in our approach and focus on deploying capital where returns are attractive. We are pleased to see a stronger mortgage market together with ongoing demand from larger corporates and financial institutions.

Gross loans to customers across our three businesses increased by £1.4 billion to £361 billion.

Taking Retail Banking together with Private Banking:

Mortgage balances fell by £2.1 billion as customer redemptions offset new lending. This led to a small reduction in our stock share from 12.7 to 12.6%. Mortgage flow share for the first quarter was broadly stable on the fourth at 10.5%. However, as the market has increased in size, this translated into higher applications. Unsecured balances were stable at £15.8 billion, with continued growth in Cards offset by a reduction in loans and overdrafts.

In Commercial & Institutional, gross customer loans, excluding government schemes, increased by £3.9 billion or 3%. Within this, loans to Corporates and Institutions increased £3.1 billion, as we saw broad based demand across a number of sectors.

I'll now turn to deposits. These were up £0.9 billion across our three businesses to £420 billion, which is better than expected. Across Retail and Private Banking, household deposit balances increased by £2.1 billion, and overall current account balances were stable despite annual tax payments.

The reduction in Commercial and Institutional was mainly driven by active management of lower value deposits and a reduction in system liquidity.

Migration from non-interest bearing to interest bearing deposits continued at a slower pace, as expected. Non-interest-bearing balances were 33% of the total, compared to 34% at the end of the fourth quarter, whilst term accounts grew to 17% from 16% at the year end.

As a result, the increase in our cost of deposits has slowed further, rising around 10 basis points to 2.1%, as you'll see on the chart on the right. Our strong diversified funding base has strengthened our Liquidity Coverage Ratio to 151% at the end of the quarter, up 7 percentage points on the year end.

Turning now to Costs. We remain on track for other operating expenses to remain broadly stable versus 2023, excluding the increase in bank levies of around £100 million.

Costs of 2 billion for the first quarter were broadly stable with the fourth quarter. This includes £87 million of bank levies following changes to the cash deposit ratio scheme.

We expect total bank levies for this year to be around £200 million, which is roughly £100 million higher than last year, with the remainder of the charge coming in the fourth quarter.

We also incurred higher severance, branch and property exit costs in the first quarter, and expect these to be weighted to the first half of the year, so you should not expect first quarter costs to be the ongoing run-rate.

We will continue our strong track record of disciplined cost management and investment, and plan to improve productivity and efficiency through bank-wide simplification.

I'd like to turn now to impairments. We have not changed our macro-economic assumptions during the quarter and, as usual, will update these at the half year. Our diversified prime loan book continues to perform well. We are reporting a net impairment charge of £93 million for the first quarter, equivalent to 10 basis points of loans. Stage 3 impairments, continued to normalise but this was partly offset by good book releases.

Our balance sheet provision for Expected Credit Loss includes £411 million of Post Model Adjustments for economic uncertainty, which is down £18 million in the quarter. We continue to expect a loan impairment rate below 20 basis points for the full year in 2024.

Turning now to Capital. We ended the first quarter with a Common Equity Tier 1 ratio of 13.5%, up 10 basis points in the quarter. We generated 50 basis points of capital from earnings which was partly offset by RWA growth consuming 24 basis points. The accrual for

ordinary dividends was equivalent to 20 basis points. RWAs increased by £3.3 billion to £186.3 billion. This was driven by higher lending in Commercial and Institutional and the annual update to operational risk, which added £1.6 billion.

We continue to expect RWAs to be around £200 billion at the end of 2025, including the impact of Basel 3.1 and further CRD IV model development.

Our CET1 ratio target remains 13 to 14%, and we retain capacity to participate in a Directed Buyback from the UK Government at the earliest opportunity.

Tangible net asset value per share has increased by 10 pence, mainly as a result of attributable profit. The cash flow hedge reserve was broadly stable as the impact of yield curve changes was mitigated by ongoing decay.

Turning now to guidance for 2024. We continue to expect income, excluding notable items, to be in the range of £13 to £13.5 billion, Group operating costs, excluding litigation and conduct, to be broadly in line with 2023, excluding an increase in bank levies of around £100 million, and the loan impairment rate to be below 20 basis points, all together delivering a Return on Tangible Equity of around 12%.

Looking beyond 2024, we believe the business is well positioned to grow income, control costs, and maintain strong risk management, providing a clear path to our 2026 target for Return on Tangible Equity of greater than 13%.

