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ROHITH, BOFA: This session with NatWest, as in the previous sessions, as you may have just heard, we'll be taking questions from the audience later in the session. So please don't be shy in raising your hand when the time comes. But I'd like to start by welcoming Katie Murray, NatWest CFO. Katie, it's a pleasure to have you back here again. How should I say this? It was probably quite a turbulent summer for NatWest.

KATIE MURRAY: It was a busy time, certainly. But it's great to see the announcement of our new chairman, a process that you all know was very much in play, anyway. So, it's good to have that piece in. And you know, Paul is a colleague I've worked with very closely for the last number of years. And he was very involved in the setting of the strategy. And him coming in as interim was something that was very well understood in the organization and something we're very supportive of. I think what's important is while there is some temporary nature at the moment in his role, the board has been very, very clear that he is the CEO, and he needs to make sure that he acts, and if there is anything that needs to be tweaked or done, he should crack on and do that. So very, very comfortable with him, and it's great to see him stepping in the way he has over the last six weeks. Rick joined us in January, and then he becomes the chairman in mid-April. So, he'll be doing our AGM and things like that. But it was a busy a few weeks certainly.

ROHITH, BOFA : And in terms of that, the CEO search, whether that's —confirmation of Paul staying in the role or a broader search, could you help us with the timeline for that, given that you now know the timing of the chair?

KATIE MURRAY: I mean, the chair, obviously, he joins the group in January. He will certainly be giving it some thought, I'm sure, at this stage, and then ultimately becomes, as I said, becomes the chairman in mid-April. So, it's a process that will be in the early stages of starting on that side. It will take a little bit of time. These things always do. We've all watched many of them happen, but I think what's really important is that Paul's very much hand on the tiller in that time and clearly a very strong candidate as part of that as well.

ROHITH, BOFA: OK. Thank you. And I guess you've already addressed that Paul has a mandate to execute the strategy.

KATIE MURRAY: Absolutely.

ROHITH, BOFA: So, as far as we know today, no change in terms of near-term financials or strategic priorities?

KATIE MURRAY: I think Paul and I are both very clear that we need to deliver on our commitments from 2023. We've also got targets out for 2025. We see them very much as non-negotiables in terms of how we set them and the macro within which they were set. So, he's very focused on them as we move forward, I think he's also very focused on just the running of the core and making sure that we're the brilliant bank that we can be for our entire customer base. So very, very focused.

I think it's important to remember that Paul was part of the setting of that strategy. He was part of the agreeing of the targets. He's been very senior in the organization for some time. So, he'd have been involved in the previous strategies as well.

ROHITH, BOFA: OK. Thank you. And then over the summer, but I guess a longer running discussion. There's been a lot of media, government regulatory focus on customer treatment but also pricing. NatWest has been the focal point for some of that. And has that changed at all the way that you're running the business?

KATIE MURRAY: No. Look, I think as you look at the whole pricing piece and clearly the FCA has issued both a mortgage charter and the savings charter, which is for all banks. It's not just for us. Obviously, customer duty then came live at the end of July. And we see that for us as something as a large incumbent bank. We don't have any of the history of back-book-front book lending or pricing-type issues. And so, we're in a very good solid place for that.

And a lot of the things that those structures said were things that are very much in how we run our business. I think what Paul and I are really focused on is making sure that they are implemented appropriately. We're treating the customers fairly. And I think what's been really important is that the customers have real access to understanding where they can go to get the right rates for them. And it's really that "for them" piece that is very important because people have different views as to what is the right thing for them as they move forward.

So, welcome the charters and see them as helpful to us, and we see customer duty overall as something that we're very comfortable dealing with and positive for us as a bank.

ROHITH, BOFA: OK. And then coming back to your strategic targets, which you've reaffirmed. So, I guess in the past, you've talked about the 14% to 16% ROTE as a through-the-cycle level, it's floor but not necessarily a cap for

any given year, and economic expectations have just moved around so much in the last two years? Can you give us a sense of the range of interest rate and GDP expectations that are captured within that 14% to 16% and what is it about NatWest business mix that gives you the confidence in that range?

