



**NatWest**  
Group

**NatWest Group plc**  
**Q4 2023 Results Call Transcript**  
**16th February 2024**

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## Management Presentation

**Howard Davies,  
Chairman**

Good morning everyone, and thank you for joining Paul, Katie and me for our Full Year Results call. This will be the last set of results the bank publishes before I stand down as chairman.

And in addition to our full year results, this morning we have also announced the appointment of Paul Thwaite as our permanent Group CEO.

As you will know, Rick Haythornthwaite was announced as my successor in September last year. He joined the Group Board formally as a Non-Executive Director at the start of last month and will take over from me as Chair on the 15th of April. He led the process to appoint our new CEO.

The bank this new leadership team inherits is very different from the one I joined in 2015. The Group has returned to profitability, is more customer focused and is fundamentally stronger.

In my first year we declared a loss of over £2bn. Last year we report a profit of over £6bn. So as I prepare to leave, there is a lot to be positive about.

The strong returns delivered in 2023, enabled us to make further significant capital distributions to our shareholders through dividends and buybacks.

And as you would expect we are working closely with UKGI as they explore a potential retail share offer, which would further help in returning the bank to private ownership.

I am personally pleased that the succession process has been completed and we can look forward with an incoming Chair and a new CEO, who have proven skills to support NatWest Group's continued progress and who I know care deeply about this business and its customers.

I will now hand over to Paul and Katie for an update on the bank's performance. Thank you.

**Paul Thwaite, CEO**

Good morning everyone.

Naturally, I'm delighted to have been confirmed as the CEO of Natwest Group today and look forward to driving the very best performance we can for the benefit of our customers and shareholders.

Our customers' needs and expectations are changing at pace, as they engage with technology, adapt to new social trends, and build ever more resilience in a fast-evolving world.

Our priority is to deliver more value for customers which in turn creates more value for shareholders.

Over the last 6 months the focus for me and my team has been on supporting customers as they manage the impact of inflation and a rapid rise in interest rates. This gives us an opportunity to be a trusted partner to customers at a time of ongoing change.

And by doing so, we are shaping the future of Natwest to deliver its full potential.

So I'll start with a business update this morning, Katie will take you through the full year numbers and then we'll open it up for questions. Since our performance is grounded in supporting our customers, I'd like to begin by putting the financial headlines in that context.

### **Slide 3: Supporting our customers and the UK economy**

In 2023 we increased our lending to customers by 9 billion, we opened over 100,000 new start-up accounts for entrepreneurs, and more than a million current accounts for individuals. We helped customers to save, with 21 billion more fixed term savings at the year end, as well as to invest, growing assets under management and administration by 7 billion. And we helped over six million customers manage their finances better, with support such as financial health checks, understanding credit scores and encouragement to save.

We provided 29 billion of Climate and Sustainable Funding and Financing, bringing the total to 62 billion since July 21 - so we are well on the way to achieving our 100 billion target by the end of 2025.

And we continue to support the growing Renewables sector, where we have been a leading lender in the UK over the last ten years. This customer activity underpins our strong financial performance.

### **Slide 4: Our business has delivered RoTE of 17.8%**

We delivered operating profit before tax of 6.2 billion with attributable profit of 4.4 billion. Income was up 10% at 14.3 billion, with cost growth of 5% to 7.6 billion. Taken together this resulted in a return on tangible equity of 17.8%

We remain committed to generating capital in order to reinvest in the business and make shareholder distributions. Today, we're announcing a final dividend of 11.5 pence bringing the total to 17 pence.

This is in addition to a directed buy back of 1.3 billion last May and the 500 million on market buy back announced in July which will complete this quarter.

We are also announcing a new on market buy back of 300 million which is included within our CET 1 ratio of 13.4%. We expect this to complete by the end of July.

This brings total distributions announced for the year to 3.6 billion pounds.

These buybacks have supported a reduction in the government stake from 46% at the start of last year to under 35% today. You will also be aware of the government's intention to fully exit its Natwest Group shareholding by 2026, including a potential retail share offer.

Our performance naturally reflects the rates environment in 2023, but our strong capital and risk management made an important contribution too. You can see this in the strength of our balance sheet.

On the asset side, our personal lending is almost all secured, and our corporate book is well diversified. This disciplined approach is reflected in low levels of impairment at 15 basis points of loans. On the liability side, our deposit base has remained broadly stable.

Our loan to deposit ratio at the year-end was 84%, and our repayments due by 2025 on Term Funding for SME's stand at just 4 billion.

This balance sheet strength and well diversified funding underpins our ability to continue supporting customers throughout the economic cycle.

#### **Slide 5: Macro outlook and economic assumptions**

As you know, we were operating in a rapidly changing environment last year as persistent inflation led to interest rates rising by 175 basis points.

As a result, individuals moved balances from non-interest bearing accounts to fixed term products. They also drew on savings to pay down debt in the face of cost-of-living pressures. And in 2023, for the first time in at least 30 years, UK households repaid as much mortgage debt as they drew.

This change in customer behaviour clearly had an impact on our income and net interest margin as the year progressed. However, inflation has fallen and market expectations for interest rates have come down... so our plan assumes that rates will reduce materially this year and next.

These expectations have flowed through to customer rates for both mortgages and fixed rate savings, which have decreased by over a hundred basis points from the peak.

This means we are seeing early signs of improving mortgage demand... and deposit migration to higher-rate savings accounts has slowed. Yet mortgage repayments are likely to remain elevated this year as customers pay down debt before refinancing onto a higher rate.

Business confidence is also improving and our net lending to large UK corporates grew in 2023. However, overall demand from personal and business customers is currently muted and, together with the impact of lower interest rates, this will impact our 2024 income.

Household and corporate balance sheets remain strong and the resilience of our customers is evident from our low level of impairment in 2023. We expect this to continue in 2024, despite a slight increase in unemployment.

Of course, I recognise that heightened geopolitical uncertainty has potential implications for global trade and supply chain security, so whilst we expect inflation and rates to reduce, the timing and quantum of this is difficult to predict and we remain vigilant.

A significant benefit of the scale and breadth of our customer base is that it gives us access to large flows of data. We are using these insights to understand and react to customer behaviour as the environment evolves.

#### **Slide 6: Leading positions across our customer businesses with capacity for growth**

We believe the strength of our customer franchise positions us well for 2024 and beyond. We serve 19 million customers meeting a wide range of needs in our three businesses – Retail Banking, Private Banking, Commercial and Institutional.

We have leading market positions and we also have a track record of growing share in attractive segments. For example, we now serve around 20% of both the youth segment and new start-up businesses - so we are winning new customers and building for the future.

I also know from listening to existing customers there is a clear opportunity to deepen these relationships by introducing more of our products and services, alongside the expertise of our colleagues.

### **Slide 7: Our focus is on creating sustainable long-term value**

By serving our customers well we create value for all our stakeholders.

We are targeting growth in areas with attractive returns, managing for value by striking a balance between volume and margin. There is also more we can do to improve productivity and cost efficiency.

We have a strong track record on cost reduction and will direct our investment spend to areas that deliver savings to mitigate ongoing inflation.

We are also actively shaping our balance sheet and deploying capital thoughtfully which is helping to manage regulatory change.

This discipline on both cost and capital will allow us to continue investing in the business and making attractive distributions to shareholders.

Between 2021 and 2023 returns to shareholders totalled 12.5 billion pounds and a 28% reduction in share count led to higher earnings per share.

### **Slide 8: 2024 priorities to deliver returns**

Against this backdrop we have three key priorities - all focussed on driving returns. Our first priority is to continue growing our three customer businesses in a disciplined way building on our strong market positions. So let me share some examples.

We brought commercial and institutional banking together to deliver greater value for customers and the bank - and we are now able to serve the needs of a much wider range of customers in Foreign Exchange, Rates and Capital Markets.

Over 1500 of our mid-market customers have now signed up for our Foreign Exchange services.

Our leading mid-market business has an extensive network of specialist relationship managers across the UK, which gives us a significant competitive advantage of scale and reach.