With that, I'll hand back to the operator for Q&A. Thank you.

**Moderator** Our first question is from Chris Cant from Autonomous. Chris, please unmute and go ahead.

**Katie** Hey Chris.

**Chris** Good morning, thanks for taking my questions.

**Paul**

Hi Chris.

**Chris**

I wanted to think a little bit forward in time, please, and just come back to your final comment, Katie, around the greater than part of your RoTE expectation in the outer years. You haven't changed your macro assumptions. I think your base rate assumptions are now probably one of the more out of line set of rate assumptions in the sector relative to market expectations, and I appreciate you don't want to mark to market all the time, but I think you're assuming in 2026 an average base rate of 2.9% or something around that level, which is quite a long way out of kilter with where rates markets would be at around 4% on average. So if I think about your rate sensitivity guidance and I think about how that delta to market expectations develops, some of that rate gap arises this year, some of its next year, quite a lot of it's next year. If I take your year two or year three sensitivity, we could be talking about a billion of extra revenues based on your sensitivity guidance.

So how are you thinking about that in the context of your RoTE? Are we just waiting now for the passage of time before you update that, or is there some other concern that leads you to not want to update us? Because, as I say, your rate assumptions do seem to be very disjointed relative to rates markets expectations at the moment.

And in terms of how that plays out this year, Katie, I think at full year, you had indicated second half revenues would be stronger than first half revenues, even with five base rate cuts embedded in your assumptions back end loaded this year. So, if we don't get those rate cuts coming through to that degree of severity, should we be expecting revenues to be ticking up very sharply half into the second half of this year? Thank you.

**Paul**

Thanks, Chris. Very clear. Katie, I'll come to you on Chris's second question, the half on half. But I'll give you the view on the RoTE and returns, Chris. As you rightly pointed out, we have a set of broader economic assumptions around rate cuts there. We're pleased with the quarter one outturn, obviously, a RoTE of 14.2 is a very encouraging

start, especially given the context of our full year guidance of around 12. You can see what's driving that in terms of both the deposit piece and the lending piece. Balances on the deposit side, but also the continuing slowing migration. At this stage, you're right, our guidance assumes the five rate cuts with the first one starting in May. We're not updating those assumptions here.

There's obviously a pretty active debate, not least in the last couple of weeks about both the timing and the quantum of any reductions. So it remains early in the year. We feel good about the progress. We're increasingly confident in the context of '24. But also, as your question alluded to, in terms of the medium term, again, our confidence has increased based on the performance in the first quarter. But taking a step back, we're only a quarter into the year. So, at this point, we're not changing the guidance. Do you want to take the '24, half on half?

**Katie**

Yeah, sure, absolutely. So, Q1 income was 3.4 billion, obviously an encouraging start to the year, benefiting from that slightly better deposit volume that we had. In February, we guided to H2 income being slightly higher than H1, depending on the extent of the headwinds that we saw in H1. So, given the strength of Q1, we now expect the half on half profile to be a bit more balanced. But you know, Chris, as we all know, it's still early in the year. I'm not going to give you quarterly guidance on that.

But we do note that the Bank of England rate cuts come in both May and June. And that will have an impact, obviously, as you move forward from here. We do expect to see some continued mortgage pressure on spreads in Q2, which we have talked about as well at the year end, some potential further deposit shifts and the assumed base rate cuts as well coming in. We have given you the sensitivity for the full year. So, you can take your own views on that shape. And we just remind you that that's a static balance sheet. So, you do need to think about the evolution of the balance sheet as you build those in as well as the timing on that as we go through. But overall, comfortable the year has started well, and we'd expect it to be slightly more balanced half on half than the slight uptick that we talked about in February. Thanks very much, Chris.



**Paul** Thanks, Katie. Thanks, Chris.

**Chris** Thank you.

**Moderator** Our next question comes from Aman Rakkar of Barclays. Aman, please unmute and ask your question.

**Paul** Hey Aman.

**Aman** Good morning. Good morning, Paul. Good morning, Katie. Thanks very much for taking the questions. Can I ask on corporate centre was obviously very noisy in the quarter. You know, the observation is, I think it's kind of flattered your NIM and weighed on non-interest income in the quarter, specifically in relation to the four bps funding cost benefit. Can you actually just help us understand exactly what is going on there? I think the key question for a lot of people based on the feedback I'm getting this morning is whether we should expect any of that to fall away. I guess another way of asking that is 205 basis points NIM, a decent start point for our modelling for NIM from kind of Q2 onwards. Is there any reason to think that kind of falls away? And relatedly, the kind of non-interest income presumably you're expecting to not see the negative drag that you experienced in Q1 going forward. So that is one question. I think it would be helpful if you could kind of talk across those two lines at the same time, please, in response to that.