KATIE MURRAY: So, I think there's a lot of different things within there. I think if we just go with some of the economics first of all. So obviously, at the moment, our view is that we'll hit a maximum rate of 5.5. We had thought that would happen in August. It may happen in September or at the next MPC meetings, but I still remain comfortable with that. And that will stay at quite high rates into relatively late in 2024, where you'll start to see them of gradually come down from there. That's an important aspect of it.

I think also what's really important is the unemployment levels as well that we have because that very much drives the demand for the lending but also really importantly drives our impairments number. You know Rohith that we have traditionally had a very strong hand on costs, and that's unchanged even though the inflation rate has remained a little bit stickier than we would have expected it to be. We probably would have expected to be slightly lower by this stage but as you work your way through those different lines, you've got to think about how the interplay is across all of them.

And I think what's really important as well on the ROTE number is also to think of capital build. So, at the moment, Basel 3.1 is being implemented in the UK on the 1st of January 2025. So that means that we need to make sure we've done the appropriate capital build during 2024. In our guidance, had been that across procyclicality lending growth and Basel that we'd see a kind of 5% to 10% increase in RWA from where we started. We've not given you any more precise numbers.

I think once the PRA come out of their consultation period, we might look to refine a little bit. So clearly, within that 14 to 16, we've also tested slightly different parameters. So, if the rates were higher or rates were lower, how would we be comfortable with that number? And we do feel that the 14 to 16 is a good through the cycle number to be thinking of us in terms of returns at that 13% to 14% level of CET1.

ROHITH, BOFA: And I guess people would have historically thought about banks as being more cyclical than just that 14 to 16. So, is there something about the NatWest model that's different?

KATIE MURRAY: I think we have to look back a little bit in the recent history that we're all obviously impacted by. We've had an extended period where rates were basically zero. We don't see that as something that's coming back. So, we do expect, even in the longer-term assumptions that we have is that rates are still elevated from the most recent history that we've lived in. So that's an important aspect for us. We've also done a significant amount of resizing of our cost base.

We'll continue to look and manage that cost base very aggressively as we move forward from here and also the management of impairments, where again we've seen our RWA densities improve. And I do think there's lots of different things. But the reality is today, given that we don't expect rates to go down anywhere near that level as you would expect a bank with that level of capital, we think to be returning to that level of profitability. Clearly, it will move around within there. And I think ,Rohith, when we're at the point that I'm at the bottom end of that range rather than the top end in any one year, you'll be giving me a relatively hard time about that. So, I do think the 14 to 16 does give us scope for manoeuvrability.

ROHITH, BOFA: OK. Thank you. And just following on from the comment you just made on rates. I guess the key investor concern that we tend to get pushed back on is we're in a relatively mature end of the rate cycle in the UK. Doesn't that mean that margins and revenues go down from here? Is that a concern that you'd share?

KATIE MURRAY: Look, I think there's a few different things that go on within there. So, I would agree whether it's 5.5 or slightly higher or even if it gets to that level, it feels like we're at the end of that piece. I definitely would agree with that. I think what we've seen as well with the last pass-through of the last rate rise is the last pass-through was more at 70% to 80% taking us to cumulative 50%. I think there's debates as when rates start to come down, what's the speed that you see of the reversing of that pass through. That's going to have a lot of, I think competition will be a big input into that piece.

When I look at our income as we go forward and I talk about this a lot with the analyst community is that NIM is really important. We do see NIM as a little bit as an output of many of the actions that we take. So, yes, we may be at peak NIM, but I don't necessarily believe, given where our book is sitting today, we're necessarily at peak revenue. I think the thing that will move that or change that around is what happens with deposit mix, how much more we see move into fixed term accounts, and then we do know, as you look at our book particularly because we've

been so mechanistic with the hedge over a number of years, we can see that is a positive as we go into '24 and again in 2025.

So, it's a balance of many different factors, I think in terms of why we have that comfort.

