



NatWest
Group

NatWest Group plc
FY 2024 Sellside Roundtable Transcript
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Host: Katie Murray, CFO

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Management Presentation

Katie Murray

I'm just going to say a few words to begin. It's always lovely to see you and thank you for making the effort to come.

So with me today, I've got Stuart Nimmo and Andrew Wells on the line, Stuart is the Finance Director of our Retail Bank and Andrew is the Director of Finance.

I've got Donal Quaid on my left our group treasurer and Claire Kane our director of investor relations, here in the room.

Before I open up for questions, I'm just going to remind you what we talked about three weeks ago.

2024 was very positive year for the bank. We met or exceeded all our guidance, with broad-based growth across our customer lending, customer deposits and assets under management.

Income excluding all notable items was 2.2% up at 14.6 billion and other operating expenses excluding increased bank levies and the costs of the retail share offer, were up 1.1% to 7.7 billion. So we delivered another year of positive operating leverage.

The impairment charge was £359 million or 9 basis points of loans. Taken together, we delivered attributable profit of 4.5 billion and the return on tangible equity was 17.5%.

We announced a final dividend per share of 15.5 pence, bringing the total for 2024 to 21.5 pence, a 26% increase year on year. We're also pleased to announce the increase of our ordinary dividend payout ratio from around 40 to around 50% from this year onwards.

In addition, in the year, we completed two directed buybacks from the government in May and November, totalling £2.2 billion, meaning the overall distributions to shareholders announced for 2024 came to £4 billion.

We ended the year with common equity tier one ratio of 13.6%, within our target range and up from the 13.4% at the end of the prior year.

In terms of 2025 guidance, we expect income excluding notable items, to be in the range of 15.2 to 15.7 billion, other operating expenses to be around 8 billion plus around 100 million of one-time integration costs in relation to [the] Sainsbury's Bank and the Metro Bank transactions and the loan impairment rate to be below 20 basis points.

Taking this together, we [will] deliver a return on tangible equity of 15-16%. And finally, we expect between 190 and 195 billion of risk-weighted assets at the end of 2025.

Beyond 2025, we now target a 2027 return on tangible equity of greater than 15%, while continuing to operate with a CET1 ratio of 13-14%. And with that, we've actually just jumped straight into your topics.

Ben

Maybe a very high-level top-down question first, just how you think about NatWest and the positioning relative to the UK economy? What sort of underlying picture do you see in terms of the strength and health of your clients? There's clearly a lot of noise in the papers at the moment around business confidence, etc. but that seems to stand a bit at odds with maybe some of your loan and deposit growth?

So just wondering how you're thinking about that from a macro perspective as well.

Katie

Sure. So, look, it's a really difficult narrative because if we look at our results, for us, it was a six-year growth with over 4% CAGR. So, we've been very strong over the last number of years. It comes in different places at different times. So, it hasn't been universally strong in all of our business lines in all of those years. And you can see that even in our numbers last year, where we had returning strength in mortgages and good strength in C&I, but particularly in CMM and [at the] top end of C&I business as well and deposits were strong across the board.

We're now sitting in March relatively far into Q1, but you can see the Bank of England data. We're not seeing things that are particularly different from that. There'll be some movements in terms of some timings of transactions, but I think the year started well which we talked about in February and that has continued. So, we do see a real dissonance in the narrative.

One of the things I think that we hear a lot is when we go out to talk to customers, they'll talk about, yeah, we're doing okay, but I'm really worried about them... and the "them" is an indistinct group of people. Whether it be some of their suppliers that might be struggling or someone even further away from that in their own ecosystem that they worry about.

So I do think that there is this narrative that is quite negative, but I think what is feeding through in our numbers is okay performance, which is good.

Rates are obviously still relatively high. We look and we review our economics quarterly, we're in the process of doing that at the moment for the Q1 impairment testing and you could say we could move the rates a little bit, actually there are various assumptions, but they're not moving so much. I get these beautiful papers and then they say it will all cost about 2 million extra than what we were imagining.

So for me, where does that get you to, though, is a little bit steady as you go. It's just like taking the incremental improvements that come through. And so overall, I think our customers are feeling relatively good, they're moving on. We're not seeing big changes in the numbers, but at the same time we aren't seeing big leaps forward.

What you want to do is to see it really transforming into real building or investment or whatever. But again, I like what they're doing on the National Wealth Fund and things like that.

So, you can see they're moving forward, it just takes time. So we're comfortable that the assumptions we gave you a few weeks ago are still broadly in the right place, and our customer metrics are probably still very similar to the ones we talked about then.

Perlie

Thank you. Just thinking about a similar topic. So, the FCA, I think, had another letter last Friday talking about mortgage rules, relaxation and reminding lenders of the flexibility around that and as rates come down, what you might do on affordability testing. So, I guess as we've heard a lot about regulators trying to make mortgage lending easier, and maybe relaxing regulation, to what extent is that useful? Or is it a binding constraint, or in terms of the flexibility that you have, how willing are you to use more of that to support lending? I guess that is [question] number one.

And number two is maybe a quick one on SRTs. Just because it's something that multiple clients have been asking about and it's massive. But obviously, you're generating so much capital. You want to work it harder, but equally there's opportunity cost of using SRTs, so how are you thinking about that? And apparently some European banks have said that they have to do more SRTs because otherwise it makes them less competitive on product pricing.

Katie

So I'll take the SRT question first, then I'll come to Stuart. When we look at SRTs, I think it's important as well to think a little bit about where different banks are in their evolution of that. So, it's not something that we used a lot historically. We've had some, but it's not been a

particularly active programme. What we said to you last year was that we are going to become more active in that programme. And obviously we were about seven billion [of capital actions] for the year. SRTs was a portion of that. It wasn't the biggest portion, but it was a portion.

