



NatWest
Group

NatWest Group plc
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Alexander: Good afternoon everyone, and thank you for those coming here in the room, and for those of you on Zoom, we will start off with some questions in the room and then we'll go over to Zoom and we'll work our way through questions that we have. I will hand over to Katie who is very kindly pouring me a glass of water.

Katie: Perfect. Good afternoon. On what's actually not too wet and windy here in London. Alvaro, I hear its awful in Spain this afternoon so its best that you're here with me, so thank you for coming.

Thank you very much for joining us. Always appreciate it in the room. And of course, very welcome to those on the call today. I'm joined in London by Donal Quaid our Group Treasurer, Peter Norton, our Director of Finance, Stuart Nimmo, Finance Director of the Retail Bank, and Matt Waymark, Finance Director of Commercial and Institutional, and of course, my IR colleagues.

Before we open up for questions, I'm just going to address the questions we've been receiving on our lending mortgages and lending margins in particular mortgages, just because I'm conscious we've had this conversation with many of you and it just means I can do it once neatly. I dare say we'll talk about it more though so, I'm looking forward to that, don't worry.

In Q3, Bank NIM reduced by 19 basis points to two ninety-four [basis points] as you all know. The biggest driver was lower deposit margins accounting for 14 basis points and the lending margin impact was 12 basis points and then funding and other was a positive of 6 basis points.

Lending margin pressure has been very consistent for the last three months. It was nine basis points in each of Q1 and Q2. Within this, mortgage margins are the main driver, but also unsecured lending. Commercial lending is less impactful, as you know, as it's largely variable rate. You will see in our retail banking product income disclosure, that the reduction in our mortgage income has been relatively consistent over the last three quarters.

It's the change in mortgage net interest income and the average mortgage balances that drive the mortgage margin impact on our bank NIM. In the quarter, you will see total mortgage income reduced by around £60 million and average balances increased by around £2 billion. This reduced bank NIM by around nine basis points in the quarter. Looking forward, we expect the reduction in mortgage income and the growth in average balances to be less than it was in Q3.

And so therefore the pressure from lending margin should ease into the fourth quarter. And with that, I'm very happy to take your questions. Alvaro let me

start with you.

Alvaro: I've got a couple. One is actually on the mortgage so...

Katie: Perfect timing.

Alvaro: So it does look like that I think its 420 million contribution if I recall from memory, is less than 90 basis points and you will still have the small SVR we are fortunate to be called out and a lot of these five year COVID sort of mortgages were 180, 197.

I'm just trying to understand how much lower can you get. If you were already below 90 basis points, in theory you were underwriting at 80, which I get the points you made in the call that it was 80.

Katie: It kind of moves round.

Alvaro: And even assuming it was 50, like the market suggests, it feels like there's not a lot more to go considering you would think you've got the mix tilted much more to five years than some of your peers.

Just a bit of... I mean, am I missing something in that line of thinking or has there been any effective interest rate adjustments rate on board?

Katie: So none of those pieces... I'll start and then Stuart, you can kind of jump in. Actually no, I'm going to let you jump in. So I'll start and then you go you carry on. You go straight from the top.

Stuart: Okay. Look, absolutely. So you're absolutely right, the margin in the quarter on mortgage books 86 basis points. You're also right on being more weighted to five year. I guess if I try and bring up the level of the churn impact that we've seen, we've been rolling off business for several quarters now that was written during the COVID peak margin period at anywhere between 150 and 200 basis points. I think Katie was clear on Friday that we are targeting 80, but we are currently writing below that and you can see that in the market pricing against swaps.

Looking forward to try and help, a couple of proof points. If you go back to 2021, which is around when we started giving you the disclosure of application and completion margins, we were more like a hundred so that gives you a flavour of maybe what some of that five year business is like. Obviously you go back a couple of years ago that was a little bit tighter at that

point. And the Q1 22 margin that completed on to the book at that point was at 59, I think. So that's obviously coming down the track. And in that quarter we told you we were writing application business at 37. So you can see that the churn impacts going from rolling off at 150 basis points - that period's going to wash itself through. And looking forward into next year we should see the differential actually for some of the roll off to go the other way.

Alvaro: And the second question was on the hedge.

Katie: Yeah.

Alvaro: I know you do the 12-month moving average.

Katie: Yep.

Alvaro: If I look at slide [9], the 147 non-interest bearing balances versus your 195 product hedge, is that the, should we, are you're going to hedge much more than the non-interest bearing and presumably that's coming down...

Katie: So I think, remember, just to remind you to think of what the hedge is, it's made up of predominantly both of the non-interest bearing that is hedged. You do that on a 12 month kind of look-back, and then a portion – we've never given the exact percentage, but it's less than half of the interest, instant access pieces hedged, and clearly none of the term is hedged in that way, it is hedged very differently.

So what we said was that we'll get to the end of this year, we'll be around about 190, in terms of that number. You can then work your kind of 12-month look-back at that point. What we've also said is that we expect deposits to, midterm to stabilise in the middle of next year. So I would still see a little bit of that. I wouldn't, I wouldn't take it quickly down to that level because I think that would suggest there was an awful lot more churn, and we wouldn't be seeing that stabilisation in the second half year. So it is made up of both non interest-bearing, and the portion of the instant access piece.

