NatWest Group plc
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Host: Katie Murray, CFO

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Management Presentation

(Amended in places for legibility and clarity)

Katie Good morning and thank you for joining us today. I'm really conscious that results is always a busy time for me but I'm looking you guys have had quite a run-in for the last couple of weeks as well so I'm sure you'll be glad when this week's over. Obviously in the room I've got people joining me either virtually or here. Stuart Nimmo is on the line from Edinburgh, Donal Quaid is with us as well and Betsy Munro the FD of Private Banking and Wealth Management and obviously Claire is well known to all of you as well as a few other members of the IR team here with us as well.

I do think our results showed how we've continued a moment with increasing momentum through our focus on sustainable growth and returns by delivering growth across all three businesses, improving our operating leverage and managing our capital risk. We have created the most efficient large UK bank with the lowest cost of risk delivering the strongest levels of capital generation and highest return. I almost want to read that paragraph again because you don't get to say that very often. It's a tremendous sign that our strategy is definitely working. We're pleased with a strong start to the year delivering a return on tangible equity of 19.7% for the first half as our three businesses delivered broad-based growth, income momentum and improved operating leverage.

Our earnings power was reflected in 197 basis points of fund capital generation which means that in effect we're able to fund all of our investment in growth in the first half including both strong organic growth and the acquisition of Evelyn Partners within six months of capital generation. Given our strong first half performance and the inclusion of Evelyn Partners we have strengthened our full year 2026 guidance. As you're all aware we now expect income excluding notable items of around £17.9 billion, other operating expenses of around £8.5 billion. Capital generation before distributions and the impact of even partners of greater than 240 basis points and a return on tangible equity of more than 19%. And finally, we now expect to announce our next buyback with our full year results in February. Very happy to go on to any questions people may have. Ben, go on, quick off the mark.

Ben C-R Thanks very much. Ben Caven-Roberts from Goldman Sachs. So two for me, first on NIM and then secondly on CET1. So on the NIM you mentioned around a flatter NIM into the second half. Just if I could ask if you could please elaborate on those comments. I know you mentioned the mix of lending as being one of the factors presenting a headwind recently. Is that just on the mortgages or are there other elements as well?

And then secondly on the CET1 I think you mentioned that you'd be happy to have a 12 handle. Just to drill into that and how we should think about sizing the potential for a buyback at the end of the year. Is that more a reflection of you saying you'd be happy to be at 13-ish at the end of the year, have a 60-ish bps for Basel at the end of the year and then actually print a Q1 number that's 12 something or more that in January you're happy to be at 12 something? Thank you.

Katie Those sorts of questions always remind me how much you think about what I've said. I think I probably on the 12 handle first of all I would think about it quite deeply. So as you look at it we were really deliberate when we set our target to be around 13% which means that we can be flexible on that capital allocation decisions. I wouldn't put that as a one-time moment because of Basel. We last updated our capital guidance in 2019. It's something that should endure generally for a significant period of time absent any significant regulatory changes.

So I would say I'm happy to print a 12 handle around 13 whether it's pro forma, whether it's Basel, whether it's January or whether its year end to get there. I think for us what we were really pleased with in the H1 result just given the absolute strength that we had in that capital generation that we… and you know even with the purchase of Evelyn the fact that we've printed 13.2 is a real testament to the business as well. So it's something I would expect that you would see us do from time to time depending on different set of circumstances on the 12. So it's not a we'll do it once because of Basel 3.1 and never do it again, but I'd also say let's see what the future brings in terms of how often it actually happens.

When I look at NIM, flatter, I thought that would get a little bit of attention. You know it was directional as you know we don't guide on NIM. I think though the important point is that we have this deliberate choice to grow in lower risk and higher returning areas. That's mortgages of course but it's also within CIB. When you see and you look into the slides you can see that we have grown more, we've grown well across CIB. We've grown more at the higher end. The margins on that business would generally be slightly lower than the 249 that we see so therefore you have that naturally just mathematically pulls through.

I think what's really important though and this is why NIM is not our key metric. It's our suite of metrics that we would have. You know that business has all been very capital generative. I think it was over 20% return in C&I this half and quarter. That is quite meaningful and that's because of that of those actions that we're taking. So we're happy to see that as we go forward. So we do expect that flatter NIM. I've got quite good view into the pipeline as we have sitting here for the rest of the year. I expect the volume though to drive that slightly higher NII as we go into the second half in line with our guidance and then further income growth that would come through in the next years out of 2028 and beyond as we really focus on that growing of the balance sheet.

Ben T

Ben Toms, RBC, just one really on the deposit market. Elevated competition in the deposits market is persisting for longer than most people expected. So just interested in your thoughts on structurally what's causing that, whether it's the structural hedge tailwinds, whether it's fintech competition, whether it's ring fencing and what you're looking for that could signal maybe an end to that deposit competition being drawn out for multiple years.