It's something that we think we'll continue to use. The most important thing for me about the SRT piece is actually if I do it, can I invest the capital for a greater return than the transaction I've just done? And that's always absolutely the benchmark. So, we do see that there is an opportunity in that. We do see it's a programme that will continue to develop over the next number of years. But every transaction is assessed in that moment at that time.

And what we have seen as we've looked at transactions is that sometimes you think, well, actually, this one didn't look quite as good. But then actually, you look at it again a few months later, you go, actually, no, it's now more attractive to do. So we're very mindful of those that are on the borderline.

But we do think it's something that's helpful. You have to be able to then redeploy the capital as well or else it's not worth the candle that you burn on it.

And for me, it's not just SRT. It's also for what we're doing on the credit risk. For us, data management is also an important aspect of that. It's just constantly looking for the evolution of interpretation of rules to make sure that you're getting the best of all of those things, as well as asset sales, which we've done.

So all of those things together are how we manage the whole RWA position. And we were pleased last year that more or less our book growth was offset more or less paid for offset paid for by that. That's not the aim or it's not a target that I have in play, but we do look really actively and say, what are the levers that we can pull?

And given that we're not as deep into this yet as others might be, then actually we probably have some lower hanging fruit that we can access a little bit more easily than others.

Donal

No, I think you're right. It's because we're purely looking at present from a capital optimisation perspective. I'm struggling a little bit with the view around pricing, because in effect, you know, it shouldn't really price anything from a customer perspective going forward. But as Katie

said, it is a good tool to offset some of the regulatory headwinds that we see as well over the next couple of years.

Ed Do you worry, though, about the sort of pro-cyclicality of it? How do you manage that? Because it just seems to me the risk that every bank looks at it themselves and says, we're fine. But actually, for the sector as a whole, if there's ever going to be a credit incident, then all this stuff's going to come pouring back on balance sheets.

Katie We don't worry about it, but we're very mindful of it. We know where we're putting our funds into. And then we also know where we're putting our SRTs into.

We also know who we're lending to on some of the funds financing business to make sure that we're not double exposing ourselves. But it is something that we are mindful of.

Donal Yeah, the one thing I would add on that, obviously, the RWA is coming back on the balance sheet over an extended time period. Because when we look at the actual duration of these transactions, they tend to match quite closely with the underlying assets, three to four years. So, the event that you're talking about there is if there is risk, you still have a decision whether you want to refinance that loan as well at a point in time if there was a market wide stress.

So, there's definitely a risk appetite question of how much RWA optimisation do you want to be running and over what period do you want to see that come back on your balance sheet.

Katie And one of the things that we haven't talked about, we're not quite ready to talk about, but I would say in time we will, is actually what portion of your RWA's you might have covered by SRTs. At the moment for us, it's so minute. It's not something to talk about.

But I do think there is a risk appetite question of how much more would you go and at what point do you hold back? And I think that's, for us, a couple years away.

It's not an immediate sort of thing. But I do think at some stage you need to think about where is the appetite and then how much are you just topping up or re-issuing stuff that you issued four years ago?

Stuart, should we come to you on the FCA point?

Stuart

Yeah, sure. I guess what I'd say is we welcome the review from the FCA on the mortgage rules, particularly the review of the application of the stress rate.

In our view, that is probably the binding constraint for most customers. The current approach and application of that rate is a bit asymmetric. It tends to capture expected increases in interest rates as applied to SVR and not decreases.

So there's clearly something there. And I guess as a result of that, if you look at how stress rates have evolved through the interest rate cycle, the margin versus the current product suite has widened and it won't start to abate until the Bank of England actually cuts rates. You could probably argue as well that the SVR or the reversion rate isn't the greatest anchor, given most customers can quite easily switch to another front book product, which will be at a much lower rate.

So in summary, we're working with the FCA, as you would expect, and we'll continue to work with them on any consultation and welcome the review.

Katie

Thank you. Other questions?

Grace

Yes, So just a quick follow up, please. Maybe just coming back a bit on the growth point and you were very constructive on the call around organic growth. Maybe we could just push that a little bit more. So, I guess really trying to pin down what you're thinking about loan growth, so should we expect it to be similar to last year? Accelerate from here? I know you haven't guided, but just to steer, because, you know, the C&I print looked very strong, so is that normal growth rate going forward.

Katie

Yeah, just a little bit more although I'm conscious that we don't guide you on loan growth. But I mean, obviously it's fundamental to where we are. So as I look at it, what I would say is and if you go through the different products, we're very clear that we do seek to grow in mortgages.

You know, it is an area that we would expect to grow. Now, we know that last year we didn't, the book grew towards the end of the year, but we had shrunk it a little bit at the beginning of the year. So we would expect to grow there as we move forward.

Personal unsecured lending is still something we're interested in, particularly on credit cards. You will see some growth in that when Sainsbury's comes online. That will be in all your models.

It takes us to kind of 11%. What's interesting is you start to get to 11%, I think the debate is how much more can you grow.

But for that book, what's really important for me, and I talk about it as curing, but if you think we bring that book on at zero balance transfers, actually after six months, the income that you're earning on it is better as well. The book may not grow as much, so we will see growth in it this year. Actually, your income portion to it is stronger. So we're very comfortable with that.

Business banking, it's actually going really well. It was 2 billion of lending there. And it takes a long time to move that to 2.1 or for it to go to 1.9. There's actually quite nice activity in that sector, but it's not going to change the story of lending growth.

