NatWest Group

NatWest Group plc
Q1 2023 Results Call Transcript
28th April 2023

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions, or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Q1 announcement published on 28th April 2023.

Management Script

Good morning and welcome to the NatWest Group Q1 Results 2023 Management Presentation. Today's presentation will be hosted by CEO Alison Rose and CFO Katie Murray. After the presentation we will open up for questions. Alison please go ahead."

Alison Rose

Slide 2: Name slide

Good morning and thank you for joining us today.

I'll start with a business overview and then Katie will talk about our financial performance.

Our strategy continues to deliver, against a backdrop of increased market volatility since we last spoke in February.

In an uncertain environment we are well positioned both for the upside, as we build on our strong customer franchise to drive targeted growth, and for any downside as a result of our strong balance sheet and liquidity, high quality deposit base and disciplined risk management.

I'll start with the financial headlines…

Slide 3: Strong Q1 performance

We delivered operating profit of 1.8 billion in the first quarter, an increase of 49% on the same period in 2022.

Attributable profit was 1.3 billion, up 52% on the first quarter last year.

Our return on tangible equity increased from 11.3 to 19.8%.

And income grew 37% to £3.8bn.

Costs increased by 214 million which includes the one-off payment we made to staff in January to help manage the rising cost of living. We continue to focus on tight cost discipline and are on track to achieve our 2023 cost guidance of around 7.6 billion.

We told you at the full year that we expect to generate and return significant capital to shareholders this year and intend to maintain our 40% pay-out ratio.

Our Common Equity Tier One ratio of 14.4% includes an accrual of just over 500m for the full year ordinary dividend.

We have also completed more than half of the 800 million on-market buy back announced in February.

The government shareholding now stands at just over 41% and we have regulatory permission to undertake a directed buyback, though any transaction remains at the Government's discretion.

Slide 4: We have built an all-weather balance sheet and are helping stakeholders navigate uncertainty

Recent market volatility has had little impact on the bank and the average UK consumer.

We have seen an expected reduction in deposits during the quarter.

Customer tax payments have increased about 8 billion from the fourth quarter as more people fall into higher tax brackets; and customers also continue to pay down debt, including government lending. We are actively balancing value and volumes, taking into account customer behaviour as well as competition in the market.

Our funding is well diversified and our loan to deposit ratio is 83%, resulting in surplus deposits of 53 billion;

Our deposits amount to £422 bn across the 3 businesses and our primary liquidity includes over £120 bn of cash. This gives a liquidity coverage ratio of 139%, well in excess of minimum requirements, with headroom of 43 bn.

On the asset side, we have a well-diversified loan book where our top 10 wholesale customers account for around 5% of total loans.

We have limited exposure to Commercial Real Estate which is less than 5% of the book with an average loan to value of 47%.

93% of personal lending is secured, and our retail mortgage book has prudent loan to value ratios with an average of 53%.

Our book's performance demonstrates our strong risk management with low levels of arrears and impairment.

Procyclicality remains at low levels and we continue to monitor this closely.

The quality of our balance sheet and risk management enables us to continue to support our customers and the economy in these uncertain times.

We are growing lending responsibly with an increase across our three business segments of 5.7 billion to almost 356 billion.

Within this, we have seen strong growth in mortgage lending with flow share increasing from 15 to 17%.

In Commercial and Institutional Banking, lending to large corporates grew 2.4 billion to 56.1bn.

We also continue to support entrepreneurs and small businesses which represent over half the UK economy. In March, for example, we issued our third social bond dedicated to women-led enterprises, the first of its kind from a European bank.

Slide 5: A reminder of our purpose led strategy focused on growth, cost and capital

Over the past three years we have successfully delivered an organisation that is more capital efficient, growing responsibly and increasingly easy for our customers to deal with.

This enables us to shift the balance of our investment over the next 3 years and as we outlined in February we will focus on growth:

first, by increasing our engagement with customers at every stage in their lives;

second, by supporting customers in their transition to a net zero economy;

and third, by embedding our services further in customers' digital lives.

Our purpose led strategy and priorities remain unchanged so we will continue:

to focus on creating a simpler organisation that is highly cost efficient;

to deploy our capital effectively in order to generate the best returns for shareholders;

and to foster innovation and digital transformation to serve our customers better.

I'd like to give you a brief update of how we are delivering on these priorities...

Slide 6: We are building on our strategy….

I'll start with some examples of our growth initiatives…

We continue to deepen customer engagement through tailored propositions for customers at every stage of their lives.

A good example is our youth and family offering. We are the only high street bank with a tailored proposition supporting children from the age of 3 upwards, building on the success of our acquisition of Rooster Money which helps young people manage money.

Last year we connected Rooster with our own app and we have extended our offering by making a free Rooster debit card available for all our customers between the ages of 6 and 17.

As a result, we opened 19% more youth accounts in the first quarter compared to the fourth, taking our flow share to 18.1%.

In our Private Bank we are leveraging our expertise in asset management to serve more customers across the group. We attracted 600 million of net new money in the first quarter, which is double that of the fourth quarter last year.

We are also the number one UK high street bank for start-ups with a share of 16.4%. We continue to enhance our propositions to help high growth businesses scale up and have increased volumes 9% during the quarter.

As a leading provider of sustainable financing, we play an important role in helping our customers transition to a net zero economy.

We have delivered just over £40 billion of Climate and Sustainable Funding and Financing since July 2021 to meet our £100 billion target.

Within this, we set an aim in January to provide at least 10 billion of lending for homes with an energy efficiency rating of A or B and have contributed £1.3bn during the first quarter.

As we continue to embed our services in customers' digital lives, 93% of our retail customers' needs are now met digitally and 64% of retail customers are entirely digital.

We are also focussed on expanding our services and have recently extended our cards offering beyond our own customers to the entire market whilst maintaining our prudent approach to risk. As a result, we have acquired 30,000 new card customers during the quarter. This has contributed to an increase in share from 6.9 to 7.2%.

In addition to our focus on driving targeted growth, we continue our strong track record of disciplined cost management and investment.

We are on track to meet our cost guidance for the year of around 7.6 billion and our guided cost income ratio of less than 52%.

And we expect to invest in the region of 3.5 billion over the next 3 years continuing our digital transformation, which includes improved customer journeys, data analytics, machine learning and robotics.

We continue to allocate capital effectively across the business as we progress our phased withdrawal from Ulster Bank Republic of Ireland.

RWAs have reduced a further 800 million in the quarter to £4.6 billion, around 95% of accounts are now closed or in the process of closing, we have shut all our branches in the Republic of Ireland and we expect the agreed asset sales to complete by the year end.

Slide 7: We are making good progress in our 2023 objectives

You can see from this slide that we are making good progress on our objectives and are on track to meet our 2023 guidance on income, costs and capital.

As I said earlier, we expect to make significant distributions to shareholders in 2023 and to maintain our pay-out ratio of 40% with capacity for additional buybacks.

Slide 8: Delivering sustainable value creation and strong distributions

By focussing on targeted growth, disciplined management of costs and the effective allocation of capital we plan to operate with a CET 1 ratio of 13 to 14% over the medium term and deliver a sustainable return on tangible equity of 14 to 16%.

With that, I'll hand over to Katie to talk about our financial performance in more detail.

Katie Murray

Slide 10: Strong Q1'23 operating performance

Thank you Alison - I'm going to talk about performance in the first quarter using the fourth quarter as a comparator.

Total income increased 4.5% to £3.9bn.

Income excluding all notable items was 3.8 billion, up 1.4%.

Within this, Net interest income was stable at £2.9 billion and Non-interest income was up 7.1% at £918 million.

Operating expenses fell 7% to £2bn driven by the absence of the annual UK bank levy partly offset by the one-off cost of living payment to staff in January.

This delivers a Cost:Income ratio of 49.8% for the quarter.

The impairment charge approximately halved to £70 million or 7 basis points of loans.

Taking all of this together, we delivered operating profit before tax of £1.8 billion.
Profit attributable to ordinary shareholders was £1.3 billion.

And return on tangible equity was 19.8%.

I'll move on now to net interest income on slide 11.

Slide 11: Stable net interest income and margin

Net interest income, excluding notable items, was broadly stable at 2.9 billion.

This was the result of two fewer days in the quarter which offset the benefit from higher average lending volumes.

Net Interest Margin, excluding notable items, increased 2 basis points to 327.

