NatWest Group plc

Full Year Results 2021 – Management Presentation

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Howard Davies: Good morning, everyone, and thank you for joining Alison, Katie and me for our full-year 2021 results presentation.

NatWest Group delivered a strong financial performance in 2021, delivering on our strategic priorities, returning to profitability. The bank's share price also saw a steady recovery throughout the year, increasing by around 35%. And UKGI announced three separate transactions, taking the government stake down to just above 50%.

The UK banking industry as a whole has held up well during the pandemic, remaining open for business and well capitalised. NatWest Group retains a very strong capital ratio, and we once again comfortably passed the Bank of England's stress test in December, further demonstrating the resilience of our balance sheet to future crises.

Our commitment to helping people, families, and businesses to thrive has never been more important. We are building from extremely robust foundations as a bank which holds strong market positions, serving 19 million customers, including one in four businesses throughout the UK.

For the moment, a number of the key economic indicators remain relatively positive – growth has returned, unemployment is low, and the bank is seeing little in the way of significant defaults among its customers.

And while there is no doubt that the recovery from the pandemic and the rising cost of living are causing challenges for our customers, we also see considerable opportunities for growth.

The progress that Alison and her strong and capable leadership team have delivered in the last two years has helped to ensure that the Group is well placed to succeed and grow as the needs and expectations of our customers evolve.

We are delivering on our purpose, underpinned by our strategic priorities; helping customers transition to a low-carbon economy, playing a positive role in our communities, and driving sustainable returns to our shareholders.

With that, I will hand over to Alison and Katie, who will take you through our results and our future priorities in more detail.

Alison Rose: Many thanks Howard. Good morning and thank you for joining us today. As usual I'll start with a strategic update, Katie will take you through the results and we'll then open it up for questions.

We are reporting a strong performance today. We are now two years into our transformation programme and have made good progress on our strategic initiatives. Our refocusing of NatWest Markets is largely complete and our withdrawal from the Republic of Ireland is well underway. With the economy starting to recover the business is now positioned for growth, supported by our long-term investment programme and digital transformation.

So, let's begin with the financial headlines on slide 4. We're reporting a strong performance for 2021 with profit before tax of £4.3 billion, compared to a loss of 351 million in the prior year. We generated attributable profit of £3 billion. And our return on tangible equity was 9.4%.

We are also delivering on income growth, cost reduction and capital: net lending grew 7.8 billion or 2.6% driven mainly by growth in mortgage lending; we reduced costs by 4% or 256 million, and we are reporting a CET1 ratio of 18.2%, or 15.9% on a pro-forma basis for regulatory change introduced in January 2022 as we previously indicated.

As you know we have committed to an annual dividend distribution of at least a billion pounds for 21, 22 and 23. We are announcing today a final dividend of 7.5 pence bringing total dividends for the year to 1.2 billion. We have also executed on-market buy-backs of 750m and we are announcing today a further 750 million. Including the 1.1 billion directed buy-back we made last March, this brings total distributions for 2021 to 3.8 billion.

Two years ago we set out our purpose led strategy which places customers at the heart of our business as you can see on slide 5. The rationale is straightforward – by helping our customers to thrive, we too will thrive.

We are delivering our strategy through four strategic priorities with the aim of driving long term sustainable value and delivering on our 2023 targets which we are now updating.

In 2022 we expect to deliver income of more than 11 billion pounds, excluding Ulster Bank. We are amending our cost reduction target to 3% per annum for 22 and 23, reflecting higher inflation and ongoing investment in

the business but maintaining our strong focus on continued cost discipline.
We retain our 2023 CET 1 ratio of 13 to 14% and we have upgraded our Return on Tangible Equity target in 2023 to comfortably above 10%.
So let me talk in more detail about how we are putting customers at the heart of our business on slide 6. We already hold strong positions serving 19 million customers including one in four UK businesses. But as we have seen during the pandemic, customer needs and expectations are changing rapidly. This represents an opportunity for banks that can stay close to their customers and anticipate their evolving demands.
Our investment in data and technology means we can better understand our customers, create deeper relationships and support them more effectively and efficiently at key stages throughout their lives - whether it's helping to buy a house, save for the future, set up or grow a business.
You can see on the slide how we are gaining traction– to give some examples, since March 2020 we have gained almost half a million new customers who have their primary banking relationship with NatWest Group.
And while we continue to provide face to face support through our extensive network of branches and relationship managers, almost 90% of our Retail customers now have their needs met digitally compared to 53% two years ago.
So let me turn to how we are investing to further improve customer experience, deliver growth and increase productivity on slide 7. We have just entered the second year of our £3 billion investment programme, the majority of which is being invested in technology, digitalisation, and data.
We're investing in digitalisation of products and services to drive growth; we're investing in customer journeys to improve the customer experience and productivity; and we're investing in data analytics to deepen our understanding, develop real customer insights and personalise our approach.
I want to focus on three key growth areas today: small and medium size businesses; affluent customers; and helping our customers transition to a low carbon economy. I'll talk more about each of these areas in turn, starting with small businesses on slide 8.

We are already a leading bank for small and medium businesses in the UK with a leading net promoter score. Last year we supported SME's with 2.2bn of gross lending and we processed a quarter of all UK payments.
As the economy recovers we continue to invest and support these businesses which drive around half of UK turnover and employ 60% of the private sector workforce. We are doing this by creating an ecosystem of digital and technology-led solutions combined with a specialist relationship manager model covering all the regions in the UK.
One example of our investment is our payments proposition. Our merchant acquiring platform Tyl allows businesses to take payments from customers via a card, phone or online. Payit uses open banking technology so businesses can manage online payments direct to their customers' bank accounts in near real time without needing to know or store their card or account details. As we further integrate Tyl and Payit this will provide customers with a combined digital solution across both card payments and open banking.
We are also investing in international payments to give us a competitive global payments proposition enabling us to grow our share of customer wallet.
Another priority as the economy recovers is to support high growth companies as they scale up. We're well placed to do this both through our network of accelerator hubs, which offer entrepreneurs access to sector experts on the ground in every region, and through collaborating with others such as the Business Growth Fund where we co-invest equity in businesses that want to scale.
So let me turn now to our affluent and high net worth customers on slide 9.
In 2020 we brought all our wealth management businesses together within Private Banking. We did this to drive greater value from the affluent customers we already serve, as well as to attract more of this growing segment to our Wealth Management business and deliver real growth.
We have the leading Private Bank in the UK with Coutts, and we are focussed on supporting affluent customers across the Group by improving financial understanding, creating more flexible tailored lending and helping people save and invest for the future. Over the past year we have made

good progress: we successfully on-boarded 25,000 new affluent customers; we have improved our affluent net promoter score by almost 20 points and our investment products are now the best rated for the affluent segment. In 2021 we grew assets under management and administration by 5.3bn to 35.6 billion, and we doubled net new inflows to £3 billion.
Our investment in digital platforms enables customers to access a range of funds online that are managed by the bank's investment team. 800 million of net new inflows in 2021 was via digital platforms which is evidence of our ongoing digitalisation and growth.