This segment delivers attractive returns and we see this as an area of further growth.

In Retail Banking we have grown our share to become the second largest mortgage provider in the UK. Our mortgage business is well positioned following significant multi-year investment with strong through-the-cycle returns.

It is highly digitised and scalable and a driver of efficient growth when market demand and pricing are right.

Our second priority is to drive bank-wide simplification. There is a lot more we can do to make it easier for our customers do business with us, to improve engagement and productivity for our colleagues and to drive significant efficiencies and operating leverage.

Since 2021 we have delivered run rate savings of around 250 million a year through digitising customer journeys – so we continue to simplify journeys across the bank in order to improve customer experience and deliver further savings.

We are streamlining systems and processes – for example in our Retail Bank we are integrating 5 legacy front office systems into one digital platform to give us a single view of the customer. This has enabled us to spend more time with our customers and improve the quality of our interactions.

We are also using artificial intelligence and data to improve productivity and we have seen some very encouraging results from recent pilots. We've reduced scam losses, freed up time to focus on customer relationships, and identified ways to reduce our complaints resolution time. This is a significant opportunity as we roll it out across the bank.

Our third key priority is to deploy capital efficiently and maintain strong risk management in order to drive capital generation. Our exit from the Republic of Ireland is now largely complete and we received a further 300 million euro dividend in the fourth quarter.

2023 was also the year we delivered on our CET 1 ratio target of 13-14%. But we can do more to optimise capital allocation. This means working dynamically to capture attractive growth opportunities... and being very disciplined at origination.

We will also address RWA efficiency on the back book, for example through greater use of insurance or risk transfer, where we are less active than some of our peers.

### **Slide 9: Delivering attractive returns for shareholders**

So as you can see, we are very focused on the levers that we can control.

But the macro-economic environment, coupled with an expected reduction in interest rates and changes in customer behaviour, means that we are adjusting our target for return on tangible equity.

We now expect to deliver greater than 13% in 2026, whilst operating with a CET1 ratio of 13-14%.

We are committed to delivering value for shareholders... so we maintain our pay-out ratio of around 40% for ordinary dividends with the capacity for buy-backs.

And with that I'll hand over to Katie to take you through the full year numbers in more detail.

**Katie Murray, CFO**

### **Slide 11: Strong financial performance**

Thank you Paul - I'll start with discussing our strong performance for the full year.

Income excluding all notable items was 14.3 billion, up 9.8%, and in line with the guidance we gave last quarter. Operating expenses rose 4.0% to £8 billion, including £7.6 billion of other operating expenses. Together this contributed to a cost to income ratio below 52%.

The impairment charge was £578 million or 15 basis points of loans, taking all of this together, we delivered operating profit before tax of £6.2 billion.

Profit attributable to ordinary shareholders was £4.4 billion and return on tangible equity was 17.8% ahead of guidance in part, due to recognition of historic tax losses.

Turning now to the fourth quarter compared to the third. Income excluding all notable items was 3.4 billion, down 2.0%. Operating expenses were £2.2 billion including the annual UK bank levy. The impairment charge decreased to £126 million or 13 basis points of loans. bringing operating profit before tax to £1.3 billion.

Profit attributable to ordinary shareholders was £1.2 billion, including a deferred tax asset recognition and return on tangible equity was 20.1%.

I'd like to talk now about key performance trends across our three businesses on slide 12.

### **Slide 12: Strong returns across all three businesses**

We have delivered strong returns across our three businesses in both 2022 and 2023.



Retail Banking continued to be our highest returning business in 2023 with good income growth, however this was offset by higher costs and an increase in impairments which impacted return on equity, reducing it to 23.8%.

Private Banking return on equity of 14.8% was affected by lower deposit balances and mix changes as well as cost inflation.

Our Commercial and Institutional business delivered the strongest year on year improvement - growing income by 16% and operating profit by 27%.

It is now the largest profit engine of the Group delivering £3.2 billion or 52% of Group operating profit, equivalent to a return on equity of 15.4%.

Our business diversification enabled us to deliver a strong Group performance whilst responding to a broad range of customer behaviours and market dynamics.

Turning now to our 2023 income performance on slide 13.

**Slide 13: FY'23 income and Bank NIM in line with guidance**

Full year Income, excluding notable items, was 14.3 billion and Bank Net Interest Margin was 304 basis points.

Net interest income was 12.1% higher, benefitting from favourable yield curve movements partially offset by the change in deposit volume and mix.

Non-interest income, excluding notable items, grew 2.5%, supported by increased customer activity and higher income from the markets business.

Turning to the fourth quarter, underlying net interest income was £2.7 billion, broadly stable versus the third quarter. Non-interest income fell 6.9% reflecting seasonally lower trading and other income.

Bank Net Interest Margin reduced by 8 basis points to 286, which includes a 3 basis point drag from notable items. As expected, the rate of margin compression was slower than in the third quarter.

Going forward we will report Group Net Interest Margin which presents statutory Group net interest income as a proportion of all Average Interest Earning Assets.

We see this as the most useful measure of how we are managing spreads between our interest earning assets, including the liquid asset buffer, and interest bearing liabilities.

Bank NIM is a less relevant measure now that interest rates are above zero.

Full year Group Net Interest Margin increased 31 basis points year on year to 212 as a result of higher deposit margins, net of passthrough and mix changes, and lower mortgage margins.

Group NIM in the fourth quarter was 199 basis points, reflecting a gross yield on interest-earning assets of 450 basis points and 251 basis points cost of funding.

I'd like to move on now to our disciplined approach to lending growth on slide 14.

#### **Slide 14: Disciplined approach to growth**

We are pleased to have delivered another year of balanced lending growth across the Group.

Gross loans to customers across our three businesses increased 2.6%, or £9.1 billion, to £359 billion.

During the first half we delivered strong mortgage growth whereas in the second half we delivered strong corporate loan growth, as we took a disciplined approach to capital allocation in a competitive and dynamic market.

During the fourth quarter customer loans across our 3 businesses increased by £1.1 billion. Taking Retail Banking together with Private Banking: Mortgage balances reduced by £500 million as customer repayments offset new lending. Mortgage flow share for the full year was 14%, or £31.2 billion. However, this flow share reduced to 10.5% in the fourth quarter as we managed the balance sheet in a smaller more competitive market.

Our stock share increased from 12.3% at the start of the year to 12.7% at the end.

Unsecured balances increased by a further £300 million in the quarter to £15.8 billion, reflecting strong demand for credit cards

In Commercial & Institutional, gross customer loans increased by £1.4 billion in the fourth quarter.

Within this, loans to Corporate and Institutions increased £2.2 billion, including higher revolving credit facility draw downs, where utilisation was close to pre-covid levels at 25%.

This growth was partly offset by companies continuing to pay down government scheme borrowing.

Across 2023, our C&I customers have accessed bank loans for housebuilding, acquiring vehicles and managing working capital. We have deepened relationships with our large corporate and financial institutions by providing increased lending, cash management and foreign exchange services

I'll now turn to deposits on slide 15.

### **Slide 15: Deposit migration is slowing in line with expectations**

Customer deposits across our three businesses were £419 billion at the year-end, broadly in line with the first quarter, as expected.

A reduction in the fourth quarter was primarily driven by our larger Corporate and Institutional customers as we managed down low value deposits and as a result of normal year-end balance sheet management.

Across Retail and Private Banking, deposits grew by £4 billion in the quarter, mainly in term savings. The migration from non-interest bearing to interest bearing deposits slowed during the fourth quarter.

Non-interest bearing balances were 34% of the total, down from 35% at the end of the third quarter and 40% at the start of the year.

However, customers continued to move balances to term accounts which now represent 16% of our deposit mix. This was slightly lower than our expectations as a result of active management in December yet up from 15% at the end of the third quarter and 6% at the start of the year.

I'd like to turn to the drivers of deposit income on slide 16.