Wider deposit margins added 12 basis points reflecting:
the benefit of higher average interest rates partly offset by lower average deposit balances; ongoing passthrough to savers, for which there is a timing lag; and ongoing customer migration to higher interest-paying accounts.

This was partly offset by lower lending margins which reduced NIM by 9 basis points driven by the mortgage front book.

We continue to expect net interest margin for the full year of around 320 basis points. This assumes the current UK base rate remains at 4.25% throughout 2023, up from 4% in our previous projections, and the average reinvestment rate of our product structural hedge for the full year is 3.6%, up from 3.3%, which is largely offset by our expectation of lower average deposit balances.

So let me turn now to deposits on slide 12.

Slide 12: Robust deposit funding with expected Q1 net outflows

Customer deposits across our three businesses were £422 billion at the end of the first quarter – down 2.6% or £11 billion.

This was mainly driven by tax payments which were around £8 billion higher than the fourth quarter. This is a larger share of overall additional UK tax payments than our deposit share.

We also saw increased competition for balances.

Breaking this down by business, Retail Banking deposits reduced £4.4 billion driven by tax payments and higher customer spending.

In Private Banking the impact of tax was most pronounced given the customer demographic. We also saw continued reallocation of cash into investments.

In Commercial & Institutional, deposits reduced £2.8 billion mainly reflecting the reduction in system liquidity.

Within Central & Other we saw a further 8.7 billion reduction. Half of this is the result of Ulster Bank customers' migration to other banks, as expected, and it also includes normal Treasury activity.

Turning now to how we think about deposits on the next slide…

Slide 13: Managing deposits for income and liquidity value

Customer behaviour in the first quarter was broadly in line with expectations.

We saw limited change between interest bearing balances, which account for 60% of the mix, and non-interest bearing balances, which make up the remainder.

Within interest bearing balances we continue to see migration from instant access to term accounts, which is positive from a relationship perspective but clearly has an impact on deposit margins.

Term deposits across the three businesses are now around 8% of the total, up from around 6% at the year-end and around 3% at the end of 2021.

Around 40% of total deposits are insured. Cleary this varies by customer type.

For our personal customers 68% are insured. This is higher for Retail Banking than Private Banking, as you would expect, given larger average balances.

However, we view deposits in Coutts as more stable as a result of our Private Banker model for this customer base.

For our corporate customers around 11% of balances are insured, however this will be higher for our smaller Business Banking customers and lower for our Markets and Funds Banking customers.

Our Commercial and Institutional business is Relationship Manager-led with regional and product expertise.

We serve a broad customer base with a comprehensive product set providing core transaction, clearing and cash management services.

This provides us with significant, relationship-led operational balances.

Future deposit flows will be determined by macro-economics, including ongoing Quantitative Tightening, as well as changes in net lending.

Customer behaviour and competitive dynamics will also play a significant role.

The evolution of deposit balances is difficult to predict, but in light of higher tax payments in the first quarter, we now think deposit balances at the end of 2023 are likely to be broadly stable or modestly lower than the end of 2022 when they were 433 billion.

We remain competitive across our customer savings rates and continue to pass through higher interest rates.

Our cumulative pass through is now around 40% across interest-bearing deposits, up from 35% at Q4, which includes pricing decisions after the base rate increase to 4.25% in March.

As you can see on the bottom of the slide customer deposit repricing has lagged the increase in base rates.

The change in the cost of deposit funding is accelerating as there was more significant pass through in the first quarter. This compares to the change in the average UK base rate which is decelerating.

This negative lag effect has meant less deposit margin expansion than in prior quarters.

Turning now to loans on slide 14…

Slide 14: Responsible lending across all of our businesses

We are pleased to have delivered a strong quarter of balanced lending growth across the Group.

Gross loans to customers across our three businesses increased by 1.6% or £5.7 billion to £356 billion.

Taking Retail Banking together with Private Banking, Mortgage balances grew by £3.9 billion or 2% in the quarter.

Gross new mortgage lending was £10 billion, representing flow share of around 17%.

This is higher than normal, reflecting our decision to stay in the market during volatility in Q4 when others withdrew as well as a shorter period between application and completion that we saw in the first quarter.

This is a good demonstration of how we have positioned this business for growth.

Unsecured balances increased by a further 200 million to £14.4 billion, driven by new card issuance and market share gains.

In Commercial & Institutional, gross customer loans increased by £1.5 billion.

At the mid to large end we see good demand across Revolving Credit Facilities, term lending and Funds Banking.

At the small end, demand remains muted and we have seen some deleveraging by customers with surplus liquidity, including the ongoing repayment of government scheme lending

I'd like to spend a bit of time explaining how these balance sheet dynamics feed through into our strong liquidity position on slide 15…

Slide 15: Robust liquidity portfolio and key metrics

We have a highly liquid balance sheet with a diverse and robust funding base. This allows us the strategic flexibility to manage our deposit book for value in a considered and disciplined manner.

We ended the quarter with a loan to deposit ratio of 83% demonstrating the strength of our capacity to grow.

Our Liquidity coverage ratio was 151% on a 12-month rolling average view and 139% at the end of Q1. This decrease was driven by a reduction in deposit balances and strong lending growth.

Our Primary liquidity was £149 billion at the end of the quarter. Four fifths of this is cash, and most of the remainder is government bonds held at fair value.

This means we are very well prepared to manage any unexpected changes in customer behaviour.

I'd like to turn now to non-interest income on slide 16…

Slide 16: Non-Interest Income supported by higher fixed income trading

It was a good start to the year, with non-interest income, excluding notable items, up 61 million to £918 million.

We are pleased with the performance of our Markets business, which delivered higher Fixed Income revenues and also benefited from currency volatility.

Our capital markets income grew as we supported more commercial customers with their issuance.

Fees and commissions decreased £32 million to 583 million, due to seasonally lower spending.

Going forward non-interest income will be influenced by economic activity and customer confidence as you would expect.

Turning now to Costs on slide 17, where my comparison is with the first quarter last year…

Slide 17: Other operating expenses increased by £214m in Q1 2023 versus Q1 2022. On track for FY 2023 guidance

Other operating expenses were £1.9 billion for the first quarter.

That's up £214 million or 12.5% on the same period last year including a one-off cash payment to staff in January of around £60 million to help with cost of living pressures; and an increase in strategic costs of around £40 million relating to our withdrawal from the Republic of Ireland.

Excluding these items, cost growth was around 7% year on year.

As we've told you before, cost growth is lumpy across the year but we continue to expect other operating costs of £7.6 billion for the full year, equivalent to around 4% annual cost growth, in line with our guidance at the year end.

I'd like to turn now to credit risk on slide 18…

Slide 18: Well diversified, de-risked, high-quality loan book

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

Over 50% of our Group lending consists of mortgages, where the average Loan to Value is 53% or 69% on new business.

Overall, we have low levels of arrears and forbearance in our mortgage book.

91% of our book is at fixed rate, 5% are trackers and 4% is on a Standard Variable Rate.

Over two thirds of mortgage balances are fixed for 5 years and less than a quarter are fixed for 2.

Our personal unsecured exposure is less than 4% of group lending and is performing in line with expectations.

Our corporate book is well diversified and we have brought down concentration risk over the past decade. As Alison said earlier, our top 10 wholesale customers represent around 5% of wholesale loans.

Our Commercial Real Estate exposure represents less than 5% of group loans, with an average loan to value of 47%. We have carefully managed this for several years, by reducing absolute exposure and pivoting away from retail towards industrial, so we are comfortable with the risk in this portfolio.

Turning now to look at impairments on slide 19

Slide 19: Well provided for the economic cycle and impairments remain benign

We are reporting a net impairment charge of £70 million in the first quarter, equivalent to 7 basis points of loans on an annualised basis.

This includes a net release of £44 million in our Commercial & Institutional business.

We have not updated our economic scenarios this quarter, as we are comfortable they adequately reflect the range of potential outcomes so this charge largely reflects stage 3 impairments which remain stable.

As you know, our through-the-cycle impairment guidance is 20-30 basis points, and I continue to see this as an appropriate level for 2023, given both the economic outlook and relatively benign trends in our book.

Our Expected Credit Loss coverage is broadly stable at £3.4 billion, equivalent to 89 basis points of loans.

This includes £333 million of Post Model Adjustments for economic uncertainty, which are also broadly stable in the quarter.