CMM, I think last year, we were pleased with how it had come through. It's a story that will grow in line with the economy. We're so embedded in there, so large in that space, it's not going to grow bigger than that. But what is interesting is how do we embed ourselves more in those businesses? How do I do more FX? At the top end of that how do I do a little bit of capital markets activity?

C&I last year delivered 9% year on year growth excluding government schemes. I'm not going to commit to that today, clearly.

And if you look at where a lot of that was, it was in the Corporate and Institutions business which went from 57.4 to 65.8 [year on year]. We talked about through the year that some of that was to do with some private financing activity. But that was a particularly strong growth rate, I wouldn't see it necessarily repeat as we go through.

But what's nice is there is activity. So we might not get to those headline levels of growth. But I do think for me, the growth that sits within the commercial mid-market is important for UK plc. And that Corporate and Institution stuff is always going to be quite lumpy as we go through. So probably a very similar answer to the one I gave you last time, but maybe a little bit more colour.

Amit

Hi, it's Amit Goel from Mediobanca. Just some follow ups, on the FCA and on the growth point. I wanted to just make sure I get my head clear. How much incremental growth do you think the FCA changes could create, say, for example, in the mortgage lending piece and to what extent could there be pressure from the government to show

better growth or better growth levels, given the pressure they're putting on the FCA, etc., to soften some of the rule sets.

And then secondly, just trying to understand what impact that could have on profitability, because we're just commenting there. So on those slightly more riskier parts of the lending piece, are you able to charge better spreads? Because, say, 70, 80 bps is not getting much better than cost of equity, which is below group profitability target. So I'm just curious how you're thinking about that.

Katie

We probably argue with you a little bit on that last comment, that 70, 80 bps, we would view that as a good ROTE, not just below in terms of where the numbers would be, we would see that as quite strong in reality of how we measure it and what we pull into that piece. So, at the moment, I would say we're looking to write at around 70. If I was writing around 80, I'd be pretty delighted, I would say in terms of in the market. And I'd be pleased both with my business by margin, but also be pleased by ROTE. But Stuart, do you want to talk?

Stuart

I'm likely to disappoint and say I'm not going to say how much more incremental we would be able to write. And it's clearly quite uncertain at the moment. I think what is extremely likely is there will be some form of test or limit going forward. We'll need to see what that is.

Where mortgages or values are greater, we already set our own tests as the FCA limits don't apply there. So we will have some other form of risk management that will limit our various exposures.

I think Katie summed up the profitability point. We'll continue to write business where we see the return as attractive, and you saw us step back from the market in the second half of 2023 and that lack of growth in 2024 as a result of that. You'll see us continue to price appropriately for the risk that we're taking to ensure we generate what we see as attractive returns both for the product and taking a broader lifetime view of the business.

Andrew

Can I ask one follow-up and one new one? Firstly, just to talk about growth, Sainsbury's Bank, would it be possible to put some numbers around it, revenues, costs, etc. And also to talk a bit about strategic rationale because Barclays talked a lot about Tesco Bank, the extra strategic points it brings to the table, the additional Clubcard customers it can tap into. So anything you could say around Sainsbury's Bank would be really helpful as an equivalent.

And then secondly, I don't know if it was on loan growth, deposit growth, actually a very strong quarter of a deposit growth. And what was notable for me as well was that your non-interest-bearing balances (NIBBs) actually went up slightly, a small bit.

But you are guiding a flat notional for the hedge this year. And interestingly, Lloyds talked about some growth in that hedge notional. So anything you could say around liability balances and hedge notional?

Katie

Yeah, sure, absolutely. So just in terms of the [Sainsbury's] numbers, we're going to give them to you in Q2 and the reason that we're giving them to you then is when we complete the transaction. It's just because the book size moves around a little bit.

We did give you a couple of numbers, the extra 100 million in terms of the costs. Two and a half billion in terms of the deposit side and we've guided that should be another two and half billion of RWAs, just to build those are there and then we'll give you the income when we bring over the size of the book.

Stuart, do you want to talk a little bit about the strategic rationale and why it makes sense for us?

Stuart

Yeah, absolutely. And you've already mentioned it. It takes our credit cards market share up to just around 11% post-acquisition. As you know, that's a strategic growth area for us where we feel underweight overall in our unsecured exposure.

And on the loan side, we don't have as much, or we don't see as much room for growth given our market share in the part of the market we operate there. So really this transaction was around the access to another set of credit card customers. We're busy getting ready for the migration, as you can expect.

And we'll bring those customers over with a Nectar relationship as well. So we'll continue to see that. But as we bring them into our banking app, etc., broader ecosystem, we see the opportunity to provide those customers with a better banking experience.

And hopefully as a result of that, we can engage them and keep them as our customers going forward. So that's really the strategic attraction to us.

Andrew

And they will stay as Sainsbury's branded cards?

Katie No, they become NatWest cards. They go through that whole transition very quickly, so that's what we're working through just now.

It's a million new customers. Clearly there'll be some overlap of that customer base. Now, if you're a Sainsbury's customer today, you use paper and online banking. So, you have no app capability at all. To bring that [those customers] in that way, I think will be quite different. And then I was smiling to myself because Stuart said, hopefully we'll keep some of them. We'll definitely keep some of them. But I think there's some pretty big targets on the table as to how much retention we expect to see in terms of product penetration as well. So, I do think adding a million customers overnight is quite a significant thing to do.