Alvaro: So basically much less than that?

Katie: The reduction is much less than that. So the number is greater.

Alvaro: Thank you.

Andrew: I'll quickly ask, it's Andrew Coombs from Citi, just a very big picture question. You started the year with the NIM guidance of 320 then 315 now greater than 300. If we look at your deposit pricing, it's not too dissimilar to what you had in your sensitivity analysis at the start of the year.

So, when you're thinking back to what you're thinking in February, if you had to weigh out mortgage completion margins, was it mix-shift, lower structural hedge nominal, which of those three factors do you think you got most wrong at the start of the year versus today?

Katie: So it's, it's a great question. I think what I'd probably do is, I'd throw in Q1, when you were all putting me under huge pressure to lift my income, because actually we were all really delighted at how things were going and actually, why is she holding herself back at 14.8 and why is she not talking about a ROTE of 18 to 20%? So, I think there's been a lot of things that have moved.

I think for me, as we look at it, I think as I look at mortgages, I think we started the year with a view of the size of the mortgage portfolio. Then actually I think we were all collectively surprised in Q1 and then into Q2, that actually the whole portfolio book seemed a lot bigger.

I remember having conversations with Stuart saying, Stuart, you low-balled the size of that mortgage market and then actually what we saw in Q2 is it really started to shrink. So I think that was a big change.

We also saw, and I am sorry, Andrew I can't remember exactly where we started on rates at the beginning of the year. But my overall assumption was that we peaked at 4%, and we peaked at 5.25 and in fact in Q2, and I've worked really hard never to be chasing rates. And I made a mistake in Q2 and I said we were going to go to five and a half and we stopped it at 5.25. So I think that's been another kind of big change.

I think that what we've also seen during this this year is the real move of people then understanding, that actually if I'm at rates of this kind of level, then I can get a much better return on the money that I'm holding in my current accounts. We saw that happen first in our private bank where we saw them move out of non-interest bearing into interest bearing, repaying of expensive lending that very quickly repaying of mortgages very quickly as well. And then in June we then saw the swap curve move by 140 basis points in a matter of weeks. And then I would add, that is kind of is viewed as a one in 20 event that's happened in the Truss Economics Budget, and the last time it happened was the Brexit vote. I don't know if that gets, quite gets us to one in 20, one might work out that's only 7 years, but I'm sure a statistician can give me a reason as to why that is a one in 20.

So I think there were lots of things that moved and that's not to an excuse,

look, the journey of our NIM guidance, I can assure you it frustrates me more than it frustrates you in terms of that piece, particularly when one was July, and one was Q3. That's not a comfortable position to be. But I do think all of those changes that you see happening on interest rates, the moves that we've seen in the mortgage market, where it went from being small to a much bigger market, to a much smaller market have been really critical.

And actually the I would say probably the most fundamental thing is the understanding of what actually really drove customer behaviour, and the realisation that as those rates ticked over 5%, then actually there was nobody that didn't think of moving their money. And I don't think that's yet completed, which is why we talk, we talk about the stabilisation coming in later, I'd say all of those things combined.

Andrew: So if I can add a follow-on question to that.

Katie: Yeah, of course.

Andrew: You raised the interesting point of, start of the year you were thinking peak of 4%, it actually peaked at 5.25, there's this whole Table Mountain debate, but let's assume rates start coming down again next year at some point in second half. If you go from 5.25 to 4, do you think that's actually net beneficial given the second order impact on customer behaviour, or do you think that's a net negative?

Katie: So look, I think there's a couple of things that will drive, whether it's beneficial or not. So one of the things we've talked a lot about is whether, you know, as a bank, we're still rate sensitive, but obviously objectively rate goes up, we get a benefit. The problem is the deposits migrate and we do greater pass-through, so you then you eat a lot of that benefit up. I think as rates go down to four, I think, what I would feel is that we'd see the mortgage market grow. So if we can do that at sensible margins because the pricing would then come down and people would get more confident. They tend to back into the, they tend to back into the market, so you kind of go, that seems kind of positive. And actually I think that when the mortgage market is a bit bigger, you get much more sensible behaviour around pricing, than I think we're seeing now when the mortgage market is so tiny. So that's a tick. But I think the bit that makes me hesitant on the deposit piece is actually what's going to happen with things like the repayment of TFSME and this kind of special offer kind of concept of, I need to raise £2 billion quickly so I could make a bit of a TFSME payment.

And what does that do to kind of keep us going? And so, do we see people not pass through at the same speed they pass through on the way up? Or do we

see them holding on to make sure that they kind of hold their deposits, on their books.

Now there comes a point if for Donal, will work this out faster for me, there will come a point where deposits would naturally come down in pricing because I'm cheaper just to go to the wholesale funding market rather than pay for deposits. So you can think well, there's got to be some piece in there. So maybe we get back to a little bit net neutral in the in the short medium term, kind of let's say the next 6, 9, 12 months, and then it gets to be more of a net positive. I do believe that 2024 is going to be quite a story of how people manage their TFSME repayments we don't know what else can we say?