Katie

Yeah, so as we look at it, there's, in the analysis it's still one single thing. I'm not sure it's ring fencing per se in terms of the deposits that are there, the growth that people are looking at. I think if we look to how we started this year on deposits, we were all expecting rates to come down, different variations of whether it was 325 or 350 that we expected. But the reality is the opposite has happened within there. And that's created some capacity for rates to continue. But at the same point, over the ISA season, which was important because it was the last season that you could put as much away in cash, that created some natural competition because of the regulatory impact.

But that also endured during May and June, in terms of as we look at what happened in the stats. And you can see that we competed a little bit less at that time in terms of where we are in the rates. But I think what we are trying to do is to make sure that we raise deposits at the right value for us when we are looking at funding of the balance sheet. We obviously run a schedule which Donal will be the keeper of to say, if I want an extra billion in funding costs, do I go to covered bond market? Do I go to C&I? Do I go into Retail? So where's the best place to continue to do on that funding piece?

In terms of the competition, what's interesting is, you know, there's a lot of competition among the incumbent banks coming back. But you also see a lot from fintechs and investment platforms. So overall, it's a very competitive environment. If I look to the States, I see the exact same dynamic happening there as well, as things come through. So that, you know, while we're not funding constrained at all, it does make us look at our funding and say, actually, given where this is going, what you know is as rates come down, you want to have your deposits be landing on your balance sheet. So I'm happy to pay a little bit up to get some of those term deposits, because the strength of retention I have is really valuable. But it does put that little bit of pressure. I don't really want to call when I think it might end, it doesn't feel like it's ending at the moment, you know, so it feels like it will endure for how long? I think it's something we'll continue to work our way through. Thank you. Just working our way down this, then I'll come over to you Andy.

Andy Just a follow up on the flattish NIM comment. When you gave the flattish NIM commentary, I think it was with respect to the reinvestment yield on the hedge being 3.5% as your working assumption. Is that right?

Katie No, no. So flattish NIM was going to take you through this year. I haven't given you anything in terms of beyond there at this stage. And if I look at this year in terms of the hedge, what we're seeing is our reinvestment rates about 3.9. My comment on the 3.5 was to we haven't marked market our 2028 targets. And in that ROTE, that's still working. And obviously, it's a greater than 18. So I have a lot of scope greater than 18. But in there, we still had the assumption at that point that our rates would have been at 3.5 at that point.

Ben T So the flattish NIM guidance, the remainder of this year is assuming a reinvestment yield on maturing hedge performing similar to the 3.9?

Katie Exactly. Exactly right. That's exactly right.

Claire But it doesn't really move the dial for this year anyway.

Perlie It's Perlie from Bank of America. So maybe taking a step back, I think what maybe we've observed a little bit more broadly in the sector is that we've got very used to many quarters of margin and volume expansion with costs relatively benign. It does feel like maybe there's a bit more trade-off between the 3, depending on the bank. So maybe as we look forward, how would you think about that trade-off with margin, volume and cost?

And then the second question is probably on commercial bank. Obviously, that's grown very, very strongly. And can you give us a little bit of a breakdown on geography within the UK? And obviously, the reason I asked this is because the Government is very active in its thinking about spreading some of the growth elsewhere. And what does your franchise look like in different parts of the country?

Katie Yeah, sure. Absolutely. So we're mindful of margin, but it's not our key metric. So when we look at – I would have that dynamic as what's happening on ROTE, what's happening on income, and then costs. You know what we do on costs here. We set a number for the year and people hit it. And that's something that we do every single year. I would say there was – in my view, you have to do it every single year. There was one year in the distant past where we did something with restructuring costs and we moved them around somewhere and I would never do that ever again. So I would say you have to just keep hitting the cost number because if you go one year that you're trying to reduce and manage and the next year you're giving more out, it takes another 6 months for the business to work out again that they're managing.

So for me, it's about how do you maximise what's happening on AI? How do you make sure that you're investing in the right places? You know, what's your key strategic aim? And so therefore, as you allocate both that run budget and the change budget, it's been really clear what's your strategic intent. So and I would say that I don't – I do that a little bit with line of income, but that's done as part of the planning cycle. So at the moment, somewhere, for example, like PBWM, where we knew we were going to do an acquisition, where we were very keen to do an acquisition, where we set the final numbers at the end of this year, and even it was obviously bobbing along quite nicely at that point, we gave them a little bit more investment budget because we wanted to make sure they were investing in the right things in terms of preparing the ground for what they needed for their own business in terms of growing that AUM and making sure that you've really got the right guidance in terms of the management of the whole customer position.