Now, we'll have some views of the level, because obviously we can see from our own side, the level of cross penetration we have, but it's still very meaningful. And it is a group who bank with them in a very non-digital way.

So there'll be some of it that will be more impactful, or not. But I do think it is an important opportunity for us and one that we are certainly looking to maximise. Donal, do you want to take the second of those questions?

Donal Yeah, deposit balances and hedges. We did see probably, I'd probably call it stabilisation, small bit of growth in Q4 in terms of non-interest-bearing balances, but still year on year, they're down about 7 billion. So again, just given that we have that 12 month look back, that still looks to feed through the structural hedge notional.

Now, that has obviously been offset by the growth in instant access. But, as you're aware, we hedge a much higher portion of our non-interest bearing balances than we do in our instant access as well. So that's where we get to a relatively stable hedge for the year.

But obviously we'll see how deposits play out. Again, one thing to consider is just tax outflows in January and the impact that would have on non-interest-bearing balances.

James Can I ask two. So the first is, we saw the bank's response to the Treasury Select Committee with outages and so on. I think NatWest showed the most hours of outages.

Claire One case, yeah, one case added up to a lot of hours.

James It was just that one case?

Claire Well, they said it in the letter.

James So how much does extra spending kind of lower that number? Do you need to spend more? Is the government pressuring you and the other banks to spend more?

And then the second one is, I think at this time, you always used to share your through cycle impairment charge number with people, but you've kind of taken that away?

Katie Well, I'm not really taking it away. I've just not talked about it, but it's still there. And so let me talk about that a little bit and then I'll come on to the technology piece. So, it's still there at 20 to 30 basis points, but you can see in our slides, if you go back over the last number of years, I struggled to get to 20 in that number.

Now, there are some reasons for that. Obviously, Ulster's come out. That was often one of the things that pushed me a bit higher in terms of where we are.

If I look at my downside scenario, I kind of get into that 20 to 30 sort of through the cycle more easily, which is probably the hesitancy I've got about taking it out, because it's one of those things. The minute you go out, then we'll enter into a bit of a downside. And I think that we all agree that impairments, for the last number of years have just looked very, I mean, they're hard to believe, you know - nine basis points last year.

There's a little bit of write-back of PMAs within there, but not so much, and although I'm holding on to my 300 million of remaining PMAs. It's not going to change the number on a through the cycle basis. So we are still there.

I would accept that we're at the bottom of that level at the moment, but we're not quite ready. We do debate whether we should update that guidance or not. And we're not quite ready to update it.

But I mean, certainly at this point, where we're not in our own economics, not expecting a downside, that's where we're guiding you too below. It's still very benign.

Claire Yes. So in the letter, all the banks responded to the Treasury Select Committee. So we reported 13 incidents, a total of 194 hours of outage.

And one of those was 142 hours. And that was a very small number of customers that [it] impacted. But on average, it's four hours for the other 12

I think relative, and if you look at the total number of incidents, we rank quite favourably on the whole table.

Katie

So we can take some comfort from that just now. You can go, actually, we're OK. But there's also an element of, is that good luck, the right investment, or the timing of the period that they're asking to?

So I think your question is maybe about investment. And actually, so it is an area that we naturally continue to invest in. We have got very strict rules and how we measure those and really put the microscope on actually what's happening on the client outages and where we are.

I don't think it's just good luck that we haven't had them because there is a huge amount of investment that goes in that space. And there's definitely pressure, whether it's pressure of this shouldn't happen at all. I don't think it's quite as you should be spending more money on x and y because actually, you know, I'm in the bank and I would struggle to say I want to spend more money on this bit of architecture versus that bit of architecture.

You're in like really deep knowledge bases at that point. But the question I ask the technology team a lot and what I say that what analysts and investors fear is I'm going to come out one day and say I'm spending 3 billion on replacing our system and why can I be comfortable that's not the narrative that I'm saying.

And I think the reason we get comfort on that is because what we've actually done on the systems over the last number of years, they kind of describe it to me as a complicated piece of Lego.

So think of your most complicated Lego that you did, or you do with your kids today and say, actually, but the good thing about that is you can take bits of Lego out, put bits of Lego in. So I don't have this whole mainframe that I have to say, well, I need to replace all of that. I've decomposed that over the years. So there's different pieces round about it.

But I do think that when you're putting in upgrades and when you're making changes to things, those are the points of peak challenge to you. And so we take huge care around those moments. And we're quick

to pull things back if we can see that they're not going through in the way that they are.

But there's definitely more pressure just now because it is not comfortable if you're one of those small group of customers are out for 142 [hours]. But even if you're one of the customers that's out for four hours, when it happens to me, it makes me anxious. I think, well, why is it going wrong? Is it just me or is it everybody? And when it's everybody, you feel more comfort again.

So it's how you get there. But it is an area that we spend a lot of time focusing on, we do believe it gets adequate budget, but as you do upgrades and anything, those are the moments that generally you then see things go wrong because actually there's some patch that didn't come through or you didn't adjust this or that.

Ed Can I just clarify that, so are the outages on the way up or are they flat or are they falling? Because they're getting a lot of publicity at the moment.

Katie So for us, they're less than they were. They're on a declining trajectory, but you touch wood as you say that because, you know, you put in some patch, or some upgrade this weekend and then actually something different happens.

But overall, we're comfortable that they are declining. And what's important as well, that when they happen, we've been able to deal with them very quickly because we don't have some of these historic things still in our networks and things that actually are difficult for us to deal with. I'm just going to go to Gary.

Gary, thanks for coming in from Shore Capital. Can we take your question? Thank you.