Donal: You're right, I think it's all going to be driven by competitiveness of the deposit market. So what will the pass-through on the way back down? That will be the key factor.

Maybe just one point, Andrew, on your first question. You talked about the rate sensitivity at the start of the year, just to be clear what that is and what it actually isn't. So that's obviously based on the stable balance sheet. And just you know, it shifts the curve by 25 basis points, it wouldn't take into account any change in composition of balances or customer behaviour. So just to just to be kind of clear on that as well.

Andrew: Pricing within sectors and mix shift...

Donal: Exactly. Yeah. Yeah.

Katie: I mean, I think that having ended the quarter at 15% term, at the beginning of the year, none of us were even having that conversation as to how much that would go. I mean, that wasn't, we were all talking about actually the level of pass-through and I would probably say pass-through has been interesting, mix has been far more impactful.

Katie: Please

Jason: Paul was asked on the call whether there were restructuring charges in the future for this bank and he said not on this, I'm not going to talk about that on this call or words to that effect. What about at full year?

Katie: So I guess he was asked that in a few different ways. Like I think if I can give you one of his later answers rather than that one. So we make three and a half

billion pounds of investment into this business over a kind of a three year period.

You can start that three years almost a year you want it's more or less that kind of number. You know, it's kind of 1.1, 1.2 depending on the capacity of what we're trying to deliver.

As we look at that, we think that that's a big investment into the organisation. What we do, and it's not pleasant, but in September, you kind of have arm to arm combat where you're spending it. We've this time we brought down a little bit on some of the growth things that won't deliver in the short term, to put a bit more on kind of what we call kind of safety and soundness and simplification to actually say what can we do to really address the kind of the cost piece. So we feel that in that space that that gives us quite a lot of flexibility. I think, you know, to do something fundamental would require a different level of capacity. That's not something that we're really thinking about at this stage.

So his intention was to guide you that he's not planning on making a restructuring charge, it's more about how we prioritise that already very significant investments.

I think we also need to give him time to get to February, but we're just not saying oh, well, there might be one. But you know that that certainly would be the intention is we have three and a half billion is a lot of money to invest.

Speaker: You've returned the 50% cost income guide as well for 2025. If we grow costs and fees by three each, which may not be right, but it's probably what the market would expect. Your 2025 needs to be 20% higher than current run rates. And that's just not going to happen if the previous question and rates go down, does NII go up, wasn't an unequivocal yes, so, what could we possibly be missing on the cost income target? For you to achieve that?

Katie: So let's talk a little more about income. What we've talked about a lot is that as rates as deposits mix stabilises, you know, what you see, is you do see the benefit of the structural hedge coming in. And in 2025, it's rolling off of 50 basis points we're putting on this year at 444. I'm not going to give you what I think I'll be putting on it in there 2025, but I'm pretty confident it's going to be a good bit higher than 50.

You know, and so therefore, I'm at the stabilised level at which we will be continuing to invest. I do think that's a very positive message for income.

Does that get me as far as you, as the 50%? I think what we talked about on the call last Friday was very much to say look, our guide, our North Star metric

is 14 to 16% return. I don't think I would push costs up quite as far as you would, I think that that would be quite unusual for us as an institution. So you kind of, because what you're basically saying is I can't deal with inflation. And that's not historically how we've tried to do that, we did have a big increase this year, you know that in the cost base is an absolute 7.6 number that includes a few 100 million of Ulster, I probably look at that as something that helps me a little bit next year, but kind of prevents ultimately costs going up dramatically. So I think if you just take 3% on top of 7.6, I think that would be an error. So there you are, the North Star metric is the 14 to 16.

Ben: Hi, Ben Toms from RBC. Firstly, on your risk weighted asset guidance, 200 billion by 2025 inclusive of Basle 3.1. I think you were probed a little bit on this on the call. But in relation to the range for Basle 3.1 of 5 to 10%. Where does that 200 billion sit? I'm trying to get a sense of if I think that Basle 3.1 is going to be softened, is there upside to the two hundred...

Katie: I've tried to consider any upside in that 200.

Ben: Okay.

Katie: So there's a couple of different things going on. Loan growth, importantly, is in there. And we'll take our views as to what that might be over the next couple of years. And there's a little bit of Ulster unwind. I would expect a little bit of procyclicality to hit me at some stage, I'm not sure how I managed to avoid it to any meaningful level to this point. So, there'll be a little bit of that that will come through. We've then got Basle 3.1 coming in. And then we've got the impact of CRD IV, we've obviously talked about the 3 billion and what we said is our models are still moving through verification, still subject to change and debate within that. But what I've tried to do is to kind of look at all of that, look at my number, which will be a gross number and then take off management actions, take off how we can kind of manage it through and then kind of get to a number that in the 200s, is there. What I've always done on RWA's is when I feel like there's something that's pretty good to tell you that it's a decent quality number, we'll share that with you. If the PRA go much further than I'm expecting them to on their, their kind of guidance next year and it becomes lower, I'll tell you as quickly as I can.