So once you will work out what's your strategic intent, you apply your costs and your investment, and I don't really deviate too much in the year on that. People know that we run a little contingency, and people will start to come and ask for it and say, well, could I do this to accelerate next year? But it's not – it's generally not an income NIM of the moment question. It's much more longer term. So then it's about how you balance ROTE and how you balance income. And what we look at when I look at – in our ALCO papers, for example, it's looking at what's our return on RWAs and how many – what type of underperforming, overperforming assets and what's the shape of that going on. So that's definitely how we look to balance it as we move forward from here.

In terms of C&I, look, we've built an incredibly strong franchise across the nations and regions of the UK. We obviously have also got some quite good international presence that's there to support both inward and outward activity in relation to that. And what's lovely is that as I look at the geographical numbers, they're very broad based across the UK, but just because of the real strength of our presence. I had lunch yesterday with – within the organisation, we run what we call boards for different regions. So I had lunch yesterday with the Scottish board and that would have representatives on it from business banking, from Coutts, from Retail, from colleagues around different pieces of the Scottish business and talking about what was going on there. And just you can see the level of activity that's there. And those boards are very much in place to make sure that you're really driving business regionally, not just on the business line of retail and commercial, so that I would say I can come to really say our growth is broad based across the UK.

Sheel Sheel, JP Morgan, can I ask one question on the AUMA – we can see the net inflows come through. So you can see the volume story there. Is there a margin story to be thinking about as well? Should we expect margin accretion?

Katie So you can see the margin as well, because obviously we give you the AUM and we also separately give you the income piece within there. I think there's lots of different funds that you have within there as you go through. And I think we report all of our income within that line for AUM. So it's the AUM that gets generated from the retail business as well. So as you look at and as you see Evelyn coming through, I wouldn't necessarily default to accretion at that total level, because obviously you've got Bestinvest and different things coming through on that. I'm not trying to take you to decreasing either, but I wouldn't necessarily default to accretion, particularly as I look at the competition that exists within that piece of the market as well at this stage. Betsy, I don't know how you would talk about it.

Betsy No, I would agree. I think it's blended, obviously. I do think that we are looking as with the Evelyn acquisition and some of the opportunities within financial planning and others, we're always looking to increase our relative margin and the scope of what we're providing. But definitely, because it goes for the AUMA across the group, it is very different sets, hitting different segments at different price points.

Sheel And if you were to disaggregate that for AUM growth, where are maybe the stronger areas of growth, the Bestinvest versus the Coutts…?

Katie So obviously, Bestinvest is not there at all at the moment, because we didn't own them until the 30th of June. But again, you see it quite strong across the different places. But we know that we've got the strategic intent of having our increasing the number of customers that we have in Premier up to a million and also to treble the Retail customers investing.

Katie So you'd expect to see that becoming more of a portion. We talked about 45,000 new customers invested coming through within there. So we'd expect that to grow. But at the moment, it would be more a predominant Coutts number rather than a retail number, as you looked at it today.

Betsy But enormous opportunities on the retail side.

Katie But you will start to see that grow over time.

Amit Yeah, Amit Goel from Mediobanca, just a couple of bits of pieces. Just in terms of the cap generation, this year, the greater than 240 bps, it doesn't seem to embed that much RWA management, second half of the year. So just curious how much RWA management at this point, you can see in the second half.

And then, secondly, just in terms of I mean, I know investors obviously like capital return a bit sooner. I'm just curious, then, how you're seeing the volume piece of investment opportunity. And obviously, the ROTE greater than 19% this year, it's very strong return on capital deployed. So just trying to get a balance of like, how much capacity or opportunity you think then there is just to actually redeploy more money into the business for growth versus bringing buybacks sooner. So how you've done that trade off?

Katie Yeah, sure.

Amit Oh, and just maybe a third, in terms of the leverage changes, I appreciate the Group is not constrained by leverage but gives a bit more capacity. Just wondering whether that then gives more capacity to have more gilts versus swaps and so forth.

Katie So I'll come to Donal…

Amit …just to enhanced income a little bit further.

Katie Yeah, sure. No, no worries. So I guess what we said on Friday is that we do expect RWAs to have modest growth. I guess you've obviously got the impact of Basel 3.1 that will come through and we'll give you that number at the year end. So I think there's a few different things in there. There's obviously the growth, there's RWA management. So your view of our RWA management actions might also be connected to your view of our growth. I feel quite confident in our growth. So therefore, I probably feel quite confident in our RWA management actions as well.

I'm not going to give you a number in terms of where that is, because obviously, at the time when we do trades, we can decide whether we pull them or not. We've also got our Op-risk increase, which, you know, the last few years has been about £2 billion. It's a relatively formulaic number, but around £2 billion feels like a good number to think of within that space.