Gary Hi, thanks, Katie. I had two if I could. So first one, I asked a similar question to Lloyds the other week, but it was just regards return on tangible equity and I guess sort of how you think about what is a reasonable return for the business and whether there's a sort of an upper limit that you would get to where you might start to feel a little uncomfortable and look to reinvest that benefit back into the business, whether it's customer pricing, et cetera, a level at which I suppose, I don't know, maybe regulators start to get a little bit uncomfortable. So that was the first question.

And then the second question was just with regards to the FT article this morning on M&A, where I think they sort of point out RBS and NatWest has been sort of top of the list of likely consolidators. So I just wanted to invite you to comment on that.

Katie

Yeah, absolutely. So the first one is difficult. You can see that our forward guidance is greater than 15%.

And one of the things when you see Paul at conferences, he uses the words, there's no limit on my ambition for this number. I don't think there is a number that we get uncomfortable at and that we then say, oh, let's reinvest this money so that you don't get there. In reality, actually, the mechanics of reinvesting are quite difficult in terms of if I was sitting in July and thought, well, I'm going to hit x percent and I don't want to get there, let me quickly reinvest some money.

Actually, to spin up a project that you'd be able to do that with capitalisation rates and P&L charges, you're going to struggle to bring it down in that moment. And I think at the moment, we feel that we invest around about a billion, some years it's 1.1, 1.2, 0.9, but it's that kind of number. Actually, we don't think that in our organisation that it's not putting more money into the system.

It's about actually how much can the system cope with in terms of human resources. What we know is we've got faster at the way we do projects. We've got more control over our resources than we might have historically had.

So actually, we get a lot more for that spend already. So it wouldn't be that I'm sitting going, I'm looking at x percent returns, I'll quickly invest some more money to avoid that happening. We don't think of it as an upper limit.

I do think a little while ago when we were sitting at 18%, 19%, you start to think about, oh, I'm going to get a bank tax put on me at that point. But I think what Paul and I need to do is to run the business as best we can and to really make sure that we deliver the best return for shareholders. I think when you start trying to manage some of those macro, more worrying things, I think you can get a little bit lost at the edges of those.

Gary

You do feel a bit more comfortable now, given the regulatory stance seems to have changed and seems to be a bit more pro-banking rather

than anti-banking, as it has been in recent years. So, do you feel a little bit more comfortable, therefore, earning a better return?

Katie

No, obviously, I've always had a fairly significant shareholder from the government as well, who's been very interested in the returns we've earned. But I mean, it's not really... We're pleased, and I use the word pleased with difficulty because, you know, pride comes before a fall and things like that.

But we're pleased that the bank is delivering what it's delivering. We probably take greater satisfaction that actually, operationally, we're doing all the right things within the bank that will make sure it continues to deliver. You know, even when rates go in different directions, we're comfortable that we'll still get good returns.

Obviously, subject to rates not just falling too far, too fast and things like that. So, we're overall comfortable. We do recognise that at the moment, it's a bit more pro-banking than it might have been.

But I think the most important thing is that we continue to invest in and deliver the bank and make sure that we're earning the right returns.

And I guess if we were saying that we felt we were earning super returns, that we're getting attention, I'd like to get myself into that position, because that means we're really doing the right things within the organisation that we should be.

Donal

Yeah, you probably are okay as well. Higher returns, I suppose, is beneficial for overall UK plc with a pro-growth government and attraction of capital into the UK.

Katie

I also saw the FT article this morning. We've been very clear on M&A.

We've obviously done a couple of transactions, but they're very small. You know, except that they have been small, but they've been important for the organisation. You know, the directed buybacks and things like that have never stopped us being acquisitive.

But the reality is the stock has re-rated over the last year. That probably is what makes us more... It's easier to consider some acquisitions than it was in the past.

When you're running a counterfactual, the stock price we were at on a buyback or directed buyback, it's a very big transaction. And you would say, well, actually, that's better for me to do.

It remains a very high bar. We're very aware that we've committed, you know, above 15% returns. So things have to fit within there.

So there are things that we continue to do that, and we will continue to do so as we move forward from here. We've always said what we aim for is adding volume as well as capability. We recognise since the conversation, Gary, I have a lot with investors that actually our non-interest income split, we'd like it to be higher as a percentage, but actually we're not uncomfortable where it sits. I'm happy to look at NII or non-interest income businesses.

Gary Is size any limit on your acquisition appetite? Or, I mean, do you just look for bolt-ons or would you consider something sort of not quite transformational but larger?

Katie No, we would consider something larger. But I think when you consider larger things...the way we look at it is strategically does it make sense for us. Culturally, can we do it? Internally, could we digest it? And then what I try to do is get people to look at the financials almost last, because actually those are the ones...But if you can kind of say yes to strategy, yes to culture, then is it something that makes sense? So we would look at bigger things.

We're very mindful of our history. We're mindful of our shareholder support as well. So to make sure that actually we could really, you know, big acquisitions also bring a lot of internal focus. You know, when the business is delivering, you have to do that with care.

Gary Yeah, understood. Thank you very much.

Katie Lovely. Thanks very much.

Ben Morning. Thanks. The first question was on mortgage spreads.

You've been pretty consistent sort of saying like 50 basis points plus. At an industry level, it looks like spreads might come up or down slightly this year, but it's always hard to tell given the volatility of swaps and pre-hedging and everything else. So if you're able to talk to your experience, will you still sort of hang on to 70 basis points plus this year, that would be really helpful?

And then looking forward in terms of competitive dynamics, particularly mortgages, some of speculated the change in the leverage ratio threshold rules for some of those medium sized players might make

them more competitive. Looking forward, I don't know if you have any thoughts you can share around that.