Another way in which we are responding to changing customer needs on slide 10 is by helping them transition to a low carbon economy where there is a strong commercial, economic, and social imperative.

Of course, we also have to ensure our own house is in order and, having achieved net zero in 2020, our focus now is on becoming Climate Positive across our operations by 2025.

As you know, we are a leading underwriter of green bonds, and we reached our 2021 target of raising 20 billion in sustainable funding and financing early. So, we announced a new target to deliver a further 100 billion by the end of 2025, and contributed over 8 billion towards that target in the second half.

We are now consolidating our position as an industry leader for green underwriting by expanding our range to include not just sustainability linked bonds and loans but also financing, derivatives and repo products.

Turning to smaller businesses, research we carried out last year shows that there is a 160 billion revenue opportunity for SMEs as a result of the drive to tackle climate change. Last week we announced green loans (with no arrangement fee) to help SME's finance assets such as solar panels, electric vehicles, or heat pumps in order to achieve their sustainability ambitions.

For consumers we have completed £728m of green mortgages since their launch in Q4 2020, which give a discounted interest rate on energy efficient properties.

We are also working with other organisations to accelerate change and better serve our customers. For example, we are collaborating with Microsoft to help

UK businesses create plans to reduce their carbon emissions; we are working with Octopus Energy on a scheme that helps customers transition to electric vehicles, and we have partnered with Cogo, who are experts in carbon tracking, to help our customers measure emissions associated with their spending via the NatWest banking app.

Last year we also led a collaboration with other global banks to launch Carbon Place, the world's first transparent global marketplace for carbon offsets using blockchain to offer customers clear and consistent carbon pricing, a liquid market and seamless post-transaction settlement.

We continue investing to deepen customer relationships through our digital transformation and are reaping the benefits of creating a relationship driven bank in a digital world as you can see on slide 11.

60% of retail customers now interact with us only via digital and just under 90% have their needs met digitally. Use of our chatbot continues to grow with about half these interactions completed without human intervention, and video banking is now well established as a convenient means for customers to meet us without having to travel to a branch.

As you know we have been investing in customer journeys to make the experience fast, easy, and frictionless. As a result, in 2021 70% of new account openings in the Retail Bank were automated with straight through processing compared to 14% in 2019. This level of digitalisation is creating a virtuous circle. Improving the customer experience has increased Retail Net Promoter scores from 4 to 13 within the same time span. It has also improved productivity and strengthened our internal controls

In Commercial Banking digital service requests have grown from 6000 in 2019 to 220,000 in 2021 as we migrated more services to digital channels - and our online Net Promoter Score increased from 4 to 24.

I now want to turn to capital management on slide 12. We are working hard to reduce the capital intensity of the business and have made good progress with a reduction from 54 to 43% over the last 2 years

We continue to actively manage capital in Commercial Banking to exit portfolios with low returns and delivered a further reduction in RWA's of 1.5 billion in 2021.

We have also made strategic choices on NatWest Markets and Ulster Bank as you know. We have largely completed our refocusing of NatWest Markets on Currencies, Fixed Income and Capital Markets. As a result, we reduced RWA's from 38 billion in 2019 to 24bn in 2021. During the year NatWest Markets also returned a billion pounds in dividends to the Group.

We continue to make good progress on our withdrawal from the Republic of Ireland. In December we announced that we have reached a binding agreement with Permanent TSB for the sale of €7.6 billion of performing retail and SME loans. Together with our agreement with Allied Irish Bank on €4.2 billion of performing commercial loans, this means that around 60% of the Ulster loan book is now agreed for sale. We continue to progress transactions for other elements in the portfolio and will update you during the course of the year. We expect the majority of AIB and PTSB asset sales to be largely complete by the end of 2022 and for our withdrawal to be capital accretive.

So our business is now much more capital efficient than it was two years ago and we maintain a strong risk profile with a well-balanced and diversified portfolio. 94% of our Personal lending is secured and we have limited exposure to at-risk sectors which we manage carefully.

Now that the refocusing of NatWest Markets is largely complete, and our withdrawal from the Republic of Ireland is well under way we are further simplifying the structure of the Group to focus on customer segments and growth as you can see on slide 13.

We are doing this by bringing together our Commercial, NatWest Markets and RBS International businesses to create a new franchise called Commercial and Institutional. This will enable us to deliver more products and services for customers through the full lifecycle from right across the franchise – just as we have done by bringing together our wealth businesses in private banking to leverage our asset management expertise across the Group.

From Q1 onwards we will have three major businesses - Retail, Private and Commercial and Institutional – and we will report on this basis, excluding Ulster Bank. Katie will talk more about this later. This is a further step in removing complexity and becoming an easier bank for our customers to deal with.

Turning now to slide 14. Our focus on efficient capital allocation is driven by our desire to maximise returns to shareholders. As you know this is a capital generative business and our CET1 ratio is well above our target of 13-14%.

As I said earlier, we have committed to an annual distribution of at least a billion pounds for 21, 22 and 23 with a pay-out ratio of 40% for ordinary dividends. We also made a direct buy back of 1.1 billion in FY21, the maximum possible in any given year at almost 5% of our share capital. We plan to maintain capacity for further direct buy-backs. In addition, we will consider further on-market buy-backs as part of our distribution policy.

Whilst returning capital to shareholders remains our preference, we retain the option of looking at inorganic opportunities which offer a strong strategic rationale and compelling value creation.

You will also have seen that the government has sold around 350 million shares since our Q3 results and its shareholding has decreased by 11 percentage points during the year to just under 51%.

So, with that, I'd like to hand over to Katie to take you through our financial performance for the year.

Katie Murray: Thank you, Alison and good morning, everyone.

I will start with the Group performance for the full year and introduce the Go-forward group financials before I cover our performance for the fourth quarter.

As you know Ulster Bank is divided into continuing and discontinued operations as we progress with our withdrawal from the Republic of Ireland. In time everything will move to discontinued as the withdrawal completes. However, when reviewing the full year performance, I believe it is helpful to talk to the total group including Ulster Bank's discontinued operations. Group income was £10.8 billion, as shown on the far right. Total operating

expenses were £7.8bn, down 1% on the prior year. We reduced other expenses by 4%, in line with our commitment. We made a net impairment release of £1.3 billion compared to a charge of £3.2 billion in 2020 and this resulted in operating profit before tax, of £4.3 billion up from a loss of £351 million. Attributable profit to ordinary shareholders was £3.0 billion, equivalent to a Return on Tangible Equity of 9.4%.

From now onwards my comments are predominately for the Go-forward Group.

