



NatWest Group plc

H1 2022 Results – Fixed Income Presentation

29th July 2022

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Katie Murray

Good afternoon everyone - thank you for joining our half year 2022 Fixed Income results presentation. I'm joined today by Donal Quaid, our Treasurer, and Paul Pybus, our Head of Debt IR. I will take you through the headlines for the half year, give an update on our strategic priorities and then move onto some of the detail. Donal will then take you through the balance sheet, capital and liquidity and then we'll open it up for questions.

So starting with the headlines on slide 3.

We've announced a strong first half performance today with operating profit before tax of £2.8 billion, up 12.8% on the first half last year, and attributable profit of £1.9bn. Our Return on Tangible Equity was 13.1%, up from 11.7%.

We're reporting strong income growth of 16.2% and costs were down 1.5% resulting in positive jaws of 17.7%. We continue to target a reduction in costs of around 3% for the year and remain on track to deliver that.

In a challenging macro-economic environment, we maintain a strong balance sheet and disciplined risk management. The bank is also highly capital generative. And we have declared an interim dividend of 3.5 pence per share. We have also announced a proposed £1.7 billion special dividend with a share consolidation.

In addition to the directed buyback of £1.2 billion in March, this brings total distributions announced for the first half to £3.3 billion. We have also recently completed the £750 million on market buy back announced in February.

Just over two years ago we set out our purpose-led strategy placing customers at the heart of our business as you can see on slide 4. The rationale was simple – by helping our customers to thrive, we too will thrive.

Against a backdrop of economic uncertainty, we continue to focus on our four strategic priorities in order to drive long term sustainable value and that starts with supporting our customers which I'll talk about more on slide 5.

While we are not currently seeing any immediate signs of stress, we are acutely aware of the pressures customers face this year with higher inflation, rising interest rates, a steep increase in energy costs and supply chain disruption.

Many of our customers built up savings during the pandemic so household finances are in relatively good shape and businesses have healthy balance sheets. But we know that spending on utilities

and fuel bills is up between 20 and 30%. So we are proactively targeting support to help customers navigate the economic uncertainty and you can see on this slide the ways in which we are doing this.

So let me turn now to how we are delivering on our strategic priorities on slide 6.

We have an extensive franchise - we currently serve 19 million customers and we are the largest business bank in the UK. This means we start from a position of strength with opportunities to grow even in an uncertain economic environment.

And we do this by: First, deepening our relationships with existing customers as well as acquiring new ones; And secondly, supporting customers as they transition to a low carbon economy; And third, diversifying our income streams.

Turning to slide 7. We continue to proactively manage capital allocation and risk in order to maintain a strong balance sheet. We have a well-diversified wholesale book and 93% of our personal lending book is secured.

92% of our retail mortgages are fixed, with an average loan to value of 53% and the level of defaults across the Group remains low. Our phased withdrawal from the Republic of Ireland continues to progress well and we now have binding agreements in place for 90% of the loan book.

We continue to expect the majority of sales to largely complete in 2022 and our withdrawal to be capital accretive.

Turning now to slide 8 and looking at the performance of the Go forward group in the second quarter using the first quarter as a comparator.

We reported total income of £3.2bn for the second quarter, up 7.1% from the first. Excluding all notable items, income was £3.1 billion, up 12.3%.

Within this, Net interest income was up 13.9% at £2.3 billion and Non-interest income was up 7.7% to £797 million. Operating expenses fell 1% to £1.7bn driven by lower conduct costs. We made a net impairment release of £39 million compared to a release of £7 million in the first quarter.

Taking all of this together, we reported operating profit before tax of £1.5 billion for the second quarter. Attributable profit to ordinary

shareholders was £1.1 billion, equivalent to a Return on Tangible Equity of 15.2%.

I'll move on now to net interest income on slide 9. Net interest income for the second quarter of £2.3 billion was 13.9% higher than the first, as a result of higher margin and strong lending.

Net Interest Margin increased by 26 basis points to 272 basis points, driven by wider deposit margins which added 34 basis points. This reflects the benefit of higher UK base rates, which increased by a further 50 basis points in the quarter; and higher swap rates on our structural hedge; lower mortgage margins on the front book reduced NIM by 4 basis points, and repayment of higher margin loans in Commercial & Institutional decreased it by a further 3 basis points.