And then just a quick follow on Sainsbury's, because I appreciate you don't want to talk about any detailed numbers beyond what you've said already. But in terms of how we're talking about the shape of the cost space, so sort of run rate cost, the integration cost. When we look beyond that, should we think about just the run rate or is there some sort of cost savings as well that come in time off investment?

Katie

Yeah, let me let me talk to all of them. So we talk about around 70 basis points. I'd like it to be always above, but it's definitely not. So it's around that kind of number. For me, if I'm sitting in the 60s, I'm pretty comfortable. If I'm getting to 50s, I'm coming in a little bit more.

And you'd see us kind of toggling. It doesn't mean I won't be writing at that point, but we definitely look to have a, you know, we look to bring it up. So we're still in that around 70.

So we think that's what we can achieve and that's what we target the business on as we go through. But it does move. And I would say at the moment, there's probably more movement to the down- than to the upside of that number. So you will see the difference within there as well.

If I look to the competitive dynamics on the leverage ratio, we do think that has kept some people out. So whether it's some of the [mid-sized] banks who are more leverage constrained, whether they come in a little bit more, obviously, that's one of the things they need to consider.

They need to consider pricing, also the ability of their own systems to cope with big flows coming through. When it's a bigger market, we know that it favours the incumbent banks more. When we look at the market size, it's not maybe as big as it was in the COVID years, but it's bigger than it has been the last couple of years, which keeps a little bit of control on the pricing. But I would expect at that leverage point that we'd start to see some movements. And it's something that the team has certainly been looking at.

If I look to Sainsbury's, so it's important to say we're not bringing over a lot of costs with them. We're not bringing over people. For example, I think, it's like three or four people or something that are coming in. So that takes that whole synergy narrative because you're just not bringing the cost at all, which is helpful.

The 100 million, it comes on in Q2. You'll be spending some of that money now. You'll be spending more of it in the second half, the TSA payments and things like that that you'll be bringing in. And they'll obviously come off. So it's not really a cost narrative in terms of the Sainsbury's piece. It is much more about bringing on those extra customers.

How do we make sure we can hold on to and retain some of that revenue? I mean, Stuart, what else would you add to that answer?

Stuart

No, I think I think that's spot on. I wouldn't add much at all. The only point, definitely not a cost take out as described, given that we're not bringing any meaningful number of staff over from Sainsbury's.

The key point, I think, is once we have migrated, the go forward marginal cost is really quite low as we leverage our digital platform. And at that point, you start to see just essentially the net upside from the income streams and the balance sheet.

Katie

Sheel, we're going to come to you and then we'll come back into the room. Thank you.

Sheel

Thanks, Katie. On the private bank, it looks like you're under-earning in this business relative to peers. So I'm wondering where the upside comes from in this business. Is it more scale that's needed or is it more operating leverage because the cost base has been running quite high in the last few years as well?

Katie

Yeah, so when I look at it, I mean, our private bank has got a [mid-] teens return on equity. So it's an important contributor. It's important, I think, also for the bank in terms of funding, in terms of it being a high deposit gathering base.

Obviously, the deposits did come down, but it is something that's seen as very important in terms of that deposit and leverage piece for us. I think as we look at the wealth business, what's important for us is how can we add more scale to that business? It's something we do look at a little bit from M&A, but actually there's quite a lot to do just in terms of its own customers.

We do think it is the top private bank within the UK in terms of how we manage it. And if I look at what we call its CAL number, which is the number that we look at more, and I think we need to be a bit more open with all of you in terms of that number. That's something you'll

hear us start to talk more about, I think, is what does it have in terms of assets, liabilities and AUM across all three.

Because actually, it earns its income across all three. Certainly, it's kind of smaller. I think that's something that we need to talk more about.

But certainly, it's an important addition to the business. It's a small franchise. I mean, it's dwarfed, obviously, by the other two.

But as we look at it, its mortgages are provided through the Mortgage Centre of Excellence. It provides asset management services for the bank, which is an area I think that we can do greater penetration on than we have done in the past. We've talked about it a little bit historically as to how much there is. I think there is more that we can do within there.

So I think if I look at one of the things that I really like about the management team that we have within there now is that they're kind of private bank or wealth managers rather than bankers who have become wealth managers, if that makes sense. And I do think it's a different skill set as to how you think about that and how you meet the financial needs of their customer base, which go across deposits, lending and AUM with much more complexity than you do, obviously, within the wider retail bank.

So I certainly view it quite positively. But it is certainly a smaller portion. I mean, I think wealth management, it's about 8% of our non-interest income. And I think the challenge to them is to say, well, how do I get that number to be bigger?

It's not going to change the dynamic of NII to non-NII. It's just how do we make sure we can sort of control it? And certainly, if I look at this net new money, it's sort of 6/7% of opening AUM.

Those are very respectable kind of levels that it delivers in terms of its own performance.

Ben Ben Toms from RBC. One on costs. You've got the £8.1 billion guidance for this year. Can you just talk a little bit about the trajectory of that as we go through the year and whether these will be lumpy numbers?

Katie It'll be lumpy. I can guarantee it. But the lumpiness will not be unusual in terms of where it is. So what we try to do on cost, so there's the £100 million, which is Sainsbury's. That's more in the second half. There's a little bit of it in the first half, given there's some numbers there on

Metro as well. Obviously, you know all the famous things about lumpiness.

The Q4 is always more. That's bank levy. But that's also where if I've managed to create capacity, given that's when we start to release it to the business as well to sort of say, what can you do?