The second question is, in a rate scenario that's more akin to market pricing, if we weren't to get the rate cuts in May and June in this scenario, is there any reason in your mind to think that NIM falls substantially from here, just in my scenario where there are no rate cuts in Q2? Is there any reason to think in your mind that NIM or NII falls substantially in Q2, please? Thank you.

**Paul** Thanks, Aman. We're happy to help with that. Katie, do you want to go with that?

**Katie**

Yeah, sure, absolutely. So let me start with the NIM and the magical question I know you've all been busy with this morning of 'will the four basis points reverse'. Let me start by reminding you that of course, we don't guide on NIM. What we do give you is total income guidance. Since this is what matters for earnings and for capital generation. And the other thing I would just remind you of is that our NII, it's an all in NII, we don't make any exclusions for particular types of funding costs or any particular treasury type activity.

So on slide 19 in the pack, you can see the NIM walk. And that shows the benefit from funding and other of the four basis points you've mentioned already. And this is really driven by a change in net interest income in the centre. And as we've said, I think you should expect that the centre total income is roughly zero, since we allocate this out to the business. However, what we do find is that there can be volatility between the two lines of NII and non-interest income. So, this NII in the centre, it doesn't necessarily reverse next quarter. But given it's largely offset by non-interest income, then the impact on total income from this is the dynamic I think that you should be considering about. I would say on NIM, our overall message is a very simple one, is that NIM is broadly stable across the three businesses. And we're really pleased to see this outcome given it shows that the headwinds of mortgage margin and the deposit mix, they're largely offset by the tailwind that we have on the structural hedge. So, I would really encourage you to focus on that. And in your modelling, consider that central items is kind of a zero as you move forward from here.

I guess when you go into the scenario, if there's no rate cuts, again, here, we don't want to guide on the NIM. But clearly, the only thing that we'd expect to change in the drivers versus Q1 is the base rate cut at this point. The mortgage margin is probably fairly similar. I think we've talked a lot over the last few quarters that we're nearing the end of that headwind. And you can see that in the valuation of the mortgage books, the mix continues to be offset by the hedge. In terms of rate cuts, let's talk a bit more about that and see what happens as we speak more in July, after which we will have had or have not had some of the rate cuts the market might be suggesting. Thanks, Aman.

**Paul** Thank you Katie and Aman.

**Aman** Thank you.

**Paul** And as you know, we issued quite a lot of sensitivities. So, you can form your own judgments from that. There's quite a lot of detail available if you want to run some scenarios. Thanks, Aman.

**Moderator** Our next question comes from Andrew Coombs of Citi. Andrew, please unmute and go ahead.

**Katie** Hi, Andrew.

**Andrew** Good morning. I think my main question was just asked, but perhaps I can ask one instead on mortgages. You talked about a much more, perhaps, upbeat outlook for completion spreads at the last quarter, which I assume has continued, but anything you could elaborate there on current completion spreads would be helpful. But I also wanted to link that into your flow share because, for two consecutive quarters, you've been running around 10.5% versus your stock share at 12.6. So how do you see the dynamic playing out going forward between your focus on attractive completion spreads versus taking market share or maintaining market share in the mortgage market? Thank you.

**Paul** Thanks, Andrew. Why don't I take the latter and then maybe come back on the completion spreads specifically.

**Katie** Sure, yes.

**Paul** So, Andrew, on mortgages, we've been pretty consistent on this over the course of the last couple of quarters, in my view. It's an important business for us. You know that we've demonstrated good market share

growth over a number of years, up to our current stock share of circa 12.6. It remains an important business for us. Given the thinness of the market last year, especially around quarter 3, quarter 4, and the tightness of the spreads, I was clear in February that we'd taken some very conscious choices around competition and pricing in the second half of the year. That obviously affects the completion volumes in quarter 1. What I would say in terms of this year so far, the system level applications are significantly higher. You'll see and know that.

I'm pleased to say that's replicated in our application volumes as well. What's also encouraging is the strengthening of the margins at the front end. So, what that means, all other things being equal, is that we would expect to see our volumes and share improve as we progress through the year. And over the course of the last number of weeks, our flow share has been more in line with our stock share. And obviously, with margins stabilising, that will contribute to the income growth as we go forward through half two. Do you want to cover the completion spreads?

