**NatWest Group plc**

**Annual Results 2021 Fixed Income Presentation**

**Hosted by Katie Murray (CFO) and Donal Quaid (Treasurer)**

**1pm-1.45pm on Friday 18th February 2022**

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**Katie Murray**

Good afternoon everyone - thank you for joining us for our full year 2021 Fixed Income results presentation. I'm joined today by Donal Quaid, our Treasurer, and Paul Pybus, Head of Debt IR.

I will take you through the headlines for the full year, give an update on our strategic priorities and then move onto some of the detail. Donal will then take you through the balance sheet, capital and liquidity and then we'll open it up for questions.

So, starting with the headlines on **slide 3**.

We're reporting a strong performance for 2021 with a 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.

To remind you, we have committed to an annual dividend distribution of at least a billion pounds for 21, 22 and 23. And we announced 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 750 million and we announced today a further 750 million, including the 1.1 billion directed buyback we made last March, this brings total distributions for 2021 to 3.8 billion.

So those are the headlines - I'll move on now to our strategic priorities on **slide 4**.

Two years ago we set out our purpose led strategy, which places customers at the heart of our business. 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 CET1 ratio of 13 to 14%; with the aim of getting to 14% by the end of 2022.

And we have upgraded our Return on Tangible Equity target in 2023 to over 10%.

So let me talk in more detail about how we are putting customers at the heart of our business on **slide 5.**

We already hold strong positions serving 19 million customers including one in four UK businesses and we know 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 that we can better understand our customers, create deeper relationships and support them more effectively 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 almost 90% of our Retail customers now have their needs met digitally compared to 53% two years ago.

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

On **slide 6** you can see that 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 have contributed over 8 billion towards that target in the second half.

For smaller businesses, last week we announced green loans 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.

I'll now to turn to capital management on **slide 7**.

We've reduced the capital intensity of the business, with a reduction from 54 to 43% over the last 2 years.

In Commercial, we have exited portfolios with low returns, delivering a reduction in RWA's of 1.5 billion in 2021.

We have largely completed our refocusing of Natwest Markets, reducing RWA's from 38 billion in 2019 to 24 billion in 2021.

During the year, Natwest Markets also returned a billion pounds in dividends to the Group.

Now that the refocusing of Natwest Markets is largely complete, we will be further simplifying the Group 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 franchises.

We continue to make good progress on our withdrawal from Ulster Bank. In December we announced a binding agreement with Permanent TSB for the sale of €7.6 billion 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 expect the majority of AIB and Permanent TSB asset sales to be largely complete by the end of 2022.

Now let me turn to some of the detail on **slide 8**.

As we progress with our withdrawal from the Republic of Ireland, over time all of this will move to discontinued operations as the withdrawal completes. From now onwards my comments are predominately for the Go-forward Group, which excludes all of Ulster Bank.

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.

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.

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 9**.

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 10**.

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.

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. We anticipate an increase in Net Interest Margin through 2022, driven by changes in the yield curve and mix and price.

So, starting with the yield curve. As we enter a period of rising UK base rates, we have taken action to increase our customer mortgage rates given the sharp rise in swap rates from October last year. Customer deposit rates however remain low.

This led to an increase in customer spread, which will come through in higher deposit income and is only partly offset by lower mortgage income.

The other side of the equation is the benefit we derive from higher swap rates through our structural hedge. For our hedged deposits, the ongoing increase in swap rates will be reflected through an increase in our product structural hedge income.

Looking now at customer assets on **slide 11**.

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. Our Retail Banking mortgage stock share grew to 11.0%, driven by flow share of 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 positions.

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.

Turning now to non-interest income on **slide 12**.

Non-interest income, excluding notable items, was £598million, or 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.

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.

Turning now to impairments on **slide 13**.

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 the actions taken to de-risk the 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 14**.

Our Group ECL provision at the end of the year was £3.8 billion, down from £2.4 billion at the start. £1.5 billion of this reduction was driven by improved economics with a further £166 million reduction due to the reclassification of Ulster portfolios that 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.

With that, I will hand over to Donal.

**Donal Quaid**

Thanks Katie

Good afternoon and thank you for joining today's call.

I will start by sharing some of our highlights from 2021 before moving into more detail on capital and liquidity. I will then give an update on our funding plans for 2022 before we open up for questions.