I'd like to create more capacity earlier so we can do a bit more releasing as it comes through. But we're very comfortable on the end number, but it will be a bit lumpy as we go through the year. I'm not going to tell you this quarter is going to be that, and that quarter is going to be this.

I would just say, believe us on the end number, and that's the number that we'll hit.

Ben

I've got a second one, if that's OK. On income, the range struck me as slightly conservative for your total income outcome for this year.

Just on the structural hedge, the way the swap rates... guidance of around £4 billion... but the way the swap rates have moved so early on in the year, are we already kind of talking about material upside from the £4 billion number?

Katie

So I think, you know, I've given you all the component parts. One of the parts I've given you there is that our assumption is on reinvestment, it was at 3.6%. Clearly, it's been a little bit higher than that for January, February. So that's helpful to us.

I mean, obviously, when you're renewing, you're doing a five-year trade. So there will be some benefit from that coming through. But I was comfortable when I remained comfortable with the rate that we have given you.

But certainly, those swap levels have been helpful to us in the past few months.

Donal

Way to look at that is the rate sensitivity on the disclosure of structural hedge, from the materiality of that, as you start going through the year.

Katie

Yeah, but the average looks – averages take a little bit of while, as you all know, to pull up. But certainly, it started a bit more above the 3.6%.

Chris

Hi, it's Chris from Autonomous. I just wanted to ask about asset spreads, specifically in the commercial segments. It's something we struggle to track.

Yeah, so – sorry, sort of like. What are you seeing in terms of spread trends?

And are you expecting any spread pressure to come through, given that the system broadly, banks broadly, are now earning better spreads on liabilities than historically, and you have the structural hedge kind of relief coming through as those positions roll? Do you expect any pressure?

Katie There's always a bit of pressure because things are quite competitive, but because particularly once you move out of business banking, which is just obviously – I mean, it's practically retail, you get to the point that they are – your spreads are designed based on the deal that you're doing, rather than anything individual. I actually think what I probably spend more time speaking to there is less about the spread, but more about actually what size of businesses are going to capital markets.

And while we're happy we can service that need, it's obviously a very different – it's a one-time fee rather than a three-year average loan that comes through. So I think that's one of the things that we've spent quite a bit of time looking at, is to say what sort of trends do we see in that space? But we're not particularly concerned about pressure on spreads, per se.

Chris Just following up on your question on the range for this year, I think looking at consensus based on my conversations, in terms of kind of clustered right towards the top end of the range.

Katie I've got consensus in front of me, and it would seem that not many of you believe the bottom end of my range.

Chris So I guess that's my question. I appreciate the point that the swap-churn differential provides – you know, maybe if you were to recalculate the range today, you'd move the entire thing, but I presume the range was not all about swap rates?

Katie No. Not at all.

Chris What is it that would need to happen that we are collectively not understanding or not thinking about that would drive it to the lower end of that range?

Katie Yeah, so I guess as I look at it, so we've got the range. We think in February, we feel it was a comfortable range. It's only March. I haven't

changed my views on that. I think there's a number of different things that can come out in different aspects of the range.

We've talked quite a lot about growth. We feel relatively comfortable, but not so comfortable that I'm shouting about it from the rooftops, in terms of that. That can and will fluctuate throughout the year. I think customer behaviour and competitive behaviour across lending and deposits can have an impact on that.

Some of those things that could come through is what happens in the leverage ratio. Does it become more dynamic? I do think deposits have been less, like they are competitive, but they have been less competitive over the last year.

If we were to see that actually competition was to increase in that dramatically, would we see that? I'm not viewing that necessarily as a big risk at this moment. I mean, National Savings (NS&I) might do something because they need a bit more funding, but actually they can raise funding cheaper elsewhere. So how much they might do on that. I think consolidation has helped a little bit on the deposit side of things, but you might see a little bit in there.

I think non-interest income for us in the second half of the year was particularly strong, and we saw really good performance in what's the rates, FX, capital markets area. So, we were very pleased with that. The year has started well, but I wouldn't expect to see that level of strength in the second half of next year as well.

We have a little bit of contra revenue that comes in from our capital actions. That can pull us down a bit. I wouldn't suggest for a minute that's big enough to take us from the 0.7 down to the 0.2, but it is an important piece in that. You know, you can see the rate sensitivity that we have if rates were to move faster now. I think it's always, and we do all forget that actually we were at the beginning of the year thinking about we go further on rates. Now we're pretty happy on three more cuts this year, one into next year.

If that was to change, which it can change, you know, and it does change quickly in terms of what's coming through on the economics on that. But you can see it's, you know, parallel shift is 183 million. So if I'm out, obviously, because it averages through and when it comes in and things like that.

But if they were to move a bit faster, that could have a bit of an impact on us. So, there's not a single [issue] that I'm saying you're not seeing this thing. So, I have given you a range of 15.2 to 15.7. You know, you're obviously at the top of it. Even if I end at the bottom of it, you'll still say I've missed even though I hit my range, but that's okay. So there's a collection of different things that could come through as negatives, which is why we go into that range. And I think let's just see how we develop through the first half of the year in terms of where that number lands.

Mr. Pierce, lovely to see you this morning.

Jonathan

Hello, and you, sorry, I can't be there. Can I ask a follow up to Chris's actually on anything within the net interest income that was maybe a little fluffy in the fourth quarter? I'm thinking in particular again about, sorry, this funding and other piece, which added 10 basis points to the NIM last year and five bps in the second half, I think it was.