**Katie**

Yes, sure. Absolutely. I'll just add a little bit on. So, historically, it's important, Andrew, that we've given you application margins, not completion spreads as they've come through. You know that we always have activity going on around treasury and things like that. But clearly, they're not so different, but you can get some differences through them. We're writing around 70 basis points. I would expect that to be kind of around about that level for most of the year. It will move up and down a little bit, but in that sort of basis.

You know, what I would say, and we said this again in February, that the completion spread is a little bit below that in Q1. If I look at stock, the book overall was at 80 basis points at the end of the year. It's now sitting at around 74 basis points. So, we're very much nearing the front end, the front book level and the back book differential is kind of coming to an end, which is great. And that's why we see that strength coming through in income and then obviously in terms of the NIM as well. But I would kind of think of those sorts of numbers as you as you go forward from here. Thanks, Andrew.

**Andrew** That's helpful.

**Paul** Thanks, Andrew.

**Moderator** Our next question comes from Benjamin Toms of RBC. Benjamin, please unmute and go ahead.

**Benjamin** Morning, both. Thank you for taking my questions. Firstly, on the structural hedge, your product notional was 185 billion at the end of 2023. I think your guidance was you expect it to fall to around 170 billion by the end of this year. Given the deposit build in the quarter and the slowdown in migration, is 170 billion still the right number for our structural hedge modelling? And you noted in the presentation on costs in Q1, not to annualise the Q1 number. Can you just update on the drivers which underpin your confidence that the run rate will come down from here? Would you expect a fall in the run rate to be linear as we go through the quarters, or will there be more of a cliff edge? Thank you.

**Katie** Super, thanks.

**Paul** Thanks Ben.

**Katie** In terms of the structural hedge, we talked about the notional, it was 185 at the year end, 170 by the end of 2024, based on that static balance sheet. You can see that given the changes in the deposit balance and the mix in the first half of 2023 and our 12-month lookback approach, you'd probably expect most of that reduction to really occur in the first half, if you think of how deposits stabilised in the second half of this year and have continued to be relatively stable in the first half. But I think that 170 number is a good number for you to continue to work with as you move forward from here.

If I think a little bit about the yield that we were getting, it was 152 basis points we talked at the end of Q4. It will be a little bit higher than that in Q1, I would expect. And we shared with you historically our assumptions around that reinvestment rate, 310 average for the year. Clearly, the five-year swap has been a bit stronger in the first quarter, so that will help lift that a little bit. But we'll go through the next number of quarters and see how that kind of rolls [on] as well.

So what we have said is that we do expect a moderate increase in the hedge income when I take '24 in terms of '23. And then I expect that to continue to grow greater as I go into '25 and 2026. If I go to your run rate question, so obviously 3.4 billion for Q1. As I look forward to the full year, we've talked about second half being more on par with first half. We've obviously got those rate cuts to kind of come in in the second quarter. You've heard me talk already about that centre income. And you shouldn't assume that that's a repeating event in each of the quarters. So I would take that out when you think a little bit about your run rate. But at the moment, we're feeling comfortable. It's been a good start to the year. I'm very happy to take that.

**Paul**

Good. And second question, Ben, around the cost profile. So, we're reiterating our guidance of broadly stable for the year. Katie consistently uses a phrase around our costs will be lumpy. I think that continues to be the right phrase. What we know about quarter one is that we've front loaded some of our restructuring charges both in relation to severance, but also in property costs as well. So, I wouldn't assume any sort of linear trajectory. The restructuring costs do tend to be focused on the first half of the year. But we're very clear we're confident and reiterating our broadly stable guidance, excluding the Bank of England levy.

**Benjamin**

Thank you.

**Paul**

Thanks.

**Moderator** Our next question comes from Alvaro Serrano from Morgan Stanley. Alvaro, please unmute and go ahead.

**Alvaro** Good morning. Thanks for taking my question. I really have one follow up. Most of them have been answered. In terms of the mortgage business, you mentioned, Katie, that you would expect similar, 70 basis points. But if we are seeing the recovery volume we're seeing, presumably the mix should be better with less remortgaging. Should we not expect spreads to improve from here? And how are you seeing the overall competitive environment there? Thank you.