Starting with the highlights on **slide 16**.

We ended the year with a strong set of balance sheet metrics against our capital, funding and liquidity requirements with a Liquidity Coverage Ratio of 172% and a CET1 ratio of 18.2% or 15.9% on a pro-forma basis as at 1-Jan-2022.

We successfully executed a number of milestone transactions across the capital stack, meeting our 2021 funding plans and making further progress on capital optimisation.

NatWest Group

On ratings, Moody's upgraded NatWest Group and subsidiaries earlier in the year and both Fitch and S&P revised their Outlooks on the Long-Term Issuer ratings for all entities in the NatWest Group from Negative to Stable.

We have also seen further progress on our ESG ratings with Sustainalytics reducing our risk score to low risk.

Turning to our capital and leverage position on **slide 17**.

Our CET1 ratio at the year-end was 18.2%. You'll recall that regulatory changes impacting capital and Risk Weighted Asset's took effect on January 1st of this year. In line with our expectations, Risk Weighted Assets increased by approximately £19 billion, with the majority or £15bn related to new mortgage models.

The increase in RWAs reduced CET1 by 200bps. Taking that change, together with the removal of the software intangibles capital benefit of 20bps and the tapering of IFRS9 transitional relief of 10bps, results in a pro-forma CET1 ratio on January 1st of 15.9%.

This leaves our CET1 ratio well above current Maximum Distributable Amount and our 13-14% full year 2023 target range.

In December last year, the Financial Policy Committee announced an increase in the UK countercyclical buffer rate from 0% to 1%.

This rate will come into effect from December this year in line with the 12-month implementation period. The Financial Policy Committee also indicated that if the economy recovery proceeds broadly in line with central projections, and absent a material change in the outlook for UK financial stability, it would expect to increase the rate further to 2% in the second quarter of this year, which would take effect in Q2 2023.

In addition, the PRA confirmed late last year that Pillar 2A will revert from a nominal amount to a percentage of RWA's later this year as part of the Supervisory Review and Evaluation Process.

The UK leverage ratio was 5.8%, leaving 255bps of headroom above the UK's minimum requirements of 3.25%.

Moving to **slide 18** and our quarterly movements in CET1 and Risk Weighted Asset's.

The CET1 ratio is down 50bps compared to the third quarter and fully reflects the final dividend accrual and the £750 million buyback announced this morning, which together reduced the ratio by 75 basis points.

This reduction was offset by a circa 40 basis point benefit due to lower RWAs and an increase in attributable profit, net of changes to IFRS 9 transitional relief.

Our IFRS 9 transitional relief is 40 basis points, down from 60bps at Q3. This reflects the release of Stage 1 and Stage 2 Expected Credit Loss which would previously have been added back to our capital position.

RWAs fell by £2.8 billion in the quarter to £157 billion. This was driven by lower credit risk, which decreased by £2.2 billion, mainly reflecting lower commercial lending balances.

The regulatory changes that took effect on 1 January 2022 have increased RWAs by £18.8 billion to £176 billion.

We expect the majority of the AIB and Permanent TSB asset sales to be largely complete by the end of 2022 and for the RWA's to follow this trajectory.

Turning to our liquidity positions on **slide 19**.

We have maintained strong liquidity levels during the year with our LCR ratio increasing from 165% to 172%, reflecting over £89bn of surplus primary liquidity above minimum requirements.

We continue to manage a high-quality liquid asset pool with primary liquidity of £209bn. The increase in primary liquidity was mainly driven by continued growth of customer deposits; a drawing of £12bn from the TFSME scheme in Q4, offset by Ulster Banks's repayment of TLTRO drawings of €3.1bn EUR.

Secondary liquidity is lower due to a reduction in pre-positioned collateral with the Bank of England in support of the TFSME funding received.

Moving to funding on **slide 20**.

We operate with stable and diverse sources of funding. Our wholesale funding is £77bn or about 14% of our total funding and reflects a range of different sources and maturities. Around two-thirds of our wholesale funding is to meet our senior MREL and non-equity regulatory capital requirements.

We continue to look at all options available to us to assess the optimal blend and most cost-effective means of funding.

Looking at customer deposits in more detail on **slide 21**.