So, turning to our Q4 performance on slide 17. We reported total income of £2.6bn for the fourth quarter, down 1.9% from the third quarter. Within this, net interest income was up 3% at £1.9bn and non-interest income was down 13% to £660 million. Excluding all notable items, income was in line with the third quarter. Operating expenses increased 21% to £2.2bn driven by higher strategic costs and the UK bank levy. The net impairment release of £328 million represents 37 basis points of gross customer loans and compares to a release of £226 million or 26 basis points in the third quarter. This reflects improvements in underlying credit metrics and a continued low level of defaults.

Taking all of this together, we reported operating profit before tax of £710 million for the quarter. I'll move on now to net interest income on slide 18. Net interest income for the fourth quarter of £1.9 billion was £53 million higher than the third. This increase reflects continued mortgage and unsecured balance growth and the higher yield curve.

Turning to Net Interest Margin, this increased by 3 basis points to 238 basis points. Higher structural hedge income and a change in the bank rate in mid-December added 2 basis points. Mix and price developments added a further basis point driven by higher unsecured balances.

Turning to the drivers of margin on slide 19. On the asset or lending side: gross yield for the Group fell by 5 basis points to 168, reflecting further growth in lower yielding liquid assets. There was moderate pressure on Retail Banking loan yields due to lower mortgage rates while Commercial Banking yields improved due to mix and the UK base rate change.

On the liability or deposit side: group funding costs declined by 3 basis points to 28, a more typical quarterly level. Retail and commercial deposit costs were stable.

There are two key factors to consider in relation to 2022 net Interest margin. First, the yield curve and second, mix and price. I will talk more about these factors on slide 20.

Starting with the chart on the top, which we showed you in Q3 when we spoke to the mortgage margin. As we enter a period of rising UK base rates, it is important to appreciate broad balance sheet dynamics concerning mortgages, deposits and unsecured lending to understand how the higher yield curve will be reflected in Retail and Bank Net Interest Margin.

We have taken significant action to increase customer mortgage rates given the sharp rise in swap rates from October last year. Customer deposit rates however were unchanged in the quarter. This led to an increase in customer spread - the difference between what we charge customers for their mortgage and what we pay for deposits. This increase will come through in higher deposit income, which is only partly offset by lower mortgage income.

If we look at profitability across the franchise, taking into account mortgages, unsecured lending and deposits, you can see that, despite volatility in mortgage margins in 2021, Retail NIM remained stable, and we are comfortable with this performance.

Turning to our updated interest rate sensitivity disclosure in the chart on the bottom left-hand side. The improvement in the yield curve is reflected in the market implied interest earnings at year-end, so the incremental benefit has reduced from what we showed you at the half year. This is because we will pass more of the change in base rates through to customers at higher absolute interest rates.

The benefit in Year 1 from a 25-basis point increase in all yield curves would be £329 million and £267 million of this relates to the UK yield curve. The benefit from a 100-basis point increase in UK interest rates is £969 million.

For our hedged deposits, the ongoing increase in swap rates will be reflected in our product structural hedge income, which we expect to increase over 2022.

For our large unhedged deposits, the higher UK base rate is more relevant, and this is highlighted in our managed margin sensitivity.

As you know changes in asset mix and price are not included in this sensitivity disclosure but taken together, we expect the yield curve benefit to more than offset the competitive pressure from mortgages. So, we anticipate an increase in Bank Net Interest Margin through 2022.

Moving on now to look at volumes on slide 21.

Gross loans increased by £4 billion or 1% in the quarter to £356 billion. UK Mortgage lending grew £1.4 billion or 0.8%. Net mortgage growth of 10.9 billion for the full year includes a record £36 billion of gross new lending in Retail Banking. Our Retail Banking mortgage stock share grew to 11.0%, driven by flow share at 11.5%. UK Unsecured balances grew a further 200 million, following a return to growth in Q3.

In Commercial Banking, gross customer loans reduced by £1.9 billion reflecting continued repayments on government schemes, and targeted sector reductions, mainly across Real Estate to manage our risk. There was a small drawdown of revolving credit facilities, but utilisation is broadly unchanged at 19%, which is well below pre-COVID levels.

Overall, 2021 was a year of strong growth in lending as we supported our customers to buy homes, grow their businesses and manage their spending

I'd like to turn now to non-interest income on slide 22.

Non-interest income, excluding notable items, was £598 million, 7% lower than the third quarter. Within this, income from trading and other activities decreased 71% to 39 million.

Our Currencies and Capital Markets businesses in NatWest Markets performed well but there was continued weakness in Fixed Income, driven by an underperformance in rates. NatWest Markets performance at the beginning of 2022 has been in line with expectations and this includes the fixed income business.

As Alison mentioned, we will create a new franchise, Commercial & Institutional, which combines NatWest Markets with our Commercial Banking and RBSI businesses to better support our customers. You can see the combined performance in the appendix.

Fees and commissions in our Retail and Commercial businesses grew by £31 million to £516 million. This was driven by higher payments income, due to increased corporate activity, as well as growth in card and lending fees supported by the successful roll out of our new credit card proposition.

So, what does all this mean for 2022 income? We expect to deliver income, excluding notable items, above £11 billion, up from £10.1 billion in 2021.

I will move on now to look at Costs on slide 23. Other expenses, excluding operating lease depreciation and the direct cost base of Ulster, were £1.7 billion for the fourth quarter. That's down £59 million on the fourth quarter in the prior year taking annual cost savings to 4%, in-line with our target.

Strategic costs were £378 million in Q4, bringing the total for 2021 to 787 million, again in line with guidance of around 800.

Going forward we are simplifying our cost target to align to the Go-forward group, excluding litigation and conduct costs. On this basis, other operating expenses in 2021 were £6.8 billion.

Looking to 2022, we continue to invest in the business as we seek to improve operating leverage. Taking into account this investment and higher inflation, we are targeting further cost reduction of around 3% per annum for 22 and 23 from this base of 6.8 billion.

Turning now to impairments on slide 24.

We made a net impairment release of £328m, or 37 basis points of gross customer loans in the fourth quarter. This brings the overall release for the full year to £1.3 billion.

The Q4 release was driven by: an update to our economic assumptions in-line with prevailing market conditions at the year-end, improved underlying risk metrics in our performing book and a continued low level of defaults.

Following actions taken to de-risk our book, we are updating our through-the-cycle impairment loss rate to 20 to 30 basis points, down from 30 to 40 basis points. We expect to be below this through-the-cycle average for both 2022 and 2023.

Turning now to Expected Credit Loss on slide 25.

Our Group ECL provision at the end of the year was £3.8 billion, down £2.4 billion from the start. £1.5 billion of this reduction was driven by improved

economics with a further £166 million reduction due to reclassifying the Ulster portfolios we have agreed to sell to AIB and PTSB.

The £3.8 billion ECL includes £1 billion of Post Model Adjustments. £584 million of the PMA relates to economic uncertainty, down by a further £145m in the quarter. The ECL release has reduced our ECL coverage to 1.03% and we are comfortable with this level of coverage.

Our PMA for economic uncertainty accounts for 15 basis points and the remaining coverage of 88 basis points is below 2019 levels, which feels reasonable, given the de-risking we have undertaken.