Moving on now to look at volumes on slide 10, gross loans to customers across our three franchises increased by £4.4 billion or 1.3% in the quarter to £338 billion.

In Retail Banking and Private Banking, Mortgage balances grew by £3.6 billion or 1.9%; and Unsecured balances increased by a further 500 million, the strongest quarterly growth since the onset of the pandemic. In Commercial & Institutional, gross customer loans increased by £500 million.

While lending to large corporate and institutional customers increased £1.4 billion, driven by growth in our funds business and greater use of credit facilities. This was partly offset by continued repayments on government lending schemes.

I'd like to turn now to non-interest income on slide 11. Non-interest income, excluding notable items, was £797 million, up 7.7% on the first quarter.

Within this, income from trading and other activities increased by a further 8.3% to 222 million, as we benefited from ongoing volatility and increased customer activity across our suite of markets products.

Fees and commissions increased by 7.5% to £575 million, driven by higher card and payment fees as consumer spending increased and demand for corporate credit generated higher lending and financing fees.

I'll talk now about what this means for 2022 income on slide 12. We are strengthening our guidance and now expect 2022 income excluding notable items of around £12.5 billion up from £10.1 billion

in 2021. Our year on year interest rate benefit through managed margin and the structural hedge adds around £1.9 billion and Donal will go through this in more detail later.

You then need to consider the impact of lower mortgage margins which will partially offset this. We also have the additional net benefit of higher average lending volumes and higher non-interest income.

This guidance is underpinned by our assumptions that the UK base rate increases to 2% by the end of the year; and UK swap rates remain broadly in-line with where they were at the end of June. Leading to Bank Net interest margin above 270 basis points for the full year

Turning now to Costs on slide 13. I won't spend too long on this but you can see that Other operating expenses for the go-forward group were £3.2 billion for the first half.

That's down £50 million or 1.5% on the same period last year as we continue to work to meet our targets. This cost reduction combined with the improvements in income has supported a 9 percentage point improvement in the cost income ratio to 55% in the half. Like other businesses, we are experiencing the impacts of inflation on our cost base.

Despite this we are confident that we can deliver a reduction of around 3% for the full year. And looking into 2023, we expect some of the current inflationary impacts to be more significant. And we now expect our cost base to be broadly stable next year.

Turning now to impairments on slide 14. We have a well diversified loan book and we are not yet seeing any significant signs of stress. In the first half we saw ongoing improvement in the performing book with migration of balances from Stage 2 back to Stage 1.

This underlying strength in the loan book, with low levels of default, has resulted in a reduction in ECL provisions and coverage to 93 basis points at the end of June, down from 103 basis points at the year end.

This has driven a net impairment release for the Group of £54 million in the first half. We are strengthening our guidance for the full year loan impairment charge from below 20 to 30 basis points to under 10 basis points.

This guidance is underpinned by our updated economic assumptions on slide 15. We have summarised the changes to our

base case in our economic assumptions at the top of the slide. While we have not changed the 45% weighting to our base case scenario we have increased our weighting to the extreme downside scenario from 5% to 14%. We have also adjusted down our expectations for GDP growth and UK unemployment, to reflect the latest consensus of economists.

And as I said earlier, we have increased our UK base rate outlook to 2% by the end of the year to reflect higher inflation. The net effect of these changes was a £41 million increase in the ECL provision as shown on the ECL walk at the bottom of the slide. The Post Model Adjustment for economic uncertainty is broadly stable over the first half at £583 million.

However the components have changed as we reduced COVID 19 overlays and increase provisions to reflect the challenges our customers face, including the increased cost of living and supply chain disruption.

We continue to be cautious on the release of these provisions as we have yet to see the full impact of these challenges play out.

With that I will hand over to Donal.

Donal Quaid

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

I will start by sharing some of our highlights from the first half of the year before moving into more detail on capital and liquidity. I will then give an update on progress across our funding plans for 2022 before we open for questions.

Starting with the highlights on slide 17. We ended the quarter with a strong capital, MREL and leverage position, comfortably above the regulatory minima with a CET1 ratio of 14.3%, Leverage of 5.2% and a total loss absorbing capital ratio of 31.7%.