ROHITH, BOFA: We can maybe dig into some of that a little bit. I think the deposit piece is number one, very uncertain but also quite a big swing factor, and it's moving very fast at the moment. So, what are you seeing in terms of deposit pricing volume mix? So, what have you seen so far is the pace accelerating. It doesn't look like it is from the Bank of England data. And what do you expect from here?

KATIE MURRAY: Yes, I mean, look, I guess what we've seen is if I look at my last four quarters of quarterly calls, for the first three, I kept talking about our 40% NIBBs 60% IBBs balance, and that didn't seem to move, which felt a little bit unusual. The deposit levels fell, but the proportion was very similar. Then what we saw this last quarter is actually we moved to 37% NIBBS and 63% IBBs obviously. And that I think, was quite instructive as the pass-through was increasing. And I think there were more and more availability of higher rates. We could start to see people move. If you then picked apart our business would particularly have seen that in the Private bank, where you've got the higher balances in terms of those moves the percentage was slightly lower in terms of moves of the Retail bank. So, we can see that people are moving. I think it's interesting that how slow that has been to come through. So, if I look at our fixed term today, at the end of Q2, it was at 11%. If I took that back to the end of 2022, it was about 6%. Remember, back to the end of 2021, it'd be 3%.

So definitely a move. One of the questions I'm asked a lot is where do I think the number will land, and if I go pre-GFC, people quote a 20% number. But I think what's really important in that time as well is that banks are funded completely differently. We had far more short-term funding, which we would have been placing on it fixed to offset some of the floating nature. And so that would inflate the number that was there. So, when people toss around a 20,25% or even 30% number, I do think you've got to think actually the shape of the bank's balance sheet, the shape of our customers' balance sheet was quite different at that time. So, we don't necessarily feel it will get as far as that. I would agree with you. I've not seen any particular acceleration, but I do think the number will continue to grow a little bit further. I'm probably not going to be drawn on exactly where the percentage is but we do feel lower than where ultimately it was pre-GFC because actually we're not comparing like for like. You then go into what's happening in the competition. It's

very competitive. We watch with real interest when we see the likes of national savings putting out their 6.2% one year what money flows there.

We can see with customers that have Marcus accounts that money comes in, and it flows back out again when there's different offers. So, is that really cannibalising our book a little bit more? When we had some recent activity with one of my peer banks, I looked to see what happened in that short-term offer that they've done on term access. And it's interesting, as I go back over a number of months, what you can see if any one institution has a particular offer, you can see there will be some flow to them, it's a little bit of noise in the system rather than something more fundamental.

But what we do know then is actually, if you need to raise a piece of funding quickly, it's definitely possible to do that if you pay the right rate and you will get some flow. I'm not sure how sticky some of that flow is. And I think it's really important that we are always trying to balance both the value from the income statement but also the value in terms of our LCR.

ROHITH, BOFA: So you're seeing some hot money flowing around?

KATIE MURRAY: Yes.

ROHITH, BOFA: And in terms of overall volumes, there were some quite chunky outflows late last year, early this year, which likely were stabilizing in Q2. Do you think that's largely done now, or do you think we see more for the system?

KATIE MURRAY: I think there was a few things as I go into late last year and early this year that it's important to I think to be mindful of. One, I think what we saw is the corporate treasurers became very active. And so they did a lot of flowing around of their own funds. Now, I would expect that flow will mature at different points, and we'll all be mindful of that. And if I think of my desks that manage the corporate treasurer activity, we are definitely in a lot of conversation on there.

But I do think the big movement happened, and now it's just some recycling. We also saw in our own world that January is always a big tax payment month. There's nothing unusual in that. And interesting that it continues a bit more into February and March than I personally probably would have expected. And what you know is that the revenue took more taxes this year than they have traditionally because of the tax drag.

So that was certainly a little bit of an impact on us as well. And then we also, as I've said earlier, we manage that value across both income and liquidity. And actually, if we've got a customer who's looking to get a better rate than they are of value to us, then we won't necessarily match them on that rate and happy to see them go. But I do think Q2, it was very important for us to show the stability, and we did that.