**Katie** Yes, I think, Alvaro, rather than trying to subdivide that number into what's remortgaging, and new mortgages and things like that, I would probably take you to the total book. So, the total book was 80 basis points at the end of the year, it's 74. We're writing at or around 70. There's obviously different other things you then bring in SVR and all that. So, I'll leave you to play around with that, I think. But I would use those stats as your helpful guides.

Look, mortgages, I always sort of smile a little bit when we talk about 'does it remain competitive'. I would say for banking, this is one of the most competitive markets every day of the week, in terms of where it is. And the actual activity moves around depending on the size of the market, what's happening on the rates and things like that. So yes, very competitive, pleased with the performance that we're going through, pleased what we see coming on at the moment. Obviously, the business we're writing today, it will come on in three to six months, as we roll through the year as we see this stuff from the tail end of last year coming on just now. But I think a good performance, and it's good to have that digestion of the higher rate business that we had, historically, having come through the books, there's less drag on our name as we go forward. Thanks, Alvaro.

**Alvaro** And maybe one follow up, please, on general environment and volumes. It does look like, sorry, the volumes were better, not just in mortgages, but I'm actually thinking more commercial & institutional better than we would have guessed a few months ago, a good start to

the year. If rates do remain high for longer, how much of that activity is pent up demand or actually fresh new sort of demand? Maybe some, you can qualify that. What should we expect the next few quarters if rates don't go down as fast as we predicted a couple of months back? Thank you.

**Paul**

Thanks, Alvaro. I'll take that. The growth in the commercial & institutional business is encouraging on the lending side in the first quarter. Ordinarily, as you know, it reflects a slight lag. We saw the opportunity to deploy capital at good returns in the latter part of the year. And that's flowed through to the balance sheet during quarter one. What I would say is it's quite broad based growth. It reflects growth in our mid-market business. And also, the significant proportion of the growth is from our large corporate and institutional business. Again, within that, it's quite broad across different asset classes. It's infrastructure, it's asset finance, it's project finance, it's funds lending, etc.

So I'm not going to speculate on the relative component parts and how that might evolve. What I would say is that the confidence is definitely better. That's translating into customer activity. The trajectory of interest rates will obviously affect that. But I guess the reality is that in the current environment, that demand has picked up. And from that perspective, we feel more confident now on the kind of commercial lending front than we probably did, as you alluded to, three or six months ago. Thank you.

**Alvaro**

Thank you.

**Katie**

Thanks, Alvaro.

**Moderator**

Our next question comes from Robin Down of HSBC. Robin, please unmute and go ahead.

**Robin**

Good morning. Can you hear me?



**Paul** Yeah we can.

**Robin** Hi. Yeah, apologies for being a bit kind of 'trainspottery' with this. The Group Centre, and I appreciate this is kind of an overall revenue kind of neutral. But is this movement we're seeing, is it all about the FX swaps that you've talked about in the past? And is that then linked to the relative rates, US rates versus kind of UK rates? And the reason why I'm kind of focused on this is just trying to work out with US rates kind of looking likely to stay higher, when we might see that reversing back to a kind of small negative like we've seen in the past. I'm just trying to get a bit of background colour, if you like, on how that might move over the next couple of quarters. Thanks.

**Katie** That's fine, Robin. And don't worry, I'm a bit of a bird spotter myself. So I'm very happy to have a trainspotter to swap tales with. FX swaps is one component of this, as we manage the kind of liquidity optimally. There's also a bit that goes on with our hedge accounting classifications, which can often depend on the volumes we have in any one piece, which is why it's kind of difficult to bring a guide to you on it. And I would guide you for your modelling to work with a zero number on that. I do accept that's frustrating. We do seek to allocate out to the businesses as much as we can. So, you can see it there. But certainly, at the total income level, you will see that it doesn't generally have an impact at all. Thanks, Robin.

**Robin** Okay, thanks.

**Paul** Thanks, Robin.

**Katie** Any more questions?

**Moderator** Yes, our next question is Fahed Kunwar from Redburn Atlantic. Fahed, please unmute and go ahead.

**Fahed** Hi, both. Thanks for taking my questions.

**Paul** Hi Fahed.

**Fahed** It was just one really, obviously, the question has been asked on the flow on your mortgage business. But in general, interest earning assets, given the positivity we've seen in the first quarter, we came in at 525, it's kind of gone to 521. Consensus, I think, is 526. Should we expect now that the approvals being stronger, you talked about unsecured momentum, C&I momentum, should we expect now from this level, average interest earning assets to grow throughout the course of the year? Thanks.

