NatWest Group plc
H1 2024 Sell-Side Update Transcript
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Katie Good morning everybody and thanks for joining us today. With me today is Donal Quaid, our Group Treasurer, and Stuart Nimmo, our Finance Director for our Retail Bank who are both joining us virtually. We've also got Claire Kane, Director of IR here in the room with me as well.

Just before I open up for questions, I'm just going to remind you of some of the key messages from Friday. We're clearly pleased with the strong start to the year, delivering return on tangible equity of 16.4% for the first half and we increased our full year returns guidance to greater than 14%. We saw a strong quarter of income growth across both net interest income and non-interest income and we're also pleased to strengthen our income guidance to around £14 billion for the full year. We continue to see the easing of headwinds from deposit migration and front book mortgage margins, both offset by the structural hedge tailwind. This gives us confidence as we look forward to 2025 income and our 2026 returns target of greater than 13%.

And then finally, of course, we had a strong CET1 print of 13.6%, comfortably in our target range, supported by strong earnings and RWA management and also partially offset by the direct buyback that we did in May and our increase of 9% on the interim dividend to six pence per share. We're very happy just to jump into questions. We'll do some in the room and then obviously jump to the phones as well.

Andrew Firstly, structural hedge, just to talk through what has changed in the rolling off maturity yields, why you're so confident now, lower roll-off pricing, both for 25 and also for 26 and any potential for that to change in 26 once more. And then secondly, given we now have confirmation from Labour, no retail sale, if we look into 2025, what are your expectations in terms of split between directed buyback given the AGM authorisations versus private investment or public investment?

Katie Yeah, sure. So let me start with the hedge piece. So I think what we were seeing in the beginning part of the year, we were talking about the 80 basis points roll-off. We can see how we were managing our position and that you might have heard me say once or twice that it's around 80 and it comes down as we seek to manage it. The way that we manage it is by putting pay fix swaps on. I won't give you the schedule, I'll just demonstrate for those who can see me. I basically have a whole schedule of what we put on originally, what I'm putting on to kind of manage the position down and I'm netting those two off. Because if I cancelled the hedges, I would change my duration and I would get myself into different kind of issues. What I'm trying to do is to shrink it and that's how I do it.

And what that comes in is that in that net position is that 80 basis points. We could see it was falling, but now that it had fallen as far as 40 and the 50 next year had fallen as far as zero, we felt it was appropriate to just kind of update you on those numbers. But it's the mechanics of as I put on those pay fix, which have got a cost which nets off against my income and so therefore that's kind of where it's kind of coming to as I'm kind of managing the size of the roll down of the hedge.

In terms of commentary on the no retail offering, pleased to get that confirmed yesterday, it kind of takes a will they, won't they, out of the window. I mean I can't tell you in terms of what it will look like in 2025, I think it really depends what happens and where we are in terms of the position. As you know, we always seek to be in a position to participate in a direct buyback. I think when we look at it, RoTE is our north star. We still believe that it delivers good returns, which is why we did the transaction that we did in May. Can't actually remember what price we paid in May, but it was certainly not £3.70. So it's something that we continually kind of look at and I think that that will become a feature that continues to be a feature all the time. It's not finely balanced just now, but you know it's certainly moved. So I wouldn't give you a guidance on whether to do x and this and y of that in 2025. I do think the interesting thing in 2025 is that there will be the regulatory inflation because of Basel 3.1 and CRD4 has been a bit more impactful than I think any of the banks were necessarily anticipating. So in that 2025 we've got that uncomfortable piece where you're preparing for regulatory inflation. So generating RWAs only obviously comes on in the middle of the year, but we don't start preparing in the middle of the year, we prepare up to that point. We will talk more about capital distribution in February, but I don't have anything to give you now. But we do look to always be in a position to participate in things.

The reason we were so comfortable with our May directed buyback was the strength that we knew that we had in our Cap Gen ratio that was coming through in the second quarter. And for me that's kind of what I go back to is if you're strong in that space, okay there's a little bit of noise around RWA inflation because of reg, that's fine, we'll deal with that, but we'll also pass that and we'll still continue to be very strongly generative later. So I think we do recognise Andrew there's probably a different conversation to be had on capital and things like that once the government's out, but it's not time to do that yet. At the moment we look to RoTE and we look to see does it make sense to do the transactions. We want to always be in a position to participate as and when it’s time and when the board feels it's appropriate to do so.

Claire It was £3.16.

Katie It was £3.16 when we did it, yes I mean that's a that's a decent move.

Guy A couple of questions both again actually linked to the hedge. The first one just in terms of that decision to put on those pay fix positions rather than just I guess letting the hedge roll and not reinvesting in a period, so keeping the weighted average life consistent. Is that entirely an internal decision or is there some sort of consideration in terms of impact on capital were you not to do that and you had an uneven profile as it were?