There are no particular issues in the book, and we continue to be comfortable with how it is performing. Turning now to look at progress on Ulster Bank on slide 26.

As Alison said earlier, we now have binding agreements for around 60% of the Ulster Bank loan book. We expect the majority of AIB and Permanent TSB asset sales to be largely complete by the end of 2022.

As you know these are asset deals and we also expect a gradual decline of deposits as customers choose their new bank. This will probably lag the asset sales slightly. Income will follow the balance sheet trajectory, but the reduction of the cost base will lag.

However, we do expect total Ulster Bank other operating expenses, excluding withdrawal related costs, in 2023 will be around €200 million lower than 2021. We expect to incur withdrawal related costs of around €600 million over the next three years, including 500 million of this by the end of 2023. As I said earlier, these costs are excluded from our cost target which is focused on the Go-forward group. In addition, we expect to incur disposal losses through income of around €300 million in 2022.

Ulster Bank in the Republic of Ireland remains very well capitalised and had a CET1 ratio of 27.8% at the end of 2021. We continue to expect the withdrawal to be capital accretive and you can assume a reduction in RWAs in line with the timing of asset sales. As transactions complete, we will look to restart dividend payments from Ulster Bank back to the Group.

Turning now to look at Capital and Risk Weighted Assets on slide 27.

We ended the quarter with a Common Equity Tier 1 ratio of 18.2%, down 50 basis points over the third quarter. This ratio fully reflects: the final dividend

accrual bringing the dividends for the year to 1.2 billion ahead of our £1 billion commitment; and the £750 million buy-back we announced today; which together reduced the ratio by 75 basis points. This reduction was partly offset by: a 32 basis point benefit due to lower RWAs; and a 5 basis point increase from attributable profit, net of changes to IFRS 9 transitional relief.

Our IFRS 9 transitional relief is 39 basis points, down from 60 basis points at Q3. The reduction reflects the release of Stage 1 and Stage 2 Expected Credit Loss which would previously have been added back to our capital position.

Looking back over the full year, we started with a CET1 ratio of 18.5% and generated 240 basis points of capital. This allowed us to announce capital distributions of £3.8 billion and pay £500 million of associated pension contributions equivalent to 265 basis points and end the year at 18.2%.

RWAs fell by £2.8 billion in the quarter to £157 billion. This was driven by lower credit risk, which reduced by £2.2 billion. Given the strong performance of our credit book there was a benefit from positive procyclicality, which reduced RWA by £0.8 billion, including £0.4 billion in Commercial Banking and £0.3billion in Retail Banking.

The regulatory changes that took effect on 1 January 2022 have increased RWAs by £18.8 billion to £176 billion, in-line with our guidance. This should be your base moving forward, and we expect RWA movements to reflect changes in the loan book and the Ulster bank withdrawal.

RWA inflation, combined with other regulatory changes on 1st January, reduces our CET1 ratio by 230 basis points to 15.9%. Turning to slide 28, which shows the key drivers of our CET1 ratio.

As we transition to our 2023 target of 13-14%, with an aim of ending 2022 at around 14%, these are the factors to consider. We will continue to generate capital both through earnings and our withdrawal from the Republic of Ireland. We will also consume capital via loan growth.

Distributions are a key priority and we have committed to distribute a minimum of £1 billion per annum through dividends, which would consume around 115 basis points of capital through to 2023.

We have £500 million of distribution linked pension contributions remaining which would consume a further 20 basis points during 2022 as we accrue distributions to be paid in 2023. The buy-back we announced today is fully included in our 15.9% ratio.

Were we to do further direct buy-backs in 2022 and 23, in-line with the one that we completed last March, this would consume around 160 basis points of capital in total, naturally dependant on pricing at the time.

We also have flexibility to do further on-market buy backs and consider inorganic opportunities if they provide compelling shareholder value. You will find more details of these drivers in our appendix.

Turning to slide 29, which shows the strength of our balance sheet.

Our proforma CET1 ratio on 1st January of 15.9% is now 190 to 290 basis points above our 13-14% target range. Our UK leverage ratio of 5.8% is down from 5.9% in Q3 and 255 basis points above the Bank of England minimum requirement.

We have also maintained strong liquidity levels, with a high-quality liquid asset pool and a stable diverse funding base. Our liquidity coverage ratio increased to 172% largely due to a further £12 billion TFSME drawdown before closure of scheme, taking the headroom above our minimum to £90 billion.

We continue to optimise our capital base and have called our last remaining USD preference shares. This will deliver an annual saving of £18 million, following redemption in March 2022.

Due to the change in FX rate since the prefs were issued, we will realise an FX loss in Q1. This would reduce our 1st January CET1 ratio of 15.9% by around 15 basis points.

Turning to my final slide. I want to leave you with some guidance.

Let me start with income. Over 2022 we expect: margin to increase driven by higher UK base rates; lending volumes to underpin income growth; and ongoing recovery in customer activity levels to support fee and commission income. Together we expect this to deliver income, excluding notable items, of more than £11 billion, up from £10.1 billion in 2021.

As I said earlier, we are planning to reduce other operating expenses by around 3% in both 2022 and 23 reflecting our investment in the business to

accelerate operating leverage and higher inflation and we anticipate a loan impairment rate below our updated through the cycle level of 20-30 basis points through to 2023.

Looking at the whole group. We expect our CET1 ratio to end 2022 around 14% and reach our target range of 13 to 14% by 2023. Taking all of this together we have enhanced our return on tangible equity target for 2023 to comfortably above 10%.

So, to wrap up, we have delivered a strong performance in the fourth quarter, and we are well positioned to grow income, reduce costs and increase sustainable returns to our shareholders.

With that I'll hand back to Alison.

Alison Rose: Thank you, Katie.

So, to conclude. We are reporting a strong performance today and the business is positioned for growth now that our refocusing of Natwest Markets is largely complete and our withdrawal from the Republic of Ireland is well underway. This growth is underpinned by our long-term investment programme and the benefits of our digital transformation.

Our capital strength enables us to continue investing in the business and to consider other options for creating shareholder value at the same time as returning capital to shareholders.

We made total distributions of 3.8 billion in 2021 and have committed to a minimum dividend distribution of least a billion pounds for 22 and 23. Of course we also retain the capacity for further direct and on-market buy-backs.

In short, we continue to execute our strategy to generate income growth, reduce costs and achieve a CET 1 ratio of 13-14% in order to deliver a return on tangible equity comfortably above 10% in 2023.

Thank you very much – we'll open it up for questions now.

Operator: We will take our first question from Amar Rakkar of Barclays, Amar would you please unmute and go ahead?

