



**NatWest Group plc**

**Q1 Results, Sell-side Update**

**13<sup>th</sup> May 2021**

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our Q1 Results announcement published on 29<sup>th</sup> April 2021.

0:00:03.0

Katie Murray (KM)

Lovely thank you very much Dave. Good afternoon everyone and thank you for joining us today.

With me is Donal Quaid, our Group Treasurer and before we open up for questions, I thought I would make a few comments on the economic outlook and also the recent government placing.

0:00:17.2

As you know in Q1 we did not update the economic assumptions underpinning our IFRS9 ECL modelling. Despite this, we saw a net impairment release of £102Mn or 11 basis points of gross loans.

This was largely due to positive credit migration in our wholesale loan book.

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We are seeing the potential for a more rapid recovery taking shape and we will review our economic assumptions at H1.

To help you think about our ECL sensitivity to an improving economic outlook, we can review our annual report disclosures which point to around an £800Mn lower ECL at full year 20 if we fully weighted to the upside scenario.

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We told you a couple of weeks ago, that we no longer assume a base rate cut this year, we are now expecting the headwind from the structural hedge to be lower than previously expected, we increased the hedge by £8Bn in the first quarter, due to increased deposit growth, in line with our policy.

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If deposits stay flat, we would expect an increase further of £15Bn over the next 12 months. Considering the current yield curve and our expectations for the size of the hedge, over 2021, we now expect a reduction in income of around £250M from our hedge portfolio, compared to 2020.

Regarding phasing of the impact, we expect to incur the majority of the £250M year on year decline in the first half of 2021.

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We also expect the quarter-on-quarter sequential impact to moderate from Q2.

You will see our updated hedge disclosures including the income earned for the first half, 2021 in our H1 IMS.

Taking into account the improvement in swap rates and our guidance for the hedge wind in 2021, there isn't any change at this time in our income guidance from February.

0:02:21.8

We continue to expect income excluding notable items to be slightly lower this year than 2020.

Finally, turning to the recent placing of shares by UKGI, which has taken ownership to 54.8%, we are pleased that the government are reducing its stake, as set out in the recent budget.

In March we executed a directed buy back of £1.1Bn or just under 5% of shares from the government.

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This meant we are using our 4.99% annual permission, which is a listing ruling covering related party transactions. As such, we are unable to participate in any sale by the government until March 2022.

We have said, we are committed to distributing a minimum of £800Mn in dividends each year through to 2023.

0:03:13.2

While retaining capacity to participate in these directed buy backs, as we move towards our 13-14% CET1.

Overall, we have delivered a good operating performance in the first quarter, with strong growth and continued progress on both cost reduction and capital optimisation.

And with that, I'm now very happy to move over to your questions.

0:03:38.3

Operator –

Thank you Katie, to remind people, if you'd like to ask a question, you can do so by pressing the raised hand button, which will allow you to ask your question verbally and our first question comes from Omar Keenan, Omar, please unmute and go ahead with your question.

QUESTION – Omar Keenan, Credit Suisse

Hello, thanks very much for taking the questions.

Could I possibly ask a structural hedge question. Is there any way that you could give us a sense of where the gross income in the first quarter sat? just so we can try and model sequentially what things are at and make it look better?

0:04:17.1

KM

I brought Donal here so that he could deal with all of your many structural hedge questions so we'll let him start off.

Donal Quaid (DQ)

Yeah, I think not providing gross income for Q1 but I think the best way to look at it is, if you look at the problems maturing all through Q1, from a product hedge perspective we have 5-year swaps rolling, as high as 1.4%.

0:04:38.2

If you look, they would be put on 5 year terms that were put on in 2016.

So, if you think from the Q1 perspective, they were reinvested at as low as 10 basis points, even though on average you would have seen the 5-year rate take higher than that over Q1.

And also, then, from an equity hedge perspective, we had 10-year swaps roll off that would have been put on in 2011 as high as 3.9%, I think we invested at a much lower rate, as low as 30 basis points in Q1 as well.