Katie I think what we really like, and Donal's on the line so I’ll come on to him as well. We run it really mechanistically and what we want to do is to make sure that we don't end up shrinking the hedge because of the hedge shrinking in a way that has other consequential impacts for us. So very much a decision there. You could say that if you didn't do that and you managed more dynamically ultimately there would be a capital consideration but that feels further away than something that we're really actively, I’m not saying if I do this they'll do that, it's not as close a relationship as that at all. Donal I think you're on line as well.

Donal Yeah no you're completely right, completely internal decision you know so as we've been very clear we follow a two and a half year duration on our product hedge so similar to when the hedge increased we didn't change the duration by in effect you know we feathered as well the increase in the hedge we're just reversing that on the on the way back down as well. So for us our internal behaviouralisation is two and a half years so that is what we will continue to work to.

Katie Thanks Donal.

Guy And then a sort of bigger picture question on the hedge; we obviously talked a lot in terms of the support it's going to bring it's quite large and it's generally a view amongst a lot of investors that those benefits will be shared among stakeholders. Certainly should help earnings but maybe there's a bit of a give back to customers at some point down the line. I'm just wondering how you think about that over the medium term given not everyone is equal in this backdrop. You know the support for NatWest appears to be more significant in a lot of institutions particularly the next couple of years. So is that a competitive advantage is the hedge support that could allow you to go after business more, in terms of you can still see margin growth whilst being competitive on pricing or you're just going to be driven really by market forces?

Katie That's a very good question Guy actually, so I think, so we look to the management of the RoTE as our clear thing but clearly our RoTE numbers are good so that shouldn't be obviously changing. We can talk about TNAV and all those kind of things as we go through but either way they'll be strong by any measure sort of thing as we go forward from here. I don't think we think about well there'll be an extra 800 million next year in terms of hedge so I'm going to give x to the shareholder, y to the customer and things like that. What we look to do is to make sure that we're meaningful and that we're earning the right returns in the markets that we're in.

So if I look at something like mortgages you can see that we have a floor that we don't want to write below if my view was actually I was making extra income so I could go a bit further below. That would suggest that that floor would be lower than it is. So we want to manage our customers in line with what's the right customer outcome for them and in line with the market, but we're not kind of looking at this going well this is an opportunity to really grab great market share at the expense of a more negative RoTE at all, so it's not really a conversation we're having internally. But it is important that they get the right outcomes as well, but that's not changed by the level of additional income we're getting from the hedge.

Guy Thanks.

Amit I'm Amit Goel from Mediobanca. Just to follow up again on the hedge. I just wanted to understand a bit better, is the size of the pay fix piece similar to what we've seen in terms of hedge shrinkage from peak? And then what I was trying to think about was within the first half the gross income contribution from the hedge came down half and half, so how much was driven by that piece?

And then secondly there's the quarterly deposit contribution to the NIM and that was showing one basis point improvement in Q1 and six basis point improvement in Q2. How do I reconcile that uplift with the actual declining gross hedge contribution and when I look at the balances I mean growth is more in term etc. So I was just trying to figure out how you've got that bigger deposit contribution versus a slightly smaller structural hedge benefit.

Katie Yes my one fear of introducing the pay fix conversation is that we then go into it into the nth level of detail. So I'm going to try and lift it back up because I'm not going to give you this size versus that size. We manage a hedge, it's 175 billion at the moment we think it will get to 170. The mechanism that we use in the background to do that is that we have pay fix in place. What we know is that over the last number of years that hedge is shrunk by 33 billion. And so we've had to manage a lot of those positions down, it won't be one for one because there'll be natural maturities, there'll be then the natural work to do in terms of the shrinkage on that piece. But what you did see in the deposit NIM coming through, is that there was the benefit arriving from the improvement in the hedge income that we were seeing.

So with the hedge kind of stabilising a little bit more and although you look at the kind of absolute balances there has been a little bit more in terms of, in the instant access accounts and there were in kind of absolute numbers. Those are obviously our most valuable because you know term, we are obviously in a much smaller spread on and then most of the current account is hedged, so that also has kind of helped the income. I mean it's been a very clear feature I think of our results that because we have greater deposit levels and the accounts that they were sitting in, has certainly helped the income at the moment. So, I think, you kind of have to need to pay attention to that the challenge is that you what you don't know is what month they come in how long they stay, they move around because obviously you just get a spot number, but I do think part of the strength has been the fact that we've had more in that instant access bucket. Donal, what else would you add on the question?

Donal] The only thing I would add on the question on the trajectory is, you know the H1 24 versus H2 23, I think what you need to consider is the extent of the pay fix that was done in H2 last year. So we reduced the hedge by 17 billion in H2 last year, so we've always said the tailwind of the hedge will be driven by, I suppose, well we said tailwind this year and then that tailwinds pick up as the as balance and the notion of the hedge stabilises, so that kind of half on half move is just really the impact of the paying you saw in H2 last year.