Amar Rakkar: Good morning, Katie, good morning Alison. A couple of questions. First of all, on your revised cost guidance. Appreciate you're now only stating the basis of cost to include strategic costs. Could you help us understand the drivers into 2022? I guess, it is difficult for us to work out the delta versus consensus, on our estimates probably guiding for £300m higher next year than the way

of the street it is. What are the moving parts, is this more underlying cost inflation than where the street is, or maybe perhaps part of the answer there would be, what are your expectations for strategic costs going forward, I don't know if you mentioned that in the release, but I wasn't quite clear on your expectations for that?

I guess secondly, was around capital, and you're indicating a faster run down in CET1 ratio, circa 14 versus street of 15.4, I guess back of the envelope maths on capital generation, outlook for RWAs, it does look like there is capacity for you guys to deliver a buy-back well in excess of around £2bn consensus is looking for, could you elaborate a bit further on that and noting the comments around inorganic appetite, is there anything on the horizon that you can see that might be of interest? Thank you.

Alison Rose: Thanks very much well let me start with capital and Katie can pick up on costs. Hopefully we've given you very clear guidance on distribution, and I'll just reiterate. Our preference is to distribute capital to shareholders and that remains our key priority. We intend to maintain that ordinary dividend of around 40% of attributable profit with a minimum of a billion per annum, for 22 and 23, via a combination of ordinary and specials. We maintain the capacity to participate in directed buy-backs of the UK government stake, as you know that's limited to 4.99% of issued share capital in any 12-month period.

And in addition to the £750m announced today, we will consider further on-market buy-backs as part of our overall capital distribution approach. As I mentioned, we also will look at if there are any inorganic opportunities providing they provide compelling shareholder value and strategic rationale, we're not considering anything at the moment, but we have capacity to do that should we do so, but I'll go back to distributions remaining our key priority and obviously, what we have as you can see is a very capital generative business. And Katie, do you want to pick up the cost question?

Katie Murray: Thanks very much, morning Aman. So, in terms of cost, for a while we've wanted to simplify the cost narrative as we've done a huge amount over the last number of years to reduce the spend on strategic costs, from £1.4bn of a few years ago down to £800m just now, so we felt now was the right time to pull those together. So, the cost guidance for this next year is 3% down on the

£6.8bn, that will naturally have some reduction in the strategic cost line, it will be built into that, as well as the reductions that we would see in our other operating costs as we continue to invest to digitise the business going forward. Thanks Aman.

Aman Rakkar: Is there any more detail around the actual strategic cost expectations going forward?

Katie Murray: No, that's not something we're going to be focusing on as we go forward so we've just folded it all into that one line, £6.8bn is your base, take 3% off in 22, take a further 3% off in 2023.

Operator: Thank you our next question comes from Jonathan Pierce of Numis, Jonathan, would you please unmute and go ahead?

Jonathan Pierce: I've got a couple of questions. Can I come back on the strategic cost point first though because I think it is important, given you were targeting a 4% drop year in costs, ex those and now it's 3% including those and obviously the base in 2021, the strategic costs are much higher than you previously led us to believe, was the go to strategic cost number. So, putting the question in a slightly different way but by 2022, do you think the strategic costs component of the overall cost number is going to be above the medium-term guidance you've given before the strategic costs of about £300m, because I think it's important for us to understand that because there is quite a big delta to the 2023 consensus in your guidance today.

A second question is on the rate assumptions that are behind the income guidance for this year, the ROTE next year and really importantly the NII sensitivity. The £282m on the managed margin for a 25-basis point move, what's the starting level of base rate that that is assuming we're moving from? And then one quick final question, I think Basel 4 has disappeared completely from the commentary today, is that because you're now expecting Basel 4 to have no impact at all in the next few years? Thank you.

Katie Murray: So, I'll pick off strategic costs as we go through. Jonathan, I'm conscious of the guidance we have historically given, I would say that's still broadly appropriate though it's not a line that we'll be talking about specifically.

What I would remind you of is we have given you very specific guidance on Ulster, which will continue to appear in our discontinued disclosure within that, so that's obviously separate from there, so the guidance of approximately 3%

down on the Go-Forward bank as we move forward and we'll share with you the progress against the specific Ulster numbers that we've given you.

I'll tick off Basel 4. It's taking a long time to come, I would say our guidance would be in line with what we had said historically, the absence of commentary is more that we're not sure of implementation dates, I wouldn't read anything more into that and we'll just see what twists and turns we go on, on that, as we go through this year.

Then if we just get into interest and revenue guidance along with the ROTE. In terms of interest rate assumption around the more than £11bn guidance, and the comfortably above 10%, I would start by saying the interest rate assumption is just one of many factors, incorporated into our guidance and that our total income guidance is above £11bn.

Clearly, the degree to which it exceeds this will be driven by the magnitude and the timing of the UK base rate rises and we do note that market expectation of further Bank of England rises have increased significantly over the last couple of weeks. Our guidance of above £11bn includes our assumption of further Bank of England base rate rises this year reaching 1.25% in Q4 2022.

You can see our updated interest rate sensitivity disclosures in the table and so any numbers clearly above that would have given you good guidance to take your own views as to what the external outcomes could be.

Jonathan Pearce: Okay, but previously the managed margin, the NII, the sensitivity was quite mechanically, the reason it drops as the years go on is because you assume that the curve is moving up, so it would be helpful to know what the 282 is based off, what level of base rate?

Katie Murray: As we look at it, we're assuming that the base rate will rise up to 1.25% in Q4 2022, so from the 50 basis points today, by the time we get to Q4 that will have gone up to 1.25%, but clearly we've got the swap mechanism coming through as well where we get the benefit through the structural hedge and I know you're very familiar with that so I won't go into that in detail, but that's the assumption that we're working towards.

Operator: Our next question comes from Rob Noble of Deutsche Bank, Rob could you please unmute and go ahead?

Rob Noble: Morning all can I just ask, on the capital ratio again specifically the RWAs, you

say are driven by loan growth and then the Ulster Run Off, should we expect RWAs to grow at the same rate as loan growth or below loan growth? And I think consensus relative to your proforma of January 1st is up 1%, is that about right? And then just to square that off with the top of the capital ratio, consensus gets you to 15.4%, is there any one offs in the capital line that would mean that that was lower for one off reasons other than distributions?

Katie Murray: So, in terms of the RWA guidance, what we've been quite clear on, we're definitely expecting RWA growth in line with lending growth. We are expecting to have lending growth across the book. The delta obviously will be the Ulster Bank ROI and as you see those sales complete, you will see the RWAs roll off in time with the asset roll off and that and we've given you guidance on that this morning.

In terms of the CET1, there's nothing that I would particularly mention in terms of your consensus. Our aim is to get to 14%, that will be done by a combination of distribution of capital, obviously offsetting the growth we will naturally create during this year as well so very focused on that distribution be piece with a little bit of it being used up in terms of RWA growth.

Operator: Thank you and our next question comes from Alvaro Serrano of Morgan Stanley, if you could please unmute and go ahead, thank you very much.