**Katie** Yes, so if we look at the average interest earning assets, you can see the full detail of it on page 20. So, as you look at Q3 last year to Q1 this year, they're relatively stable at that 521 number. And you see a little bit of a movement between the liquid asset buffer and how they develop from here, you're absolutely right. It is, as you see those mortgages come on, you'll see that kind of add some value to it. We do expect that book to grow. And obviously, the C&I business has been helpful as well within that. But you can, it's helpful to look at some of that quarterly split as well to see how they do move around a little bit. But I'd expect a little bit of growth as we move forward from here. Thanks Fahed.

**Paul** Thanks Katie.

**Moderator** Our next question comes from Rahul Sinha of JP Morgan. Rahul, please unmute and go ahead.

**Katie** Hi, Rahul.

**Paul** Hey, Rahul. Rahul, are you there?

**Rahul** Hello. Hi, can you hear me?

**Paul** Yeah, we've got you now.

**Rahul** Hi, Paul. Hi, Katie. Thanks very much for squeezing me in. Maybe a couple of follow-ups then from my side. If we look at your deposit pass-through, 40% versus the 38% last quarter, and we link that back to the deposit margin that you show on slide 19, which is now plus one basis point. It was quite negative in the last 2 or 3 quarters, the deposit margin itself because of the deposit trends. The only way your NIM doesn't actually go up from here would be if deposit trends, at least the way I look at it, if deposit trends were to get a lot worse in the second quarter of the year.

So just trying to square your message around stability of the NIM with the kind of inflection point that we're seeing in this deposit margin. And we know that the asset margin is obviously going to bottom out. So just to invite you on this point, do you think that there's anything non-repeatable within the deposit trends that you've seen in the first quarter? And are you expecting to have, let's say, a more challenging second quarter from a deposit pass-through or flows perspective?

And I guess the second, that's the first one. The second one is just on credit quality. Obviously, on the corporate side, we have seen some large corporates in the UK, which are quite levered, having issues, whether it's utilities, or if you look at the kind of broad insolvency data that's coming out, it does show that there's been quite a significant take-up there. We know that your book is quite prime, but can you talk to us about how you see the risk developing through the year? And you've still got quite a big PMA attached to uncertainty there. How should we think about the timing of the unwind of that? Thank you.

**Paul** Thanks, Rahul.

**Katie**

Can I just jump in? Perfect. So, I guess if I look at the kind of deposit pass-through and the kind of mix of deposits and what that could mean for NIM, I think the thing for me that's important to bear in mind is customer behaviour has changed, as customer savings rates increased, and we reached a peak, and now those rates have started to fall. What we did see in Q1, the behaviour was very much in line with our expectations, but I think in line with the wider system and piece, there's been more household deposits in the system, and we've obviously benefited from that as well. As you know, and we've talked about it a lot at the call, at the beginning of the call, we are predicting two rate cuts in this next quarter that will have an impact.

So, I think we're mindful on that deposit margin as what that will do, just obviously in absolute terms that will have an impact. There's obviously a timing lag before you can pass some of those through ultimately to your customers, but also what that might do in terms of the competitiveness of the market piece. We do still keep an eye on TFSME, and I would say that while we talked earlier around the competition that we're seeing in mortgages, this has probably been one of the lesser competitive quarters in terms of deposits, in terms of the wider market activity. And that's something I think we all really need to be very mindful of as we move forward from here.

If we then move on to kind of impairments and PMAs, you know, for us we had a small decrease in the PMA this quarter for economic uncertainty, £18 million in total, we brought it down. What I've always said on the PMAs is it will be a multi-quarter event as we bring that number down. We wouldn't expect to see a big move in any one quarter unless there was some consumption that kind of happened to absorb that. So, we'll see that go down. We're guiding you to less than 20 basis points for the year. I think sitting where we are just now, we remain comfortable with that. So, no need to update that guidance at this point. We will continue to review the PMAs each and every quarter as you'd expect us to. Thanks, Rahul.

**Paul**

And maybe just a couple of build points on the corporate asset quality. We continue to be very encouraged by the underlying asset quality in the corporate book. We're not seeing any sort of significant

deterioration there. So that's encouraging. You referenced insolvencies, that tends to be at the smaller end of the market. There are some technicalities there. When we look at our customer-based insolvencies, actually the numbers haven't increased materially, and the majority of them tend to be to smaller businesses that don't have credit exposures. So, it's quite noisy, that insolvency data. That's just, I guess, a little build for you, Rahul. But generally, very encouraged by the resilience of customers and the action they've taken over the course of the last couple of years. Thanks, Rahul.