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So, as Katie said, we expect to take the majority of that £250Mn in H1 but from a Q1 perspective, what you have seen from a reinvestment perspective would have been at lower rates given what the yield curve has landed on Q1 as currently trading today.

0:05:18.5

KM

Thanks Donal.

Operator –

Thank you. Our next question comes from Rohith Chandra-Rajan, Rohith, please unmute and go ahead with your question.

QUESTION – Rohith Chandra-Rajan, BoAML

Hello, good afternoon and thank you very much. I've got 2 please. The first one, is again on the hedge. Just to understand the mechanics of, when you expand the hedge so the £8Bn that you've put on and the potential additional £15Bn, so if that's on the product hedge, do you put that all on at 5 years or does the maturity, does the duration match the maturity so it's not a cliff event but a hump, in sort of 5 years time, is it more gradual than that, just to help us think about the average rates that those new hedges have put on.

0:06:08.4

DQ

Yeah sure, it is the latter of each, so we put on an equally amortising basis over that 5 years with a duration of 2.5 years. That would blend in, in affect and align with the duration of the, if you want the back book of the structural hedge as well, as opposed to putting it straight 5 year.

0:06:26.1

Rohith

Ok thank you and then the second one was just on the mortgage market. I guess we can look at recent approval volumes for the market to get a sense of what volumes look like in Q2 and early Q3, I was just interested to know, there are a number of moving parts, so interested to know what your expectations, for both mortgage market volumes in the second half of the year, and house price evolution over the course of the year?

0:06:52.4

KM

Rohith, I'm happy to take that one. So, if I look at mortgages, what I would say is as we went into Q2, our application levels were broadly in line with Q1, so as we know that will be what will then bleed into Q3. So, sitting at that kind of, 13% of applications. The margin that we talked about, was that we saw, as it came down into March that it was coming to 165 basis points, what we have seen since then, is a little bit of movement on pricing as well, so you might expect a little bit rolled down from there as well as we go through.

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As we look into the second half of the year, I think when we look at where the economics are sitting just now, we still see it as a strong market going into the second half of the year, we don't particularly see a cliff edge event of, in England the June stamp duty ending that, we do see ongoing activity. I was smiling this morning when I was reading in one of the newspapers that we see everyone that left London is now coming back, and actually if you go to West London, I think it's having some of its best sales for a number of years...

0:07:59.1

Because actually there's a movement around of people, so I do think there's still quite a lot of activity in that.

What we had in our assumptions in terms of house price was a small reduction in terms of our economics, we would probably expect that to improve a little bit as we look into the re-basing of that H1. I think our HPI was -3% in the base case from year end. I think clearly, it's got better than that.

I don't think we'd be predicting a big positive, we'll talk more about it exactly where we land, we're clearly working our way through that at the moment, but we'd expect it to be more positive than that certainly.

0:08:37.3

Rohith

That's great, thank you very much from both of those.

KM

It's good to see you.

0:08:42.6

Operator –

In that case, we've got Aman Rakkar next, Aman please unmute and go ahead, thank you.

KM

Hi Aman, good to see you.

QUESTION – Aman Rakkar, Barclays

Hi, Hey Katie, hey Donal. Just got a couple of questions please.

One back on hedge, I was just interested in your approach to the euro proportion of your hedge in relation to Ulster, could you in the first instance, help us understand what proportion of the hedge notional at group level is in Euros and what is your strategy around maturities of that book as you're going forward as that business is run down, how should we be thinking about maturities coming off there?

0:09:34.8

Shall I give all 3 now or shall I...

KM

Yeah, on you go, lets do that and then we'll deal with them as we go through and you can always come back if we don't quite capture the answer.

Aman

Ok cool. Second was around consumer credit, if I may. Interested in your expectations for, I know it's a relatively small part of your book right now, but you've indicated previously that you are looking to grow that book and outpace the market, I was interested in your expectations for that book in 2021, what some of the drivers are around your thinking there, and how can we think about that into 2022, should we be thinking that, that is the kind of thing that might improve the asset mix of the business in terms of the yield and hopefully NIM.