Alvaro Serrano: Hi Katie, hi Alison. There's two follow ups and one question on mortgages. The follow ups are on costs and a question on rates from Jonathan. When you think about what consensus had in the numbers which looked like 5% higher costs this year, than the £300m delta and the costs they had for 2023, when you look at what consensus was missing versus your guidance, is it more restructuring costs, is it inflation or is it investment. I note Katie that you said that £300m is still a reasonable normalised restructuring, I'm trying to figure out if we were all too optimistic around the cost of getting BAU costs down, or we were too optimistic around inflation, I want to get a sense of what the delta is, is it investment, is it inflation or is it strategic costs which may be in 24, 25 or beyond. There's still more room to normalise that, so clarification.

The second question on rates is quicker and simpler. So, the £282m managed margin delta, that's of the 50 basis points we are in today, I think that was the question from Jonathan, so in the next 25 basis points in March or May we should take the £282m and it's the starting point is at 50 basis points current

level rates. On the mortgage spreads, when we think about how much of that rates could we compete away, can you give a bit of colour how the current environment is, because correct me if I'm wrong, but I think you started the year lowering off yields, now it's come back up, but how would you characterise it that the current environment around the mortgage spreads, because it looks like they're taking a turn down, I just want to get a sense of what you may have factored in for that £11bn guidance, thank you.

Katie Murray: Lovely, thanks very much so. I'm probably not going to comment too much on what may or may not be your consensus models, I'll leave that with you. I think historically we've tried to be very clear on our cost take out, clearly we're updating that guidance today, that will account for a little bit of the delta within there.

If I look to the managed margin delta that we have within the numbers there, there's good understanding in terms of the sensitivity but let me give you a little bit more background. Our updated interest rate sensitivity disclosure is illustrative using a point in time balance sheet. It's assumed to remain static over 3 years and does not incorporate any changes to mix or to price. It shows the benefit in year 1 from a 25-basis point increase in all yield curves, would be £329m in total and you're absolutely right, that £282m would relate to the managed margin, so that's across all yield curves.

If you look to the £329m only in relation to the UK yield curve, that would give you £267Mn of a benefit and this benefit from a 100-basis point rise in UK interest rates would be £969m in year 1. It's important to understand the sensitivity has reduced sine the first half, due to the increase in the yield curve and expectations for the UK base rate, so we're now showing the sensitivity at a much higher level of absolute rates and at higher interest rate levels, there's naturally a great assumption of higher pass throughs on our managed rate deposits therefore sensitivity decreases as we go through. Sensitivity is built bottom up, incorporating different pass-through assumptions for different products.

In terms of your specific question Alvaro on what happens with the next rate rise, so if the rate rise was to come through in the next MPC meeting, I bring you back to the guidance we've given you. We've given you guidance of income above £11bn, and that is based on the rates rising to 1.25% in Q4, so

therefore the assumptions around the next rate rise are in that £11bn already, so that would be 50-75 or whichever your assumptions might be.

In terms of the mortgage spreads. As a group and putting this question into context, we are running a retail business which is across mortgages, deposits and unsecured and as you look across all of these products, we're seeing a business with strong returns, it's very well positioned for the higher yield curve, and we expect retail banking NIM of 208 basis points in Q4 to increase over 2022. It is important to recognise that we've been through a period of unprecedented disruption in the mortgage market, with fiscal stimulus and sharply lowering market interest rates moving sharply higher towards the end of last year and also the beginning of 2022.

We have taken significant action to increase the customer rates. We've now made 15 upward price adjustments since the swap rate started to rise in October and although mortgage applications are under pressure, impacted by the steep rise in swap rates, overall, retail margins are widening with most of the overall margin widening taking place in deposits, including through the structural hedge benefits and you can see in our income disclosure for retail banking and retail banking NIM which shows in Q4 the higher deposit income, more than offsets any lower mortgage income that might be coming through.

Operator: Thank you, we're going to come to Jason Napier, would you be able to unmute Jason and go ahead?

Jason Napier: So, two as is tradition, the first one on the comfortably above 10% ROTE and I enjoyed the emphasise on the word comfortably in your scripted comments, Katie. I guess on past disclosures around rate gearing, 100 basis points in rates would have added 3.5% to the overall 9-10% ROTE so, I guess I would have been expecting somewhere in the region of around 12%. Part of the reason, I guess you wouldn't get that on a group target would be the drag from Ireland and Ulster, so I wonder whether you could talk to the phasing and magnitude of that.

And then secondly the guidance around greater than £11bn of forward income. I guess again, two components that are top of mind there, one would be NatWest Markets clearly underperforming expectations and medium-term aspirations last year, so where does that go in 2022, is the old £800m-1bn in sight? And then secondly, just when you think about your NII increase, the

sensitivity tables they may be an accurate representation of what happens to NII if the curve moves from here, but your current NII does not reflect the benefits of the movement that the curve has already seen and I sense a danger amongst investors that we might be confused around the two, I wonder whether you could have a crack at telling us what the change in curve to the end of last year might be worth, to NII on a run rate basis? I appreciate that's a tough one.

Alison Rose: Thanks Jason. Why don't I just talk about NatWest Markets first and then I'll leave Katie to take you through the others.

In terms of NatWest Markets, we've largely completed the refocusing of that business and we did say, which is probably one thing just to remind everyone about that, that refocusing would be capital accretive, so far we have returned £1bn of capital back to the Group in 2021.

In terms of looking forward, obviously we were disappointed with the performance of the fixed income business in Q3 and Q4 and we've taken action on that in the quarter - that was the business, we were doing the most of the restructuring on which is now complete. As we look forward, we remain confident about our medium-term guidance of between £0.8bn to £1bn of income. We continue to expect growth in our capital markets and currency businesses which as I said last year had performed as we expected and in particular you can see our ESG expertise is driving an increase in our share in green, social and sustainable bond issuance and we continue to invest in our digital FX and increasing that penetration.

We'll also expect to see improved funding costs in NatWest Markets helped by our improved credit ratings and then in terms of that fixed income business, a stabilisation of the fixed income revenues from that improved trading and lower funding costs now that the refocusing is largely complete. We remain confident about our medium-term guidance as we move into 2022.

Katie, do you want to pick up the other points?

Katie Murray: Lovely, thanks very much and Jason thanks for your comments on my best amateur dramatics uncomfortably above 10%, glad that you picked that up. Look, just to repeat a couple of things I've said already, so it is a view on interest rates getting to 1.25% in Q4 this year, so if you have different views, you've got the sensitivity and I'll talk a little bit more on that in a moment and

you're absolutely right to pick on the Ulster guidance. That will be a drag into 2023, and in fact you can see this year that drag on ROTE returns, so it's 9.4% for the Group but 9.9% ex-Ulster, so you can see that's already 50 basis points in there. We've given you good guidance on how we think this will play out in terms of the cost of the exit and so you can build your views of them into 2022 and 2023. What gives us comfort is the retail spread, has widened and it will continue to do the same as we move forward, so we are comfortable above that 10%.