Ben: And then secondly, there was a Reuters article out yesterday talking about the Government not honouring guarantees, on about 1 [billion] of COVID lending. I was just wondering whether in relation to that you were seeing your fair market share or whether it's more skewed towards the smaller lenders.

Katie: So all I can say to you is every time every claim I've sent to them they've paid it to me in the penny.

Ben: Does it, do you have any worries about if there is political change about that story changing, or do you think that's like a done and dusted issue?

Katie: I mean, things can always change. I'll kind of manage the bank that we've got today. So it's not something I'm not building that into my model. I think what's pleasing is obviously the number is becoming lower all the time and we're not seeing, we're not seeing a particular movement in the, the level of feedback. One of the schedules I always include for you is the level of associated debt with those various bank loans, and things like that. And I'm not, I mean, there's some small movement in there, but it's nothing that's meaningful. So I basically receive repayments of 700 million every quarter. And that's kind of going quite well. I mean, Matt, you obviously deal with this more on the day to day. But...

Matt: That's exactly right, with every single one, we get back, it took a while for the first couple to go through. But as we were going through the process, but now it's pretty smooth. Let's go through and there's not been a huge amount of contagion, we still have 25% of our BBILS customers have that money sitting in their current account, ready to pay back. And that's been pretty consistent for a number of years.

Joe: What the article was referring to was actually duplicate payments that had been settled. So it was like an audit.

Katie: So I have to, I haven't seen the article, which is a shame, because about three investors have mentioned it to me today.

Speaker: It doesn't sound like the guarantee was just automatically removed.

Katie: And I also think it would be, it would be a hugely aggressive thing to do. And I think the next time that you ask the banks to lend on the credit check money, immediately, within hours out to your general population, you know, my hope is we don't get there again. But I think you'd see, you know, our business is to run our company for our shareholders. It's not their job to subsidise the government. So therefore, actually, I think it would be a very dangerous thing for them to do.

And so today, I've got they've been very, they've written me every cheque I've

asked for. So, I mean, I will be personally staggered, but we'll see.

Alexander: If we can move to Robin. And then to Aman, please.

Katie: Hi, Robin.

Robin: Hi. Can you hear me?

Katie: Beautifully. Yes, thanks.

Robin: Brilliant, brilliant. I've got two kind of areas of questions, slightly different areas. The first, just on the margin bridge, this six basis points of funding and other, I think you've kind of suggested that there was, I think the accounts suggest there's a shift from non-interest income to interest income.

I just wondered if you could give us a little bit more colour on exactly what's happened there. And if my read is correct, that that's kind of mostly one off, does that mean that we're effectively starting Q4 with a kind of margin of maybe 289, 290 and then dropping to somewhere in the kind of low to mid 280s? It's probably not a big difference, if you like in Q4 outlook versus what you've just seen in Q3.

And the second question is really, more actually a plea for help. With the Group Centre, I think we can kind of all have a stab at where the cost might go next year with, with kind of Ulster Bank reducing, but on the revenue side, is there any pointers you can give us in terms of where you think that the revenues might be in the, in the group centre? I know we've got this kind of FX swap issue going on, but I kind of expected that number to sort of diminish in Q3 and it kind of hasn't, so any help you can give us on, on group centre would be hugely appreciated, I'm sure.

Katie: Yeah I think it's the FX recycling you're talking about so, so the FX recycling is at very tail end of an accountants you know, kind of joy of manipulating or kind of playing around with numbers. So if you remember what it is, it is FX that I've got in my other comprehensive income, and on the event of something happening to one of my subsidiaries, I bring it out of there, and I put it into my income statement. What's driven it for us historically, has been when we've had a dividend paid up from Ireland most recently, that's what moved the last piece.

So therefore we now crystallised some of the asset that that FX have been related to so you kind of read through and it's fine, it makes it distributable, I'm kind of happy to get it. But it's kind of it's in the weeds of kind of

accounting, technical literature.

So if we were to see another dividend come up, which one would hope that we would, you would see a little bit more of that piece come through. What you, we had quite a significant number, a number of years ago, I think it was to do with when Coutts International got wound up – they're nodding at me from the left – and that kind of thing, so it's when something's happening with one of your subsidiaries that that's what kind of pulls it through.

It's not meaningful in terms of capital, or anything like that. But it moves it from non-distributable, to distributable and then it has to come through my income statement. So that's why you kind of see some of those numbers kind of come through. So I think when you hear us talk about our dividend, I would say she's going to have an FX impact attached to that.

And it's quite complicated because it's the history of many, many multiple years of FX movements that kind of come through, and how we how we kind of deal with that. So it's not a simple calculation for you to do, when you can look at it kind of proportionally from one dividend to the next it will give you a kind of a size of a shape of what that might be. In terms of the six basis points and in terms of finding out that there was a little bit of a flip from NII to non-NII. But I guess I would probably just take you to the guidance that we've given you on NIM to say, look, we really do mean above the 3% level. And I think, we wouldn't go quite as low as you're maybe suggesting on that piece. But let's see how the next two months unfold.

Robin: Good, thank you.

Katie: Thanks, Robin, good to see you.