**Katie** Thanks, Rahul.

**Moderator** Our next question comes from Jonathan Pierce of Numis. Jonathan, please unmute and go ahead.

**Jonathan** Yeah, morning, both. A couple of questions, please. One's on the near-term revenue and then second on the longer-term revenue. Totally accept you don't want to change your revenue guidance for this year just yet. So maybe I can focus in a bit more on the range, the 500 million range from 13 to 13 and a half. I'm guessing that's really driven by a couple of moving parts. One, the response to the rate cuts that you've got in and the size, therefore, of the gapping negatives.

And the second, again, guessing that that's an assumption you'll potentially see a drift up in pricing regardless of any rate moves. If we do see fewer rate cuts and they're more spread out than your sort of May-June assumption, for instance. Presumably, that significantly reduces the potential hit from the gapping negative. I think I'm right that you haven't increased deposit pricing on your instant access savings accounts now since September as well, certainly the flexible saver hasn't moved at all. So, if you're not yet willing to talk about the broad guidance at this fairly early stage in the year, can we at least consign the lower end of the range to the dustbin, please?

The second question is more around NII and consensus expectations moving forwards. Again, I don't expect to pin you down on this, but consensus has only got about 4 or 500 million NII growth in for 2025 and 2026. But based on today's yield curve, you're looking at a £1.2, £1.3 billion tailwind a year from the hedge. The impact per base rate

cut is on the managed margin circa 100 million quid. The mortgage book, I think I heard you say, is already down at 74 basis points on the back book. Do you think consensus is being a little churlish here? And are those sort of drivers the main ones to be thinking about over the next couple of years? Thanks a lot.

**Paul**

Thanks, Jonathan. Let me take the first one quickly. We're not changing the range today. The guidance is what it is. There's a range of different scenarios as you lay out in terms of the trajectory, the timing, the quantum of interest rate reductions. We've got a lot of sensitivities that allow everybody to make their own assumptions around that. I think the message we're giving is that we're increasingly confident about the guidance we've given in '24. But we're not confining any part of the guidance to the dustbin. Just to quote you back, the guidance is the guidance. On the second point.

**Katie**

Yeah, sure. Absolutely. Look, I mean, as you look at the NII consensus and what the benefit of the hedge could be, I mean, we've said repeatedly that we do believe it is a strong benefit as we move on from here. We've talked about the actual size of the hedge decreasing from 185 to 170, around that number. I've said you'd expect much of that to get to you by the middle-ish of the year. And from there, given that we would see stability, we'd expect to see that hedge tailwind build from there. Jonathan, you're very familiar with the sensitivities that we have within here. You also understand they're off a static balance sheet. So, you can do the 12-month look back from the data that you have as well. But I think, as we look at that, we are confident about the income growth through to 2026 and obviously delivery of our greater than 13% RoTE at that point. Thanks very much, Jonathan.

**Jonathan**

OK, thank you.

**Moderator**

Our next question comes from Ed Firth of KBW. Ed, please unmute and go ahead.

**Paul**

Hey Ed.

**Katie**

Hey Ed.

**Ed**

Good morning, everybody. I'd like to ask a question on capital, actually. I guess one of the impacts of your share price is that your Government buyback now, I guess, costs about double what it did six months ago. So, I think it's about 60 basis points off core tier one now, something like that, a 5% buyback. And then on top of that, you've got Basel III coming through, which I guess is another 130 or so. So, you've actually got about a 200 basis point headwind to capital over the next 12, 18 months.

So I'm just trying to think, how should we think about open market buybacks in the context of that? I mean, are they still something that is in your thinking or should we sort of park those to the one side for the time being? And I guess slightly related to that, I also noticed consensus has your dividend coming down. And I guess that's just a formulaic application of the 40% payout ratio. But as we go forward over the years, there'll be times, particularly on things like impairments, the way IFRS 9 works, it's going to be a very volatile number, I suspect. Should we think of just a formulaic 40% or should we think that actually there is a progressive element in your thinking there that perhaps you'll try and smooth some of that out? Thanks so much.

**Paul**

Thanks, Ed.