And then in terms of the buyback and the redeployment of capital. The way I always think about it a little bit is I look at the capital plan for the capacity for buyback. After we've done that, what are people wanting to grow, where are they wanting to grow, is the returns right, where are we wanting to invest? We gave you a slightly different capital walk this time with the 19 basis points of investment and the 60 basis points for organic growth. And then I clearly have a few as to what I'd like to think, what we'd like to do, Paul and I, in terms of a buyback. But we do work out organic growth first, so we're not looking to restrain that number particularly to hit our RWA.

But it's interesting, you know, we have conversations with the businesses often around, oh, we can't grow unless you give me RWAs or management actions and their recycling of what's coming on and what's going off, how often they can sort of thing. So there is, we do put pressure into systems to make sure that we can do that. And, you know, at the beginning of the year, we obviously weren't completely comfortable in terms of execution of total RWA actions and things like that. Our intention was always that we would be able to confirm this by the half year. If we've been able to, so we're pleased that we were. And then, Donal, do you want to talk a little bit about the leverage?

Donal Yeah, sure. So on leverage, as you said, we're not leverage constrained, our binding constraint is the risk weight framework. So in effect, it doesn't free up any capacity on day one. But I think one big benefit is it does ensure leverage remains backstop as we move forward, I suppose, especially when composition of lending is lower risk weight as well. So I think from a UK bank perspective, that's a positive. And the second follow up around capacity around gilts and swaps, we still have capacity there to move between cash and gilts. That's more driven by market dynamic, but leverage doesn't give us any additional capacity on top of what we have already.

Katie Very nice, thank you.

Nicolas Yes, Nicolas from Kepler. A couple of questions. The first one will be coming back to the funding mix. I think you recently went back to the covered bond markets. So I just wanted to know how we should think about this as part of your funding strategy going forward or is it permanent or just opportunistic?

And the second one, just on trade cards, could I help but notice that your market share decreased for the last three quarters. I wanted to know what we can see in terms of competition dynamics and pricing there.

Katie Lovely, thanks Nicolas. Donal, do you want to talk to funding and what plans you have in as much as you'll talk to your plans?

Donal Yeah, just on funding, I think Katie's probably touched on this already. Wholesale funding, we have had no dependency on wholesale funding historically because we've had so much excess liquidity. As we're moving to a more normalised liquidity position, we do expect probably to be more active in the covered bond secured funding markets than we have done for a number of years. As you said, the covered bond this year was our first, I think, in three or four years. We'd probably like to be a more regular issuer of covered bonds going forward.

Katie Lovely. Stuart, just in case you couldn't hear, the question was around credit cards. The last few quarters we have grown, in fact, shrunk a little. Do you want to just talk a little bit to the dynamic that's going on in there?

Stuart Yeah, absolutely. Thanks, Katie. Thanks for the question. Yeah, there's a few dynamics going on within our credit card line. So as you know, over the past three or four years, we've grown that line substantially in excess of market growth, particularly in 0% balance transfer cards, which are now rolling off of promotionary deals. And the mix within the line is moving towards interest bearing. So the interest bearing asset ratio is just ticking up ever so slightly every quarter with that dynamic. But within that book churn, clearly some customers roll off at the point that the promotionary deal ends. So we do have reached a point of scale of maturity where growing the book at the pace that we have previously is a little bit more difficult.

Within that as well we acquired the Sainsbury’s credit card book just over a year ago. There's a little bit of runoff within that book, but very pleasingly, we are seeing growth from further engagement with that customer set, particularly on back book BT, which are typically shorter promotionary period lends, and therefore better nearer term NIM dynamics within that growth. So you can see that the book has grown about £200 million in the second quarter. Quite a lot of that is back book BT activity with that Sainsbury's customer base.

And then looking forward, we've announced previously a front book partnership with Sainsbury's, which includes a reward card, Nectar reward card proposition with Sainsbury's, which is, again, positive for us, not a 0% BT card. We expect good customer dynamics and uptake with that card going forward. So that should boost our growth trajectory a little bit from here in an area that we like. So quite a bit going on within the book, but the underlying dynamics are shifting to a more positive NIM position as the book matures.

Katie Lovely, thanks. Thanks, Stuart. Thanks, Nicolas. Any other questions?

Chris Hi, it's Chris Cant from Autonomous. I asked on your remark on AI deployment. So when you're thinking about the opportunities you see within the bank, I assume there's a few on costs and revenues, in terms of compliance, back office type opportunities, what proportion of them do you acquire frontier models versus other models?

And I asked this, I guess, partly in the context of the question I asked you the other day about data centre exposures. To what extent are you comfortable with those exposures in a world where maybe you and other corporates don't need to pay for the best AI model outside of maybe cyber? And if you move to a world of potentially self-host or whatever else, are we potentially overbuilding on data centres? And does that create risk from an asset quality perspective?