You can see that deposit levels remain elevated.

Customer deposits increased by £48bn during the year with a £17bn increase in Retail, £10bn in Commercial and £7bn in Private. Retail banking deposits are now £189bn and commercial banking deposits are £178bn.

As Katie mentioned we've made good progress on our plans to withdraw from the Republic of Ireland. We currently have €22 billion EUR of customer deposits in our Ulster Bank legal entity, and we expect those balances to substantially reduce over the next 12-18 months.

Our loan to deposit ratio is 75%, underpinning our strong liquidity and funding position as well as our strong ability to lend.

Turning now to our MREL position on **slide 22**.

Our total loss absorbing capacity ratio continues to look very healthy at 39.8%, significantly higher that our RWA requirement of 25.7%.

Our senior unsecured MREL stock is now approximately £23bn or 12.9% of Risk Weighted Assets on a pro-forma basis compared to our RWA requirement of 11.6%.

As you can see from the profile on this slide, we expect around £7bn of senior unsecured MREL to lose MREL eligibility during 2022 and last week we announced the call of our first callable senior unsecured MREL security.

I expect to be issuing in the region of £3-5bn senior unsecured MREL in 2022 to maintain our steady state requirement of £19-£21bn.

Now turning to total capital on **slide 23**.

Our total capital ratio at the full year is 24.1% on a CRR end point basis and 20.9% on a 1-Jan-22 pro-forma basis. With the uplift in RWA to £176bn on 1-Jan-22, our AT1 ratio is 2.2% and our Tier 2 ratio is 3%, so we are well positioned on both AT1 and Tier 2 and I have no expected issuance requirements this year. However, this is subject to the evolution of RWAs throughout the year including the planned reduction in Ulster Bank RWA's.

Now turning to **slide 24**.

We continued to proactively take opportunities to reduce our legacy capital stack via Liability Management Exercises, calls and maturities.

In 2021 we purchased ~£1.7bn of securities through Liability Management Exercises that targeted Tier 1 and Tier 2 legacy capital and bullet Tier 2 securities with less than 5 years to maturity, reducing inefficient capital and generating ongoing reductions in our interest expense.

Additionally, we called six Tier 2 securities for NatWest Group and NatWest Bank, including our four outstanding discounted perpetual Tier 2s totalling around £750m.

At the year end, we had £2.5bn of outstanding legacy securities which have no regulatory value after 1-Jan-22.

Our strategy and focus on taking action on legacy instruments has continued into 2022. Earlier this month we announced the call of three legacy Tier 1 instruments with a notional of 1.1bn USD that lost regulatory capital value of approximately £575m on 1st January 2022.

These actions reduce the outstanding balance to below £2bn and a further £1.3bn matures during the year which will significantly reduce the balance to approximately £600m by the end of the year.

Looking back at our issuance in 2021 on **slide 25**.

I'm very pleased with the transactions we executed during the year and again thank you for your continued support for NatWest Group and NatWest Markets.

On MREL, we achieved the targets we set out early last year and we've made good progress on our ESG issuance plans, with a €1bn EUR senior MREL social bond and a £600m GBP senior MREL green bond issued under our Green, Social and Sustainability (GSS) Bond framework.

We have now completed four transactions in Green, Social and Sustainable format and this continues to be a key area of focus for us.

In addition to our GSS issuance, we were also active in the dollar and Euro markets with both a $1.5bn and a €1bn transaction.

On capital, we returned to the sterling market with 400m AT1, followed by a 750m Euro AT1. We also issued 1bn sterling and 750m Euro Tier 2, meeting our requirements for the year.

Finally, from NatWest Markets OpCo, we issued approximately £4bn in four benchmark transactions in both the EUR and USD markets.

I expect NatWest Markets to target £4-5bn in public benchmark transactions this year and we may look to be active in the NatWest Markets N.V. name through private placements.

Turning to ratings on **slides 26 and 27**.

I'm very pleased with the ratings upgrades by Moody's. For NatWest Group, the senior unsecured debt rating moves to Baa1 from Baa2, while retaining a Positive outlook. For NatWest Bank Plc and the Royal Bank of Scotland plc the issuer ratings move to A1 from A2 with a Stable outlook.