Aman: Hello. Can I just ask about deposits, please. So you obviously launched the term deposit proposition in the retail business at the beginning of this year.

Katie: 17th of January

Speaker: Yep, and then decided to kind of open out to the market in Q2...

Katie: We probably decided that sometime before Q2, and then it just practically happened in Q2, yeah.

Aman: And then term deposits have grown 40% Q on Q, in Q3, your guidance mix, which I really appreciate by the way that you've spoken, or rather, that's really helpful...

Katie: You'll still kill me in February when its wrong. But you know, I've given you the best shot I've got.

Aman: It does imply that the pace comes down by a quarter.

Katie: Yep.

Aman: And I mean, your deposit experience through the course of October could probably tell you whether that's right or wrong. And presumably you still think that's right.

Katie: So I probably checked that before I showed up last Friday, in terms of what had happened to that date. So look I'm still pretty comfortable. We've obviously now got the whole of market data, which gives us a little bit more insight, but I'm not looking to change it just yet.

Aman: And I guess, presumably you have control over to what extent you want to participate in the system trend, right? I mean...

Katie: I think you think you do have control at the top end of C&I. So if you look about it, if I'm taking short term money from big corporates, it's much easier to manage. I think, I clearly have control of the retail end as well. But the reality is, if for whatever reason, everybody else dropped their rates and my rate became the very best rate in the market at that moment. You... we know when people are the very, very best rate is they get a flood at that moment, obviously, we can turn it off, but it takes a little bit of time.

So you have, I mean you have a lot of control over round about it and we kind of tried to price it not to be the very best rate in the market but to be a good competitive rate. We also, what we tried to do with the whole market is to make sure it's not cannibalising our whole book. So we're actually bringing in new money, which will be helpful to us for years, I think, to come, as we look at that, but you do have some control on that piece. But I mean, where you have big deposits that are coming in at the top end of C&I, which are generally quite short term, they're very, very generally very, very low margin. That's the bit that you, you kind of decide, particularly at the end of the year, whether you want them or not.

Aman: Because it feels like you felt the need to react to something in the course of late Q2 and Q3. And I just want to get an understanding, is it the case that NS&I came in, San UK, other players came in, and you started to see attrition, and that's the decision that you know, I guess you decide either to lose the balance, or...

Katie: So it's really interested me so that, I've heard that quite a bit in the last few days. And that's not the impression that I've tried to give you. But that's the impression I've given you, so therefore I've not been helpful. In terms of that piece.

What we've done, I think we made, we took a view in the tail end of last year. Guys, we have a massive product gap. We don't have a fixed term account, that is going to really hurt us, it hurt us in the last quarter. So get that thing in. And then I think because we were lower, what you would see throughout Q1, Q2, that we probably were paying a little bit higher than some of our peers because we knew that we had lost quite a bit and we wanted to kind of gain a little bit of ground. So there we were a little bit higher. I don't think we saw in Q3 the rates go particularly higher, what we did see is we opened it to whole of market.

What we've also done in Q3, is we've done a little bit of testing with the Ulster Bank Limited brand so the old Northern Ireland brand to see actually, could I have got something in the market that if I wanted to do something akin to a San UK, that I could do it without repricing my entire book or having massive kind of cannibalisation. So we've played around a little bit on that, that number is interesting, but not meaningful but it's just kind of like, do we have the systems working? Are people interested with the use, would they touch an Ulster Bank brand? You know, what were you going to do? So you said a little bit of activity in that piece.

But I honestly in Q3 I don't believe our behaviour deviated from what it had been in the first couple of quarters. What I think you saw in Q3 was that in July and August, and the market data supports this, is some of the biggest move by individuals into term savings and we had seen and so went a bit further, but I honestly think our behaviour was very consistent. I mean Stuart you were in the heart of it so...

Stuart: I can offer a quick build. The backdrop, I would say, if you look across the last year we have been losing retail deposit market share consistently for the four quarters. But as Katie said, I don't think we did anything particularly differently other than get the product into a new customer base. But that also coincided with, as you said earlier, you know 150 basis point rise in swap rates that back to the interest are gone incentive that's working in the marketplace and driving behaviour, obviously allowed us and other banks to hedge out the

positions and offer, you know, some of the best rates that you would have seen since Q4 2022, when, you know, Liz Truss and Kwasi Kwarteng sent swaps above 6 percent so, I think the behaviour dynamic is positively correlated with the rate on offer and the market rates at that point and that was before NS&I and Santander actually, I don't think...

Katie: No it was before, exactly, yeah.

Stuart: ...response from us to, I mean that's not a rate we'd compete with.

Donal: I think, you know, it's not a Q3 trend. If you look at the Bank of England data, there's been a significant movement into fixed term. About 140 billion of balances since Q3 last year. So that is a trend that you've seen, obviously, consistently kind of pick up over the last few quarters, like Stuart saying, and all the market offerings that we need to catch up and need to do. With NS&I, if that was an issue, that was what August? If that was an issue, it would have been reflected in your Q3 balances, because you wouldn't have had time to react to that and grow accordingly to 7.7 billion of outflows, it's around the edges, considering the kind of the extent of the customer behaviour shift you've seen into fixed term.