0:10:19.4

Aman

And just a third one on the buy back, so obviously note the comments around directed buy backs but interested in your appetite for open market buy backs to potentially neutralise

the impact of government placings, I mean is that something we should think about or do you want to keep powder dry to participate in directed buy backs over coming years?

0:10:43.0

KM

Yeah sure, do you want to start with the hedge and I'll...

DQ

Yeah, listen from a notional perspective, it's a small portion of the overall hedge, not surprising just given the level of deposits in UBIDAC compared to overall deposits across our retail and commercial franchise. So, not a material element of it.

In terms of the approach...

0:11:02.9

We haven't adjusted our approach, what we will do is align with whatever strategy is taken around current accounts, we'll align and take decisions on the back of that, but as of now, we haven't built anything in currently.

0:11:15.4

KM

And then in terms of consumer credit. Look, when we look at it throughout 2021 and what we can see, what Alison talked about, is that, we can see there's more activity, we can see that transactions are increasing, but what we're not seeing is that, that's necessarily flipping through into balances increasing just yet.

I think there's a couple of things there of timing, we're still very, very recently out of lockdown in reality...

0:11:42.0

And people have got big deposits and at the same time I'm not seeing deposits coming down to offset the fact that those balances aren't increasing. I think the numbers are still actually quite small across the piece, so what I would say is we would think that balances would be relatively flat this year and I think it really will depend on how we come out of that and what happens with the customer dynamics with their cash piece, but we do believe and we can see that within our own customer base there's definitely good opportunity to grow.

0:12:09.8

Aman if go back to February last year I was talking proudly about 8% growth, in that book, small numbers but a nice support growth within the piece, I think we will get back to that growth piece, but I think this year is going to be a little bit of an anomaly as we see, because people have got a lot of cash, we might not see those balances grow in the same way, but

I think we really need to see how it evolves as we come much further out of this lockdown and go over the summer as well.

0:12:38.4

Look, in terms of the capital piece. We've talked about the minimum £800Mn, we talked about doing the directed buy back we're very comfortable with that, I think what we want to do is to make sure that we have the flexibility, our shareholders still tell us that the buy back is certainly the preferred way that we'd like to go. I think whether we look to do some kind of scooping up of some of the shares or even if they were selling in, would we try and look to do that. I think lets just make sure we maintain flexibility to deal with those things as they evolve throughout the year.

0:13:08.6

What we do know is because of the trade that they've just done, they have a 90 day lock out window. So, we know that nothing is going to happen for the next 90 days as well in terms of their piece and I think we are very comfortable with what we've done around our activity in this first half of the year.

0:13:27.3

Aman

Well, thanks for that. Just a point of clarification on the hedge then, I totally get that the proportion of current accounts within UBIDAC is probably a relatively small proportion of the group, but, does that similarly apply for the equity? I know that, that business is over capitalised so, presumably there is an equity hedge component in Ulster?

0:13:46.9

DQ

You're correct and just given the quantum of that, in the overall group is smaller as well. I think 92% of our overall structural hedge is Sterling, so the Euro component is gonna be small, even within that we have some Europe components within our commercial business and retail business in the UK.

Aman

Ok, cool thank you.

0:14:07.9

Operator –

Thank you. Our next question comes from Chris Cant from Autonomous, Chris please unmute and go ahead with your question.

QUESTION - Chris Cant, Autonomous

Good afternoon, thanks for taking my questions both.



I have one philosophical one, on the hedge I suppose and then one on fee income please, so, just want to get your view on the quite different life that some of your peers judge current accounts as having, obviously you have the 5-year product hedge, others talk about current account having a 10 years duration. How data driven is your 5-year assessment and does the regulator take a view on how you assess this as part of thinking about managing the interest risk on the banking book, it just sort of surprises me that we have 2 banks with UK current accounts taking quite different views there?