I think as I look forward from here, I can probably see there's a little bit of a split between the Retail and Private area where normally in the second half of the year you expect to see gentle growth as they prep for their tax payments. And what we can see is the impact of the shrinkage of money supply is much more focused I think on the commercial side, but overall, I do think the big volatility is behind us, and it's how we manage as people are maturing their rates.

I think an interesting thing if you look at swap rates today, they're down 45 basis points in this last month. So, if you look, one and two-year money was paying out about 5.55. The swap rate is now below that. So, we'd have hedged it at that amount. And I think we've probably seen some of the peak in some of those rates that are paid out other than when something's doing something for a very specific purpose. So, I do think how they continue to mature from here is going to be quite interesting.

ROHITH, BOFA: OK. Thank you. And then I guess the other moving parts of the NIM, in particular, you mentioned the hedge before. There's also, I guess a trade-off between the hedge and liquidity book. And then, on the opposite side, you've still got something of a headwind on mortgage pricing. Can you help us put those three things together?

KATIE MURRAY: Yeah, absolutely. So, what we've said on NIM is around 315 for the full year. That would mean a drop from, in the second half of the year from the first half to averaging around 310. And it will move around about there. That's obviously with the assumption of the base rate rise coming in August. It's a little bit later. That will have a small impact in it. But if I think of the component parts as we go through there. If I look at mortgages today, the value of our mortgage book is 101 basis points. We've seen that fall 15 to 18 basis points a quarter for the last number of quarters as a lot of those more valuable transactions that we would have done two to three years ago in the peak of COVID roll-off.

What I talk about is that we seek to manage the book over time at around 80 basis points. Now, that will go below there at certain points

depending where I am on our hedge that we've got in place or depending on where swap curves move. You know that they move quicker than I can move in terms of mortgages. So, we will see movement below, and then occasionally, we'll see movement above. But I do think and I was chatting with my finance director for mortgages yesterday and just saying do we still hold true to that 80 basis points over time, and the feeling is that it's appropriate that there will be movements around about it.

So, you're still going to see a little bit of degradation from that in the second half of the year. I think as it comes through because the 101 will see a little bit of a repeat. What I do think, though by the time we get into Q1, that starts to smooth itself out. I mean, the hedge we've talked about a little bit already. It becomes a real discussion on both volume in terms of how much of the hedge is there and what the shape of deposits and fixed term accounts, but also rates. And I think if you cast your mind back to five years ago when what I'm replacing is maturing, in 2024, what's coming off was yielding 80 basis points.

At the moment, my average for this year will be going back on at 444. And then, what's coming off for 25 was yielding about 50 basis points. So, while I might see shrinkage in the hedge because I've got this yield pickup, you can see those things balance themselves out.

ROHITH, BOFA: Thank you. So, you don't think we're a peak revenues necessarily?

KATIE MURRAY: Not necessarily, no. I know you guys are all assets times NIM [equals] revenue, but there's a bit more complexity in there sometimes for you.

ROHITH, BOFA: So, what do you see in terms of near-term credit demand from households and corporates? It feels pretty lacklustre at the moment, but then also, probably more importantly, what is NatWest doing to build long-term revenue generation?

KATIE MURRAY: Yeah. So, I mean, look, and I think there's a path to that revenue increasing, which is important as well. So, if I look at the demand we've had, we increased our gross new lending, our gross lending in the first half of this year by 6 billion over the previous half. 17.1 billion in mortgages. I think we can certainly see in our Q3 applications that they are a bit lower than they were historically. And I guess if you think about the business we're writing now, it's kind of Q1. So, it's definitely a bit tougher in terms of that piece on the mortgage side, but we're still comfortable that we're taking a little bit more of our market share than in the market, and we're comfortable with the rates that we're doing at. So that's helpful in terms of that gentle build. We can

see within the commercial space there's a bit more activity on things like RCF. Our invoice financing and asset financing is still progressing well, but demand for credit is not as significant. So, we need to continue to work on that.