### **Slide 16: Deposit income drivers**

Deposit income was the key driver of Group income in 2023 so it's important to consider how the component parts of our deposit base may evolve and impact income in 2024.

During 2023, deposits across our three businesses reduced by £14 billion, the majority of which was in the first quarter.

Our non-interest bearing deposits reduced to £142 billion and term deposits increased to £68 billion.

As the deposit mix changed, so did the proportion of hedged and unhedged deposits.

Starting with term deposits where we lock in the margin at origination. Given the strong growth in a competitive market these are some of our tightest deposit margins. Overall, we expect term deposit income to grow moderately in 2024 due to higher average balances. Our unhedged deposits reduced to around £166 billion at the year end, and they earn the widest margins.

These are managed rate deposits and this is where we expect to see the most significant income reduction as the base rate reduces.

Turning now to the product structural hedge, the notional balance at the end of 2023 was £185 billion, down £23 billion from the start of the year.

We expect this to reduce further in 2024 reflecting the reduction in eligible balances during 2023. We expect the yield to increase from 152 basis points in the fourth quarter through reinvestment of maturities at the prevailing 5 year swap rate.

This will more than compensate for the notional reduction supporting higher structural hedge income in 2024, with more meaningful growth in 2025 and 2026 as eligible balances stabilise.

Let me now explain how this feeds into our rate sensitivity disclosure on slide 17.

#### **Slide 17: Our sensitivity to interest rates has reduced**

The change in deposit mix contributed to a significant increase in the cost of our deposit funding from 0.5% in the fourth quarter of 2022 to 2.0% in the fourth quarter of 2023.

This moderated in the fourth quarter with an increase of 20 basis points compared to 60 basis points in the third, as customer rates stabilised and migration to higher interest-paying accounts slowed.

Lower deposit balances, mix changes and our 12 month look back approach to the structural hedge, means our balance sheet has become less rate sensitive in absolute terms.

The chart on the right is our illustrative interest rate sensitivity disclosure. It shows the year 1 impact on net interest earnings for a 25 basis point downward shift in the yield curve.

This illustrative disclosure naturally has limitations, not least because it assumes a static balance sheet and a parallel shift in the yield curve. But it helps to explain how our income is affected by changes in interest rates both in relation to the structural hedge and managed margin. The managed

margin is the more relevant sensitivity for changes in the base rate and deposit passthrough.

Based on our year-end balance sheet, a 25 basis point downward shift would reduce annual income by £125 million. This is mainly driven by our unhedged deposit balances of £166 billion at year end.

It assumes a pass-through of around 60% on our instant access savings of £209 billion at year-end, with minimal timing lag.

As you think about our income progression through 2024 you should consider

- First - the quantum of passthrough to customer deposit rates; and
- Second - the associated timing lags, including contractual notice periods

We continue to actively manage our deposits, aware that there is uncertainty on timing of rate cuts, competition and how our customers will behave. Turning to slide 18.

#### **Slide 18: Summary of the drivers of income in 2024**

As you have heard interest rate changes, associated passthrough and the second order impacts on customer behaviour are the key considerations when we think about income in 2024, and they remain difficult to predict.

To summarise, the 4 key income drivers today are:

First, our plan assumes the Bank of England will start to reduce interest rates from May, reaching 4% by the end of 2024

We assume this will be reasonably spread out and in 25 basis points increments, though actual outcome may be different. We expect to pass through changes to interest rates to our customer deposit rates, but the quantum and timing is subject to competition as well as contractual terms and conditions.

The Second driver is deposit volumes and mix.

Overall we expect deposit balances to follow a similar pattern to 2023, reducing in the first quarter due to annual tax payments, and then some recovery after that, subject to market dynamics. We anticipate less change in deposit mix than we experienced in 2023.

Third, we expect the hedge to deliver a tailwind in 2024, despite a reducing hedge notional, and for the strength of this tailwind to increase into 2025 and 2026 as volumes stabilise.

Finally, on the asset side, we experienced significant mortgage margin

pressure in 2023, as our mortgage customers refinanced onto higher rates at a tighter margin.

This headwind continues to moderate and we expect the mortgage book margin to stabilise around the middle of 2024, although this is dependant on markets dynamics.

Taking all this together, we expect 2024 income excluding notable items to be in the range of £13.0 - £13.5 billion. Turning now to Costs on slide 19.

**Slide 19: Other operating expenses £7.6bn, in line with guidance, broadly stable in FY'24**

Other operating expenses were £7.6 billion for 2023, in line with our guidance. That's up 4.6% on the prior year, mainly due to staff costs which are almost half of our cost base.

This includes the average annual wage increase of 6.4% and a one-off payment in January to support colleagues with the rising cost of living.

We also faced cost inflation on utilities and other contracts.

Our ongoing investment in technology is reflected in higher depreciation and amortisation costs.

In 2024, we expect to hold other operating expenses broadly stable.

You will see that our fourth quarter costs, excluding Ulster and the bank levy, are annualising at around £7.5bn, including the inflation embedded into our cost base during the year.

We expect to incur around £100 million of Ulster direct costs and around £100 million for the bank levy which brings annual run-rate costs to around £7.7 billion.

In order to keep costs broadly stable from here we will continue our strong track record of mitigating inflation by making cost savings.

I'd like to turn now to slide 20.

**Slide 20: Well diversified, de-risked, high-quality loan book**

We have a well-diversified prime loan book that is performing well.

Over half of our Group lending consists of mortgages, with an average Loan to Value of 55%, and around 70% on new business.

Our customers continue to take advantage of the best possible rate in the 6 month window before roll-off and recent behaviour has shown an increased preference for 2 year deals.

We monitor the impact of higher rates on customers closely after they refinance and whilst arrears have increased slightly, they still remain low. Our personal unsecured lending is less than 4% of Group lending and is performing in line with expectations with good quality new business.

Across our wholesale portfolios, our corporate book and other exposures such as Commercial Real Estate remain well diversified and are still performing well.

And we are not in scope for the FCA review into motor finance.

Let's move to impairments and our economic scenarios on slide 21...

**Slide 21: 15bps impairment in FY'23, macroeconomic assumptions slightly improved**

We have reviewed and updated our economic scenarios, both forecasts and relative weightings.

Our weighted-average expectations for GDP are slightly improved in 2024 but with a small decline in 2025.

We also anticipate a slight deterioration in levels of employment in both 2024 and 2025.

Our balance sheet provision for Expected Credit Loss includes £429 million of Post Model Adjustments for economic uncertainty

We remain comfortable with 93 basis points as coverage of the book which continues to perform well. We reported a net impairment charge of £578 million for the full year, equivalent to 15 basis points of loans.

The current performance of the book combined with our updated economic outlook means we are expecting a loan impairment rate below 20 basis points in 2024.

Turning now to look at Capital and Risk Weighted Assets on slide 22...

**Slide 22: Good capital generation supporting strong distributions**

We ended the fourth quarter with a Common Equity Tier 1 ratio of 13.4%

In 2023 we generated 154 basis points of capital before the impact of non-recurring notable items and RWA model updates totalling 43 basis points

This net capital generation was offset by distributions to shareholders equivalent to 195 basis points. RWAs increased by £6.9 billion in the year to £183 billion. This includes a £7.9 billion increase mainly from business movements. And a further £3 billion of model updates which includes the CRD IV regulatory inflation we discussed at Q3.

This was partly offset by a £4 billion reduction as a result of our phased withdrawal from the Republic of Ireland.

We continue to expect RWAs to be around £200 billion at the end of 2025, including the impact of Basel 3.1 and further CRD IV model development. This is subject to final rules on credit and output floors, which we expect later this year, as well as regulatory approval.

As is our practice, we will continue to update you on the development of RWAs. Turning now to our track record of delivering for shareholders on slide 23.

### **Slide 23: Delivering sustainable long-term value**

Our capital generation has enabled us:

- to support our customers in difficult times;
- as well as invest for growth; and
- make shareholder distributions of almost £12.5 billion over the last 3 years.

Our improving profitability has supported increases in the total ordinary dividend in 2023.