0:15:05.3

And then on other income. If I park Natwest Markets to one side, could you give us a sense of the activity related impact on other income for the West of the retail commercial business during 2020? I'm just trying to understand how much of the deck we saw might come back there and I guess I'm thinking here about the comments from one of your peers about £300-400Mn of fee income being activity related loss during 2020 as opposed to other drivers, thanks.

0:15:38.7

KM

Yep sure.

DQ

I'll start with the hedge. So, in terms of the duration, I won't obviously comment on what some of our peers are doing but we're quite comfortable. There is data and there is, if you want some expert overlay as well, so, but we need to be conscious of as well, when we look at the duration of those current accounts, we have been in a low – 0 interest rate environment over the last 5-10 years, so there is possibly based on that, an argument that says the duration could be longer...

0:16:09.3

However, we also need to be conscious to the fact that we could be moving into a different interest rate environment over the coming years as well, so, we're very, very comfortable with the way we approach it. You could have conversations around extended duration, but really extending durations do is bringing forward future NII into current years, and in fact giving up any potential future upside you could have on rates front year as well.

0:16:35.5

In terms of from a PRA perspective, we would have numerous conversations on not trading market risk with the PRA, not specifically on our approach to the structural hedge but they would be up to where, of the approach we would take.

0:16:48.9

KM

And then if I move to other income, Chris I know you will have spent some time looking at this, but if you look at our page 14 of the slides, we gave you nice analysis of the different types of income and it is ex-Natwest Markets, so what you need to remember is, there's 2 things. One is obviously the activity and how well that will bounce back and it seemed quite hard as you looked through 2020 because we had lockdown 1, which straddled into Q2 and then at the tail end of Q3 we were heading into lockdown 2 to then head into lockdown 3, so there's quite a lot of noise within there, because there's different activities...

0:17:29.4

So, I think customer activity is the main piece that you need to look at. And of course, you'll be familiar that last year we had guided you, that there was a £200Mn impact of the regulatory change and then a further £100Mn that would come back into this year.

I think Chris at Q3 we talked about that, most of that £200Mn was in by Q3, so, that's a good place to look and Q3 was probably cleaner from lockdowns as some of the others but it really will depend how customer behaviour then comes back up in that place and it very much for me, links around some of the credit facilities...

0:18:04.4

And then also the credit and debit card activities which we can see increasing, obviously no foreign travel yet, that's important in terms of those levels as well and how that comes back on, as we go through.

Chris

In terms of the reg change, I think the £200Mn and then the annualised £300Mn were total revenue impacts weren't they? I don't think you've ever given us a steer on the component of that which was other income rather than NII?

0:18:32.4

KM

Chris thank you, you're absolutely right, we didn't give any of that, but what you would know is obviously the overdraft fee kind of flipped out and went up to an interest income so you're right, it's a bit spread over there.

But I think what we did say at Q3, that was quite a nice quarter to look at because it was more or less through, in terms of the base within there.

Chris

Ok, thanks.

KM

Lovely, thanks Chris, good to see you.

0:18:59.0

Operator –

Thank you, as a reminder if you wish to ask a question today, please use the raise hand function on the zoom app, or press \*9 on the phone if you have dialled in. If dialled in, please press \*6 on your keypad to unmute when prompted, and our next question I have actually received from Alvaro from Morgan Stanley, which I'll read out to Katie and Donal.

QUESTION – Alvaro, Morgan Stanley

Can you give us the latest update on Natwest Markets NV? Will this entity set up in Netherlands become more important as a consequence of Brexit, thank you.

0:19:32.0

KM

Um thanks Alvaro and good afternoon and so in terms of NV we obviously set that up absolutely as a result of Brexit, I mean it was up and operational I think for our first exit date which if memory serves it right was sometime early last year, so it is important for us, in terms of the ability to continue to deliver for our customers.