Katie: September, it was in September. It was just in the most recent market data that we saw, yeah.

Aman: Sorry... I wanted to give a second question.

Katie: On you go, keep going. You've got the floor.

Aman: I guess the RWA inflation that you're flagging, I guess when we all sit down with the spreadsheet, I suspect we're all coming up to the same conclusion, which is...

Katie: It's alright, I knew you were going to ask me this question. I've said off you go. And I'll ask somebody else, you always get me into trouble on this one. So...

Aman: You've obviously got the 40% dividend...

Katie: We have.

Aman: ...and then the preferred method of surplus distributions directed buyback. I guess a perverse consequence of the share price move is that, that's actually less impactful on your cap ratio than it was.

Katie: It is 5% [of the market cap] less, sadly, less than 5% [was], earlier in the year.

Aman: It doesn't look like there's much room for anything else.

Katie: So look, I mean, what I will say to you, is I will have a conversation in December, about on-market buybacks, and directed buybacks and dividends with the board. And then I'll come back and share that with you in February. You know, seeing it at 13.5% I've given you the 185 number for the end of this year, in terms of RWAs, we've been very committed to delivering back to our shareholders, it's something we're very clear on. So...

Aman: Would you, I guess just another way to ask you, would you be happy to print a pro forma CET1 ratio that was 13 at year end?

Katie: I mean, I've always said, I'm very happy to toggle up and down that number. You know, as we look at it, I look at what's coming up, I look at when the directed buyback might be, how much it might cost me. Now it's in May, I've got five months of earnings, you know, three months at the verify two months not. So there's a little bit of a dance around that piece. But I wouldn't like to be close enough that I was worrying about profit verification, sort of thing. You know, that would be a bit too tight. So it's something we will actively look at. That's probably as much as I will say.

Donal: I'll guided to 13 to 14%.

Katie: Exactly. So it's like, and we've toggled up and down within that range.

Aman: Thank you very much, I appreciate it.

Katie: You're very welcome. Rohith.

Rohith: Thanks. Just following up on deposits...

Katie: Chris, I'll come to you next, sorry.

Rohith: ... I think this was implied by the answers you were just giving, but, are you now comfortable with the product range you have on deposits, and your ability to price relative to peers.

Katie: I'm comfortable. I think there are some things that we haven't used yet. So what I really wanted to do was to test Ulster Bank, to see if that other brand, what kind of cannibalisation it did, did it do anything, did it get new money. So we've done a little bit of playing around with that.

I think what I see other depositors do, is also to do a lot more kind of preferential rates. If you, if you're my customer, I'll give you, you'll get two or five basis points more in terms of this account, or accounts where you can only make four withdrawals in a year. Or otherwise you lose the kind of interest rate level, we haven't used them.

That's something you might see us kind of start to use but I think we're comfortable we've more or less got everything we need in our, in our kind of arsenal to be able to kind of use, to kind of touch all those different sort of levers, and to kind of touch on them, I don't know if there's anything particularly we feel that we're missing when we look at the wider product set.

Stuart: No, I think you've touched on it. Preferential rates, limited withdrawal type product is something that we've not used yet.

I think, you know, as, given the rate environment that we're in, is obviously seems like peak to 525 but it's not going to be 10 basis points unless something extremely dramatic happens. So I think that flexibility in that kind of environment is important. What I would say about our current product offering is it's very straightforward. And we're very happy with that from a consumer duty perspective.

Katie: I mean, I'm just about to say, I'm very pleased I don't have products that are listed in the Daily Mail's Top 100 of the worst performing accounts, and I have [consumer] duty that I have to comply with by July next year so... I do appear briefly at number 76 in all honesty, so...

So it is, I think that straightforwardness is something that is helpful to us as we move forward from here. So I think we've got what we need. People will develop, our guys will be thinking of developing, could we do this, could we do that? But I do think what's really important is relative simplicity, in what you're trying to offer to your customer base. And not having a front book, back book problem is something I think that is actually quite valuable to us.

Rohith: Thanks. And then just one thing, I was wondering if you could help me understand it, which is really the liquidity or the relationship value of the new to bank Time Deposit customer. It seems quite low to me, but you seem to be pleased to be getting market share, and new to bank customers.

Donal: From a new to bank customer? If it's a term deposit pretty much bring full liquidity value. I'm not too sure if you're talking about potential shift within the existing from non-interest bearing or interest bearing into, into fixed term gives you a small liquidity benefit, because you'll have a roughly a 7% outflow and instant access kind of current account money, whereas we get 100% liquidity value on a term account as long as it's not within 30 days to maturity.

Rohith: Right. But is that not - Time Deposit would be generally a shorter duration than a...

Katie: Our term deposits are one year.

Donal: In retail it would be minimum one year, they don't offer a term product less than one year in retail, right?

Stuart: No we don't. One and two.

Rohith: But the relationship value of a new to bank Time Deposit customer?

Donal: Relationship value? I suppose that that needs to be tested over time, the liquidity is 100%.