One thing we've talked about it many times around non-interest income. It's a line that has a natural imbalance in our P&L. I do think it is one that we're constantly just showing a very small steady growth within that piece. And I think there's a huge focus on making sure that we continue with that penetration of those products deeper and deeper into the organization. Whether that's through something like having FX more embedded or some of our payments activity more embedded to make sure that you are continuing to improve that line. The line obviously is a lot about consumer activity. Inflation helps a little bit because often your rates are a percentage of the actual number. The actual number is going up, then your rate is going to be improving as well. But I think there's a lot of focus on how do you manage that level of penetration and how do we make sure that we're working with our customers to meet their financial needs as well.

ROHITH, BOFA: OK. Thank you. So then, moving on to credit quality. So, we've had a rapid increase in rates, persistent high inflation, all of that makes it harder for both households and businesses. So, have you seen any pockets of credit stress so far, and also, what action are you and your customers taking in order to reduce credit risk?

KATIE MURRAY: So, I think in terms of the first question in terms of pockets of stress, I mean, the absolute simple answer to that is no. We've not, we've seen some tiny movements where people maybe aren't paying off all of their credit card bill, but they're so small I wouldn't put them in that pocket of stress. What we do see is the book continues to perform incredibly well. We were 12 basis points of impairment for the first half of the year.

I mean, if I think of the guidance, I've been sharing with you all of 20 to 30 basis points for the year, it feels like things have to move quite significantly to get to the bottom end of that level. And that even includes a strengthening of the PMA. So, therefore, with that half a billion on the balance sheet, the balance sheet is strong to be able to deal with that uncertainty.

So, there's nothing we've seen there. I do think we've been doing a lot of activity with customers to make sure that they are coming to talk to us, particularly in the commercial space. So, I think about it is we've got this funnel, and people pop into heightened monitoring at the top of the

funnel, and then what we want to do is to try to make sure we flick them back out of the funnel. Funnel is probably not the best kitchen utility to use. It must be said, but anyway, we've had about the same number of people coming in as we saw pre COVID, but what's interesting is actually they're in better shape, so they leave.

They don't work their way down the funnel, which in much more of where you get to the real risk of credit loss and where you get into the much more serious part with the businesses. So, there's a lot of activity. We've really worked hard to make sure the customers come in to talk to us, and then we can work with them. What we're seeing more on the retail side is we've increased the number of financial health checks we do.

We've done a huge amount of work to try to get people to start saving. But I think what's really important there is that because people have these slightly higher balances, and really importantly, that they're employed, and if I look at employment, we think of the last year as the year of real wage growth. But actually, if I look over the last three to five years, you can actually see the wage growth that we've seen come in is outstripping the increase we're now seeing in mortgage repayments. So, actually, they're protected a little bit.

Now, clearly we all know that people, when they get a pay rise, they don't pop away to pay for their future mortgage increase. So, there is an adjustment in behaviour, but we can see people managing that behaviour. I spend quite a lot of time looking at credit card data. What are people spending their money on to see if there's any stress within there, and there still is a very high level of discretionary spend. Some of that funded through the wage growth, or maybe, in some cases, we're seeing that people are saving a little bit less as they're trying to protect their quality of life.

So definitely when you go from 1.5% to like a 5.5% mortgage, there is a sticker shock moment without doubt, but actually, the wage support that we've had in that time helps with that. So, people are able to manage their positions a little bit more carefully.

ROHITH, BOFA:

OK. You mentioned the 12 basis points first-half charge and the 20 to 30 basis points guidance. So, you need a doubling or a quadrupling in the charge to get there, and you mentioned the PMA half a billion as well. What scenario would you have to see to get into that?

KATIE MURRAY: I mean, you can do the math yourself. So, I think we would have to see unemployment moving quite quickly, which is as you know, is not in our economic assumptions, but we'd actually have to see far more the commercial companies having problems. You all read the papers avidly as I do, and what we can see as well, there are one or two names in there. There's nothing like the level we'd expect to see. So, I think I said at the half year, we'd have to work quite hard to get to the bottom end of that range.

We are not seeing things deteriorate, particularly over the summer. So, we'll talk more about it in a few weeks' time. But it's certainly sitting at 12 basis points with the news flow that I can see coming through. It certainly doesn't feel it will be well into that range by any stretch of the imagination.