If I then go into the NII increase, I'll leave the run rate to you today, but we've laid out both the curve at H1 and H2 in terms of the sensitivities on page 47 of the slide pack. Bear in mind that our income guidance has got you to 1.25% already so therefore those early rate changes and the pass-through assumptions within there are already built in that, so if you're thinking about where might they go from here, I would use the curve that we published today to think about each additional 25 basis point move, as to what that would do in terms of impact on our profitability going forwards.

Operator: Thank you very much. Our next question comes from Benjamin Toms of RBC, Benjamin would you please unmute and go ahead?

Benjamin Toms: Thank you both for taking my questions. Firstly, on the current account survey data that came out this week, arguably NatWest Group were relative winners compared to peers on a year-on-year view but the bank still comes in the second half of the league table, so wondering whether you have any feeling on why NatWest Group is underperforming peers here? And whether you have any sense of how much of your £3bn investment spend is just keeping pace with competitors and how much is creating something unique that other banks do not have?

And then secondly, what are your expectations for any potential announcement this year from the government or from the regulator on mortgage book EPC requirements, do you expect a carrot or stick approach at this stage and do you see this as a threat to demand or opportunity for incremental lending? I guess most relevant for the buy to let book as requirements here for Landlords are likely to bite much sooner than for owner occupied properties, thank you.

Alison Rose: Thank you, let me pick up the question on our investment and our current

accounts and obviously we're into the second year of our £3bn investment which is really focused on digitisation and technology and data investments. What we are seeing is 90% of our customers' needs are being met digitally which is up from 53% in 2019, and on our current accounts for example, we've significantly invested in the end-to-end journey there, 71% straight through processing in account openings versus 14% in 2019 and we have seen significant improvements in our NPS i.e. our customer scores on that so we are seeing big differentials in terms of the benefits of that investment, and obviously we've also increased our primary accounts market share, we've taken on almost half a million new customers in our retail bank as a result of the improvements that we have there, and strong performance so I think we are differentiating and we're seeing the benefits coming through in our technology and digitisation and we are seeing our NPS scores increasing very significantly.

The one thing I would say is we serve a broad church of customers, we compete across a whole range from both the Fintech start-ups, the challenger banks, right up to the global banks as well and from very small customers and vulnerable customers right up to the most sophisticated so we need to make sure we're serving all of them and I think that investment is really giving us dividends both through more efficiency in our cost reduction, better engagement scores with our customers and proof points in acquisition of customers as well, so we're pretty comfortable with how that's performing.

Katie Murray: In terms of mortgage requirements, you'll be aware that we have an ambition that 50% of our mortgage book is on EPC rating of C or above by 2030. We've made some nice progress on that, it was base lined against the 2019 number where we were at 36%, we've moved up to 38%. That sounds like a small percentage move but it's significant when you convert that into numbers of homes and mortgages, so happy with the progression on that and we continue to work with our customers. You may be aware that we have some preferential rates for those mortgages to help encourage people to move onto that basis, so we're comfortable to see them move, we have more to do on this and work with government as well as they help the economy transition as well, so we'll wait to see if the PRA make any statements or guidance on that, Alison I don't know if you'd add anything?

Alison Rose: Overall, we see the transition to a net zero economy as an opportunity. We published some research last year particularly looking at the opportunity for small businesses, bearing in mind SMEs represent 50% of the turnover in the UK and 60% of private sector employees. We could see £160bn revenue opportunity for SMEs in the UK as they transition so we've put in place our new target for £100bn of climate sustainable funding and financing of which, we did £17.5bn this year. We see this more as an opportunity as we help our customers transition to a net zero economy, as Katie mentioned on the mortgages, we've got green mortgages, we've also launched SME green loans for our customers and we're putting practical help in place so we see it actually as an opportunity and particularly when you look at the shape of our book, we see more opportunities for our customers and us to help finance and support them to do that.

Operator: Thanks very much, our next question comes from Martin Leitgeb of Goldman Sachs, Martin if you could please unmute and go ahead?

Martin Leitgeb: Hi Alison, hi Katie. Thanks for taking my question. I have 3 please. The first one, on the mortgage market, to follow up on an earlier question, the 11.5% flow share, what we have seen in 2021, are you broadly happy with that level or could there be a scenario that this will increase going forward, and, if you could update us on front book versus back book pricing, your volume expectation for this year, obviously FY21 was an extremely benign year in terms of overall system growth. Would you expect that to normalise?

The second question on interest rates and the broader impact of interest rates on your P&L. It seems like from 125 expectation of rate level and your guidance on risk cost, it seems like you're not particularly worried in terms of what the potential rate hikes cycle has on your asset quality. Are there any other areas of your business, of your balance sheet, that you worry about, where you think you might see some stress as and when rates go up?

And lastly on capital, I was just wondering if you could update us if there is anything you can say in terms of capital upstream plans from Ulster, I think last reported CET1 is 28%, and secondly, in terms of capital range 13-14% is that something that you think you could achieve from 2023 onwards, to operate well within that 13-14 range? Thank you.

Alison Rose: Thanks Martin, let me pick up a couple of points and then I'll let Katie go from

there. In terms of Ulster, on capital, I'm very happy with the progress we're making on the phased withdrawal of the two transactions that we've now signed, which is around 60%. When we look at capital returning as those transactions complete or any other transactions that we may do, we'll engage with the regulator on restarting dividend payments back to the Group at that point but as you say, CET1 in Ulster is very high at 27.8%.

Just on mortgages, I'll touch on that and then Katie can give you the detail. We're very happy with the flow share there, in terms of our Q4 flow share, was 12.3, we will always balance volume and value as we do that and that remains a very attractive asset class for us, supporting our customers, but we're always going to balance in terms of that, but we absolutely have capacity to grow. Katie, do you want to pick up the rest?

Katie Murray: In terms of the specific question on the mortgage completion margins, you can find what I'm about to say Martin in the IMS on the retail section, so if you don't catch them, they're easy to pick up there as well. So, in the fourth quarter, mortgage completion margins decreased from 143 basis points in Q3 21 to 102 basis points, so it's now below the back book margin or 161 basis points, which declined from the 164. The average application margins in the fourth quarter were 60 basis points, but they increased to 70 basis points in the latter part of Q4. We have obviously seen some significant increase in the swap funding costs in 2021 with that 2 and 5-year swap increases over 160 basis points in the last 12 months. We all saw them come back a little bit in the last couple of days as well.

You have seen us take a lot of action in terms of pricing and we've done pricing up of new business 15 times since October to make sure that we're seeking to offset some of that swap pressure. We do look at it very carefully, we've always said that we won't seek to manage volume and margin, to make sure that we're not putting that down, so we do seek to continue to be competitive in that space.

In terms of the capital range, we do think that we can operate between the 13-14%, we see no reason not to do that, and obviously the statements we've made today are seeking to end this year at 14% so that we would be operating in that level in 2023, and Martin, I'm really sorry, I didn't write the second question down.