Stuart: Exactly, it gives us, it gives us another cross-sale opportunity as does, credit card sales, for example, so, again I think...

Donal: It guarantees you a year relationship value pretty much anyway.

Stuart: Well, it gives you a year of opportunity.

Katie: I was going to say, a year of opportunity, which you can imagine that Paul and I are putting some pressure on the business to make sure that they can demonstrate that there is some value in that, I mean, which I think there must implicitly be given, you know, just the ease of interaction.

Stuart: Yeah, customer engages with the mobile app, for example, it gives you the opportunity to prompt etc. So yeah, but to be, to be tested within the sort of the year of opportunity that it affords.

Katie: Thank you.

Chris: Hi it's Chris Cant from Autonomous. If I could just come back on mortgages and then one on deposits please. With the mortgage piece, just trying to condense down the opening discussion around that, it feels like actually 2024, given the rolling off, that's a more even profile in terms of...

Katie: We would expect that to be the case, yes.

Chris: ... Then as we look into '25, does it sort of re-emerge because the five year stuff you did in, kind of 2020, late 2021 spreads were wide and will then start coming through, I guess in late 2025 and into 2026 you're going to have another batch of sort of COVID era stuff.

Stuart: Yeah, yeah. That is, that is definitely. Again, we were very clear about the margins we were writing and those start to come off the book, which in and of itself, depending on where front book pricing is at that time, may have a negative churn impact.

Katie: ...at that time in the year leading up to that time, I think, as you're kind of building the book.

Stuart: Yeah. So now the other key dynamic is where are we writing business at that point in time. And how much volume have we put on. So the size of the market, any market recovery from here, and net lending growth is helpful to offset the income impact. But yes, you're right on the churn piece.

Donal: A smaller percentage of the book that you would have been writing a five year yeah?

Stuart: Exactly, yeah.

Chris: Well, that was actually a related point. When we look at your very helpful pie charts, splitting out 2-year, 5 year, with the five year book, how lumpy is that? I mean, should we just be assuming 40% of that portion of your book churns

over the next two years or is it actually less than that in terms of when you put the five year stuff on?

Katie: Gosh. So there will be some lumpiness in it. But I think I would use the assumption as you suggest that at this point, there will be some deviation roundabout that.

And mainly because if I could just, if I look at, if I think of the various percentages I've coached over different quarters of how much is going on in that quarter, the number does move around a bit.

Chris: OK, that's fine. And on deposits, I mean, I've been, I'm sure like others tried to play around and think about the NII piece and sort of coming back to Jason's question around how do you get to the 50% cost income ratio. It feels like you must be assuming that the mix sort of sets in place as we get to the middle of next year. And you don't really see any more terming out beyond about, say, 20% of your book.

Katie: I think that's what we've tried to say is that we're expecting to see stabilisation in the middle of next year.

Chris: In terms of where you get to on that terming out. Trying to build something to think about the dynamics, that seems to be the assumption that if I flex that even a little bit, it really does deflect quite a lot where you land given, where kind of normal term spreads are.

Katie: Because you always ask me a question that I feel bad that I'm not going to answer for you. It's like, I think it's some kind of tactic but, so I've kind of given you my best view for the end of this year. I'll take a view in February whether I'm going to try to give you an extra view, I'm not committed to that yet. But just to kind of see how it evolves.

Chris: If I could ask you sort of a different question to that one.

Katie: Yeah, sure.

Chris: When I look at your term, what you call term, I think quite a lot of it is actually notice, rather than fixed term.

Katie: I would say it's more fixed term on retail side, and there's notice, but we like notice...

Matt: We love notice.

Katie: ...because notice you have to give notice, so actually, the ability for it to roll is, is greater.

Donal: If you look at the composition, it's more weighted towards fixed term than it is notice. Significantly more so.

Chris: Okay. And when we think about the notice component of that, that's the bit I really struggle to think about what kind of spread you earn as a bank. So you talked about 250bps on the instant access side, nice. As of I guess, when you stood up and talked to us? How should we think about the notice piece?

Katie: I think it was relatively low spread.

Chris: What 1%? Lower?

Matt: Our published rate of 95-day notice is 425 AER, 325 AER for 35 days. Those are our published rates.

Chris: 1 to 2, something like that?

Matt: Yeah, but it is a, it is a small balance, even at our, 200 billion in C&I. It's a pretty deminimus number in there. Its growing, but it's starting from a very low base.

Chris: OK.

Katie: Perfect, thanks. Shall we go to Ed on the telephone. Hi Ed.

Ed: Yeah, afternoon, everybody. Thanks very much. Sorry I didn't make it over to the meeting.

I just had two questions, really. I guess one, the first one and the most important one really is around credit, and the credit cycle. Because I'm really struck that if you look at corporate insolvencies now, they're back at 2009 levels. And I mean, 2009 was the greatest financial crisis the world has ever seen.