We continue to operate with a robust liquidity position with a Liquidity Coverage Ratio of 159% and a strong deposit franchise. We successfully executed several funding transactions in H1, making good progress against our 2022 funding plans, leaving us with plenty of flexibility for the remainder of the year.

I was very pleased with the BoE's first assessment under the Resolvability Assessment Framework in June, with no shortcomings identified in NatWest Group's preparations for resolution.

Turning to our capital and leverage position on slide 18. Our CET1 ratio at the end of H1 was 14.3% which is well above the current

Maximum Distributable Amount of 8.7% and our 13-14% full year 2023 CET1 target range.

In December last year, the Financial Policy Committee announced an increase in the UK countercyclical buffer rate from 0% to 1%, and this will take effect from December this year in line with the 12-month implementation period.

A further increase in the countercyclical buffer to 2% was announced earlier this month which will take effect in July 2023. A 2% countercyclical buffer will translate to a requirement of approximately 170bps for NatWest Group.

The PRA confirmed late last year that Pillar 2A will revert from a nominal amount to a variable percentage of RWA's later this year as part of the Supervisory Review and Evaluation Process. Our Maximum Distributable Amount and Supervisory Minimum requirements will start increasing from December of this year as the countercyclical buffer increase takes effect.

However, these changes will have no impact on our 2023 CET1 target of 13%-14% as they are already built into our capital forecasts and plans. The UK leverage ratio was 5.2%, leaving c. 200bps of headroom above the UK's minimum requirements of 3.25%.

The leverage ratio minimum requirement will also move higher as the countercyclical buffer increases.

Moving to slide 19 and our quarterly movements in CET1 and Risk Weighted Asset's. The CET1 ratio is down 90bps compared to the first quarter, primarily driven by the special dividend of £1.75bn and ordinary dividend accrual of £250m.

This was partially offset by £1.1bn of attributable profit. The 14.3% ratio includes IFRS 9 benefit of 16bps. Risk Weighted Assets increased by £3bn in the quarter to £180 billion. The increase was driven by higher credit risk, mainly reflecting lending growth and model changes.

This is a capital generative business, demonstrated by the fact that we delivered operating profit before impairments of 2.8 billion in the first half, which is broadly in line with the entire year in both 2020 and 2021. This capital strength gives us the flexibility to invest in the business for growth, consider other options that create value as well as return capital to shareholders.

Turning to our liquidity position on slide 21. We have maintained very strong liquidity levels during the first half of the year with our LCR ratio at 159% reflecting over £76bn of surplus primary liquidity above minimum requirements.

The decrease in the ratio since FY2021 is due to an increase in lending, redemption of own debt and share buybacks, offset by continued but slowing growth of customer deposits. We continue to manage a high-quality liquid asset pool with primary liquidity of £198bn and secondary liquidity of £70bn.

Moving to funding on slide 22. We operate with stable and diverse sources of funding. Customer deposits represent approximately 86% of total funding. Our wholesale funding is £76bn and around 40% of that figure is to meet our senior MREL and non-equity regulatory capital requirements at the Group Holding Company.

We continue to look at all options available to us to assess the optimal blend and most cost-efficient means of funding.

Looking at customer deposits in more detail on slide 23. You can see that deposit levels continue to grow but at a slower pace.

Customer deposits in the Go-forward group increased £14.8bn during H1 with a £2bn increase in Retail, £6bn in Commercial and Institutional and £2bn in Private. Retail banking deposits are now £191bn and commercial & Institutional banking deposits are £223bn.

We have seen Ulster Bank deposits decrease by approximately €4bn EUR in H1, in line with our expectations as we pursue our phased exit from the Republic of Ireland. Our loan to deposit ratio is 71%, underpinning our robust liquidity and funding position as well as our strong ability to grow our core lending franchises.

Turning to slide 24 and rate sensitivity. The strength of our deposit franchise, growth in our deposits over the past couple of years and increases in UK base rate and the yield curve provide us with a sizable tailwind on income into the second half of this year and into 2023.