Katie So I deal with the asset quality piece first. We're very comfortable in terms of what we've got within the book. Certainly today, if there's anything issue coming through, you would see that coming through the numbers. And we are comfortable with what we're doing in that space from our risk underwriting basis. And the level of exposure we have is clearly small in terms of the book, so we're not uncomfortable on that piece.

If I look in terms of our own deployment, if I talk a little bit about what we're doing, and you're absolutely right, there are many different opportunities that we have across income, costs, balance sheet management, and capital is a big area that we're using as well, particularly on things like pricing and things like that. But if I go to the hosting, so we would be building some of our own small language models. We would be hosting some of them ourselves. We'll build up some capability also for GPU type processors and things like that, so we have some of them online. So we're not always using the off-the-shelf models. I would say that those are still more in production than in use at this stage, and they'll come more online as they get bigger. But we're certainly testing the use of some of them with cohorts of customers. And I know we’ve had some nice tests going on with Cora and how it's been responding to with Agentic.

But I want to say we've maybe moved to 100,000 customers we're testing on that. It's so small at this stage. You do see some level of self-hosting we have. We've got a number of data centres across the country in terms of where they are. Obviously, this technology requires slightly different electricity and water and actually floor strength, which I hadn’t quite thought of, preparations we need to do. But we are looking to build that where it makes sense for us to do so, as well as having a multi-hosted environment as well. But what we're very clear of, you don't want to be using big models that could provide you the world. But actually, you really want a model that works on classical complaints on our data, on our customers, and what we've historically done. So we've been doing quite a lot of that work as well.

Chris Just sort of interested about how you're thinking about it, because it's in the context of the massive amounts of Capex that are going into this globally building data centres, if other corporates are in the same position as yourselves and thinking about potentially self-hosting.

Katie So definitely, I mean, I would think, if I look to what we've done on things like cloud infrastructure, I would imagine this would follow similar, the technology is a bit more complicated, there's a bit more of a delay in terms of building what we need to build. But we always have liked the idea we've got some self-hosted, and then using different suppliers, because that also gives you flexibility, if you need to move within there.

I mean, I would say at the moment, we're certainly more on the standard large language models than on our own, but that will move in time. But as our staff, all of whom who've got access, and are fully enabled to use the AI tools, you know, as they go to different models, you will find in the background, there's tech, which is pushing them to this model or that model, depending what they're doing to manage the use of a lot of that technology as well. And that I think will become a bigger theme, the same way as it did a few years ago on our use of cloud so that we were managed as to, like Katie, you're clearly inactive, you're in a board meeting all day, I'm going to kick you out the system sort of thing so that you're not just carrying costs. The management of the consumption of AI is something both I have and Scott has in his team, people looking at huge detail of how do you manage the cost of that as well, as well as the supply of it in terms of practical terms.

Operator We have an audio only question from Alvaro Serraro of Morgan Stanley. Alvaro, if you'd like to ask your question, please.

Alvaro Good morning. I want to go back to the corporate loan growth. I know this came up on the call as well, but you mentioned even today that it's largely skewed or more skewed to large corporates. And when I look at the spread in your business, it’s actually quite healthy, 180 basis points for a couple of quarters on my numbers. So I'm wondering if you're a large corporate, I would think you get better spreads in the bond market. Do you mind elaborating a bit more on what's the edge there? Is it the loan sizes are smaller and maybe not suited for the bond market, the type of lending you're doing? I just want to sort of, again, explore how sustainable that is. It sounds like it is for the next few quarters, but a bit of colour on that.

And the second is on regulation. Maybe this one's for Donal, but we've had the ring-fenced proposal, the leverage proposal. And I know that it looks like there's some lobbying around software, which the regulator in the UK has been very reluctant to touch in the past, but the EU now seems a bit more open to the idea. So the question is, do you see any appetite from the UK regulators to review that? Or is there any other sort of measures in the pipeline other than sort of ring-fenced Pillar 2 and a leverage ratio that we might be missing that could make you a bit more optimistic around capital? Just because I know that you're willing to print, I think you call it a 12 handle, so it's slightly more optimistic than previously. I wonder if there's something we're missing on the regulatory outlook as well. Thank you.

Katie Lovely. Thanks very much. So Donal, I'll do the corporate question and I'll start a little bit on the 12 handle, then come back to you on regulation.

So if you look at the corporate loan growth, you're absolutely right. We've had good growth across all of the businesses, 6.3% growth in the corporate institutions business. And then across CMM and business banking, it's been 1.4% or 2.5% growth in the half. So it is quite broad-based. As we look to the lending within there, particularly at the larger end, there'll be all manner of different things that are going on in terms of that lending, whether it's some term lending or whether it's some syndicated lending that's going on. And so they're looking to build a book across different places.