We also, because of the ringfencing structure, we have branches that we operate for payments through Germany as well.... Which are not owned by the non-ringfence bank, so that's also important for us, but yes NV is clearly a critical entity for us and it was set up specifically for Brexit.

0:20:13.0

Operator –

Thank you.

Our next question is a dial in question from a Jackie Ineke from Morgan Stanley, Jackie, please press \*6 on your telephone keypad to unmute.

QUESTION – Jackie Ineke, Morgan Stanley

Hi, I hope that's worked, can you hear me?

KM

It has. Yeah perfect, thanks Jackie.

Jackie

Took a few times. So, I've got a couple of questions and this is from the credit side. So, first of all, it's been great to see you calling a number of the legacy bonds, these discount perks that you've been calling recently, I was just wondering if you have had any kind of encouragement, as I guess from the Bank of England as a resolution authority or from the PRA as your line supervisor to clean up your legacy capital stack? That's the first question...

0:21:06.5

The second question that's completely on another topic, in terms of where you get trade, we have in the past all around the question of Scottish Independence, we have seen a lot of volatility leading into that. I was just wondering this time round, and I appreciate it's probably a long time away, but I was just wondering, what the plan was potentially this time round in terms of actions or announcements that you might be making ahead of any potential vote, just to hopefully kind of counteract the volatility that we've seen in the debt trading levels in the past? Thank you.

0:21:47.1

KM

Let me take the first one. I think I wouldn't describe it as pressure. I mean, our view would be that we would always keep our capital stack in the right kind of order and as instruments, don't count so well for capital we would naturally try to deal with them, obviously depending upon market conditions at that point.

We certainly talked to the regulator about it. It's one of the conversations we have around resolvability and things like that but, if somethings there, but I would say if we weren't as probably conscientious on it as we are, there would be pressure being applied, but at this point we're kind of confident that we manage it appropriately.

0:22:23.8

I mean in terms of volatility of Scottish Independence, I think it's a bit further out than some of my fellow countrymen would like, but Donal do you want to take that one?

DQ

From an investor perspective, we've seen less focus on Scottish Independence questions and feedback, from an investor perspective that we would have seen on Brexit.

So, I would say and obviously saw more volatility from a Brexit perspective than I would have expected to see from Scottish Independence as well, so nothing. I think it's fair to say, Alison did make a comment and if we did see Scottish Independence that we would look to re-domicile our holding company but apart from that there's no plans to make any further comments.

0:23:02.9

KM

And that's the same comment as we made in 2014, so no change on that tonight, thank you.

Let's wait to see the twists and turns of politics as to how that evolves.

Jackie

Ok, thanks very much.

0:23:16.1

Operator –

Thank you. Our next question comes from Martin Leitgeb from Goldman Sachs, Martin please unmute and go ahead.

QUESTION - Martin Leitgeb, Goldman Sachs

Yes hello, thank you for taking my questions. Just 2 questions on capital please and the first one, I was just wondering if you could help us, how we should think about the capital trajectory just in terms of the strong capital [inaudible] in the first quarter with a CET one ratio of 18% and this is after the directed buy back?

0:23:45.9

And on the path to the target ratio, just between 13 and 14%, do you imagine that to be roughly a linear progression from here over the next couple of years or is there a different shape you could point us to?

And secondly in terms of merits of general buy back where there's a special dividend, just to touch on your earlier comment, that there might be a scenario where you might scoop up some of the shares placed earlier, has your assessment of the merits of a general buy back changed somewhat, that you know maybe more open to wards it compared to before? Thank you.

0:24:22.6

KM

Thanks, and good to see Goldman Sachs back at the office there Martin, I suspect you've got more company than I have in my office today which is Donal, basically my company today....

But, good to see you anyway.

Look, if I look at capital, its not as linear as it once was and if I talk you through the component parts of that, I think there are some unknowns within that piece.