We remain comfortable with coverage of the book which is not showing any material signs of stress.

Turning now to look at Capital and Risk Weighted Assets on slide 20…

Slide 20: Continued sustainable capital generation and distribution with progress towards CET1 range of 13-14%

We ended the quarter with a Common Equity Tier 1 ratio of 14.4%, up 20 basis points on the fourth quarter.

We generated 50 basis points of capital before distributions. This includes 72 basis points of capital from earnings partly offset by the change in the IFRS 9 transitional relief on 1st Jan, which absorbed 8 basis points; and RWA growth consuming 16 basis points;

In line with our commitment to distribute 40% of earnings via the ordinary dividend, we have accrued 40% of first quarter attributable profit – equivalent to 29 basis points.

RWAs increased by £2 billion due to stronger lending which added 1.8 billion and an impact of £1.1 billion from our annual Operational risk recalibration exercise.

This was partly offset by a reduction of 0.8 billion in market risk.

Turning now to our balance sheet strength on slide 21…

Slide 21: Strong capital and leverage positions provide flexibility

Our CET1 ratio of 14.4% is above our target range of 13-14% so we are well positioned to participate in a directed buyback from the government when they choose to sell.

Our total capital ratio of 19.6% is above our minimum requirements. We operate with a management buffer at the CET1 level and therefore hold Additional Tier 1 and Tier 2 securities broadly in-line with our minimum requirements.

We have £3.9 billion of AT1 securities outstanding, equivalent to 2.2% of RWA's and a minimum requirement of 2.1%. Our next AT1 call date is not until August 2025.

Our UK leverage ratio of 5.4% was stable in the quarter and remains well above the Bank of England minimum requirement.

Turning to 2023 guidance on my final slide…

Slide 22: We are reaffirming all 2023 guidance

We continue to expect: income, excluding notable items, to be around 14.8 billion; Net Interest Margin of about 3.2%; and group operating costs, excluding litigation and conduct, to be around £7.6 billion; delivering an improvement in the cost income ratio to below 52%.

We anticipate a loan impairment rate in the range of 20-30 basis points, and together we expect this to lead to a Return on Tangible Equity at the upper end of our 14 to 16% range.

With that I'll hand back to Alison.

Alison Rose

Slide 24: Our investment case over the medium term

Thank you, Katie. So to conclude:

In an uncertain environment, our strategy continues to deliver. We are well positioned both for the upside as we build on our strong customer franchise to drive targeted growth, and for any downside as a result of our strong balance sheet and liquidity, high quality deposit base and disciplined risk management.

We expect to return significant capital to shareholders this year with a pay- out ratio of 40% and capacity for additional buybacks. In the first quarter, we have already accrued just over 500 million for dividend payments and completed more than half our 800 million on-market buy-back.

While Katie has summarised our guidance for 2023, over the medium term we plan to operate with a CET1 ratio of 13-14% and deliver a sustainable return on tangible equity of 14 to 16%.

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

Q&A

Operator: If you'd like to ask a question today, you may do so by using the raise hand function on the zoom app. If you are dialling in by phone, you can star nine to raise your hand and start six to unmute, once prompted. We ask that you limit yourselves to two questions each to allow more of you a chance to ask a question.

We will pause a moment, give anyone an opportunity to signal for questions. Our first question comes from Rohith Chandra-Rajan of Bank of America. Rohith please do unmute and go ahead.

Rohith: Hi thank you. Morning. Thank you very much. I just got one, please, on net interest income. So, you slightly raised your interest rate assumptions but left the revenue guidance unchanged. The market is currently expecting rates to rise close to 5%. So, if that were to play out, I just wonder if you could talk through how that would impact your £14.8 billion revenue guidance, please.

Alison: Great. Thanks, Katy, do you want to take that.

Katie: Yeah, sure. Thanks Rohith. So, as we as we look at it, it all comes down to where we are on our interest rate sensitivity. And we continue to believe that we are interest rate sensitive. But importantly, the level of sensitivity has reduced due to a couple of things.

First of all, a decrease in the surplus liquidity on the balance sheet. And you can see that through the reduction in our liquid assets, interest earning assets, on Slide 11 and also an increase in the incremental pass through as base rates have gone higher.

As we expected this, we've talked about this with you all a number of times. Our disclosure at the end of 2022 showed that around 200 million of additional income for each 25 basis points upward shift in the yield curve.

And remember that assumed a static balance sheet and a 50% pass-through, both of which were illustrative and not in reality the current experience. Our updated sensitivity based on the end of March balance sheet, assuming a 60% pass through,

would take that 200 million number and reduce it to 175 million of additional income.

However, sensitivity develops going forward, will be very much a function of changes in the balance sheet and competition. And I would just remind you Rohith that all of this is baked into our income guidance of around the £14.8 billion for 2023 and our 2023 and medium-term ROTE target of 14 to 16%, which we comfortably expect to be at the upper end of this year. Thanks Rohith.

Rohith: Thank you.

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

Alvaro: Two questions, please. One on deposit structural hedge and the other one on the mortgages. It sounds like deposits might slip a bit more during the year or first you're de-emphasising the flat for the full year. I don't know if you can maybe speak to the visibility you have on the deposit flows for the rest of the year and why you're confident that now it's going to be more stable and the structural hedge, maybe you can update us what's happened in Q1? And do you still expect a small reduction there. And on mortgage spreads, you're clearly taking impressive amount of market share. I know, Katie, you've touched on why, but maybe you can speak to the spread you're underwriting, what you're seeing early in Q2. Thank you.

Alison: Great. Thank you. Well, look, and I'll get Katie to go through that. On deposit flows, I mean, clearly, what we've seen so far is nothing idiosyncratic on deposits. We've got really strong franchises. I was very clear that we will manage our deposit base for value rather than chasing volume. That value is liquidity and income. We've got the right products to compete.

I think in terms of what will happen with deposits, we've guided you to sort of stable to modestly down. It's going to be determined by customer behaviour and some of the macro dynamics. You can see we've got a very robust LDR and we're continuing to lend very well. So, we're not seeing anything unusual in our deposits. Broadly stable to modestly down.

It's really going to be customer behaviour and market competition, both of which we're very comfortable with. Katie, do you want to pick up the hedge and the mortgages?

Katie: So, I'll start with the hedge, Alvaro. So, first of all it's important to say no change in our mechanistic approach to the hedge. What we talked about when we spoke in March was around

the product structural hedge, notional was £184 billion, and we expected this to reduce by about £5 billion over 2023.

We have around £40 billion of maturing balances which come evenly over the year, and they have an average yield of 1.1%. At the moment we're assuming an average reinvestment rate of 3.6%, so slightly up from when we spoke in February. At the end of Q1, the product notional hedge was 182 billion, so [it was] 2 billion more. Given the reduction in deposits in Q1 and the ongoing mix shift, we would expect that hedge to reduce a little bit further over the course of 2023. As a reminder, term deposits do not form part of the structural hedge.

So, the purpose of the product structural hedge is to reduce the sensitivity to changes in the short rate and smooth that income over five years. And when I look at the five-year swap rate being below Sonia, the impact on 2023 income from not reinvesting, maturing any balances, would be limited. But this would be taking for me a play on the interest rates. That's not something that we do.

But the general sensitivity is to total deposit balances. So, we are investing at a higher rate of 3.6% and the change in our average reinvestment rate is around 25 basis points. So, if I take you to the sensitivity disclosure in terms of the structural hedge piece we talked around the year end, an income of 50 million in year one. That doesn't change, particularly, in terms of the balances where we are given the investment rates. So, in reality, the reinvestment for this year, I would say, as you think of our product hedge income for the year of around the 2 billion it's already baked in. And the sensitivity we gave you at the beginning of the year is still sitting around about that 2.4 billion number, I'm very comfortable on that.

And then if I look at the mortgages point and so mortgages, yeah absolutely, 17% flow, we talked about it in my speech as to what was there. We're writing that at, in Q1, it was around 80 basis points. We've talked about that we like to manage this book at around kind of 80 basis points over time. There will be puts and takes on different quarters depending on what the swap curve has done and what pressure it's in. But that's the kind of number we aim to over a period. And that's what we got in Q1. Comfortable with that, in terms of that piece. And the additional flow was really positive using our strong LDR and making sure we were in place for our customers as and when they needed us.

Alvaro: So, was that application or completion margins.