There will also be some of our customers who we are providing market access opportunities as well, and that has been more popular over the last number of years. But they, like us as they're doing their funding, will be looking at all of those options to work out actually where's the best place that they can get the diversity of lenders that they want so they have the long-term support. Sometimes we're part of facilitating that. So we're taking a portion of the loan and other bits of loans will be going elsewhere, or other times they'll be going to the market. So what I'd like to believe is when you come to NatWest as a large C&I customer to work with us, that's exactly the question we'll be answering. We've seen some nice activity as well in that market space, and that is the outcome of the decisions and conversations we have with those customer bases saying, actually, it's better to go this way where you're on balance sheet or this way we're going to do a market position for you.

I wouldn’t point to one particular trait or another. They will definitely be looking for the most economic, but also with the most enduring multi-year or multi-issuance lending that they will be wanting to look at within there. That will be a debate for, particularly at that corporate and institution level, that will be a debate for all of them because their lending is going to be getting managed by treasurers and things like that who'd be very well-versed within that space. But we have seen strength of that capital markets desk as well as we’ve gone through.

In terms of the 12 handle or the CET1, I don't think there's anything you're particularly missing that would be pushing us towards that. But, Donal, do you want to talk a little bit about ring-fencing proposals? And I don't think we're having many conversations about software. I've tried to have them a few times in the past. They've never got particularly far, but, Donal, I don't know if there's any other line that you would add onto that.

Donal Maybe starting on that one, because I think I've already said maybe the regulators are open to it. I don't think that's our view. I think we're not expecting anything.

Alvaro No, it was more a question. I don't believe that I would agree with you, but I was just enquiring if, given the EU is now open to it, if the PRA might be open to it?

Donal Yeah, I think personally unlikely, but we'll see. And then on the other elements you talked about, ring-fencing, I think it does provide some optionality. We've got the consultation with HMT and the PRA, particularly I think around removals of rules 9.1, 2 and 3, which just removes inefficiencies of sharing services across the ring fence. And then the growth allowance will bring some optionality, but I'm not too sure we'd sit here and say that is any way material in terms of overall performance and financials.

The one that you probably didn't touch on is just the overlapping elements of the domestic framework, which is work in progress that's been pushed to the December Financial Stability Review, and that's the one that we think still would have the more meaningful impact, particularly for the large domestically focused banks. So we'll continue to work on that. But again, we're not overly optimistic that we're going to see any material that would support those.

Alvaro Thank you.

Katie Thanks, Alvaro. Thanks, Donal. Anything else in the room, please?

Jason So just coming back to the question around deposit competition, I'm afraid. All of the mid-cap banks are saying it's a problem. Yourselves are back to the covered bond market and the Bank of England Repo Facility is proving more popular than it once was. Is the pricing in the market irrational? Why is it happening, I guess, is the question. It doesn't seem to suit anyone, really.

Katie Yeah, I always find the irrational a hard conversation to have, because different people are managing their books for different bases, and they, like us, will be looking to go, actually, where does it make sense that we go a bit further? Where do we pull back? And you manage those decisions very dynamically, week on week. If you have a little pop in the hedge, you'll take a little bit more on that, and then you'll be a bit more comfortable to move up a little bit. So irrational is a hard thing to say, because I don't want to think of any of us being irrational decision makers. But I do think it is incredibly competitive, and the balances do have value to those institutions that can hold them in the longer term.

And I think what really is happening, we're taking a real multi-year view in terms of those balances. And the thing that's slightly discordant for me is, at the same time, none of us are telling you that rates are about to start coming down, sort of thing, if we look at our economic assumptions. Because a multi-year view is very logical when you're in a falling rate environment. But it's less at this moment. So it's hard for me to explain to you why I don't have the particular answer. Donal, I don’t know, if you would have a view on the why, the institutions are behaving as they are.

Donal I think the only thing I would add is, Jason, when you started your question around the smaller mid-size new players, they do have an over-dependency on the fixed-term market to raise their funding. They don't have the same current account and instant access base as the larger banks. So that is probably a key element that you're seeing a play out in the fixed-term market in particular, as opposed to wider across the retail space. I'm sure Stuart would probably agree with that.

Stuart Yeah, absolutely. In the first half of the year, if we look at the system flows, the growth in the market is almost exclusively in the ISA part of the market. There's clearly competition that is more broad-based than that. But I think some of those rates are focused in trying to attract flows beyond ISA, which haven't really been there, certainly up until very recently. I think the last Bank of England print showed a little bit of uptick outside of ISA. But overall, it has been very, very focused in that part of the market.