For NatWest Markets and NatWest Markets N.V., the senior unsecured debt ratings move to A2 from A3, retaining a Positive outlook and the short-term ratings moved to P1 from P2.

S&P and Fitch and changed their outlook to Stable from Negative for all Group rated legal entities in June and July, reflecting a stronger than expected UK economic recovery and NatWest Group's strong financial profile.

We also continue to make progress on our ESG ratings, reflecting the increased focus and engagement effort we have had with the ESG rating agencies and our purpose-led strategy.

Sustainalytics announced an improvement in our risk rating score to 17.3 in May last year which now places NatWest Group as 'Low Risk'.

Finally, finishing on our investment case on **slide 28**.

We're a Capital generative business with capital and leverage ratios well above minimum requirements and improving return on tangible equity.

We're reducing state ownership through Directed Buy Backs and efficiently deploying excess capital through dividends and on-market buybacks.

We have a robust liquidity position with high quality liquid asset pool and a disciplined approach to risk with resilient asset quality.

We continue to make progress on ratings across both credit and ESG.

And we've diversified issuance needs with a continuing focus on Green, Social and Sustainable issuance, in multiple currencies and tenors.

With that, I'll open up to Q&A.

**Operator**

And our first question asks, could I get your thoughts on there being no Tier 2 Issuance Requirements for the year?

NatWest Group

**Katie Murray**

Donal, I'll hand that one to you.

**Donal Quaid**

Yeah, thanks Katie. So, based on our Risk Rated Assets of £177 Bn as of the 1st January 2022, you can see our current Tier 2 percentage is approximately 3%, so I'd say just a number of points to consider here.

Firstly I've talked previously around the bullet Tier 2 securities that we've had of about £7.5 Bn notional, less than 5 years to maturity, so amortising 20% per annum we've obviously made a lot of progress on liability management exercises in those securities over the last couple of years. So at the end of '21 they just had about £1 Bn notational outstanding, well £1 Bn of regulatory capital value outstanding at the end of the year and that should reduce to about £400 Mn at the end of this year, so hence, reducing the previous annual requirements we had in Tier 2.

Secondly, given expectation of the Ulster Bank Asset Sales with AIB and Permanent TSB, being materially complete by the end of this year, you can expect a corresponding reduction in Group Risk Rated Assets, so again reducing Tier 2 requirements. So I'll remind you we have £11.6 Bn of Risk Rated Assets in the Ulster Bank entity at present.

And finally, there's also potential then for further reduction in our Pillar 2 requirements when we return to a fixed percentage of risk rated assets later this year, so we'll wait and see how that lands later on in Q3 or Q4 of this year.

And I suppose the last point to note is, as we still run excess CET1 through '22 and into '23 as well, so as I sit here today, no requirements for Tier 2 for the year, but as I said in my opening remarks, that is going to be driven by the evolution of risk rated assets through the year and if that changes we'll update later in the year. Thank you.

**Operator**

Thank you, our next question comes from Robert Smally of UBS

Robert if you could please unmute and go ahead.

**Robert Smally, UBS**

Hi Katie, hi Donal, thanks for doing the call. 3 questions.

First on deposits, in a rising rate environment, we're obviously going to see deposit rates go up. Are there certain break points, or certain interest rates where it becomes very competitive, or that you have contractual deposits where you have to raise rates and if so, could you give us an idea of how much.

On mortgages, how much of your book reprices this year and next year?

And then also on mortgages, we're seeing loan to values go down as house prices go up, in some cases pretty quickly. Usually as credit analysts we worry about it the other way, but when we see house prices go up so much, is there any kind of rule of thumb or metric that you look at, for any kind of extra provisioning there or extra caution there around the market given the robustness of the housing market? Thank you

**Katie Murray**

Donal, do you want to talk to deposits and I'll pick up the mortgage one.

**Donal Quaid**

Yeah, so, thanks for the question, Robert. So, in terms of break points, I think the answer is, none that we see visible at this stage, so we have talked around our rate sensitivity and the fact that we expect pass-through assumptions to increase as rates move higher and that's reflected in the lower rate sensitivity that we provided this morning, based on a higher yield curve at the end of the year.