Katie: That that was a completion margin so, much higher than where you would normally see as a result of the actions we

took in Q4. And then also in Q1, we saw people moving slightly faster from application to completion. I think as they were trying to make sure that they were assuring their ones. But, you know, I'm comfortable with the 80 basis points. That's how we seek to manage the book. And we'll move on from there.

Alvaro: Thank you very much.

Katie: Thanks very much.

Operator: Thank you. Our next question comes from Chris Cant of Autonomous. Chris, if you could please unmute and go ahead.

Katie: Morning, Chris.

Chris: Good morning. Thanks for taking my questions. I just want to think a little bit about your £14.8 billion revenue guide. Obviously, you had a strong other income print and you're annualising, clean in the first quarter, of 15.5. And I appreciate there's a bit of seasonality probably within the NatWest Markets number, but it does feel like to get to the 14.8 you seem to be pointing to quite a significant deterioration in overall revenue run rates for the remainder of the year. So, if you could just unpick that and explain what is it in the 1Q revenue run rate that won't be repeating, and give us some quantification, that would be that would be helpful, I think.

And just looking a bit more longer term on the revenue outlook, I appreciate there's a lot of assumptions that can be made, but if deposits stabilise, as you seem to be indicating, towards the end of the year and rates are flat beyond 2023, and I know you do make a different assumption, but if policy rates were flat, would you expect NII to be sequentially higher in 24 versus 23? Because obviously this year you've got some deposit repricing lag effects coming through and the mortgage repricing headwind is a bit more acute just in terms of some of the COVID era vintages rolling. But looking into next year, I would expect your structural hedge benefit to more than outweigh the mortgage headwind, which will be persisting. So, if you could just speak to that in terms of NII expectations beyond this year. And if we can park the base rate to one side, because we can all make our own assumptions on that, that will be really helpful. Thank you.

Alison: Yeah, so look, I'll get Katy to do that. Chris, one thing I would say. What you can see from our performance in Q1 is the strength of our franchises. You've heard me talk about the fact that we've positioned this business with good risk diversification and capacity to grow. And I think that capacity to grow is pretty important. We've got all of the right products

to do that and, you know, the 5.7 billion of revenue growth we've seen in Q1 is spread across the piece. So, I think, the strength of the franchise, its capacity to grow and the momentum where we're building give you the underlying confidence of the robustness of the franchises. And then we can go into the assumptions obviously around the different dynamics between, you know, interest rates, etc..

Katie, do you want to pick those points up.

Katie: Perfect. I'll start with the revenue and then I'll do a little bit of picking on the what if scenario, Chris. So, if I look at it, revenues are up, interest rates are up. It's one factor, its only 25 basis points. It's not a huge kind of movement when we compare to the guidance we've given you a 14.8 billion in terms of revenue.

So, I think that it's important remember that 25 basis points would only apply for nine months of this year. There are a number of other factors which are at play, some of which are uncertain as we look out to the rest of the year.

I'd say the two primary uncertainties are around the deposit balances and deposit repricing.

They, as we look at it today, a smaller balance sheet will affect income. We have said we now expect deposit balances to be stable to modestly lower to the end 2023 number. So, bear in mind that was a 433 number that we're comparing to. We talked about in in in February, repricing will be a function of the incremental pass-through rate and also customer migration.

On pass-through, we've always said that we expect this to be higher when we're at higher levels of interest rates. The announced changes we made to our savings rate since March rate rise are equivalent to around 60%. This brings a cumulative pass through on interest bearing balances to around 40%. Other factors you need to think about: lending volumes and margins. We did have a nice strong start to the year with that with the 5.7 billion of additional lending and markets and the customer activity driving non-interest income, again, a solid start.

We've considered all of these factors in our NIM guidance of around 320 basis points for the full year and the total income of 14.8 billion. And we remain comfortable with these targets.

If I look to 2024, I mean, Chris, I'm not going to give you specific guidance on 2024, but as ever, I think you're in the right kind of place.

You can see clearly what our hedge is doing. We've been very open around that, how that behaves. And we do have some of the roll off that happens from the peak of the mortgages coming off, though, do bear in mind that I think mortgages over the last few years have trended more to a five than a two year. So, it's not quite, I think, the kind of abrupt for two years pass that they're all kind of all kind of comes out. But as I look at what I've said about mortgage income, what you could imagine around the volume of that mortgage income, what I've said very publicly around the hedge, it's comfortably covering any of that drag as we go through 23, 24 and onwards. So very, very comfortable. And that's the real power of the mechanistic approach we have today, the hedge that we that we use internally. I hope that helps.

Chris: That's helpful. Thank you. So just to reconfirm on that latter answer. Setting aside base rate changes, you would expect potentially the structural hedge to be outweighing asset spread pressures into 24 and beyond. And then it just becomes a question over what we think happens with the base rate piece.

Katie: But I would expect that and I think the slide 22 we gave you on disclosure at the year-end really helps you kind of model that in quite some quite some detail. Clearly there are uncertainties about what happens with deposits, etc, but I'm comfortable.

Chris: Okay. Thank you.

Operator: Thank you. Our next question comes from Aman Rakkar of Barclays. Could you please unmute and go ahead.

Katie: Hi Aman

Aman: Good morning. Good morning, Katie. I had a question on deposit mix if I could. Thanks very much for the slide on it. I guess the two questions I have in relation to deposit mix, what mix have you assumed in the revenue guidance, the NIM guidance that you've given this year? I'm specifically thinking about, 40% current accounts, 8% term deposits. I know that number is rising.

Those numbers, if I look back in history, they look outsized, right? So, you know, we've typically had a lot lower current accounts historically and a lot more term deposits.

So, what have you assumed and what are you seeing in terms of mix shift now? And is it simply just when base rates are moving that this dynamic takes place? Or is this a trend that

you expect to kind of pick up from here? And, I mean, ultimately, where do you think these numbers land? What's the kind of steady state mix for your deposit base going forward? And what does it mean for net interest income?

Thank you.

Katie: Thanks. Thanks, Alison. So, look, Aman, you're asking me the $50,000 question here in terms of that. I think a few things I would kind of point to as we look at it, what's been really interesting is we haven't seen a particular move on interest bearing to non-interest bearing. It stayed more or less around that 40% non-interest bearing, 60% interest bearing.

It might have moved up 1% in the next month as moved back down again. So it's pretty stable. So then you kind of look at the current account base and go, well, actually it's not moving significantly. So that probably helps you on that piece. In terms of the term, we were at 6% at the end of Q4 we’re up to 8% and that's across all of the businesses.

Obviously, we introduced our own term account within retail, we’ve seen really good performance within there. I said in March, it will probably move up another couple of percent. I don't expect that number to move that quickly in terms of that piece. But I would really look to the IBBs and NIBBs mix and then think about how much more term would be there.

I think what will be interesting as we get later on in the year, what you'll see is the recycling of people's term accounts rather than more necessarily moving in as people come up to their one-year anniversaries in terms of that piece. But I think that kind of IBBs and NIBBs is probably the best guidance that we've got out there, you know, and we'll see how that continues to evolve and we'll continue to update you as we see that.

Aman: Is there any way you could tell us what you've assumed for this year in terms of that mix? It doesn't sound like you're assuming much more. Is that about right?

Alison: We’re not assuming much more. And look, so we're not assuming significant shifts. I think it's really going to depend on evolutions of balances overall, are going to be dependent on customer behaviour. What we're seeing in the first quarter and what we saw in Q4 was rational customer behaviour and seeing some customers take advantage of excess balances by putting it into term, paying down some debt and with inflation for people on lower balances more spend of their balances. So those are the kind of macro dynamics. But no major shift in terms of that mix.

Katie: I think also what's really important, we're sitting with an LDR of 83% and an LCR of [139]%. So, we're very comfortable to cope with different mixes as they come. And so we will deal with that as it moves forward. Very, very keen to keep moving forward with our customers as they expand both sides of their balance sheet.

Aman: Katie, given that you just mentioned LCR, just as a quick second question then. I mean, your LCR has come down a decent chunk Q-on-Q and I'd describe it as middling of the pack versus some of the peer group in Europe. Is there, what's the right ratio for LCR and is there anything that you can do to bolster that number? I mean, the regulator is potentially taking a look at it at the market is clearly focused on it. Is it something that you're, sounds like you're relaxed about?