Combined with our multi-year buyback programmes, this has delivered a significant improvement in the dividend per share of 17 pence, up 3.5 pence year on year.

Our share count has reduced by 28% since the end of 2020 or 30% proforma for the £300 million buy back we announced today.

We remain committed to returning surplus capital to shareholders, as demonstrated by our strong track record.

Turning to guidance on my final slide...



**Slide 24: 2026 targets ad 2024 guidance**

In 2024 we expect:

- income, excluding notable items, to be in the range of £13 to 13.5 billion,
- Group operating costs, excluding litigation and conduct, to be broadly stable versus 2023,
- and the loan impairment rate to be below 20 basis points
- delivering a Return on Tangible Equity of around 12%

With that I'll hand back to Paul.

**Paul**

**Slide 26: Our focus is on creating sustainable long-term value**

Thank you Katie. So to conclude:

Our priority is to continue supporting our customers in an uncertain macroeconomic environment.

We are pursuing opportunities for targeted growth across our businesses with a focus on returns as we strike a balance between volume and margin. By combining this disciplined approach to growth with tight cost control and efficient capital allocation we plan to drive strong capital generation so that we can both reinvest in the business and continue making attractive distributions to shareholders.

With a pay-out ratio of around 40% and capacity for buybacks we remain fully committed to creating sustainable long-term value for shareholders.

Thank you, I will now hand back to the operator.

**Operator**

Our first question comes in from Aman Rakkar of Barclays. Aman, please go ahead and ask your question.

**Aman**

Morning, Paul. Morning, Katie. [**Paul & Katie – Morning**]

**Aman**

First of all, congratulations, Paul, on the appointment. And I wanted to just pay my regards to Howard on your tenure at the firm.

**Howard**

Thank you.

**Aman**

I had a couple of questions. One, I think it's the main question that I'm getting this morning is around your revenue guide for '24.

And obviously, at face value, there is a pretty material kind of step off in the revenue run rate through '24. And there's clearly some downside versus consensus. But I guess to push back against that, it doesn't really feel that surprising to see you come out with a revenue number that's that low.

I think the uncertainty that's faced by rate cuts, competition, various bits and pieces. I think it kind of makes sense. But can you help kind of elaborate on exactly a bit more on the moving parts there, and whether you recognise the conservatism here?

And indeed, I'm sure you won't answer this, but I'll ask you anyway. But if I was to look at the spot rate market right now, it is not implying base rate of 4% at year end. It's implying something more like 4.4% at the end of the year. I know these things are volatile, but I don't think we're going to get the rate cuts, you know, predicated on the current forward curve that you guys are basing your guidance on. So this does look to me to be quite a conservative revenue guide for '24.

I'd really be interested in your thoughts. Any help there? I had a second question. Should I give it to you now or afterwards?

**Paul**

No, keep going. Go for it, we'll share them out.

**Aman**

Just in terms of distributions, I was interested in, obviously, it's great to see the £300 million open market buyback. The retail share offering that the government is looking to kind of execute this summer, I'm interested in how this influences your thinking at all. It doesn't look to me like you've budgeted for a directed buyback in May.

Maybe you're confident on capital generation in the coming quarters, which would be a good thing. But, you know, retail share offering might mean that there's less likelihood of a directed buyback. And then hence, do you then feel as though you can kind of execute open market buybacks more regularly?

Again, anything you can give us on your updated approach to distribution is really helpful. Thank you.

**Paul**

Thanks, Aman. I'll take number two and number three and then Katie I'll allow you to talk through the revenue guide. So Aman, on directed buybacks, simple answer is it is in our plans and our budget. So that's very simple. So we have assumed we make the DBB. Obviously, we can do that after the annual anniversary.

On the question around the challenge around conservatism and interest rate outlook, I hear you in terms of where the curve is now. I'm sure you'll understand. We have to look at the balance of the economic consensus, even in the space of the last seven or 10 days, as you well know, it's moved around.

So what we've done is we've got a set of assumptions there, which has five cuts in '24, four in '25, with the first one in May. What I would say is, Aman, is that we've been, I guess we've given a lot of disclosure around the sensitivities. So for those who want to take a different view around some of that volatility, it's pretty easy to do given the disclosures we've got, depending on where your views are on the five and four, four and three, three and two, et cetera.

So that's where we are on those two. Katie, do you want to talk about that?

**Katie**

Sure, thanks very much. Morning, Aman. So as I look at it, as you know, there's a number of variables.

And even in your question, I think you kind of know the answer I'm about to give you, that are impacting that kind of income range. The customer behaviour has been relatively difficult to predict, and we may see different competitive dynamics. So the way that I think about it is I would think of four things as you try to kind of build in with your own model.

Obviously, base rate cuts, Paul's already talked about them. We've got five in [2024 from] May and four in [2025] for later. The timing of that rate cut is important for income. We've got it in starting in May. It could be different from that. But as Paul said, you've got the sensitivities there, you can take a view on that.

The second one, deposit volumes and mix. We expect deposit balances to fall a little in Q1 as a result of tax payments, and thereafter move broadly in line with what you see happening in the market. We do expect the deposit migration to continue into 2024, but obviously at a slower pace than we've seen as we talked about it at Q3, we could already see that slowing down.

But again, we don't expect that to be linear. The third thing, the structural hedge, you're very familiar with that. So tailwind in 2024 as the higher yield offsets lower volume.

And then finally, mortgage volume and margin, which I'm sure we'll get into in more detail as the call goes on. Overall, as we look at the income, we're very focused on managing both sides of the balance sheet to make sure that we deliver our income and our returns guidance. We expect the shape to improve as you go through the year, with the second half being slightly stronger than the first half.

I'll just pick up one last bit on the DBB. The retail share offering does not impact our buybacks. As a Board, we plan what we need to do. And so it's a completely separate debate.

**Paul** And it is in the plan.

**Katie** Yes.

**Paul** Thanks Aman.

**Operator** Thank you. Our next question comes from Benjamin Toms of RBC. Please unmute and ask your question.

**Benjamin** Morning. Thank you both for taking my question. I've worked out the mute button now. You note your guidance on your income ex. notable items of 13 to 13.5 billion. But could you provide us with an estimate for NIM for the full year, I guess, based on your new measure and how the shape of NIM might change as we go through the year? And then secondly, just a clarification

question on your sensitivities to rate cuts, where you assume a 60% pass-through assumption. Can you just clarify what that 60% means?

Is it measured from the first rate rise in the cycle or from the first rate cut? If it's the latter, is 60% a fairly conservative assumption? I think I've heard peers of yours talk about deposit pass-through being much higher on the way down than it is on the way up.

Thank you very much.

**Paul** Thanks, Ben. Katie, do you want to pick the NIM piece up?

**Katie** Yeah, sure. Absolutely. So in terms of NIM, Ben, we're providing you with total income guidance today, £13 to £13.5 billion. As you've heard, we've managed margins across both sides of the balance sheet. Managing margins is obviously a key focus for the entire management team, but it really is one of the drivers that we look to in terms of the overall return. You need to consider the cost of risk, capital requirements, and of course, the operational cost of doing business.

And this is why RoTE is our key financial metric. And it's what will drive capital generation and capacity for investment and distribution to shareholders. The key income drivers that I've talked a little bit about already for 2024 are also our key margin drivers. So you can assume that margin will follow a similar shape to income as we progress through the year.

**Paul** And on this...

**Katie** Shall I take that one as well? Yeah, perfect.

So on the sensitivity, so the way that we've done it, I think it's an illustrative example of a single 25 basis point cut. So by definition, it's the incremental pass-through on that. We have said that the pass-through will be very much a function of competitive dynamics.

And similarly to the way when we were on the way up, we didn't share with you what our next pass-through thoughts were. They obviously emerged as competition and market dynamics dictated. And I'm not going to share it with you just now.

But we have worked on a 60% pass-through of that rate, taking in mind as well that there is a delay in passing through because of some of the regulatory requirements of the speed of notification that you need to give to our customer base. So that has also been built in a little bit as well. Clearly, how we do it in the time of implementation will be dependent on customer and market.