But you're right, I think in terms of rising rates, higher inflation and also quantitative tightening in the UK, that is likely to have an impact I think on the huge surplus levels of liquidity that we've seen in the UK economy over the last few years, but I do expect any reduction there to be slow. It's probably expected that we will see more competition in the deposit market as we move into H2 of this year and into next year, but no real breaking point to call out.

**Katie Murray**

And then in terms of mortgages, our fixed rate book, is a mix of two year and five year products, of which £60 Bn, so about a third of the book, turns each year and you see that mixture coming through as £30 Bn new to bank customers and £30 Bn of internal switches, so that's the kind of third that does that, we have less than 10% on SVR and they don't stay on SVR for a terribly long time, so it's generally relatively transitory.

In terms of loan to value, you're absolutely right, it's come down about 3%, for us this year, so that is positive in terms of absolute recovery, but I think more importantly is also about how that book is performing and the level of deposits that the mortgage owners are holding, so that also gives you some comfort around that piece. So there's not a particular trigger where we say, LTVs get below this level and then we're worried, I think we're very much focused on actually how the book is performing rather than the absolute LTVs for the total book, so we're very comfortable at those levels.

**Robert Smalley, UBS**

That's very helpful thanks, and thanks for doing the call.

**Katie Murray**

Yeah lovely, thanks.

**Operator**

Thank you and our next question comes from David Covey of M&G, David would you please unmute and ask your question?

**David Covey, M&G**

Hi guys, I hope you can hear me and thanks for the call. A couple of questions.

First, just to clarify the loan impairment guidance, of 20-30 basis points, does that include potential releases of post model adjustments for the next couple of years? I know you said it would be a much lower than the 20-30 basis points, I'm curious to know what the breakdown is between potential releases and actual defaults or losses.

And if the answer is yes, how do you expect actual credit defaults and losses to evolve over the next couple of years?

And then second, you did mention the ongoing de-risking, just to confirm, you said the de-risking since 2019 is that primarily Ulster? And maybe a little bit in Natwest Markets? Or is there other areas where you feel like you're loan book has been de-risked?

**Katie Murray**

Yes so, when we talk about the de-risking point David, it's very specifically in terms of what we've done in our commercial book, so we managed down £1.5 Bn of RWAs this year. Primarily in real estate exposures, so it's actually a conversation separate from Ulster and Natwest Markets where we would see them as much more strategic restructuring of the Group, so this is within the core book managing the day-to-day risks within that.

It has been principally focused on Real Estate, I think in this last year. If we then look to the loan impairment guidance, there's 20-30 basis points through the cycle and we do expect to be lower than that, over the next couple of years.

So, that would be as a result of some of the unwind of the PMA, we haven't shared specifically how we think that might unwind, I think as we go into this year, obviously we ended last year, strong, we made a relatively big release, you could imagine that now, it's still relatively stable in terms of the quality of that book, so what you could see is some initial releases and then as things start to get tighter and the impact of things like inflation and rising rates might start to impact the book, which they're not today, then you would see more of those challenges coming through but certainly lower than the 20-30 for the next couple of years.

**David Covey, M&G**

Ah thank you.

**Operator**

Thank you and as a reminder if you would like to ask a question today you can do this by Raising a Hand by pressing *9 or by Raising a Hand using the App. Our next question comes from Daniel David of Autonomous. Daniel would you please unmute and go ahead?

**Daniel David, Autonomous**

Good afternoon and thanks for taking my questions, hopefully you can hear me ok.

I've got 3 if that's ok. So, the first one is just on ESG and noting your credentials. Clearly, we've got a stress test coming up this year, just a bit worried that we're going to get a lump of data which is aggregated and not being able to decipher much in terms of bank by bank.

I was wondering are you planning to disclose anything in terms of the results so we can guess, so we can benefit from any good outcomes, or we can maybe read into it a bit more along those lines and maybe if there's anything you can tell us in terms of the process or how it might have impacted your ESG systems or outlook would be really interesting.

The second one is just on LIBOR, given that we've been through the Sterling LIBOR cessation date, just interested if you've got any contracts which are referencing the synthetic extension, if there are any operational challenges and also how long you think that would be available, and then finally it's just on MREL, you've got an awful lot of MREL and I hear what you just said on the Tier 2 answer to the question. Is there a way that we should think about the actual target for your MREL stack, so close to 40%, clearly, it's large but is 30% more realistic or should it be 200 basis points above the regulation? I'm just trying to get a sense of where we should see it longer term, thanks.