ROHITH, BOFA: OK. Thank you. And then so then moving to costs. You've reaffirmed the cost guidance for this year. You target 50% cost income or below 50% by 2025. You mentioned earlier that inflation has been higher for longer than you'd anticipated. So how do you manage the bank to still achieve that cost income target?

KATIE MURRAY: So, I mean, as we look at the cost side, I mean, there's three ways that you deal with costs. It's people, processes, and technology. You know that we're making significant investments in our technology base. We talk about 3.5 billion over three years. A huge amount of that goes into technology, whether that's through some of the regulatory repair work you have to do or the mandatory requirements, or the actual pure investment in growth initiatives. So, you can see that start to yield benefits in terms of the automation.

Similarly, on processes, it's amazing how often when you change the technology, you have to put as much effort into making sure you change the processes that sit around about that. We actively manage our work, our workforce, whether that's making sure we're bringing in the right people in terms of data and skills and things like that or whether we try to manage to not having too many what we call managed service workers, which is people being supplied by other organizations bringing them in-house.

So, you might not see our FTE number move, but the cost of those FTEs are better than you would when you have them of being supplied elsewhere. So, I think it is about how do you manage all of those pieces. And I think, importantly, keep a really good eye on growth to make sure that those growth initiatives are things that are really delivering real

value. And we talked about income already. I'm not the biggest fan of cost-income ratios, I think, because you can get two issues conflating.

At the moment, while our printed number is, I think it's about [49.3%] in terms of the cost-income ratio. That's helped by a technical matter around some effects recycling. So, we're sitting just above 51% in reality today. So, it feels like how do we move into next year then to head towards that 50% cost-income ratio? And I think it will be a factor of both the cost and the income side to make sure that we hit that.

ROHITH, BOFA: And then capital distribution. There's been a very clear commitment to that historically. You've announced about 4 billion cumulative since just February this year. How should we think about that going forward in terms of your prioritization of distributions relative...

KATIE MURRAY: I mean absolutely no change in the narrative that we've given you to date. We're very, very clear on 40% dividend payout ratio and to make sure we maintain the capacity for the directed buyback. Obviously, we did it in May this year. That means it would move to May next year at the earliest. And then, when there is other capacity to utilize on market buybacks, we're 20% through the one that we announced in the end of July.

So that's progressing nicely. We're very clear as an executive that any kind of venture into the M&A world would have to make huge sense from a shareholder. So, both value and distribution level to make sure that we were really giving the right value for that. So, there's really been no movement at all in the capital distribution narrative that we have. I think one of the changes that some people have had to get used to is when we're sitting at 18%, we were distributing down to 13 to 14. We're now in that 13 to 14. We know that we generated in the first two quarters of the year, about 50 basis points of capital, and that's 100 so far this year.

But I think we're trying to manage in that 13% to 14% level. Very happy to toggle up and down within it. So, we're not trying to keep ourselves at the high end or anything like that. But we have done significant distribution this year already, but it's a bit different from where we were a couple of years ago. And I think it's important that people do remember that when they compare absolutes with absolutes.

ROHITH, BOFA: OK. Thank you. We do have some time left. So, if there's questions in the audience, do please raise your hand, and I'm very short-sighted. So Katie if you can see anyone..

KATIE MURRAY: Well, I've been blinded by this light so we're okay here, there won't be any.

ROHITH, BOFA: Well, I think there's one over there somewhere. Oh, there we go on the left behind.

AUDIENCE: Hi there. If you look across at the US, the leaders of the US banks are very robust in defending their banks and their shareholders, and you see a much more combative response to whether it's Basel 3 or regulators in general. That doesn't happen in the UK, and shareholder returns for your bank have been abysmal. Is there any chance of a change in your response to regulation, the UK government, your ability to make money and deliver returns to shareholders or is it business as usual?

KATIE MURRAY: Yeah. So, as I look at it, I would say we do definitely have a different style in terms of responding to regulation. I would say it's less public in our views in terms of that piece. But certainly, if I look at the most recent Basel 3.1, we've been very strong in our concerns around a couple of the areas that the PRA are pursuing there, particularly around SME lending and also infrastructure and green lending. We do think they'll be very bad for PLC UK, not just for us in person.