**Katie**

Thanks, Ed. Morning. Look, you're absolutely right. So, capital sitting at 13.5%, 5% of the market cap buyback. So, it would be a little bit more expensive today given the improvement we've got in the share price, it would be 1.3 billion ticket versus the 1 or 1.1 we've done in the past. So not quite double the cost. But when we look at the capital plans for the year, we obviously plan for some share price movement within that as we move forward from there. You're absolutely right, Basel 3.1 is coming in. I mean, I guess what we've guided you on RWAs and our guidance is unchanged is 200 billion of RWAs at end of 2025, remembering that it will be lumpy as we go round from there.

The on-market buybacks, we're pleased with how the one that we announced last year just completed and how the new one has started. It's a conversation that Paul and I will have the Board when we get to it in June and July looking really quite far out in terms of what's happening with the capital basis. I would say, I agree with you, the dividends and consensus, it will be very formulaic. Our dividend policy is around 40% payout. Last year, that was 17 pence per share. We are mindful, obviously, of the absolute level, but we've been very strict on the application of that around 40% payout. I wouldn't expect that to change any time soon. Thanks, Ed.

**Ed** Sorry, just coming back on that. I mean, one of your peers has dropped its Core Tier One target. I mean, in terms of making buybacks, you obviously can see a quarter ahead. I mean, would you be happy to go below the 13% at the point of a buyback?

**Katie** We manage the business to a 13% to 14% range, and that's what we'll continue to do. So, you know, we're very confident in our capacity, given the 50 basis points generation that we had on earnings in Q1, and there's no reason to see why that would diminish. So, we're very comfortable.

**Ed** Great. Thank you.

**Katie** Lovely. Thanks, Ed.

**Moderator** Our final question comes from Guy Stebbings of BNP Paribas Exane. Guy, please unmute and go ahead.

**Guy** Hi. Good morning, both. Thanks for the question.

**Paul** Morning Guy!



**Guy**

Thanks. I fear I might be disappointed on this one, but I'm going to ask anyway, because it's around the FY24 revenue guide. It's a bit similar to Jonathan's question, really. I guess maybe the way to ask it is just to think about how high the bar is to raise guidance at this point in the year. I mean, I appreciate you tend to only refresh the half year and full year and refine macro assumptions, but you know, you changed the guidance for the bank levy. I accept you've got visibility there is, you know, is certain, and it's harder on revenue. But to many of us, I think it looks like the revenue will come in, you know, more than 100 million above the top end of the guidance this year. So, I'm just trying to really work out, is it the bar to raise income guidance at this point of the year is just so high? Or if there are some headwinds outside of possible rate cuts that we're under appreciating?

And then just to sort of follow that, on mortgage spreads, could you give any more colour on the evolution of mortgage spreads churn this year? Just thinking about whether that headwind is sort of reducing sequentially over the course of this year, with the back book now being sub 80 basis points, it would feel like it should be a pretty modest headwind. Thank you.

**Katie**

Sure, thanks. Thanks very much. So, a simple answer on the guidance, the cost is really easy, because I've [incurred] it. So, therefore, we're sharing with you the really up to date information. And then, as you know, that will accrue a little bit through the year, it doesn't match properly in the first year, you've talked about that a lot this week already, we've had 6 million in the income line already. But, you know, the thing around the guidance, we're at Q1, we've had a promising start, we're comfortable, we'll update you as we move forward. I would say traditionally, Guy, we haven't only done it in Q2, we'll tell you when there's something meaningful to share in terms of that piece, and we'll continue on that basis. And if I look at the mortgage spreads, there's not anything there that we're particularly concerned about. The book is going to reprice now from 80 basis points down to 74, we're writing around the 70 level. So, we just see, as you say, there's not a lot of difference in terms of that churn as we go on from here. But there's no headwinds that you're not aware of. And I think we've talked about mortgage margin and deposit mix a lot today. And we do see them abating from here. Lovely, thanks, Guy.

**Guy** Thank you.

**Paul** Thanks, Guy. I think we politely disappointed you on the first one.

**Operator** There are no more questions at this time, so I'd like to hand back to Paul for any closing comments.

**Paul** Okay, Thanks Ollie and thank you everybody for your questions this morning. Katie and myself very much appreciate that.

As you heard, we are pleased with the performance for the first quarter and the momentum we have in the business. This gives us confidence not only for '24, but for the years beyond in terms of our ability to drive future returns and to achieve our RoTE target of greater than 13% in 2026. Whilst I'm sure we'll see you before, we do look forward formally to speaking again at the half year. I wish you all a very good weekend. Thank you.