Alison: Look, we're pretty relaxed about it in terms of LCR. Also, I would look at our LCR. We had lower TFSME than others. Our loan to deposit ratio is very strong. We have a lower LDR than some peers which gives us capacity to grow. So we're very comfortable. So I'd look at it through that kind of mix and then our LDR.

Aman: Thank you.

Operator: Thank you very much. Our next question comes from Ed Firth of KBW. Ed if you could please mute and go ahead.

Ed: Yeah, morning everybody.

Thanks so much. I had two questions. Not on the NIM, you might be pleased to know. On capital, your 14.4. If you had done the directed buyback, which many of us expected, you'd be down at about 13.6, something like that. So, I'm just trying to think in terms of your range, it feels like there's not a huge amount of capacity for further buybacks over and above what you've already announced if you going to keep enough for the directed buyback. So that's the first question, is that sort of logic broadly right. I guess that's my first question.

And then the second one is a slightly broader question, probably more for you, Alison, but if we look at UK data at the moment, inflation is persistently coming in higher than people are expecting. And if I talk to all the banks, all of you are saying no signs of any stress in the consumer at all, which sort of leads me to believe that interest rates may well have to go quite a lot higher than we're expecting because people are clearly still spending, they're still expecting rates to fall and that they're budgeting on that basis.

So, firstly, is that analysis broadly right from what you're seeing? Or is there anything that you can highlight within the behaviour of consumers that suggests that actually some stress is starting to build and people are starting to take higher interest rates seriously or not? Sorry, that's a bit of a rambling question, but I hope that's okay.

Alison: I'll do my I'll do my best to answer it. On the capital, don't forget we're generating capital. So, our range that we guided to is 13 to 14%. That's based on we're very comfortable with the risk diversification on the book and the robustness that we have. And we're generating capital. Clearly, if the government decide to do a directed buyback, we still believe that's a good use of our capital as well as I've been very clear on distribution of capital to shareholders. So don't forget about the capital generation of the business which is very strong.

Ed: Would you be happy with it at 13. That's within your range, so would you be happy to take it right to the bottom end?

Katie: You know, I think the way I would think about it is it's a range that we will toggle up and down between. You know, you see that we generated 50 basis points of capital this quarter. When we do the directed buyback, it will come down, we'll start to build back up again, we will accrue dividends. We're comfortable within that range. That's the range we're very happy to work within.

Ed: Thank you.

Alison: And then on your second question. We are seeing very low levels of impairments across our book and that is symptomatic of very low levels of distress or impairments across our book. As you know, our book is predominantly secured. Average LTV in our mortgage book 53%. Less than 5% of our book in CRE, average LTV 47%. We actively manage our book really well. So, we're very comfortable with the risk diversification. We're very proactive in our outreach with customers. So impairment levels are very low and that shows real resilience in both consumer and the businesses that we support. And that risk discipline is pretty important.

So, we're very comfortable there are very low levels. And there are signs of increasing confidence. You know, recent PMI data shows increasing business confidence. So that's good as well. What we're seeing with consumers is really rational behaviour. So what we're seeing. I've talked before about how we look at a lot of soft and hard indicators of behaviour. On the soft indicators, we're seeing people, consumers adjusting their spending. So absolute spending is not going up fully in line with inflation, which means people

are economising and adjusting for the inflationary environment. We have seen through this last quarter, for some of our customers who have higher balances, them starting to maybe prepay some of their mortgage, pay down more expensive debt. We're not seeing irrational behaviour in spending, as in, we're not seeing credit card spending being used to pay for, household bills or food spending, which would normally be an indication of concern.

So we're not seeing that sign of distress coming through and we are seeing rational behaviour with people economising. Of course, what is true is those on the lowest income deciles are struggling more, which is why we're doing proactive outreach. But we are seeing, as energy price, fuel prices, come down, less people in what we would describe as food and fuel energy poverty. So that's again, a good sign. So there is rational behaviour

However, as you say, inflation is staying a little bit persistently higher than planned. We've seen it coming down, but not as quickly as the Bank of England original forecast is. But the OBR are still predicting that it will be down at 2.9 by the end of the year.

So that's the dynamic I think are at play between what the Bank of England are looking at on interest rates. So I think rational behaviour, low levels of distress and impairments. Our book is in pretty robust shape. You can see the low impairments and we're actively monitoring and keeping a very close eye. Hopefully that, does that answer your question.

Ed: Thanks very much.

Operator: Thank you very much. Our next question comes on Jonathan Pierce of Numis. Jonathan, please do unmute and go ahead.

Jonathan: Hello. Got two questions, please. The first on deposit flows. I mean, the industry data tends to over the years show that most of these tax repayments for obvious reasons are January and February and you begin to see a sizable reversal in March and beyond, particularly in the household sector. It was sort of mid-February, I think, that the full year results. So, I assume you would have seen quite a lot of the tax effect by that point. So, I'm just wondering if, you know, something additional has caught you a bit off side over the last six weeks to the end of March that's led to this slightly weaker income guidance given the context of higher interest rate assumptions and whether you can maybe talk a little to the performance of the deposit book in March and April. Are we seeing stability now after outflows in January and February?

Second question, and I suppose the one bright spot of these numbers, was the interest earning asset growth. 360 billion in the first quarter. Consensus, I think, is below that for the full year. So, I guess people will go away today, lower the NIM forecast, probably have to upgrade the interest and the asset number.

Can you give us a sense as to what you're expecting now on interest earning assets for the full year or, if that's too much in the way of guidance, maybe give us an idea of where the spot interest earning assets were at March. Because, as I say, 360 billion average in Q1 is above where consensus is for the full year so that's going to be important components of the number changes, I think.

Alison: Okay. Thanks. On the deposit flows and January, February, no we haven't seen anything unusual. When I was speaking to you in January and February and the market, we talked about the fact that Q1 would see deposit outflows because of the usual seasonal tax. We know from the Bank of England data that more people have been caught in the tax bucket because of the changes in taxation.

So, we always predicted that Q1 would see deposit declines. We also knew that with the progress that we were making on Ulster, that we would see the rundown of deposits there. So nothing unusual. Clearly, as we also said, customer behaviour would be an issue and customers behaving and engaging in their financial affairs. And, you know, we've Katie mentioned the sort of slight uptick of moves on interest bearing into a little bit more into fixed as our competitive products came in.

We have seen very strong loan growth in the first quarter. The 5.7 billion that we've talked about, which is very strong across the book. So exactly as you say, strong tax comes out in January and February. Obviously, in our private bank, we have people who may be caught in a higher tax bracket. So high outflows from that tax perspective.

But nothing unusual. Katie?

Katie: Yes. I mean, and I probably have an argument with you that our one bright spot in our numbers, which I think are really, really excellent set of kind of numbers for the quarter is the improvement in our average interest earning assets. But in terms of the growth, we do give you the average number, the way that I would think about it is to think about your loan dynamics.

This is where do we see going from here, obviously, and mortgages are performing. They performed exceptionally well

in Q1. I think they're actually performing a bit better than all of us would have collectively thought as we came into this year and we look at the size of that market. So, we're comfortable with what's kind of going in there.

And it's great to see the loan growth happening across the mid-market and the large corporate end. As Alison said, at the smaller end, people are behaving rationally. They're pulling down on their, they're continuing to repay their government lending. And also, if they've got excess, surplus liquidity, they're pulling down on some of the other debt. So, a bit more muted in that space.

But the growth we see in mortgages, credit cards, the large end of the book they make up, they'll all kind of help within there. And I think these are all built into our strong guidance for the year of the 14.8 billion of income and the upper end of the 14 to 16% return. So, I think you can find a few more bright spots.

Jonathan: Yeah, sorry. I should have said one of the bright spots. Can I just follow up on that deposit point? Has the deposit point excluding repos and Ireland, has that been more stable in March and April, please, versus end of February?

Alison: Yes.

Jonathan: Okay. Good. Thank you.

Operator: Thank you very much. Our next question comes from Jason Napier of UBS. Would you please unmute and go ahead.

Jason: Good morning. Can you hear me?

Katie: Hey, morning, Jason.

Alison: Morning, Jason.

Jason: Thanks very much. Alison, I guess first question for you, please. I wondered whether you wouldn't sort of reflect on how the businesses performed over the last sort of nine months and what that mean for the sort of the outlook for the business over the next couple of years. The reason I ask is that when the 14 to 16 ROTE with first heard as an objective last July the market thought that rates could be at about two and a half percent and now are 200 basis points higher than that and yet the ROTE target is much the same.