Thanks, Ben.

**Paul** What I'd add on that, Ben, is I would see it as a sensitivity and an example, not a statement of our pricing strategy. Our pricing strategy will be influenced by, as and when the rate changes happen, what the competitor responses are, what our funding and liquidity needs are at that time as well. Thanks, Ben.

**Benjamin** Thank you.

**Operator** Our next question comes from Raul Sinha from JP Morgan. Raul, please go ahead and ask your question.

**Katie** Hi, Raul.

**Raul** Hi. Good morning. Thanks very much for taking my questions. I've got two, please. The first one is just around the confidence in your new RoTE targets.

Just interested in the moving parts from the sort of 12% that you guide for '24 to above 13 for 2026. I guess the simple question is, is it all just driven by the hedge or are there other sort of material drivers that you would point to as well?

And I guess related to that, the second question, just on the mortgage business, the book didn't grow in Q4, obviously your flow share was 10.5. I

think you've done 14% share through the year. I'm just trying to understand if this more disciplined approach to mortgage growth means that we should expect lower growth in the loan book driven by mortgages going forward, given competitiveness in this market is probably not going to change. And just an addendum to that, if you could give us a bit more colour on the mortgage refinancing churn, the back book to front book, how it phases through the quarters in 2024, that would be really helpful. Thank you.

**Paul** Thanks, Raul. Katie, I'll start with a couple of things on RoTE and maybe you can talk to the bridge.

**Katie** Perfect.

**Paul** And then I'm sure we can both have a go on mortgages.

**Katie** Perfect. Sure, yes.

**Paul** So, Raul, just on the broader kind of RoTE guidance, obviously, we've shared around 12[%] for '24 and greater than 13[%] for '26. We thought about that carefully.

You can see the economic assumptions that we've played through there. And again, per my response to Aman, you can take your view on them. The main thing really that's driving that is the path of the peak, I guess, from 5.25 to 3 over the course of the two years. But to the heart of your question is what drives the upturn? It's certainly more than the hedge. Katie talked about the kind of tailwind from the hedge.

But from my perspective, I'm very focused on growing a number of the different P&L lines. We'll be managing cost and capital very tightly, thinking very carefully about capital allocation, but also driving growth in our core businesses as well, whether that's the fee lines or lending growth, be it mortgages or corporate. So it's certainly supported by the tailwind and the hedge, but we're gripping the other levers to drive the business forward.

**Katie** I think I might just move straight to mortgages...

**Paul** Go for it.

**Katie** ...if that's OK. So in terms of the mortgage piece, so as you look at the mortgage book, if I start with the kind of phasing of the churn, what we see is it is more stable in Q1 on the roll on and roll off kind of dynamic. And then we'll expect stability, I think, to kind of come through in Q2.

We did in this last quarter very much manage the application flows was coming through as we saw the shape of the balance sheet. I think that's a very rational thing to have done. 14% over the year, we're very comfortable with. It's above our stock share. And we do see this as an area... that is an important area for growth. I don't think you should necessarily expect growth every quarter, but certainly growth over time is what we would be expecting.

I think it has been important with some of the pricing dynamics and things and the movements in the swap curve is to make sure you're really managing it for value and maximising your RoTE in that space. So very comfortable with that process. So I wouldn't see that as one quarter being a bellwether for the future. We still view this as a book that's important to us, returns very good RoTE for the business and an important area for growth as we move forward from that. And one of the areas that we're making significant investments so that we're able to scale and really benefit from the digitisation of this business. Thanks Raul.

**Raul** Thank you.

**Operator** Our next question comes from Andrew Coombs of Citi. Andrew, please go ahead and ask your question.

**Andrew** Good morning. I hope you can hear me.

**Paul** Andrew?

**Andrew** Yes. Great. So two questions. First one just on the structural hedge. I think the previous guidance was for it to finish the year at 190. And it's actually coming at 185. And that's even though the deposit mix shift seems to have been broadly in line with what you were guiding for Q3. So perhaps you could explain what caused the additional 5 billion decline in the nominal and also



any colour you want to add on where you think the direction of travel is magnitude wise for 2024. So that's the first question.

Second question was actually just on the impairments given the confident guidance you've given for this year, the less than 20 basis points. I noted on slide 21, you still give through the cycle figure as 20 to 30. And you obviously expect to come in better than that this year. Is there anything baked into that for release of the 429 million adjustment for economic uncertainty? Or is it just a case of better IFRS 9 assumptions, lower stage three migration, etc, etc? Thank you.

**Paul** Katie, do you want to take the hedge?

**Katie** Yeah, perfect. Absolutely.

**Paul** I'll take impairments.

**Katie** Sure, absolutely. So as I look at the hedge, what we'd talked about was around 190 billion based on a static balance sheet, we know that the balance sheet obviously is not static. In terms of the direction of travels, a few things I would probably mention on that, the average product yield for the hedge was 142 basis points. It's important to understand in the fourth quarter that increased to 152 basis points for the quarter.

When I look at the kind of sizing of the hedge as we go into next year, we would expect the shrinkage to be less than we saw in 2023 in line with that conversation we've had around deposit movements kind of stabilising in the middle of the year. If you were to look at the year end notional balances, and the mix remains static, you know you can see that that number would kind of recalibrate to about 170 billion. I think what's important, though, as you look at the hedge is also the level of reinvestment. So you know, Andrew, it matures over two and a half years, you take the 185 billion today, a fifth of it will mature every year. So therefore, it's 37 billion when you look at that kind of average life of the book.

We are assuming that it gets reinvested at around 310. Over the course of the year, you can see that rates [are] slightly better than that today. But on average, we think that's an appropriate number to look at. And we've talked in the past around the fact that the roll off yield is so much lower than what the

reinvestment yields. So we do see this as a positive tailwind, as you see that stabilisation coming through in the first half of the year, and moving forward from there.

And Paul, do you want to take impairments?

**Paul** I'll take impairments. Andrew, your hypothesis, as you outlined it is pretty much spot on.

The book's performing better than we'd anticipated. Customers have adapted resiliently to the higher rate environment. So arrears levels remain low across most of the asset books.

So loan impairment, 15 bps, '23, obviously below or through the cycle range, you've seen the guide for '24, below 20, assuming no sign of significant macro deterioration. You also astutely point out we do have post model adjustments of half a billion, 400 million for economic uncertainty, half a billion overall, but we will be very prudent about them in terms of the release. So your thesis is right in terms of what's happening. Thanks.

**Andrew** That's really helpful. Thank you. Can I just clarify one thing with Katie? Roll off yields, I think previously you said 80 bps for this year and 50 bps for 2025. Presumably that guidance is unchanged.

**Katie** I mean, it's unchanged. There are some technicalities I'm going to not get into in too much detail. But as we're kind of managing the process of reducing the notional, and we use pay for fixed swaps to reduce, that roll off yield actually does reduce, so it's actually a bit lower than that in terms of the mechanics that we do.

So I think if you work with those and the difference between, but then just that pay fixed swap as we manage the notional does have a little bit of an impact, but those are good numbers for you to use.

**Andrew** Great. Thank you both.

**Paul** Thanks.

**Katie** Lovely, thanks.

**Paul** Next question please.

**Operator** Our next question comes from Alvaro Serrano from Morgan Stanley. Alvaro, please unmute and ask your question.

**Alvaro** Hello, hopefully. Hi. Good morning, hopefully you can hear me okay. I've got a follow up. Apologies on the margin and what to expect.

If we put to one side your what looks pretty conservative rate assumption, how much of the mortgage sort of your 80 basis points on mortgage product spread and how much more headwinds should we expect in the first half of '24? And similarly, we've seen sector data point to very stable deposit movements in November and December. So is there much more drag on deposit margins as well?