And I think, as we have said on the call on Friday, quite happy with the overall value through time and through the customer relationship in that part of the market. But the competition more broadly does definitely remain. But it's dynamic. I just see one peer has just cut their instant access headline pricing quite dramatically. So it does remain a moving picture. But it does feel like the competition is going to sustain for a period longer.

Katie Thank you.

Jason And then the second one, just to come back to something you mentioned earlier, and this might be internal, and I know it was dynamic, but you were saying divisional folks are like, if you gave us more RWAs, we'd all make more money. It doesn't feel like they'd bring you business that didn't hurdle the ROTE. I mean, are there unmet customer demands in terms of credit?

Katie It's interesting, the head of the commercial business, does a lot of work in infrastructure, would probably say if I could give him RWAs forever, he could continue to do it. And we certainly manage the management portfolio. I don't feel so in the round that there is. We're not constraining lending. I get very frustrated if I hear people in the organisation talking about capital constraints, and we're just not. But I want people to make really good decisions to make sure we're getting the best return. You know that in the mortgage book, to get to a point number, you're probably writing an average. So there'll certainly be some of them that are under, but we know in two years' time or four years' time that they'll be back over again. We look at it pretty comfortably.

So no would be my simple answer, there is not. We think that there is demand, we continue to work with that demand. You also know that demand, particularly some of the larger deals, it can move from one quarter to the next, just as the deal has been built. There's many other things people are often trying to deal with it, planning and all that stuff as to whether they need to deploy capital. But our overall view is not that we're holding lending back at all.

Sheel In the context of what you're seeing on the deposit market and the pressure on some of the SME lenders, are there any capabilities that you find on either the retail side or the corporate side that you think you're maybe underweight on? Or do you think maybe some of the SMEs have very good technology platforms or underwriting tools that you think would fit a similar profile to NatWest?

Katie So if you're trying to ask me an inorganic question by disguise, I'll repeat the inorganic answers. We're very focused on obviously the integration of Evelyn at the moment. But look, there's some things that when we do see that we're not quite where we want to be, I think LandBay has been a really great example of that. We wanted to accelerate our involvement in Buy To Let. We did a partnership with that organisation and that's really helped us grow in terms of where we are.

There are a couple of areas in terms of development. If I look at Stuart in terms of retail, deposits around limited access, the accounts that we'd like to have on that saving space, but I'm not looking at those lenders who are maybe struggling to do anything, I'm looking at their technology specifically with any corporate action in mind.

Ben T I guess it's indirectly a follow-on from that, but a different theme. Insurance. I wouldn't typically bring this up, but you could flag one off this quarter. You've transitioned your life policies from Direct Line to Aviva some time ago. Now you've changed the home policies to Uinsure. What is the strategy for insurance? And what's the economic sharing on the various bits?

Katie Clearly, our strategy at the moment is one of partnership, and then there will be margin cuts that we have. I'm not going to give you the particular details of any particular contract, but what you saw coming in this quarter was the £45 million. That was multi-years of income coming through. You'll see a small drag in the quarters from here, but what I'd said on the call on Friday was I wouldn't pay too much attention to that because it's a small number. As we increase with our new partner, you'll see that being replaced as well. It's very much at this stage one around partnership to get the right product to our customer base, so distribution versus manufacturing at this stage.

Ben T

Can I ask just one other one? You're targeting a greater than 19% return this year. You're targeting a greater than 18% return in 2028. You're one of the only banks targeting a lower return in two years.

Katie

I think what I would say is on the greater than 18, when we published that, we were going greater than 17 and then greater than 18. We haven't marked to market the greater than 18. You wouldn't expect us to two quarters after we've shared that number. Clearly, this year has been better. The economics have been better. Our loan growth has been really good. We're big believers that volume at the right returns is something that endures over a multi-year basis. We're increasingly comfortable on that 18. We'll talk more about it in February.

If they're multi-year, we look at them annually. I'm obviously mindful of them, but I think to start to give you multi-year quarterly, they would all go nuts. I don't think it's particularly helpful. We haven't rebased that. You've heard my comments already on things like the hedge. We'll have a look. I'm not saying we'll change, but we'll have a look.

Ben C-R

The interest rate sensitivity I saw for the managed margin halved between the end of the year and the first half. Maybe any comments around that?

Then the second question would be on SRTs and RWA management overall, given it's a growing focus across the industry to regulate. How would you think about how much you have left in the tank in terms of approaching a run rate that your regulators would be very happy with, and you'd be happy with rolling over through time? Is that an extra 40 basis points benefit to CET1, or a bigger or a smaller number?