Clearly higher inflation has impacted the cost line and so on. But I wonder whether you wouldn't mind just talking to us about, about why we've not seen better ROTE leverage from

what we would have thought would have been a much, much more benevolent kind of rate environment, notwithstanding the fact that, you know, you've pretty good 20% growth in Q1 and that has barely come up in the Q&A. But I wonder whether you could talk about what the puts and takes have been and whether that tells us anything about how the franchise will perform if rates do start to fall again.

And then second question, if I may, perhaps this one for Katie. Mortgage performance in Q1 was enormously impressive and I just wonder whether you could talk a little bit to the type of refi within the portfolio, how lumpy it is, whether you sort of see more of the COVID era loans coming due in Q1 versus other quarters in the year, just trying to get a sense of what that asset spread compression piece may look like for the balance of this year. Thank you.

Alison: Thanks, Jason. Look, let me try and address your question. So, look, I think a medium-term ROTE of 14 to 16% is a pretty good performance for the bank and a strong performance that we're giving you. When you when you look at how we're performing, you know, very strong franchises. We have good positions with capacity to grow. You can see the consistent delivery of that capacity to grow in our franchises. Good, well-diversified balance sheet with good risk diversification. And you can see that we are acquiring customers across all of our franchises. Net acquirer of customers in our retail franchise with good diversification and growing market share. You can see that our business bank has - and commercial institutional bank has – leading market positions and continuing to grow. And you can see our wealth business, which we haven't even touched on, net new money of 600 million, opening AUMA of 7.8%, up from 5.6% last year. So, I think the strength of the franchise is very, very clear and delivering. Obviously, we've guided you this year that on the 14 to 16%, we will be at the upper end of that range. And obviously as we go into next year, the drag of 1.5 from Ulster will move away and be negligible. What are the dynamics that you need to think about? Clearly, the macro environment has been, you know, pretty challenging. If we move into a more positive dynamic, I think that is that is positive for us. And we've positioned the bank to be able to withstand downside risk, but well positioned for growth as well. And that's what I would think about. As you look forward, in terms of that guidance, obviously macroeconomic factors, customer behaviour, interest rates and what's happening there as they move down. But we're very comfortable that we can deliver that long term sustainable performance which I think is pretty robust.

Katie: Shall I take the mortgage question. Perfect, thanks very much. So, hi Jason. So, if I look at it, the re-mortgages, it's fairly even

over the course of the year, we do good performance on re-mortgages. We aim to be 75, 80%. We're right in the sweet spot of that on this quarter. So very, very comfortable with that piece.

We're clearly very aware when you can see in the market that there's lumps coming up that were particular anniversaries for re-mortgages and that the team, through the investment we've made in our digital mortgages, and just our insights we use on data. We'll be approaching people as they're coming up for re-mortgage with other banks to make sure that they really understand.

And when I look at that gross new lending number, I'm not going to split it up for you exactly, but remos are a significant part of that, first time buyers are important and then obviously the whole mover piece is important in there. But re-mortgages have been a very big focus for us over the last number of years and it's something that works incredibly well and that's why we have such good retention in there. And it's important for the development of the book. Our own book is pretty even, but very mindful that there are peaks within the market and we make sure that we're absolutely ready for them as they approach.

Jason: That’s helpful. Thanks very much.

Katie: Thanks, Jason. Have a good day.

Operator: Thank you. Our next question comes from Fahed Kunwar of Redburn, could you please unmute and go ahead.

Fahed: Hi, Katie. Hi, Alison. Thanks for taking the questions. Just a couple of questions. The first was just a clarification. I think you gave the completion mortgage spreads. Would you mind giving us the back book mortgage spreads at the moment, please? And then the second question was just, again, sorry on deposit mix, but you made the point that it was fascinating that really a lot of the movements been from instant access to time, but not from the kind of NIBB curs, do you expect that to remain the case going forward and can we get some sense of how the deposit behaviour is different or changed or moved versus kind of how the retail business has changed versus how corporate, large corporates, SMEs have changed? Just some sense of which customer cohorts are moving and how you think that could change over time would be incredibly helpful. Thank you.

Alison: Katie. Do you want to take the mortgage.

Katie: Yep, yeah, sure. So, on the mortgage piece, I think you can work out from the book as well, but you can see it's kind of the book margin comes down, it will trend towards eighty. It would ultimately kind of get there because of things of mix of SVR and things like that. But it's about 117 at the end of the quarter on a blended basis for the group. Shall I carry onto deposits, Alison?

So if I look at the deposits, it's a very interesting time. It's very different I think from where we were when we all naturally looked back to history kind of thing. Where were NIBBs and IBBs and things before the last crisis. I think there's quite a few differences in terms of the level of liquidity that we see within there and the level of savings that customers have behind them.

What's been really interesting since we started to share with you that NIBBs and IBBs disclosure, which I think we did for the first time in Q3, really hasn't moved. So, I'm not sitting here going, gosh, I've got a big indicator that all of a sudden I'm now going to see some seismic change within our customer behaviour because I have not seen it over the last three quarters.

What we did see a lot in October, November was a move into term accounts. That was some of that would have come from current accounts, but it mainly came from instant access into term or in our own situation it also came from people from other banks bringing their money to our product because they saw them as the right competitive place for them to be in that sort of space.

So, Fahed, I'm sorry, I don't have a particular looking glass to kind of give you. We've obviously got some internal assumptions as to how that will evolve, but it has been stable over the last number of quarters in terms of in terms of that split in a time where you've seen quite a lot of different customer behaviour.

So that feels a reasonable guide as we move forward. Alison, what would you.

Alison: Yeah, look, I'd agree with that. And on the corporate and business side, again, you know, nothing, no major change. What you tend to see is corporate treasurers at quarter ends managing their liquidity and their balances. There is excess liquidity in the system as a result of QE. We're seeing one of the reasons is muted demand for lending, particularly at the small end of the business banking book, because there is still excess liquidity from some of the injections during COVID sitting on balance sheets.

Businesses tend in the small and medium sized to largely remain transactional and operational balances. And that fits in with the product mix that we have. So again, we're not seeing anything unusual. We are seeing the large end corporates' treasurers managing their balances in an efficient way. That's always been the case and there's, obviously, with higher interest rates a few more options for them, but we're not seeing anything unusual.

Fahed: Thank you. So just to get clarification, she is it right to think that most of the shifts have been large corporates, so SMEs and retail customers. There is some shift, but it remains pretty small. Is that the right inference?

Alison: No, no, no, we haven't seen any particular shift in corporates and SMEs. Typically SMEs and mid-market will keep balances. They'll tend to hold more operational balances just as they're managing their businesses. Corporate treasurers always manage their balances over quarter ends. And as, you know, different seasonal elements. So, we're not - very similar to consumer - not seeing anything unusual or different trends in behaviour.

Fahed: Excellent. Thank you both.

Katie: Thanks Fahed.

Operator: Thank you. Our next question comes from Rob Noble from Deutsche Bank. Rob, would you please unmute and go ahead.

Rob: Morning. Thank you for taking my questions. First on deposits. I presume you've got some visibility on deposits into Q2, given that you're guiding to a full year increase from the Q1 level. So how do you go about forecasting beyond Q2 and is there a sensitivity range that you think about? How much could you miss your expectation on deposits?

And if we think about it going beyond 2023, we've got continued Bank of England reduction in balance seeing whether this comes about. TSME repayments, less liquidity in the market. On top of this, banks trying to stay more liquid because of what's happened in the last few months. So, is the reality in the medium term a smaller, more liquid, less profitable banking system than we thought, with just purely rate rises beforehand? Thanks.

Alison: Thanks. Well, look, I think what you can see from our results, you've got a very profitable banking performance and banking system. Look, on deposits, I think we've been clear, they are quite difficult to predict because customers behaviour and

customers engaging in deposits in terms of now higher interest rates and different options with high inflation and different depositors will behave in a different way.

For some households that means taking more of a prudent approach and paying down debt. For others, inflation, if it remains persistent and doesn't drop, then that's going to eat into some of the buffer that they built up pre-COVID. So, you know, there are some quite macro dynamics on deposits and customer behaviour in terms of how they're engaging.