And if I look, relate to that, if I look at your above 13% RoTE in 2026 versus the 12% this year, is it, and I compare that to the nine rate cuts you've got, it does feel like your revenues are not going to grow until we're done with rate cuts. Is that kind of what's reflected in that 2026 improvement that once you get through the rate cuts in '25, it will improve? And sorry for that long first question. And Paul, maybe one more for you?

**Katie** I think I call that three questions in one. Let's get your second question – see if we can hit 6!

**Alvaro** Hence my apology. This one's more for Paul, I guess. In your opening, sort of in your section, you talked about improving share in targeted segments. When we look back over the last few years, it's been very much focused around mortgage growth. When you think about the next three years in your plan, what would you highlight of your key sort of focus on growth areas versus what we've seen in the past? Thanks.

**Paul** No problem. Katie do you want to go...

**Katie** I'll kick off that. That's fine. Exactly.

I'll take question one. So if I look at the mortgage margin, obviously, we talked a lot last year about how the book would ultimately stabilise around that 80 basis points. And that's where we are at the end of that year, the end of the year. What we can see is that the level of churn and come down that we've had in that rate is obviously kind of come to an end. What I would say at the moment, we're currently writing around 70 basis points. And so the impact of the mortgage book refinancing headwind will be lower in 2024 than it was in 2023.

But there'll still be a little bit of movement around about that. And I think that we do expect there to be some stabilisation in mid 2024. Clearly, the volatility in the swap rates, we've written some of the business over time a bit below the 80. And we're comfortable with the level of writing we're doing just now. You can see that we're managing that in terms of the flow share that we have. On deposits, I mean, I guess the way that I would look at it as we look at both at the Bank of England data and the data that the experience we're seeing in our own book, we are still seeing some migration.

You can see that we went from 15% to 16% at the end of the year. So still kind of seeing that we do expect that to continue for another couple of quarters. And we expect that we'll probably stabilise in the summer months.

If I look at revenue into 2026, I mean, Alvaro, that's certainly not the impression that revenue is flat from here to there. That's something we've been talking a lot about this throughout last year. As you see that deposit stabilisation and then the mortgage stabilisation as well, and then you start to see the structural hedge kind of come through, we expect the second half income of 2024 to be better than the first half. And we expect that to continue to develop into '25 and 2026.

And then Paul, I'll give you a question too.

**Paul** Yeah, thanks. Thanks, Katie.

Alvaro, I'm thinking quite broadly around the opportunities for growth in the business. You rightly pointed out in my presentation, I highlighted a number of areas. I think going through the different customer businesses we have, the mortgages as we've positioned, if the market is there, the demand is there and the pricing is right, then we're now the second biggest lender, but we'll continue to grow there. So that's one area of continued growth in Retail, providing the margins and the returns are there. We've also made good progress on the unsecured side in Retail. We're happy there with both the returns, but also the credit quality.

So we see, and obviously we're underweight relative to some of our peers in those areas. So that's an opportunity that the retail team are astutely focused on. In the kind of Commercial and Institutional business, we've seen some good growth around our project finance, infrastructure and funds business.

We believe the businesses and asset classes that offer good upside over the course of the next couple of years. We're not only building, I guess, for the next year or two, we're also making big market share gains in areas like start-ups and youth, where we're now over 20%. And the way I think about that is we're filling the pipe for future revenue and future returns.

So we're very focused on growth, but we're very focused on disciplined growth. That's how I and the team talk about it. And we think there's plenty of opportunities embedded within the core businesses of NatWest to do that.

**Alvaro** Thank you very much.

**Katie** Thanks, Alvaro.

**Paul** Thanks, Alvaro.

**Operator** Our next question comes from Guy Stebbings of BNP Paribas Exane. Guy, please go ahead and ask your question.

I think we have an issue with Guy's microphone. So we're now going to go over to Fahed Kunwar from Redburn Atlantic. Fahed, please go ahead.

**Fahed** Hi, both. Hopefully, you can hear me.

**Paul** We can. Hi, Fahed. How are you?

**Fahed** Not too bad, cheers. Just a couple of questions. Firstly, on the returns point around the greater than 13% in 2026.

I mean, if I look back to when you first gave the 14% to 16% guidance, which I think was like August '22, even your quite conservative rate expectations, they weren't actually that different then. If I look at the five-year swap curve, I think it was running at like mid twos or little high twos versus the 3.1 you're assuming. So why has your return expectations come down versus that August 2023? It can't just be base rates. Was the mix shift just far more than you'd anticipated at that point? That's question one.

And the second question was on costs. I see the wage negotiations done, I think, for 2024. Does that mean actually the risk of costs missing if inflation is stickier than we think is less? Because actually, you've already negotiated the wages and any sticky inflation would probably be a 2025 issue. Is that the way to think about 2024 costs? Thank you.

**Paul** Well, I'll take costs and then pick, Katie, you talked to the RoTE point. So I think your thesis is good on costs, Fahed. As you say, we've agreed with the unions an offer that we think is appropriate and fair at around 4%.

We've obviously delivered on our costs this year. We've guided next year, so 2024, that the cost will be broadly stable. Probably worth pointing out that we do build into our cost guide the ability to take restructuring on the people and the property side, but we prefer to take them in year rather than any extraordinary charges. So they're all built into the plan. So we're very comfortable on the cost guide. I think we've got a good track record over a number of years of delivering on that line.

**Katie** Perfect. Thanks, Paul. So if I look at the bridge from why no longer 14 to 16, I think there's a number of things, Fahed, you need to kind of take into account.

If I compare it just to when we spoke in October, then it's all a story of rates in terms of the expectations that were there. But you rightly went back to kind of

August '22 when we first talked about that. And absolutely, rate expectations are not that different. But I think none of us at that point could have imagined the journey that rates went on when we saw swap curves go all the way up to 6% and then come down and then go back up again. And actually what this then delivered in terms of the change in customer behaviour and the mix of that. We were sitting at about 4% sitting in term. We're now sitting at 16% and expecting that to continue to increase. So that's been one of the things.

I think there's also been another couple of things with that rate curve going up. We also saw inflation going up significantly. We did pay awards that were [6.4%]. These have all been things we've had to build into the cost line. And we're happy with how we've delivered on those, but obviously still put the RoTE under pressure. And I think the most important thing also to think about is the denominator, the TNAV. So our TNAV has grown very well, very strongly this year, I think up 28 pence over the year.

We predict it will continue to grow as you see that cash flow kind of unwinding. But the real difference from when we last spoke formally in October is that movements and rates, which has been really bigger than any of us had anticipated. Thanks, Fahed.

**Fahed**

Cheers

**Paul**

Thanks, Katie. Thanks, Fahed.

**Operator**

Our next question comes from Ed Firth from KBW. Ed, please go ahead and ask your question.

**Katie**

Hi, Ed.

**Ed**

Can you hear me?

**Paul**

Yeah, you're a bit faint, Ed, but we can.

**Ed**

I'll try and sit a bit closer, thanks.

**Paul** We've got you now. That's good.

**Ed** Okay. Yeah, I just had two strategic questions really for Paul, if that's all right. My first one is, if one looks at the sort of full length of this downturn, I guess one of the key characteristics or differential characteristics has been much lower loan growth in the market as a whole and much better credit. And I guess that's, to me, one of the big highlights today is your credit outlook for this year, given some of the stresses we see in the broader economy. So I just wonder, as you look forward, do you see that as a bank, there's more appetite for loan growth going forward?

And I suppose that's really a question about supply versus demand. Is it a demand problem or a supply problem? Is that the key issue in terms of a sort of reasonably lacklustre...? Because I guess the loan growth and the economic performance often go together.

So that's my first question, is how do you as a sort of new CEO look at that? And how do you feel the balance is and whether you've got that right and how it might change going forward? So that's the first question.

And then my second question was about retail, which I know is not your traditional business. But now you've had sort of six months, I guess, to look at it. It's making a mid-20s return, which is pretty punchy.

And I guess that's in an environment where you've got some pretty strong new competitors coming in, which Chase is obviously the most important one. All of who are paying much better rates than you are on like-for-like products. And I guess they can justify that because they don't have the hedge headwinds and they probably have got better systems than you have.