The 115 basis points increase in the UK base rate since December last year has added around £0.4 billion of managed margin benefit in the first half of 2022 versus prior year. We are projecting a year-on-year increase for the full year of £1.1 billion based on the increases in the UK Base Rate to 1.25% in H1.

We now expect the UK base rate to increase to 2% by the end of 2022, and for it to remain at that level throughout 2023. This would add a further £0.2bn of managed margin benefit for the remainder of 2022 with the full run-rate benefit in 2023. Turning to the structural hedge.

Total hedge income for the first half increased by £0.1bn compared to the first half last year, as notional balances grew to £230 billion at the end of June, up from £206bn at FY2021. Assuming both balances and swap rates remain broadly stable, we expect an increase in structural hedge income of approximately £0.6 billion versus full year 2021.

This would bring the total year on year benefit from higher rates in 2022 to £1.9 billion. Clearly the actual benefit will depend on the timing and size of rate increases, movements in the yield curve, the trend of deposit balances and actual deposit pass-through rates.

Turning now to our MREL position on slide 25. Our total loss absorbing capacity ratio continues to look healthy at 31.7%, significantly higher than our RWA requirement of 24.7%.

The total loss absorbing capital ratio has reduced from 39.8% at full year 2021. That reduction has been driven by the increase of Risk Weighted Assets on 1-Jan-2022 due to the impact of regulatory uplifts, the removal of ~£0.6bn of legacy Tier 1 and Tier 2 capital from Loss Absorbing Capacity resources and a reduction in our CET1 ratio for share buybacks and distributions.

Our senior unsecured MREL stock is now approximately £22bn or 12.4% of Risk Weighted Assets compared to our RWA requirement of 11.1%. As you can see from the profile on this slide, £7bn of senior unsecured MREL loses MREL eligibility during 2022 with new issuance in the region of £3bn-£5bn.

Now turning to total capital on slide 26. Our total capital ratio at the full year is 19.3% with an AT1 ratio of 2.1%, and a Tier 2 ratio of 2.9%, so we are well positioned on both AT1 and Tier 2 with no expected issuance requirements this year.

Our future AT1 and Tier 2 requirements will be subject to the evolution of RWAs.

Now turning to slide 27 on legacy capital. At the year-end 2021, we had £2.5bn of outstanding legacy securities, which had no regulatory value after 1-Jan-22. We continue to proactively take opportunities to reduce our legacy capital stack via Liability Management Exercises and calls, and this has continued into 2022.

In Q1 we announced the call of three legacy Tier 1 instruments with a notional of \$0.6bn USD. These actions reduce the outstanding balance to below £2bn. A further £1.2bn will mature this year, significantly reducing the balance to approximately £0.7bn by the end of the year.

Looking back at our issuance during the first half of 2022 on slide 28. I'm very pleased with the transactions we executed during the year and again thank you for your continued support for NatWest Group and NatWest Markets.

Despite challenging market conditions, we are well positioned from both a HoldCo and OpCo perspective. From NatWest Group, we have been active in GBP and USD markets year to date with a £750m GBP 7NC6 MREL transaction in March and a \$1bn USD 6NC5 MREL transaction in June.

From NatWest Markets Operating Company, we issued approximately £3.3bn in four benchmark transactions across EUR, USD and Swiss markets and are very well positioned looking ahead for the remainder of the year.

Turning to credit ratings on slide 29. NatWest Group plc, NatWest Markets Plc and NatWest Markets N.V. ratings remain on positive outlook from Moody's. In June, Moody's aligned the rating of UBI DAC to that of NatWest Bank, upgrading the long-term deposit rating to A1 from A3. Ratings outlook from S&P and Fitch are Stable across all group entities.

And finally turning to our ESG ratings on Slide 30. Sustainalytics rating was affirmed as low risk and I was pleased that we were recently upgraded to C+ by ISS ESG and are awarded a prime status. We aim to continue our positive progress across our credit and ESG ratings over the next few years.

With that I'll hand back to Katie.

Katie Murray

Thank you Donal. So to conclude on my final slide. We reported a strong performance today and continue to make good progress on all our strategic priorities in an uncertain economic environment.

Our strong capital generation and robust balance sheet enable us to continue supporting customers as well as to invest in growth, consider other options that create value and return capital to shareholders.