Alison Rose: I picked that up, you asked if there were interest rate hikes, would that effect our asset quality and whether we were worried about the stress. We've always talked about managing the risk diversification on our book, 94% secured. We're not concerned about the asset quality of our book, you can see the RWA intensity is reducing, we actively manage our book, we have seen very low levels of impairments, obviously, we work very closely with our customers, and we're keeping a close eye on the pressures that will be facing consumers and businesses, but we're not concerned about that, but obviously we actively manage our book very carefully.

Operator: Thank you, our next question comes from Omar Keenan of Credit Suisse, would you please unmute and go ahead?

Omar Keenan: Good morning. Thank you very much for the presentation. I've got 3 questions, please.

So, the first one is on inorganic opportunities. When you think about NatWest's product and market share footprint, what areas do you think would benefit the most from inorganic options, just given that you mentioned that you would consider inorganic opportunities, I think twice in the presentation.

My second question is on mortgage margins, and thank you for the retail NIM dynamics explanation, it was very helpful. Thinking over the medium term, when you think about hurdle rates specifically on mortgage margins, how would you encourage us to think about more stable mortgage margins over the medium term. My last question is on inflation, could you possibly give us a little bit of colour as to what you think NatWest's experience to underlying inflation is for 22 and over the medium term and any colour on wage/ salary increases but also perhaps IT and contracts and other costs that might be specifically CPI linked? Thank you very much.

Alison Rose: Thank you, let me pick up your first question on inorganic. We have a very capital generative business and the preference for a distribution to shareholders and we are investing significantly in the business with our £3bn investment program.

On inorganic opportunities, when we look at our business, we have the opportunity to grow and expand our business organically, very significantly. I've talked about unsecured where we're seeing good growth there, 33% in

new cards, growth from the new products that we've launched and our share has now gone up to 6.4% but there is significant capacity to grow there.

And our wealth business, you've seen a 17% increase in our assets under management in administration and a doubling of our net new money over the year, but our wealth business has significant capacity to grow as well. When I look at inorganic opportunities, we're very clear on the shape of our business, where we want to grow, where we have capacity to grow and to the extent that anything offered compelling shareholder value, both on either a capability perspective or enhancing our position in growth areas such as unsecured and wealth on top of the very strong organic growth we're getting, then we would consider them.

But as I said, that is an option we would consider, our preference remains distribution as you can see from the commitments we've made there. Katie, do you want to pick up?

Katie Murray: In terms of mortgage margins, if we look and think back to prior to the pandemic, when we were in a very much lower rate environment, the mortgage market seemed to be settling in a mortgage corridor of 80-100 basis points. Post pandemic, in a higher environment it remains to be seen I think where we'll settle. I talked about the significant actions we have taken, we have seen that in general across the market, so I think time will tell where that will ultimately settle.

But I think by those pricing actions what we're demonstrating to you, there is a floor that we wouldn't go to, it's important that the business overall remains positive ROE. It's a very good product for us and for the market and I think we'll just see where that floor settles and I would encourage you to, that number is obviously very important and the margins are under pressure, but it is the understanding of what's actually happening across the retail banking spread as a whole which I think is something we're entering into now as we get into that rising rate environment and also as we see the growth in our credit card book as well as we go forward.

In terms of inflation, rather than getting into that too deeply, I would take you to our 3% cost guidance and that's obviously been built in rather than getting into the nitty gritty of different contract terms.

Operator: Thank you, our next question comes from Guy Stebbings of Exane, Guy if you

could please unmute and go ahead?

Guy Stebbings: Hi, good morning, thanks for taking questions.

The first one was just back on cost, if I can try one more time. I guess a lot of us, what we're trying to work through, is, if you take consensus expectations for strategic costs in 2023, assume they are broadly correct, then the guidance today would imply no real reduction in the underlying costs, ex-strategic costs, is that what we should be thinking about as a clean trajectory as we roll forward or are there still some chunky items in the next couple of years that we would have previously categorised as strategic costs, so indeed the 3% is a clean cost take out?

And then the second question was on the rate sensitivity, I'm just intrigued by the decision to increase the deposit beta, what's behind that, is it anything to do with what you're seeing in the market at all, following the first couple of rate hikes? Or is it just putting in a layer of prudence if you like?

Katie Murray: As I look at the cost guidance that we've given you across 22 and 23, we'll see strategic costs come down but we still definitely expect to see reduction overall in that 'other' operating cost category as well and the levers for that would be our traditional areas that we've taken costs out from before and the increase in our investment in digitisation is really important to do that.

In terms of the rate sensitivity, I would see it slightly differently. What we had said at Q3, as we build the sensitivity up, we do it product by product in terms of how we build it, what I would say is at the lower rate increases, so the, first couple of 25 basis points, that pass through level would be lower and as you go up to the 100 basis points level which is where this sensitivity is now operating because it's cut from a curve at the end of December, which would have been up at that 100 basis point level, you would see that the pass through rates would be a higher proportion - that's very consistent with what we said at Q3 and the guidance over income being above £11bn at that 1.25 level, you've seen those lower rate rises come through already so that's already in there and when you get to the higher rate levels, there's much less sensitivity going through in terms of the variation of those pass through levels.

Clearly, pass through levels will be absolutely dependent upon what's happening in the market at that time and so they will probably vary a little bit

from our assumptions, but we believe by building it bottom up, we've given you some quite good guidance on that today Guy thanks.

Operator: Thank you, and our last question comes from Joe Dickerson of Jefferies, Joe, would you please unmute and go ahead.

Joe Dickerson: Hi, thank you for taking my question. Just quickly on the rate assumption, so if the Bank of England is going to 125 basis points on your assumptions by Q4 this year, what's the outlook in your opinion for loan demand firstly and then related to that, the industry when loan demand comes in a bit tends to get more competitive on pricing so I'm just trying to think through the various dynamics, particularly as the 2 year product you would have put on in late 2020 starts to mature in the back end of this year? Thanks.

Katie Murray: As we go to the 125 rates, we would still see there would be quite good demand as we move on from there. Certainly, as those maturities come through, they are clearly going to come on at a lower level in terms of where they were put on when we bought them in 2021, so we'll see that natural piece come through.

So, what I would expect to see is strengthening coming through of NIM as we move into 2022 and then in terms of where we actually land in 2023 that will impact what happens on that basis, but we do still see strong demand coming through, whether that's been the refinancing or whether in new demand. You can see from our IFRS9 assumptions that we do still expect to see nice growth coming through on that mortgage house pricing levels, so comfortable that we will get demand coming through as we move forward that will further enhance the above £11bn guidance of 2022.

Operator: Thanks, I'd now like to hand the call back to Alison for any closing comments.

Alison Rose: Great, thank you very much everyone for joining and for your questions and just reiterate a strong, financial performance for the year, £4.3bn, clear guidance on distribution and revised targets just to remind you, income above £11bn as Katie outlined and ROTE comfortably above 10% so thank you very much.