0:24:47.4

Sitting at kind of 18.2 we've given the RWA guidance that we think by the 1<sup>st</sup> January they would be at 185 -195, if you took a midpoint on there, that would consume 2.4% of that capital number. We did talk last week that it is possible it could be below that level, depending on what your views are on procyclicality, but let's say for the lower level it would be 2%, so you can work out the maths on that...

0:25:16.0

We know that there's our 0.26 impact because of the software capitalisation. What we have said around dividends is that we'll do a minimum of £800Mn this year, so we've taken

£200Mn already, there's £600Mn that would come through as well, and then the very last piece of that would have a dividend link contribution attached to it as well. So, those combined would be 60 basis points, 50-60 basis points.

0:25:44.5

So, that together gets you to around the 3%, so, if you think about what might happen on profitability, what might happen on impairments and things like that... but that's all of the things being equal, that's a 3% reduction you'd see there and then as you move into 2022, you would hope to see another directed buy back, you'd see another minimum dividend coming through, you would expect it obviously to be more capital generative as well in terms of that piece from a profitability perspective...

0:26:16.3

But it's not, when we were talking a few years ago that it would be relatively linear and that was the best way to use it, I think with the inflation that we're getting in RWA's at the beginning of January, that's not as true as it once was, so I think, think of those component parts.

Our view hasn't changed on market buy backs.

0:26:34.2

I think what I'm saying here is to say look, we've done our directed buy back, we've got a minimum £800Mn, we're not looking to do an in-market, we obviously asked for the permission for it naturally as part of our annual general meeting, which we did a few weeks ago to make sure that we've got that flexibility and it's really about maintaining the flexibility, to see if it made sense to do that and if we were to do something, you would be looking to scoop anything the government was selling at the same time....

0:27:05.0

but we're not actively out there looking at it but I think given we've done our directed buy back, it's really about maintaining flexibility as we go through this process this year, so I would say, no real change in position, beyond the desire to return capital to shareholders and just to make sure we use whatever is sensible and the board deemed sensible at that time.

Martin

Thank you very much.

0:27:27.0

Operator –

Thank you, our next question comes from Omar Keenan from Credit Suisse. Omar, please unmute and go ahead with your question.

Omar Keenan, Credit Suisse

Hi again, can I ask please, are you expecting anything, any surprises from the Bank of England around what the pay-out message could be, I guess we've heard sort of from the ECB that it might be business as usual in September and similar things in the US, but is that what your expectation is?

0:27:58.0

KM

I think what the PRA have done, obviously with the stress test is to make sure they've got the credit piece, which is the one that they were concerned about more volatility, we obviously all submitted that in the last couple of weeks and they're looking I think to make some kind of market announcement around about June time. So, I think we are expecting business as usual, you certainly saw that as we did our small dividend accrual in Q1, in line with the minimum £800Mn, so I would expect that come half year that we would pay out in line with the board's expectations, rather than something that's been managed by the regulator at this stage.

Omar

Great thank you.

0:28:36.3

Operator –

Thank you. Our next raised hand comes from John Cronin from Goodbody, John, please unmute and go ahead with your question.

KM

Hi John.

QUESTION - John Cronin, Goodbody

Hi guys, thanks for the call. Just two questions. One is on your ambitions in a credit card/balance growth context and just wondering how you're thinking about credit card customer behaviour, we heard from one of your peers around the slight fears around, you might see strong balance development but people giving the savings build, quicker to pay down. How much of a factor is that in your thinking in terms of the income profile associated with consumer credit growth?

0:29:17.8

And then the second one is, it's a couple of weeks since you reported Q1s, since then I suppose the macro data has been improving further with the MPR and a lot of talk on business investment, I know all these trends were known anyway but, it seems like momentum is even becoming more positive since you reported, could you see potential upside in terms of commercial lending owing to this business investment dynamic despite the balances that have been built through the government lending schemes and also, what would you say there in terms of credit migration? Thanks.

0:30:01.2

KM

Let me take this. If I think of credit cards, I touched on it earlier. I think what you do see there is not a lot of our growth and balances over this year. We can see it increasing activity so that's the first step to balance growth, but at the moment we're not probably expecting that number to grow significantly as we go into the second half of this year.