So they'll continue to be developed. I mean, look, what I really believe we've built here is a bank that will deliver 14% to 16% ROTE, at a 13% to 14% [CET1]. I think that is an excellent return. I do accept in terms of the total shareholder return and where our valuation is placed at the moment, that hasn't delivered the return in those shareholder numbers.

I think there's a number of things in there. UK PLC macro is an important one. So, the conversations that we have when rules are coming in to say, look, actually, your rules could bring down SME lending. It can make it easier for a French bank to lend in infrastructure than it is for a UK bank. So and those conversations happen very much with Treasury and with the PRA to make sure that they are in lock step.

I think traditionally, we haven't taken to the podium to have those conversations. And it's not something we probably expect to be doing any time soon as we work our way through them.

ROHITH, BOFA: Thank you. Another question?

AUDIENCE: Just two for me. You've talked about the reinvestment yields on the hedge book around the 4.4 mark, but if I look at 2 and 5-year swaps, they've been trading a lot higher than that. So why are you sticking to

4.4? Secondly, in terms of not choosing to roll over a bit of the hedges, is that just mix shift that's factoring there given we're at peak base rates is your expectation? I would have thought you'd want to have a higher structural hedge to shield from a sudden drop in rates. Thanks.

KATIE MURRAY: Yeah. Sure. So, I guess as I look out at the 4.44 is an average over the year. So, we didn't start the year at the 5.4 we're at just now. So, it's a kind of look at that as an average number. It's the number we also shared with you at the end of July. We'll update it at another number there. But if you take the average over the year, you'll get we'll be investing at what it says. So we're not cutting it or holding back in any way on that.

So I guess if I then look at the shape of the hedge, we've got it to 190 billion for the year. We do it quite mechanistically. It's important to remember how that hedge is formed. We hedge most of our current account balances. So, as we've seen movements from the current account going into instant access or into fixed, you can actually see those come down. 190 assumes that we stayed at the same levels both in terms of quantum and shape as we were at the end of June.

I'm not a fan of being overhedged. And actually, it doesn't make us any more money because the way the hedge works is the money I've got at the Bank of England but don't have the deposits. I'm not making any return from the Bank of England. So, actually, hedging more or taking that bet actually means that we're making a bet on interest rates. We do believe that over time, that mechanistic approach has served us well, that we've been able to capture all of the up, and as we've continued to increase.

OK. Now, as we come on, it will be slightly lower, but I'm happy to make sure I'm locking in the down as we do, but overhedging that or making sure that we're trying not to turn, actually, I think we bring more risk into our statements. So, it's not something we're interested in doing at this stage. And I think it would be highly unlikely for us to take that position.

ROHITH, BOFA: And can I just follow up on that, actually? So, if a deposit moves from a current account to, say, a fixed term deposit, or let's say, an instant access deposit, it's no longer hedged or less of it's hedged...

KATIE MURRAY: Less of its hedged in that same situation. Yeah.

ROHITH, BOFA: But if it's also invested in your liquidity book, you still earn the yield on the liquidity book, which is higher than you could reinvest on the hedges. Is that right? So, yes, you would get a short-term...

KATIE MURRAY: You would get...

ROHITH, BOFA: Cost of funding would go up.

KATIE MURRAY: Yes.

ROHITH, BOFA: The yield that you make when you reinvest that funding actually goes up when you move it out of the hedge.

KATIE MURRAY: So in that short term piece.

ROHITH, BOFA: You don't get the duration.

KATIE MURRAY: You don't get the duration benefit of it. So from that movement, that's obviously more valuable. Again, I don't want to overhedge because then the one-year or the two-year money, I'm forward trading them. So, I'm earning 20 or 30 basis points on that piece. So, you certainly wouldn't hedge those ones.

ROHITH, BOFA: OK. Thank you. Anybody else in the room? Could I then come back to the question on defending the bank? I guess an issue that has been raised for NatWest, RBS over the years is just the government involvement in the bank. I guess came to the fore again over the summer. Is that a real concern in how you run the business, or is that a perception issue?