From our perspective. Clearly, the approach that we take, we have a well-diversified balance sheet and strong customer franchises, strong relationships and good liquidity in terms of that. And our ability to compete effectively, we have the right products to do that. So, we stay very engaged. We manage our deposits in a way that we would manage our asset side of our book. We will compete where we where we want to, where we need to maintain either income or liquidity. You can see we have really strong LDR ratio. We have capacity to grow, and we'll balance it from that perspective. But there are uncertainties in deposit behaviour, just from how customers will behave. And also, some of these macroeconomic dynamics in terms of how persistent inflation is, what happens on interest rates, which will impact on that behaviour as we move forward.

Katie: I think you also talked to us about TFSME. Can I just say a couple of words on that? So, if I look at our LCR it sits at 139% includes obviously 12 billion of TFSME. If you take that TSFME out, our surplus primarily liquidity is still 32 billion. I think it's important not to confuse the TFSME with the liquidity. It's a repayment. It's a multiyear window for us we start a third of it in Q4 25 and two thirds of it in Q1 27. So, it's an important component of the of the LCR. In reality it's a very good free source of funding for us. But I really do think about it as medium-term funding. We'll deal with it as part of our medium-term funding plans in terms of that's not a particular liquidity consideration.

Rob: I think the problem, though, is that it's not you specifically. It's the entire system that the liquidity is coming out of that's going to shrink the available pool of liquidity for the whole banking system. But rather than it specifically being a funding issue for you, does it not make everything in the banking system just less profitable compared to what we would have thought otherwise? Obviously, everything's getting more profitable because of rates.

Alison: Look, I think it's puts and takes. There's increased competition. The way I would look at it is our all book is very well

positioned. We're comfortable. We can compete. And our liquidity levels are very strong. Our reliance on TFSME is relatively low, you know. What you're talking about effectively is part of normalisation post QE. And we're planned and positioned very well for that.

Rob: Okay. Thanks a lot.

Alison: Thanks.

Operator: Thank you. Our next question comes from Benjamin Toms of RBC. Benjamin, if you could please unmute and go ahead.

Katie: Hi Ben.

Ben: Morning. Thank you both for taking my questions. Your underlying non-interest income was up quarter on quarter, driven by trading income. But within that, fees and commissions net were down 5%. Given that the macroeconomic backdrop, including GDP expectations, have been improving, what shape should we expect for the rest of year on this line ex trading income relative to the Q1 print. Is a slow upwards trend the right way to model this?

And then secondly, on cost of risk, the print in the quarter was seven basis points and you've reiterated your guidance of 20 to 30 basis points. Can we assume that there's quite a high level of conservatism based into how low the Q1 print was and the fact you're still holding a decent PMA, which is around 10% of your stock of impairments. And how long do you think you can hold on to that PMA? I mean, you said in the presentation that you've not updated your macroeconomic assumptions. Presumably that implies a certain level of macroeconomic stability. That sits slightly at odds with having an economic uncertainty PMA. Thank you.

Alison: Great. Thank you. I'll let Katie take you through those. But clearly, we're very happy with the asset quality of our book. Well-diversified, de-risked in a high-quality loan book. Retail side 93% secured, very low levels of impairments and we've seen no material signs of distress. So, clearly there are still challenges in the economy, but some good signs of optimism and positivity. So, we're really pleased with how that's performing. So that gives us increasing confidence on the quality of the book and the continuing underlying resilience. But Katie, do you want to pick those points up?

Katie: Yeah, sure, absolutely. If I look at the macroeconomic picture, each quarter we review where are we against macroeconomics and we make changes if we see that there's something that's appropriate to do so. What I would say is that

things look a little bit better, but actually not meaningfully so. So we haven't made a particular update on that. We'll do another look at that as we approach Q2. When I look at the seven basis points compared to our guidance of 20 to 30 basis points, I think I would say that I'm increasingly comfortable on that 20 to 30 basis points and we will land in that range. Clearly, it's a strong start in Q1. You always expect Q1 to be a bit better. We've just done so much work on the year end that, you know, Q1 that it would need to have been something quite significant to have a particularly large hit, but certainly feeling more comfortable all the time on that 20 to 30 basis points. As you look at that

In terms of the PMA, we review it every quarter. I've always said it would be a multi quarter event in terms of the release of that. Pretty stable this quarter. And again, I'd expect to see probably some movements as we come through on the next. If I can leave cost of risk and move over to your query on the non-interest income.

Very nice to see the performance we saw on the trading side. Q1 is always expected to be a strong quarter in that space and it was great to see the business doing what we've built that business to do in terms of fixed income. So kudos to them on that piece. You know, in retail, you do often see it's a little bit seasonally lower in the first quarter in terms of people, which is kind of personal activities. The first quarter is a quieter kind of months. I would say as you move forward from here, it's really going to depend on customer confidence, what's happening on the macro and kind of customer activity, but pretty happy with the evolution. It’s kind of in line with our expectations and we’ll continue to see evolve as we move up throughout the year.

Ben: Thank you.

Katie: Thanks, Ben.

Operator: Thank you. Our next question comes from Raul Sinha of JPMorgan. Though, could you please unmute and go ahead.

Katie: Hi Raul.

Raul: Hi. Good morning. Thank you for giving me a chance to ask my questions. I'm sorry. I'm a little bit unclear on some of the NIM answers, so I was just hoping to ask a couple of clarifications if that's okay.

Katie: Sure.

Raul: Just firstly, are you assuming that hedgeable deposits would be broadly stable within your NIM guidance for the year?

Katie: Do you want to give me all of them? And I'll answer.

Raul: That. That's the first one. The second one is when you talked about the incremental rate hike impact, Katie, are you indicating a 60% deposit beta on the incremental rate hikes from here? Or was that sensitivity just a sort of indication that obviously things are less sensitive and the actual beta could be higher from here? So those are the kind of two clarifications if I could.

And the third one was just on corporate SME defaults. I think some of the external data seems to be suggesting a pickup in March. I was just wondering if you'd seen anything within your businesses or within specific sectors that might correlate with that. Thank you.

Alison: Thanks. Let me let me do the corporate SME and Katie can pick up your NIM clarifications. We're not seeing any significant deterioration or signs of distress and actually there are obviously some sectors we're keeping a close eye on, those which are very consumer spending driven. So leisure, hospitality, retail. We're seeing cases going into what we call our heightened monitoring, which is where if we start seeing things going off track and we work with our customers and our relationship managers work with them. What you can see from the data we've given you, things like our bounce back loans are continuing to pay down and perform as we expected so that gives you a sense of people trading and paying down well.

Look, the reality is it's pretty tough if you are a business right now because you're dealing with high inflation, getting access to skills and labour and uncertainty. But the PMI data we've seen is business confidence is starting to come back.

So there are sectors that we're keeping a close eye on, but we're not seeing significant signs of distress and impairment. And you can see that coming through, in the numbers that we talked about, our disclosure in Q1. Katie, you want to pick up the NIM.

Katie: Sure. So, on the hedgeable deposits, what we said in February is that looking at the balances over the year, we'd expect to see a 5 billion decrease in terms of that shape of that hedgeable deposits pool. What we saw on the product hedge is that it decreased by 2 billion in the quarter.

You can see that we've had a little bit of reduction obviously in our deposits that will feed through a little bit. So I would expect a little bit of a further decrease in here. What I would say, though, when you look at the reinvestment rate and where that's performing, it's not making a significant difference in terms of the outcome that we're seeing in the hedge, which is maybe where some of the need for clarification is coming.

When I look at incremental rate hike, Rahul, as you know, what actually happens on each individual rate movement or each pricing decision we make, it very much depends on the customer behaviour and what we're seeing in terms of the market dynamics and market competitiveness. What we have seen in our most recent rate hikes is that the pass through was that 60% of the pass through went through.

So if I look at the sensitivity disclosure that I've given you, what we actually see is the hedge performance for our plus 25 basis point movement on a static balance sheet doesn't actually move particularly in terms of that. We see a little bit of a fall in the managed margin. If you look at the disclosure we gave you at the year-end it was 148, I would say that number now is about 125 if I was doing a 60% pass through of any kind of further changes as we as we move forward from here.

So, it does have an impact in terms of that increased pass through. You need to think about the shape and size of the balance sheet in terms of that piece and at which point it's going to go through. Hopefully that helps a little bit.