Customer behaviours is a thing that we don't really know. So, I think that will very much depend in terms of how that flows through...

0:30:28.6

But I think if we go with looking at the macro data, it's definitely much more positive than it was and I think it's even more positive when we stood up a few weeks ago, I think the Bank of England coming out with their base of 7.3% GDP growth, probably surprised everyone a little bit on the upside of how much that had moved and then how much they had brought unemployment down, so much more positive, in the UK, what they say is more jobs being advertised now than for many, many periods, hence I don't know the exact timeline.

0:31:00.7

What I would say is we're not yet seeing that I think translate into increased corporate borrowing, but what we do know is consumer business confidence is improving, I think getting the Scottish election dealt with is helpful, in terms of that piece, so we would expect that to continue to come through. I think what we're really interested in is, how do the Pay as you Grow, continue to develop for those customers and what do we see there? So, I think it's a wee bit early to call what might happen. Whether this boom in confidence will necessarily follow a boom in commercial lending, I don't think we can call that at this stage. I think we'll just wait to see what happens.

As we move more into Q3, I think we'll see a lot happening in Q2.

0:31:52.0

Operator –

Thank you. As a reminder if you would like to ask a question today, please use the raise hand function on the zoom app, or press \*9 on the phone if you have dialled in. If dialled in, please press \*6 on your keypad to unmute when prompted and our next raised hand is a landline number, please press \*6 to unmute and go ahead with your question.

0:32:14.8

QUESTION – Edward Firth, KBW

Hi it's Ed Firth here, I didn't put my name in, I apologise.

Can you hear me, is that ok?



KM

Yes, we can hear you beautifully, hi Ed.

Ed

I just had two questions, I guess the first one is, if we look at the pandemic and the downturn sector that's gone with that, I guess it's fair to say it's been a downturn like we've never seen before in terms of no impairments, massive fall off, massive recovery, and we now seem to be in a world where, which is somewhat different I suspect than perhaps 12/18 months ago when you were making your strategy and we're now looking like inflation coming back, interest rates going up etc... and I just wondered. As a management team, how does that affect your strategic thinking, what is different in terms of, as you outlook over the next 2-3 years, does that give you a different preference in terms of loan mix, geographic mix, type of products etc...?

0:33:17.0

So, that would be my first question if that's alright. And then the second question is, and I've asked Alexander this and he rather blanked me, so I apologise but I'm going to give you another, we'll see if we can get another crack at it, the criminal prosecution, it's a genuine question, I just genuinely have no idea what to make of this. What is the potential outcome, is it just a fine, fine! Could there be more than that? less than that? I really can't think how we should really be thinking about that in terms of when we look at the stock, so any help with that would be very helpful.

0:33:53.7

KM

Yeah so, I probably won't give you too much more than Alexander gave you I must admit...

Ed

Hahahaha...

KM

We can't obviously talk about ongoing cases. I think what I would say, the best thing to look at is to look at others. Obviously, different jurisdictions, different rules and things like that, but I'm probably not going to give you anymore guidance at this point. I wouldn't discuss an ongoing situation at this stage.

0:34:18.1

If we look to the impact of the pandemic, I think what I would certainly say is, it's not changed our view on geography. We're very much a UK retail and commercial bank with the message to serve our customer base, so we don't see any change on that.

I think we're very clear in terms of what we need to do, to continue to grow where we haven't. We can see where we have real opportunities to grow and to make sure we've

got deeper penetration into our customer bases more on the commercial side, we're obviously the biggest lender in the country as of today...

0:34:52.8

So, I think as we look at it, the conversations you often have are, economics, the recoveries far better than people imagined. Obviously when we launched our strategy, we didn't imagine this big down and now this really strong move up, I think it is about how can we make sure that we can nimbly adjust to take advantage of that recovery as it moves forward, rather than actually saying our strategy is wrong. We don't think it is.