What is that? Because as I asked a few weeks ago, at Q3, it was suggested that was temporary, but now it seems like it's a bit more permanent. Also, within the term deposit base, it's hard to work out exactly how much that fell by in the fourth quarter, but maybe 5 billion of term deposits left the business or went somewhere else within your deposit base.

To what extent do you think that's temporary? Is that people coming out of some of the very high fixes from 2023, leaving their money for a month or two whilst they decide where to put it? So, just again, looking for a slightly better sense as to why Q4 may not be a perfect base from which to multiply by four and add a bit on for this year.

The second question on impairments...

Katie

Let me take that question and then we'll come back to on impairments. So let me take the first one and then we'll come back on that. So, Donal, I'll come to you to give a bit of a colour on funding and other.

But if I look at the NII, there wasn't anything particularly within there. But what I would sort of say on the term deposits, we talked about that 17%. And I think, I mean, I certainly said to some investors, I said, please don't focus too much on 17% because that number is a number that rounds, and it's rounded from 16.6 to 17.4 and keeps rounding back. There will come a point where I say 16 or 18%, and I don't want you all to get overly excited in that moment. I do think there is an element of a

bit more going into instant access accounts. I think some of that is just people sitting and waiting.

And if you look at what was maturing, they were maturing off much higher accounts. But actually, we're really happy when we look in total of how much we're retaining from those maturities, whether it goes straight back into fixed or whether it sits in instant access for a while and then goes back in. I think there's also been a little bit more in Coutts than elsewhere.

People are saying, well, actually, will I move into other asset classes now or will I wait a little bit longer? That's not what you see so much in the retail bank, obviously. But I think as you move through them, it's almost impossible for Jonathan to say customer behaviour has changed and they're going there.

But there's definitely this time around, we saw a few more go in, we're then, we'll expect to see them move out. But we're happy how deposits have performed. Donal if you talk to funding and other.

Would you say before you start? I don't think I've confirmed that it's become a permanent feature, but there is, we do try to make sure we take advantage of opportunities within the market. But Donal, if you want to talk a little bit about that.

Donal

Yeah. So, I think, Jonathan, two main areas within the treasury business. One is gilts or asset swaps.

So, what you are seeing is a reallocation from cash into securities. If I go back last year, when you started getting quite a significant cheapening, at the end of Q3, what we did was we invested in some shorter dated gilts. Obviously, at that point in time, not sure what gilt asset swaps would do on the maturity.

And when I say gilts, I'm actually talking about bills, so very short dated. Given we've seen continued cheapening of gilt and asset swaps, we've actually been able to invest them in a slightly longer average life and gilt maturity. So just to get more consistency in that income over the next couple of years.

But also as well, what we saw in Q4 was on repo business spread widened as well. So that's obviously shorter data, three-to-six-month activity, which did give you a boost to income as well. That's not necessarily repeatable on a look forward over the next few years.

But I think the reallocation from cash into securities is something that probably will continue over the course of this year and into next year.

Katie Jonathan, before I just come for your last question, can I just check, Matt, is there anyone else waiting with questions online?

Operator We have no one waiting at the moment, Katie. But if someone would like to ask a question, please just use the raise hand function. Thank you.

Katie So I'm going to go, Jonathan, I'm going to give you the last question of this morning, just conscious of time there. So, Jonathan, if you want to on impairments.

Jonathan Thank you for understandable reasons, getting a few more questions on impairment. Now, if I look at your IFRS 9 disclosures on the extreme scenarios where you've got 8% unemployment and a 4% drop, I think in GDP, so on and so forth, the stage one expected loss is only 700 million. And the stage two is obviously a lifetime expected loss, 1.4, 1.5 billion. So those two numbers together would suggest it's very difficult to be looking at an actual impairment charge or one year impairment charge in that scenario that's much more than 2 billion pounds, maybe a bit less, which is obviously very, very low. 45, 50 basis points in that scenario feels very low. How confident are you in those IFRS 9 sensitivities, please?

Katie Look, I'm very comfortable with them. They're obviously heavily audited before we give them to you as well. So, they get quite a lot of scrutiny.

I think the bit that we don't give you in there, that is the important piece, which is what would stage three be doing at that time, because it is stage one and stage two. And so actually, if you look at then actually, if I was really in that scenario, maybe not in year one, but in year two of that scenario, you would then see quite large stage three charges coming through as well. And I think that's the piece where you start to see the real challenge.

I think by the time we get to the downside, the unemployment levels are sitting up at seven, eight percent or something. And that's the stage that we believe that we've seen quite significant stage three numbers within there. So, I think you're right on the basis point charge, but that's very much looking at stage one and stage two.

I'm comfortable with the scenarios as they are, but I do absolutely accept that because they don't have stage three, they have quite a big

fundamental limiting factor within them. And the reason that we won't do stage three, we could certainly model it easily for retail. But the problem is once you get into commercial, it becomes impossible to model it the way you're told it's going to be and where it's going to go.

Jonathan

The stage three is already there. So, you've already got a PD of 100 percent on the stage three. So, the point of looking at the stage one and the two is what would happen to the performing book in that sort of downturn?

Katie

Some of the performing book wouldn't go into stage three. It wouldn't just sit as performing book at that point. So, I am comfortable with the quality of those disclosures. There's no concern for me in that point.

Ok lovely. Good to see you. I just say thank you very much to all of you for your time today and your ongoing support and challenge during the quarter as well. And we've obviously got the C&I spotlight in two weeks on Wednesday, 26th of March. So we look forward to seeing some of you then as well, either in person or not. And then obviously we have results at the end of April as well. Lovely. Thank you very much for your time and take care. Thank you.