KATIE MURRAY: I'm trying to remember Rohith when we last sat on this stage together. And I think it was actually probably when I first became the CFO, which was five years ago now. And I've been able to say absolutely hand on heart in those five years. I've never experienced any government interference. I deal with them on a monthly basis. The top of my agenda says, please do not give me any insider information in that piece.

I accept that the events of July are still very prescient in people's minds. Nothing's changed in my day-to-day interactions with the UKGI in that time. And I would hope that if you ask me again in a year's time that I would say no different. I do think it was an event of a particularly febrile nature in a particular moment of time.

So, I mean, there is no day-to-day involvement in the running of the bank. What Paul and I need to do is to make sure that we deliver the right equity story so that we can enable their sell-down. They've been very public around their desire to do the sell-down. We need to get the valuation to the right place to enable them to do that. But I think

delivering for the bank on the day-to-day is the best thing that we can do. It's not a day-to-day concern for us in terms of the political involvement, and it's not a reality of what we experience, and what I have experienced personally over the last five years.

ROHITH, BOFA: OK. Thank you. Then, on capital return. You talked about prioritization of distributions. We also talked earlier about non-interest income growth. Would you consider M&A to boost that rebalance net?

KATIE MURRAY: We do consider it. It is something that we look at. We have our small M&A team that I spend a lot of time working with, and we've done some very small acquisitions. I think, for me, the benchmark is really high in terms of M&A. We've committed to delivering 14% to 16% return. So it needs to be something that can deliver that at the price that we would have to pay for it. We have a purview of the question we got earlier. We know we're trading [around] 5 [times earnings]. times book.

So to actually make an acquisition for earnings that are trading at 20 times, that's a difficult maths thing to do. I think I would question whether that's the best use of our shareholder return. We do look at it. We're very interested in it. We'll continue to keep a very open mind. The criticism I have of our own P&L is very much around is that not so much the weakness in that line but the weakness in the comparison of it to the net interest line. It's not as balanced as we'd like it to be. So we will continue to look.

But for us, it's very important you get the right culture of acquisition, but also that it makes the right sense for the shareholder whose money we have to invest.

ROHITH, BOFA: Ok. Thank you very much. Anyone else in the room?

ROHITH, BOFA: Sorry. One more for me.

KATIE MURRAY: That's fine.

ROHITH, BOFA: Just on Ulster. It's a bit hard to pass what sits in discontinued, continued operations, Ulster direct costs, indirect costs. Just wondering if you can get some clarity on when we get a very clean number here where I believe a lot of the direct costs will be running off in 2024. How about the indirect costs associated with running Ulster Bank?

KATIE MURRAY: So the way I look at it, and I would agree with you. I think this continuing discontinuing, it's not the ISBs proudest of moment in terms of disclosure for the market in terms of how you actually get behind that. But I guess what we have said there's minimal income coming in now clearly, then what you have coming through, we've got [300 million] of costs this year. We'd expect a material step down in that number next year as we see the direct costs really come to an end.

We're also-- by the time we get to particularly after Q1 next year, most of the transactions will have made their way through. So the RWAs from credit are off the books as well. So I mean, I would hope if we got to next year that the numbers become so small we just don't talk about them any longer in terms of that piece. They'll still be there. We'll disclose them with you, but really, this is their last big year.

I think the Irish team have done a superb job in making sure they've been able to move both the assets and the liabilities off the balance sheet. And if you sit in the Irish company today, you know exactly the date that you're leaving. So that is also really important in terms of making sure that those costs are heading off. Clearly, there will be a small little team, but that's a small team as we wind up and get into license hand-back conversations.

But I do think that this year, for the last year of any meaningful costs, then they're looking at [300 million]. They're not so meaningful in a 7.6 billion balance sheet. I mean, 7.6 billion [cost] line.

ROHITH, BOFA: That does bring us to time. Thank you very much.

KATIE MURRAY: Lovely. Thanks very much, indeed. Thanks for your time, everyone.