**Katie Murray**

Thanks very much, so in terms of the ESG and the publication of the stress test. I don't believe there'll be a lot of bank-by-bank analysis, I think it will be much more sector wide. We are as I'm sure you are aware, doing a little bit further follow up work as the PRA have come back with additional questions, I think following all of our submissions, they are more qualitative rather than quantitative in nature, but I think we'll wait to see what ultimately, they disclose and if there are any other comment we can make on that, though additionally we don't when it's in terms of stress tests, it does generally standalone.

I do think though that the stress test was really helpful for the organisation and exactly along those lines that you mentioned, around making sure that we have established our systems and processes, so you could start to do some of these calculations, so while it's a stress test, it's very specific to work out an impairment number, it doesn't look well enough, at the rest of the income statement and balance sheet. I do think it was incredibly helpful to start the process, really understanding what it meant.

Donal, do you want to pick up the LIBOR question?

**Donal Quaid**

Yeah, I'll take, so on LIBOR, I think it's fair to say, a large majority of the Sterling exposure has now transitioned, there is a very small rump that will avail of the synthetic extension, mainly around tough legacy products. In terms of my view on how long that will last, I think that's just something that we will review on an annual basis from a Bank of England regulatory perspective, but as I say I would expect that rump to actually roll off as well from our perspective over the next couple of years as deals mature, so not an issue.

And no real operational complexity that we can talk about with the transition either, so we're very comfortable where we are.

On the MREL question, probably slide 22 in the fixed income deck is the best place to look at it. We're showing a full year '21 LAC ratio of 39.8, so quite high, but I suppose a number of different moving parts there, CET1 there, which we've guided to already of approximately 14% by the end of '22 and the 13-14% range by the end of '23, so you will see obviously a reduction there.

We're moving closer to our book, it's an AT1 in Tier 2 and we're also giving some steady state requirement on our senior MREL of £19-21 Bn there as well. So that will obviously bring you closer to the 30% than where we're standing today.

**Daniel David, Autonomous**

Great, thanks a lot.

**Operator**

Thank you, our last question comes from Aileen Amidei of Longfellow, Aileen if you'd like to please unmute and please go ahead.

**Aileen Amidei, Longfellow IM**

Thank you very much Katie and Donal for this webinar. Just two things really for me and mainly target questions, so, the first one is, just trying to get your timing target for sale of the remaining Ulster Book that is not under the agreement, obviously we've got the permanent TSB and the Allied agreements in place that you mentioned will complete this year. But for the remaining ones, do you have a target for that?

The second question I have is also a target, timing target, in terms of the pace of the state ownership reduction, are you more approachanistic in that or has there been a thought of how you want to reduce that ownership? That's it from me.

**Katie Murray**

Yeah sure, thanks very much. If I think of the Ulster piece first of all, there are two main groups of loans left that are not covered by the binding agreements, the Tracker Mortgage Book of about €6 Bn and £1 Bn portfolio of non-performing loans. Discussions are ongoing with other strategic counterparts about the potential interest in other parts of the bank, so those conversations are ongoing, and we will continue to update you as and when we conclude any discussions, but we do, as you know, expect the withdrawal process to continue to be capital accretive as well.

In terms of the government ownerships, we're at 50.94% if I take that back to a year ago, we were at about 62, so there's been a lot of progress made on that ownership this year. You know the sell down of the stock at the UKGI's discretion not ours, the job that we have to do is to make sure that we're building an organisation that has a good quality equity story so that there is the interest to make that purchase and I think what you have seen over the last year supports that, that build has been made and the actions that they have taken.

They are actively selling in a program at the moment, and we would look to participate in any directed buy back that they might do at a future date. Thanks Aileen.

**Operator**

Thank you very much. I'd now like to hand the call back to Katie for any closing comments.

**Katie Murray**

Thanks very much everyone for your time, it's always really appreciated that you would take time to come on the call today.

If you do have any further questions, please don't hesitate to contact Paul Pybus in our Debt IR and also Donal and I look forward to talking to you in July at our next call after H1 results.

Thanks very much indeed and thanks for the ongoing support.

**Donal Quaid**

Thank you.