Katie

Sure. I'll talk to the SRT piece and then Donal I'll come to you on the interest rate sensitivity. As we look at it, I guess for us, and one of the things I'm really keen on internally is I never think the regulatory level should be the one that you're benchmarking to. You should very much review it as management. I would say we're in year three of the programme. We're pleased with how it's gone. It's about 60 bps at the moment in terms of our SRT coverage. Interestingly, in Q2, where we had some RWA actions, they weren't actually SRTs. You can see that from the Pilar 3 disclosure as well in terms of there. I do think we've got a little bit more capacity that is still growing, and then it will stabilise.

We feel we're about 18 months away from that level of stabilisation as that rolls through. It's good to have that capacity, but it is one of the levers we use, whether that's asset sales, credit insurance, ongoing data quality, which I think is something that's there all the time because you have more interpretations and different interpretation of rules and you go back to re-examine all the time on a circular basis to make sure you're up to date on that. We'll use all of those things. I would say that RWA management should continue to be a feature. They'll vary in size quarter to quarter, depending on what we're doing, but we're about 18 months away from there in terms of where we think our capacity is on that. And then, Donal, do you want to talk to the interest rate sensitivity?

Donal Yeah, Ben, just probably 3 things to call out. One is the increase in the nominal of the hedge of £5 billion in Q1, which is obviously pretty reflected in the H1 disclosure. Two, at year end, we tend to have higher unhedged balances just ahead of tax outflows in January, so that tends to lead to a higher sensitivity year end versus H1. And then we base that sensitivity off market implied rates as well. So the full year, we had two rate cuts. The market was priced in two rate cuts. At H1, we had one hike. So that obviously leads to slightly different assumptions on pass-through.

Katie Super. Lovely. Thank you very much.

Perlie On wealth, we've talked a lot about this, and I know you have a spotlight coming up.

Katie We do. We're very excited about it.

Perlie The deal is completed, it’s been a week, so I thought I would try my luck. So just how do you make money off that business? By which I mean, obviously, a lot of it is going to be flows on the opportunities that we all hear about. People are underinvested, and they all need to invest more. But it feels like a lot of those flows are going to the platforms, the AJ Bells of the world. And of course, you have Bestinvest, but margins are actually coming down in that market. So there's a lot of competition for volume. Unless the aim is to grow volumes really, really large, I'm not entirely sure how it's monetised. And obviously, talk about cross-selling opportunities as well. But what sort of products would you cross-sell that is really profitable? Because I just mean that if you look at one of your UK peers, basically, investing with them is now free. So what sort of cross-selling would give you that level of revenue?

Katie Yeah, and it's interesting, free is a good headline, but I can guarantee if you go into asset-backed lending within that one there, you're not going to be getting that for free. So there is cross-sell of different ways that you manage your portfolio, particularly when you're dealing with higher net worth customers But Betsy and I were reviewing the commercial plan only this morning. So without giving too much away, Betsy, do you want to think about how we think about the opportunities around revenue growth?

Betsy Yeah, certainly. So we talk about that on the AUMA side. So the great opportunity that we have from Evelyn Partners coming in is adding to the overall suite of products that we can offer to not only the retail or premier clients, but also the Coutts clients themselves. Part of our overall strategy past few years and continuing is building out our investment platform. So this just adds to that. And that comes in, as to Katie's point previously, at a range of different price points.

So there are some very bespoke opportunities that we have within that that can target more of the ultra-high net worth. But overall, from a standpoint of volumes, it is a volume play on AUMA as well. We think about the opportunities and the scope that we have across the 20 million customers that we have across the retail and premier side and really penetrating that and opportunities to convert so many of those clients to investment products that help them in their long-term wealth planning and stability.

We also have the flip side, too, is if you think Evelyn from their side was a pure wealth player and didn't have the opportunities on both the banking products, so the deposits and lending opportunities that they can have, that client base can have as part of the integration within the NatWest Group. So it's really when we look at the breadth of products that we can provide to the client, those clients now hitting a full range of everything that they might need from their overall planning and lifestyle can happen within the Group here.

Katie Perfect, that's helpful. So we're comfortable, we believe it's still a strategically important transaction. You've obviously, we've got views on revenues and costs and that's something that we will continue to enhance. And for us, what's really important is it is the third leg of 3 growing businesses. And I think the performance we saw in the first half when it was just the Coutts business of over 10% of net new money over their opening AUM is fantastic, it's superb. So it's coming in to join a business that's already performing really well. And what I'm really pleased about, it's obviously very early days, we've owned them for just over a month, but actually we can see referrals happening already on both sides, from us to them and them to us. We'll continue to take that forward. Perfect, thanks, Perlie. Anything else?

Otherwise, I might just call it to an end and just say thank you as ever for your time this morning. And then for your continued support that we see. And please, if you have any questions or want to spend any more time on anything, Nick and Claire are always available. And I look forward to myself and Paul coming to meet some of you for different sales force meetings this next quarter. We'll see you again in September. That's great. Thank you very much indeed.