Raul: Yes. Thank you very much. I guess one of the issues is that obviously the size of the hedgeable deposit base is probably going to shrink faster than your overall deposits. And that's the reason for my question, because it looks to me like there isn't a lot of room left within your kind of new guidance for hedgeable deposits to shrink further. And if that was to happen, would it be fair to assume your rate sensitivity would be higher into next year when potentially rates could fall?

Katie: So, if I look at where we are. 40 billion of the hedge rolls off each year, we've said that that will shrink a little bit and we expect that to go back on. I've given you the size it. IBBs and NIBBs percentage wise are staying kind of the same but I agree with you, balances in terms of system liquidity could be down. I've brought you back to the 433 for the year end and I've said broadly stable or slightly down. I'm going to leave you with all those building blocks to make your own conclusions on market activity within that space. And it's very much built into the guidance that we've given you today of the 14 to 16% return and the upper end of that for this year. Comfortable for

that remaining as our 2025 guidance as well. And around the 14.8 billion of income as well for the end of the year.

Raul: All right. Well, thank you very much.

Katie: Thanks very much, Rahul, take care.

Operator: Thank you. Our next question comes from Omar Keenan of Credit Suisse. If you could please unmute and go ahead.

Katie: Hi Omar.

Operator: If you would like to unmute and go ahead. Thank you.

Omar: Hello. Thank you very much for taking the questions. I've just got a quick follow up on NatWest Markets and I just wanted to also ask your thoughts about changes to the UK deposit guarantee scheme, possibly. So just firstly on NatWest Markets. I guess it's really pleasing to see the improvement in revenues there. Just wanted really to get your thoughts around whether the recovery in the fixed income rates revenues is that a run rate that we should think about now or is there still some more restructuring of the markets business to come through? So, is this kind of the finished article that we're looking at or is there still a bit more to go?

And then just on the UK deposit guarantee scheme, I was just curious about your thoughts. You know whether you'd welcome an increase in the level of guaranteed deposits and how you're thinking about that and how relevant levies and costs might change.

Alison: Great. Thank you. So, NatWest Markets. Yeah, we're really pleased to see the performance of that business. Robert and his team are doing a very good job, as we said that the restructuring of that businesses is finished is about the right shape. We'll continue to optimise normal BAU, but I think good performance and good recovery. So doing what we wanted it to do.

On UK deposits and guarantee scheme we're not aware of any proposed changes. I know there's a lot of discussion going on at the moment and press speculation. I think, you know, if you look at it, deposits are a factor in two fees we pay. There's the bank levy charge, which is around 105 million each year, depending on the level, mix and term of the deposits we hold in each of our legal entities. So that's one aspect and then the financial service compensation scheme regulatory fees. I know there's press speculation and discussion. We would look at that, but that's how we would think about it.

Omar: Okay. Thank you very much.

Operator: Thank you. Our next question comes from Martin Leitgeb of Goldman Sachs. Martin, if you could, please unmute and go ahead.

Martin: Yes, good morning. Just a quick clarification, please, on net interest income. I was just wondering, in terms of some of the time lag impacts of higher deposit rates at a time like of NatWest or a bank passing on higher rates on savings accounts. I was just wondering if you can help us size up with the time lag. Is it most likely around four weeks or six weeks just to help us modelling the impact going forward?

And secondly, more broadly, I was just wondering if you could comment on commercial real estate in the UK and appreciate exposure as comparatively small within a group context. But I was just wondering which pockets of risk you are particularly concerned or focused on in the UK? And maybe if you can help us size what percentage of the book the exposure is there? Thank you.

Alison: Great. Thank you. Well, thanks very much Martin. Why didn't I talk to CRE. So, as you know, commercial real estate is less than 5% of group lending. It's part of our book that we've managed very actively over the last five or six years and on an ongoing basis. And the average LTVs are around 40%. We've been carefully managing the portfolio, including actively reducing the retail aspects of it.

We regularly stress test that portfolio to ensure its robustness as part of careful review and monitoring. And two of the key risks we've been focusing on are the falls in commercial real estate capital values and the heightened interest rate environment and how those impact the book and refinance ability. And we've obviously engaged very actively.

We have a dedicated commercial real estate team and we actively engage with all of our customers on refinances. So it's 12 to 18 months in advance and discuss risk appetite. Our exposure to the retail and office sector is geographically very diversified across all regions in the UK. Typically about 20% of our book expires each year, but a proportion of that will usually have been prepaid or refinanced.

There is nothing in that book as we do these regular reviews that is concerning us, and we've not identified any material risks or weaknesses in that portfolio. So, it's a very actively managed, a much smaller part of our book than perhaps

historically it would have been. Katie, do you want to pick up the NII question.

Katie: Yeah, sure. It's a great question, unfortunately it's not one that has a particularly simple answer. You know that some of our books are linked to rates. So, it happens almost of immediately. Others, it would depend on what's happening on competition. And so how quickly we might move in commercial might vary from what we might do in retail.

If I look at the most retail example and you can see this, Martin as we publicise our rates. The rate change came through in March we've released our updates as to what we do within that 425. It actually impacts the accounts on May 10th. So that talks to more to a six week. I wouldn't take that as a rule of thumb.

It will vary depending on what's going on and it does vary across the book from kind of immediate all the way out to that piece. What you have seen, and you can see it nicely on Slide 13, is that it is accelerating in terms of the speed of which the pass through is and where it was earlier.

And look, I couldn't give you a specific date because it does vary across the book in terms of how we react appropriate to that customer segment and what's happening in that bit of the market dynamic.

Operator: Thank you. Our last question comes from Guy Stebbings of Exane BNP Paribas. Guy, please do unmute and go ahead.

Guy: Good morning Alison and Katie. Thanks for squeezing me in. I had one on NIM and one on costs. So, I think all the detail questions I was hoping to ask have been asked. But I guess in the round on NIM, given all the comments you've made, I'm struggling a little to see what suppresses the NIM to land at the guidance. Working it all through, in order to bring that NIM down, I would have thought you need to see more negative deposit mix from here, which it sounds like from your comments you aren't planning for. I mean, unless the delayed deposit pass through is very material, I'm just trying to gauge how conservative the NIM has been struck - further rate hike assumptions aside - and if we do see more negative deposit mix, does that put pressure on the guidance or has that NIM guidance been constructed to absorb some uncertainty around deposit mix and other items?

And then second question on costs. Full year guidance is unchanged so maybe the answer is very simple and everything is going to plan. But other operating pricing expenses are running a bit higher than consensus had in for

Q1. I think if you strip out the 60million one off, you're analysing at seven a half billion. Ulster direct cost may be a bit lower on average than what we saw in Q1, but it doesn't seem to give a lot of flexibility to absorb inflationary pressures over the course of this year to land at the 7.6. So are there any other lumpy items or cost saves that come through later in the year perhaps? Thank you.

Alison: Great. Thank you. So, look, I think we've given you quite a lot on NIM. We're very comfortable, obviously, you know, competition on deposits and assumptions there. But we're very comfortable with the guidance that we've given you. On costs, again, costs are lumpy. They always are lumpy. And what you see in Q1, they're up because of the one-off payments that we made to staff cash payments for cost of living. And also, you know, we're making great progress on Ulster, so we accelerated some of the strategic costs on that as we progress that very well.

We're very comfortable with our guidance of 7.6. We've got a good track record on that. Cost reductions are never linear. They're always lumpy. But there's nothing, no surprises in there and we're comfortable with our guidance of 7.6.

Guy: Okay. Thank you.

Katie: Thanks, Guy.

Operator: Thank you. Those are all the questions we have time for. Apologies if we didn't reach you. The IR team will follow up with you afterwards. I will now hand back to Alison.

Alison: Great. Well, look, thank you very much, everyone, for joining us and for taking the time with the questions. I think we're very happy with the Q1 results, a very strong performance in terms of right the way across the piece that we've deliberately positioned the bank and the balance sheet to have in an uncertain environment, both protection for any downside, but also well positioned for upside. Continued delivery of our strategy, strong customer franchises, strong growth in Q1 as a result of that good diversification and liquidity that we have on our balance sheet and super disciplined risk management which speaks to the level of impairments that we have there.

So I think a good Q1. There's still uncertainty in the macro, but I think signs of positivity in terms of business confidence. And we look forward to catching up with you in Q2. But thanks very much for your time, everyone.

Operator: That concludes today's presentation. Thank you for your participation. You may now disconnect.