The special dividend we have announced this morning brings distributions for the first half to 3.3 billion. And on the back of a

strong performance combined with a robust balance sheet, well managed risk and significant capital generation we have upgraded our guidance today and now expect to deliver returns in the range of 14 to 16% in 2023.

With that, we'll open the call up for questions.

Operator Our first raised hand comes from Daniel David. Daniel, please unmute and go ahead.

Daniel David Hi all. Good afternoon. Glad I unmuted properly. I've just got a couple of questions. First is focussed on capital. Given there's been quite a few movements in the capital and your CET1 ratio and kind of regulatory impacts at the start of the year.

I just thought it'd be helpful if you could maybe refresh us on any upcoming headwinds or any other regulatory impacts you expect maybe in the short term or looking a bit longer. And then also just on the target, the 13 to 14%, is that likely to move when the CCYB becomes fully phased in or is that something that already bakes that in?

And then finally, just on issuance, I realise that you don't seem to have much in the plans for this year, but I just want to check if you would look at tier two markets if primary conditions stabilise somewhat.

And then the second one, just on a different topic with regard to the exit from Ireland. I've seen as part of the PTSB deal that there will be the acquisition or investment of a stake that you're holding in the bank. Is there anything you could say on your intentions there? And I realise that might be quite academic given the direction of travel. Thanks.

Katie Murray Yeah, sure. Thanks so much. Let me take the second one and then we'll touch on a couple of your capital points. So, in terms of the Ulster exits, progressing well, the transaction was structured in terms of us holding a stake within PTSB. And I mean, we look forward to doing that as the transaction completes.

No particular comments in terms of how we view it longer term, it's a longer term holding and a strong relationship with PTSB as well. In terms of the 13 to 14% guidance that was set considering things like the CCYB, so it doesn't have an impact on that. But Donal, do you want to pick up reg impacts and any issuance.

Donal Quaid Yeah. So, in terms of headwinds, reg impacts, I think it's fair to say

we, you know, in terms of the big changes we've seen are already reflected in terms of the RWA inflation we saw on the 1st of Jan 22. So, what lies ahead? Katie's talked about the countercyclical buffer which is in plan and obviously expectations that we go to 2% on July 23.

And then I suppose outside of that, the only thing we have outstanding is Basel three, three and a half. So, you know what we said previously, there was roughly potentially up to 5% of RWA inflation, but that will be over multi-years.

Probably one thing to note there is we expect that to be more than offset by the RWA reduction we see come through from our withdrawal from the Republic of Ireland. In terms of your question on issuance, relatively light issuance calendar for the year from the holding company.

On Tier Two what we've said previously is no intentions as we sit here today however that is driven by evolution of risk weighted assets. And the expectation is that we start to see some of them roll off with some of the asset sales in Ireland completing in H2.

If that wasn't to happen or was delayed, which is not our expectation, then we could look at some refinancing of Tier two in H2. But as we kind of sit here today, no plans.

Daniel David

Thank you very much.

Donal Quaid

Thank you.

Operator

Thank you. Our next question comes from Robert Smalley from UBS. Robert, please unmute and go ahead.

Robert Smalley

Hi. Yeah, thanks for doing. I greatly appreciate the call. A couple of questions on some slides. First on slide 15, in the movement in the ECL provision. Could you talk about the changes in the risk metrics and exposure stages one, two and three? How much of that was model driven? And then you've got the 159 for judgemental changes. Could you talk about the thinking that went into that?

Secondly, also staying with asset quality and I'm sorry to jump around, but going to the presentation earlier this morning on page 46, there's mortgage LTV distribution by stage and commercial real estate. I want to ask more about affordability and how you're looking at affordability as interest rates go up. In the stage three mortgages with less than 50% LTV, there was a jump. And is that an affordability issue?

Also, while we're on that slide on commercial real estate stage three, 70-100%, there was a big decline. Was that a charge off for a restructuring or a recovery? And then finally, with capital moderating and strong capital generation, is it, are you starting to think about a corresponding decrease in some of the liquidity ratios as you're carrying a lot of excess liquidity? Thanks.

Donal Quaid Do you want me to start with the second question?