That's an assumption, but by all means, tell me that's wrong. So just my question is, as you look at that return going forward, how sustainable do you think that is at those sort of levels as an incumbent bank? And I guess what sort of do you think there's further costs you're going to have to take to try and sustain that level? Or how should we think about that going forward?

**Paul** Thanks. No, it's fine. Thanks. Good, good, broad strategic questions. On the first around, how do I think about loan growth? I guess I'd point you to '23.



We've grown our asset side of the balance sheet by 3%. Obviously, given our size, we are linked in some ways there to the health of the economy. The way I think about it is, given the scale of our businesses, whether that's our commercial business, whether that's our mortgage business, we should target ourselves to grow at above market rates.

I think we've proven over a number of years in both businesses that we've successfully grown the asset side of the business. There are also certain aspects of loan growth where, as I've alluded to, we're underweight relative to the market. We touched on unsecured earlier. We're still only the second largest mortgage provider. So there are opportunities to grow. But ultimately, we are geared to the UK economy there.

And to your point on demand versus supply, from a supply issue, we have capital available. We're very keen to put that to work, providing it's at the right returns across all of our businesses, whether that's our Private Bank, obviously, who also lends, our Retail bank, or our Corporate bank. So that's how I think about it. So I think that's the broad picture.

**Ed** Sorry, but if you take nominal GDP last year, it was probably up 6%, 7%, something like that. So you're effectively growing at sub-nominal GDP. Is that how we should think? I mean, is that a sense of your conservatism, or are the two just not really related at all?

**Paul** Yeah, well, I think there's a couple of things going on there. Obviously, we've seen, given the high interest rate environment, as you all know, we've seen pay down of borrowing as well, whether that's in the Retail bank in terms of customers paying down mortgages, whether that's in government lending schemes in the Commercial business. I think as rates come down, the inclination to either want to pay down or have to pay down will slow.

So that's how we think about it. So we've delivered growth despite there being a lot of, in effect, de-leveraging by customers across all of our customer businesses, especially prominent in private.

On your second question, which I guess is a very broad question, we're very happy with our Retail bank. The leadership team we have there over the last couple of years have built a very actually digitally enabled retail business. We

have a market leading mobile platform. We support that with our branch network. As you know, the returns are healthy, which is what you alluded to.

And I think we've proven over the course of I guess the last couple of years that we've managed, certainly over the course of the last six, nine months, we've certainly managed to react in terms of our product range, our pricing, whether it's on, you alluded to some deposit pricing, and our ability to compete. I think we have a very competitive range across different terms, different products, et cetera, likewise on mortgages.

So I think the Retail bank is in good health. We're continuing to invest in it. I'm very focused on cost, you mentioned that. But that isn't a particular focus for Retail. It's across the whole business. I'm very keen that we have good cost discipline, we have good cost management, but also we invest in the business to drive those productivities and efficiencies out. So what I'd say in summary is I think we've got a good Retail bank. There are areas in which that bank could grow. We'll obviously work on productivity and efficiency, but we'll do that at a bank-wide level, not just in our Retail bank. Thanks, Ed.

**Ed** Great, thanks so much.

**Operator** Our next question comes from Chris Cant from Autonomous. Chris, please go ahead and ask your question.

**Chris** Good morning. Can you hear me okay?

**Paul** We can, Chris. How are you?

**Chris** Okay, fab. I've avoided the mute issue. Thank you for taking my questions both. I have one on your RoTE aspiration and one on the '24 income guidance, please.

So on the 2026 RoTE target, I just wanted to understand a little bit more about what you're assuming here as a denominator. And I think this is an area where consensus looks a little bit probably different to how you're thinking about things. So if I look at your disclosures today, you tell us 225 bps of rate cuts, and you've given us a cash flow hedge reserve sensitivity of just over a billion per 100 bps. So that alone would knock your cash flow hedge reserve down by over 2 billion.

You're then going to have pull to par effects on top of that. You're going to have the removal of the IFRS 9 add back on top of that. If I think about your RWA guidance, your CT1 target, you're looking at about a 27 billion CT1 base, which I think would imply once you allow for those cash flow hedge reserve movements, both the print today and the future sensitivity, probably for a TNAV in 2026 of about 31 billion.

And I think consensus is quite a lot lower than that, around 27 something or other for '26 on average. So is that maths right? Because I think what that's telling me is if you think you can do a 13% RoTE on that meaningfully higher TNAV base, it's about a 4 billion net profit number.

But it really comes down to that TNAV piece and to your point Katie, RoTE is your north star, but it's impacted by this maths around the cash flow hedge reserve, which doesn't appear to be factored into consensus. So I was just wondering if you could speak to that. Is that maths the right way we should be thinking about it? Is that kind of 31 billion figure the right sort of level for the denominator in your view based on your rate assumptions? And obviously we may make our own.

And then on the 2024 guidance, just in terms of the comment around income being better in the second half than the first half. So I understand the argument around sort of deposit mix stabilising, and then we start to see more of a net tailwind from the hedge. The hedge starts to overpower the other forces. But in terms of your rate cut assumptions, you said five cuts starting from May. So I guess your rate cuts are back end loaded in the year?

And I presume you're assuming within the guidance some negative pricing lag effect, ie there is that limitation for say six weeks on the actual pass through to customers and all of that negativity is then baked into your second half income guidance. So I just wanted to try to square the circle there. How is it that with all of that repricing lag effect, you still end up with income up in the second half? Thank you.

**Paul** Thanks, Chris, go on Katie.

**Katie** Thanks. Thanks very much, Chris.

So look, I mean, Chris, you're absolutely right. And I would probably encourage you as you're already there, but also other others to kind of look at the denominator piece. I think it's important for us. It's been great to see the growth that we've got within the denominator this year as we saw the 25.7 billion at the end of 2023. Chris, I'm not going to give you a profit guide for 2026 as we go through there, but I think you've got the various component parts that cash flow hedge will unwind as we go through.

Rates have been volatile, so it won't be linear. I think if you looked at what happened in rates just in the first part of this year, and if I was to cut the numbers now, you'd actually see it reverse a little bit in the other direction. But overall, with our rate assumptions, we'll definitely see that continuing to come down. And that's important for us. So if you look at the TNAV, think of the profits, think of the movement on the cash flow hedge. There's some other movements on some other reserves, but those are the two important ones. And then obviously, deduct distributions. And then I think that'll get you to a better kind of view on TNAV. And I think we need to kind of catch up a little bit on that.

As I look to the income guidance, so second half better than the first half. There are five cuts starting in May. We have considered within those timing lags as to how long it takes to... from the cuts, if you were to make the decision at that point, how long it would take you to go through. Clearly, the absolute time when we make decisions on pass-through will be dependent on what's happening in terms of competition and customer behaviour.

That's part of the reason we give you a range for income for the full year. But we have kind of looked to consider that within the income guidance. And then I think the other thing that just remember, we spoke about earlier, so I won't repeat it all. But in terms of the structural hedge, just the differential in that level of reinvestment, we are assuming that there is you know, reinvestment despite the hedge kind of will shrink over the year, we get to deposit stability by the middle of the year. So from the middle of the year onwards, you would start to see fuller reinvestment, not full because of the 12 month loopback, but that helps the second half to be stronger than the first half. Hope that is helpful to you, Chris. Thanks very much.

**Chris**

That's helpful. Thank you. Just on that TNAV point, and I appreciate you don't want to give us a profit number.

When I look at consensus, the gap between consensus CT1 and TNAV in 2026 is about half a billion. Your gap as of the end of 2023 is 1.2 billion. And from what you're saying, that gap should materially widen, subject to exactly what happens with rate, but we should be expecting a much more meaningful gap between TNAV and CT1 in the outer years that we see today, presumably?

**Katie** I think we give you really good disclosure on that capital to TNAV reconciliation. It's on page 375 of the account, you might not have got there yet this morning. And what I always find if you look at it over a few years, you can see which numbers present a little bit of volatility within that number. So I'm not going to be precise on the gap at the moment. But I think you've got the component parts within there. And that reconciliation over a multi-year basis does give you some helpful views into the evolution of TNAV. Thanks, Chris.