0:35:18.5

So, I think it is very much focusing on those areas where we have growth, making sure that we digitise and continue to make sure it's a seamless customer experience and the outcome of that is also that it has a really significant benefit for the cost space over the next number of years as well.

Ed

But I mean one conclusion might be for example that high-risk areas of lending would appear to be far more attractive than they were 18 months ago... the margins you're getting there you're obviously not having, the sector is not having to pay away anything in terms of impairments for that, so, is that the sort of thing you'd be thinking about or do you think that the pandemic is just a one off and we should move on and forget any slightly one-off impacts from that?

0:36:02.9

KM

I think the recovery out of the pandemic, it's going to be something, we're not... it's all going to be over by Christmas, so I think we do need to continue to adapt to that. We do actively manage our risk profile. You'll remember in the pandemic we clipped some things down, we've now opened them back up, I don't see us moving from the risk areas we are today into higher risk, but it is something that we do look at and we do obviously move as improvement, ask yourself the question of, can we adjust things slightly to make sure that we take the right advantages of the opportunities that are there....

0:36:39.1

I think obviously 95% first time mortgages which is a government scheme we've obviously launched that more than we might have otherwise, we've talked more about looking a bit more strongly at buy to let and things like that, but I don't think it's, it's more about adjusting speed rather than changing risk appetites.

0:36:58.2

DQ

I'll probably add there Katie, the extraordinary government support as well, in this pandemic which may not be repeated in the future.

Ed

No, I can see that.

KM

I think what we do on the debt side is try to really take advantage of when the market has behaved well over the last year which has been quite advantageous at times as well.

0:37:19.0

Operator –

Thank you, our next raised hand comes from Rob Noble from Deutsche Bank, Rob, please unmute and go ahead with your question.

QUESTION - Rob Noble, Deutsche Bank

Morning all, thanks for taking my question. Just wanted to talk about costs if that's alright. You've given us some very specific guidance on costs, but around about 4% reduction per year to 2023.

Just wondering, how much visibility do you have on these numbers, over 4 years, presumably a lot of the reduction costs is out of Natwest Markets this year, and how much can you actually see in 2022/23 has there been a review or is there just belief that you're going to be able to rationalise?

0:38:02.2

KM

You wouldn't take 4% statement out to the market just on belief, so I think one of the things we talked about when we did the little meet the EXCO session and if I do a plug for the session coming up on the 20<sup>th</sup> May, you know we've set a team up underneath Jen Tippin, who we've brought over from Lloyds. We've had a really good experience on cost take out to date, what we really realise is we had to move it from the cost takeout of the vertical to cost take of the horizontal across the whole bank.

0:38:30.0

And so, in bringing general work, building up that team work on the cost piece is to very much say how do we deliver the cost take out that's on the vertical, so when you have repeats of different customer experiences or different small functions or things like that across the bank, really kind of laser in on that.

What I would say is, we can clearly see 2021 better, we can see 22 a little bit less and we can see 23 a little bit less, but you can see the initiatives that we'll deliver as you go through that.

0:38:56.0

What we definitely have is strong enough base in there, that we know where the further out piece is, in terms of, we can't do the exact pieces of the jigsaw today, but there's enough in those ones, so it does come up from a lot of detailed reviews. I think it's something that as a management team we spend a significant amount of time on every month, of, how do you deliver in 21, into 22 and then ultimately into 23.

Rob

Lovely thank you.

0:39:22.3

Operator –

Thank you and Katie that's all the questions we have so I'll now hand back to you to close the session, thank you.

KM

Lovely thanks very much Dave and I just want to thank everyone for their time, I did the little plug just there for the session we've got on the 20<sup>th</sup> to talk about commercial and Natwest Markets to get a little bit more insight into that business and Donal later on in his quarter is doing a small session on structural hedge, where we'll happily take you through the training on that as well as we move forward, so thanks very much and look forward to seeing many of you I'm sure on the 20<sup>th</sup> and take care.

DQ

Thank you.