Katie Murray You start with the second question, and I'll just track your various references through the document on the first. Thank you very much.

Robert Smalley Sorry to jump around like that.

Katie Murray No, that's. Fine. No worries.

Donal Quaid So, Robert, in terms of the liquidity ratio, yes, so it's 159%, a significant amount of excess liquidity sitting in the ring-fenced bank. It's fair to say we are carrying that at quite attractive rates, and it is a bit of a you know, it is a significant contributor to the income upside that we've gotten today from a rates perspective as well.

So very, very happy to run excess levels of liquidity. It also gives us the ability to grow our core lending franchises over the next few years as well. Saying that I think, you know, I would run with excess liquidity but probably expectation is that we do see some reduction in LCR over the next couple of years as we start to see some active asset sales from the Bank of England, but comfortable where we are at present.

Katie Murray Robert, if I miss anything, do you come back to me when I get to the end. But if I look at it, the kind of core ECL is really quite model driven. Obviously, there's assumptions within those models as well as we build them. So, in terms of that improvement that we've seen, in terms of the coverage within there, that is something that is driven by the models within the PMA.

We've seen some significant movements in the PMA in terms of volume, it went from £1 billion to £800 million from the end of the year to this. Within there, there is a couple of things, there's three different PMAs that we kind of hold.

And if I think of the ones in terms of the modelling impact, what we saw is that they fell quite significantly from 219 down to 66 and that's because of some of the calibrations that we had have now moved out of PMAs into the actual models which kind of moves those amounts.

But what you saw is the economic uncertainty PMA was incredibly stable at 584 to 583. Now that actually hides quite a lot of complexity in that stability because what we did within there, was we released a portion of the COVID provisions that we put in place and then we also added provisions in relation to cost of living and sort of supply chain type challenges. It looks here that they net off perfectly. That's not quite the story.

There's a few other movements kind of hidden within the detail in that, but those are the PMA ones. And that, I guess is what gives us comfort as we move forward into what we think will be slightly more troubling quarters ahead to make sure that those are sitting there. In terms of affordability, we haven't for new business, we haven't changed our approach particularly.

But one change that has happened in how we do the risk appetite work is we've updated our inflation assumptions. You'd expect us to do that. It's something we look at quite regularly. Historically we haven't moved it a lot, obviously as we enter a bigger inflationary environment that has come into that space, and we have to really congratulate you on page 42 in terms of the movement there in stage three for the coverage piece.

What you can see in terms of the percentages, it's almost more a narrative of the numbers over the percentages moving because the underlying numbers are actually so small. So, there's nothing unusual in that. We've got stage three mortgages over 100% at sorry, 7 million, forgive me, versus our kind of 4 million ECL provision.

Previously it was six and two. So, it looks like a bigger jump than it actually is, but it's a kind of a game of percentages on small numbers. There's nothing particularly in there that I would call to your attention.

Robert Smalley

Okay. Thanks very much. That's very helpful.

Katie Murray

Lovely. Thanks a lot.

Operator

Thank you. If you would like to ask a question today, you may do so by using the raise hand function on the Zoom app. If you're dialling in by phone, you can press star nine to raise your hand and Star six to unmute once prompted. Our next question comes from Corinne Cunningham from Autonomous. Corinne, please unmute and go ahead.

Corinne
Cunningham

Hi there. Afternoon, everyone. Couple of questions, please. First one

is just a follow up on the LCR. Just in terms of how you think about what is a sensible LCR is going forward, I think we're going to be seeing a bit of shifting on this over the next 12 months and particularly some of the European banks change their funding mix. So how do you think about what a reasonable target range is, and you just mentioned there that you think it will come down as you see asset sales from the Bank of England.

Is the corollary of that that you think corporate deposits will drop? I'm just trying to connect the dots on that one. And my other question was something entirely different. So perhaps we can start on the LCR, please.

Katie Murray

Let's do the LCR and then we'll come back for part two.

Donal Quaid

Yes. Well, LCR, I think it's a difficult question in terms of what is a sensible level. I think previously pre-COVID, we kind of said 125%, 130% is kind a level that we would think about internally as sensible. So that probably still sticks. Obviously, plenty of headroom to the 159% that we have we have today.