**Chris** Thanks.

**Paul** We look forward to discussing page 375 with you. Right, next question, please.

**Operator** Our next question comes from Robin Down of HSBC. Robin, please go ahead and ask your question.

**Katie** Hey, Robin.

**Robin** Hi, can you hear me?

**Paul** Yeah, we can. Hi, Robin.

**Robin** Okay, great. Excellent. I've also avoided the mute issue. A couple of kind of linked questions actually, slightly builds on a bit of what Chris was saying there. You've given us this 25 basis point sensitivity, which is quite helpful on slide 17.

But I'm just conscious, obviously, we're looking at a series of rate cuts. I was just wondering whether you could perhaps talk about what the impact might be of, say, 100 basis point rate cut. I see we don't just kind of multiply by 4

here. I know we can do the structural hedge side. But it's the managed margin side that I'm conscious you've got an instant access savings account that pays 175. And I guess the lower rates go, the harder it is to pass through.

And the reason why I'm kind of interested in that is just thinking about the dynamic going into 2025. I appreciate kind of volumes will hopefully pick up as interest rates fall. But if I think about the kind of structural hedge, I'm guessing we're going to be looking at probably low to mid 30s billions of rollovers in 2025, with, say, a swap rate of 3% and a maturity rate of 50 basis points.

But going the other way, if you've got a string of interest rate cuts, and you're telling us 25 basis points today is 125 million in year one, I'm just kind of curious as to how you think those two kind of interplay going into 2025. And when we look at consensus revenues, I think we're up at that kind of 14.2 for 2025. So obviously, there'll be some volume growth there that will help out. But perhaps whether you're comfortable with that 14.2. Thanks.

**Katie** Yeah, thanks so much. Look, in terms of the 100 basis points, it's relatively linear. And I think if you go to page 26[6] of the accounts, you'll actually see that I've given you the 100 basis points disclosure.

**Robin** I didn't quite get that far. Sorry.

**Katie** No, no, no, it's all right. I must admit, I've got the cheat list for where the pages I go that you guys will go. But you can work it out through there. So that will be helpful for you. So I it's page 26[6] in terms of where you go. And I think that will kind of give you what you need on that point.

And then, just sorry, Robin, I'm not entirely sure of the second bit of the question that you're actually asking me to kind of confirm. But I think that if you look at slide [16], it will help a little bit with the interplay of what's hedged and unhedged. What we've given you there this morning is just to try to kind of give you a flavour of what happens in term, which is obviously the tightest, what's unhedged, and then what's supporting the product structural hedge.

And as you see that migration continue, you'll see that you'll see those balances move a little bit more to the term hedge. And then you need to take a view whether that's coming out of our unhedged kind of instant access or out of the current account piece as we go through from there. So what

happens in terms of different rate cuts. But I would say we have seen it slow. We do expect it to continue, but not at the speeds that we saw in the previous year.

**Robin** I think my point was more that if we're looking at, say, 35 billion of maturities in 2025, and I appreciate this is kind of we have to think about the quarterly rates here, and you're getting a 250 basis point kind of uplift on that, then we can kind of do the maths on that.

**Katie** Yep.

**Robin** And how that then interplays though with average base rates in 2025 being more than 100 basis points lower than where they are in 2024. I mean, effectively, it's a question of almost like where you think the margin goes in 2025.

**Katie** Yeah. So I think I'm not going to give you the margin. What I would say is that we expect it to behave the same way we've described income, but we do have confidence in the income growth over the medium term.

I said earlier in the call that we're kind of expecting the reinvestment levels to be at about 310 basis points. I'd expect them to be a little bit lower in 2025, but not meaningful, not meaningfully. But then similarly, we've talked in the past around the 80 bps roll off kind of becomes 50 bps. I'm not going to get into the pay fix kind of debate, but I mentioned that earlier as well. So that suppresses those numbers a piece, a little bit. And that's why we have confidence in the income growth over the medium term as we see those deposits stabilise.

**Robin** Great. Brilliant. Thank you.

**Katie** Lovely. Thanks very much.

**Operator** Our last question comes from Jason Napier of UBS. Jason, please go ahead and ask your question.

**Katie** Hey, Jason.

**Jason** Good morning. Thank you for taking my questions. Two, please.

Paul, clearly a lot of focus from you on cost efficiency within the business. I wonder whether you might give us some more details, perhaps on 2023 in terms of expenditure on restructuring, the big moving parts in the performance that you've turned in last year.

Just some of the feedback this morning is, flat may be good enough for one year, but the organisation in this kind of operating climate can't hold close to that on a sustained basis. Perhaps you could talk about how you did what you did last year and then how you feel around what run rate cost growth ought to be for NatWest going forward. And then secondly, perhaps for Katie as well as Paul, some conversation in the prepared remarks this morning about a more active stance on capital management, securitisation and risk transfer and so on.

I don't think there's a change in the outlook for RWAs in 2025. And I think we're still being told that it's linear. Perhaps you could talk a little bit about what that does for NatWest. Presumably in this year in particular, there's a need to want to be able to do share buybacks in the market, public offer flow back and so on. If you could just talk about whether this active balance sheet management changes much in the very near term for the availability of excess capital. Thank you.

**Paul** Thanks Jason. Why don't I... I'll take costs, Katie, and then maybe come back to all three in an RWA trajectory.

**Katie** Yeah.

**Paul** So Jason, on costs, we're only guiding for the '24, which is broadly stable. Within that we have restructuring costs built in. So then I guess it's pretty easy to conclude that to stay broadly flat, we're going to work pretty hard to mitigate the impacts of both wage inflation and general contract inflation. So we're very, very focused on mitigating any cost increases.



I like to take those costs in year, so no broader restructuring charge. So we've built in a higher level of restructuring charges in '24 than we used in '23, just to directionally give you a sense of that. Overall, I do see big opportunities in respect of bankwide simplification within the bank. You'll have seen that in the slides. I think there's a lot to do, a lot that we can do to make our bank easier for customers to do business with us, but also improve productivity for our colleagues. I talked in October how I'd reshape the investment spend around some key projects to deliver more digitisation and automation.

That obviously plays through in terms of efficiency. We also have opportunities in terms of consolidation of some of our tech platforms as well. So we're gripping cost as a management team. We want to take the charges in year. That's what we've done in '23. That's what we'll do in '24. We're very focused on the glide path and mitigating any of the natural inflationary aspects that there are. Thanks.

**Katie**

Perfect. Basel 3.1 and RWAs. So I mean, Jason, you're absolutely right. I would take the 200 billion guidance we've given you to the end of 2025 as linear from here, remembering that it can be lumpy. You know, in RWAs, there's many, many different moving parts. We're very disciplined on how we allow the businesses to use it.

And then also how we then manage it as we go through. So we will look at things like SRTs, the origination of lending that we've got at any point, and just to make sure we're getting the right return for the investment we're making in our RWAs allocation. But if you go linear from here, you'll get to the right place in terms of the numbers, I think, as we roll through.

**Paul**

Thanks, Jason.

**Operator**

That concludes the Q&A section. I will now hand back to Paul for closing comments.

**Paul**

OK. Thank you, everybody. Thank you for joining.

Katie, Howard and myself appreciate it. I hope you'd agree that we've laid out a good, strong performance for 2023.

I'm delighted to be confirmed in role today. And hopefully you've got the sense I'm very focused on driving the performance and returns of NatWest. But before we sign off, I do also want to thank Howard for his commitment at NatWest and his invaluable contribution as Chair.

I know this will be the last time you join the analyst call. I know many of you on the call know Howard very well, and have spent a lot of time with him over the course of his tenure. So I guess I'll take the liberty of thanking him on your behalf for that.

And we'll build on his strong foundations to deliver the very best we can for our customers and our shareholders moving forward. So have a good Friday, everybody. Thank you.