And yet, this time, you seeing absolutely nothing. And that sort of compare and contrast just seems truly extraordinary. And I get all the stuff about, you know, you've got Bounce Back Loans, and you shuffle stuff off to that, and there's losses there as well, but I really find that and if you'd said that to me a year ago, I would have just never believed that. So I just wanted, can you try and provide us with some understanding about what is actually going on there? And how is it that all these companies are going bust but you're not seeing any of them in your book at all? I mean, is it that you haven't lent to them? Or is it a peculiar set of circumstances, or... because I do find that sort of true, truly extraordinary? So that... do you want my second question as well, or do you want to deal with that one first?

Katie: Let's do that that one and then I'll come back to you Ed on that one, so I don't have to play a memory game. So, if I look at the 20 to 30 basis points, I guess, look, nine months ago, I did say to you that I'd be in 20 to 30 basis points. So I didn't believe myself that I'd be here sitting at 16.

So I think for me, what are some of the differences? I think if I go back to that time with eight percent unemployment rather than 4.6, 4.7, that I think is important. We had far less liquidity in the market. That's very important. In terms of where we are, I think we've also changed the shape of our book very significantly since then. So from a prime banker level, that I think, again, is very important. So those kind of three things together, is why we're not where we were. But I would still say, I mean, in terms of impairments to try to kind of frame the number this year and I don't normally give you impairment guidance. I kind of say look, think of our through the cycle guidance of 20 to 30 basis points. And then 2023, I expect to be in the range of that number, you know, and I'm at 16 basis points, you know, to date and I need to have a couple of very big single names to kind of get into that 20 to 30 range by the end of this year, could happen but feels very unlikely at this stage.

So I think those kind of three things are kind of why we're, we're different from where we were.

Ed: Are you seeing these companies go bust in your book and they just don't have any borrowings, is that what it is?

Katie: We're not. What we think is a lot of that is there still they kind of go away when they did no insolvencies, we also think it's quite a lot of the kind of the companies that were set up purely to access things like Bounce Bank Loans. And so actually, where you're seeing some of the issues of non payment of guarantees, I would suspect if we could correlate those non payments to those corporate insolvencies, we might see some kind of overlap, in terms of, of them. So it's what I mean, I spent a lot of time with the credit team in the

C&I with the restructuring team. And it's just it's not something we're seeing, and what we've done is we've run things like get all the list of names of those insolvencies, track them against our book to make sure that we don't have zombie companies that we're not, we're not realising that we're seeing and that's it. But it's not something that we're seeing.

I'm just, I'm conscious Ed, I said you could have a second question Ed, on you go.

Ed: Just very quickly, then. Just going back to the margin. I mean, I guess we can all spend hours looking at sort of, you know, hedges evolving, and we can get margins of 350, 400, whatever, in '26, '27, '28, whatever. But isn't the truth that when it actually comes down to it, your North Star is a 14 to 16% return. And, broadly speaking, if margins go much above 300 basis points, the sector reprices down. And if they're much below 250, then you get quite excited and start to reprice up. I mean is that the way we should look at it rather than spending too much time with really sophisticated models to try and work out what happens to the hedge in '27.

Katie: Yeah so I mean, there's a bit of me that sort of thinks, what I'd like to do in guidance in February next year and go: I'm working towards 14 to 16%, the rest of you can work out all the other numbers to make that up and I'll get there, and then not and kind of shorten the call and frustrate you a little bit in terms of that piece. And if I think of that dinner, Donal, you were out last night with a significant number of fixed income investors, they were like, if you guys would just all stop talking about NIM and feeding the machine, life would all be a lot better and our share valuations could go up an awful lot. So it's very tempting. Let's see where I get to in February, but I think that 14 to 16% is the North Star.

Ed: Yeah. Okay.

Katie: Thanks very much Ed. Gary, hi.

Gary: Hi. Thanks for taking my question. So I just wanted to ask you about the dividend policy. So I think you've got a 40% Ordinary payout ratio. Now, given what's happening with the margin, I'm assuming a normalisation and impairment ratio, it's entirely possible that earnings go backwards next year and then start growing again thereafter. So, in that scenario, are you happy for the dividend - or the ordinary dividend that is - to reduce and then grow again? Or would you look to apply some sort of deviation from that policy to at least maintain the dividend?

Katie: I mean what I would say is the 40% is our stated public policy, we've done 91% payout so far, of our income that we've generated this year after tax. We're clearly an incredibly strong pair, kind of ratio that we have. Any changes to the dividend policy, is something we talked about with the board, I'm probably not going to talk about that before then, but we're comfortable with the 40% policy.

Gary: Okay. Thank you.

Katie: Lovely. Thanks. Thanks, Gary.

Alexander: Any more questions in the room?

Katie: So it just remains for me to say thank you very much for your time. I look forward to my 14-16% guidance in February (laughter). And causing some frustration, but anyway. And also I'm conscious, I want to contact you all this week around the Investor Perception Study that we're doing. Just to say it's not a reaction to Friday, it's something that takes a bit of time to set these things up. I realise I might get slightly more franker feedback than I might have had otherwise, I review that as overall highly positive. So please just really ask you to be really open and any guidance or thoughts or things you'd like to see more or less of, given you're analysts it's generally more rather than less, but I really, really would ask you to really participate with a very kind of open hand, it's something we really appreciate of. Lovely, thank you very much indeed. Enjoy the rest the afternoon.