I think probably one element to think about is that a number of banks LCRs are elevated on the back of the TFSME drawings. We drew 12 billion that will also be repaid over the next few years as well which will reduce that ratio.

And in terms of the asset sales, I think we just we run a number of different scenarios internally, just around, you know, potential impacts that could have. It could be a shifting of deposit balances potentially between retail and commercial. And there's a number of different ways it could play out.

And our overall expectation is probably the peak of LCR we've seen. And for it to trend down towards more sensible levels over the next few years just for a variety of different reasons of which asset sales is one.

Corinne
Cunningham

Thank you. So, your comment about the Bank of England, should I read that through as lower corporate deposits?

Donal Quaid

It's hard to say because I think it depends who is, I suppose, the question will be who's the marginal buyer of gilts? Once asset sales start, so the likelihood is you could have some asset managers and pension funds who do look at a bit of rebalancing. But we'll just have to see how that plays out.

Corinne
Cunningham

Okay. Thank you. And the other question was a bit of a practical one from in-coming that we've had from clients and I guess we all think we know how it works. But from a practical perspective, how does the special dividend with share consolidation work? How does that actually physically happen? Thank you.

Katie Murray:

Yep, sure. I'll pick that one up. So, there's a simple slide Corrine on page 27 of the equity pack this morning which lays out for you. So basically, we will publish the general meeting and circular notice on the 9th of August. So, the week after next and then we'll have a general meeting on the 25th of August.

But the key thing is, whereas in a normal dividend, you have an ex-div date, for a special you have a record date. So, the record date is the 26th of August. So, if you hold our stock on that day, then you will get the special the 1.75 billion and dividend paid out to you.

Then we take the shares from that record date, and we'll do an exchange of shares based on what's the market price at that date. And it will be something like, you know, you'll get 12 new shares for 13 shares. You have the same voting rights of the same shares.

You'll see some complexity. The nominal value will move a little bit and at that point the share account gets rebalanced on basically on the 30th of August and then the special dividend gets paid out on the 16th of September. That payment is based on your number of shares from before the consolidation.

But in reality, it wouldn't matter which number it was based on. And just obviously it's the per share amount would be slightly different, but the total that you would receive would be the same.

And then as you move on from there, it's then just business as usual with our slightly lower share count. So therefore, you have the benefit of the metrics as if you had done a market buyback, which is why we chose to do the special with a consolidation.

Corinne
Cunningham

Thank you very much. That's really clear. Thank you.

Katie Murray

Lovely. Thanks very much.

Operator

Thank you. I have a question that has come in. It reads. "Can I follow up on the income guidance and how you see that flowing into 2023? Does the prospect of recession impact 2023 revenue?"

Katie Murray

Sure. Thanks. Thanks very much, Dave. So, as we look at that, there's a number of things to think about as you look into 2023. Clearly, you have the ongoing flow through in the income from the structural hedge that we shared and talked about this morning. And you also have the benefit of the full year annualised impacts of the various rate changes that have come through today.

And then you also have to think that against that there would be somewhere we our mortgage margins and what might be happening in kind of customer activity. And what we gave you today was the RoTE guidance of 14 to 16% to kind of try to pull those income pieces together. In our economics, we are not predicting a recession.

And so, at this stage, it doesn't have any recessionary impacts on that. Obviously, the 14 to 16% gives you a little bit of flexibility in terms of that number, but that's not something we're seeing at the moment, in terms of our economic assumptions. Thanks, Dave.

Operator

Thank you. Our next question, "What is the catalyst for Moody's to take action on their positive outlook for NatWest and for S&P to move from their stable outlook?" Thank you.

Donal Quaid

I'm happy to take that one. So, we know the progress on restructuring and an improvement in the group's profitability and business stability are the key areas of focus for the rating agencies. And I'm very comfortable that we're moving forward and making excellent progress on that front.

We've been delivering on the withdrawal from the Republic of Ireland. As we mentioned this morning, sales agreed on 90% of the loan book. And we've also completed the restructuring of NatWest markets. I think then in terms of group profitability, I think the results today in the updated guidance are evidence of the progress we've made there. So confident we just continue to deliver on our strategy. The credit rating upgrades will follow.

END