Katie Yeah and Stuart is there anything that you would add on deposits because I mean you've been the real contributor in a lot of the deposit activity in the first half of this year?

Stuart Yeah I mean maybe I would just perhaps be able to say there's clearly some seasonality in the first quarter with tax outflows so clearly at that point your instant access balance would typically go down. But we have seen a fairly broad-based build across all of our instant access and fixed rate deposit accounts in the second quarter so you get that stability coming through as well.

Aman I've got a question on the hedge.

Katie That's all right, I'm very happy to talk about the hedge.

Aman I know. So, one is just to clarify you know the expectation of 170 billion.

Katie Around 170 yes.

Aman Around 170, that is based on your 12-month look back experience on the deposits as of H1 right?

Katie Yes. So if you see a significant movement in the second half of the year, clearly our 12 months look back will change differently but what we're expecting is that it stays more or less in line with market moves and there's not there's not an anticipation of a significant movement in the second half of the year.

Aman How enthusiastic are you about current accounts that look like they're stabilising or is that just a bit aberrational?

Katie Yeah so I mean I mean they've gone from about 34% down to 33% down to 32% [NIBBS proportion of deposits]. What we actually think is that the stabilising is a little bit around the term, but there's going to be little movements around about there. So we feel overall the deposit book is stabilising but that wouldn't mean I'll never say 31% or won't go back to 34 something like that. I think we will see movement and the problem with percentage gains when you kind of pick the numbers apart. What you can actually see is some of that of that 17% stability is, is actually some stuff that's going on within C&I with different movements within there. So I think percentages are important, but kind of how they're behaving between the different lines, which is why we try to give you them both in absolute numbers and percentages. But it definitely feels a lot more stable and in terms of the flows that we're seeing and it's backed up in the bank of England data as well.

Aman And then around the income. So I don't think you guided for this year's incremental hedge income.

Katie No but we're sitting in July so I’m going to leave you to work it out yourself.

Aman No fair enough but I guess the one thing I’m trying to work out is the hedges that are coming off, so there's 15 billion of hedges that are coming off. I think you're making the best part of negative 500 basis points with NIM on that. I think you already front-loaded the pain on those deposits when you lost them over the last 12 months but you basically got, you know naked hedges or whatever you want to call them, but you know you should be earning SONIA on these balances and you're not , so there is a pretty meaningful income pickup from these hedges that are not being rolled over and I guess I wanted ideally to try and work out what that might look like next year. You know the 800 you've given us, it feels like it should be a couple hundred million more just from this kind of run.

Katie So we'll definitely see a bit more of a pickup in the second half as we do some roll off. But we're guiding to around 14 billion [income ex notables]. If you think at the beginning of the year I said we'd be averaging [reinvestment at] 3.10%, we now say we’re averaging 3.70%, but you know in the early part of the year I was putting on easily at 4.00% plus. So there is a little bit there, so there's £2.9 [billion of income] locked in, I’ve got six months more to run, so whatever I’ve got it's only it's a diminishing six month benefit for the time I put it on. So there will be a little bit of a pickup I’ll leave you to have a little think of the number. I mean Donal, I don't know if you would answer it anymore helpfully?

Donal The only thing I would consider Aman, the 800 just considered as a further 5 billion of paying that needs to be done in H2 which will drag that tailwind into '25 to consider too.

And the one point we talked about kind of previously it's just you know it's only the fixed-leg of the derivative that feeds that hedge disclosure. So I think when you think about income think about it in the round because I can run a higher notional in my structural hedge, disclose a higher income in my structural hedge disclosure, but actually does nothing for overall net income, so I think that's just an important factor to consider too.

Ben One of your peers last week talked about Basel and their views around the softening of the rules around the SME support factor. In relation to your guidance of RWA inflation and Basel, apologies if you've already given before but can you just give us an indication how much the SME support factor makes up of that?

Katie So we haven't given you an indication of it before so don't worry it's not that you've missed it. For me two of the things most impactful within there, is the SME support factor and also the infrastructure adjustments that were making as well. So those are the two that we've probably spent most time talking about. We have some other bits and pieces, but I haven't split out that growth. What I would say from here the growth is, what we see coming through on Basel, CRD4, it has been a bit more impactful so there could be an element of puts and takes on that once we see the kind of final Basel guidance. Obviously we expect some kind of loan growth coming through as well and obviously we've done a little bit of acquisition but we're not changing our guidance from around 200 billion for that acquisition because they're only three billion. So you still end up around in terms of that number but we haven't split out, but that and the infrastructure are the two that are most meaningful for us.

Ben And then secondly there was a paper out last week I think around access to cash. I'm just wondering when you look at that, whether there's anything that worries you. I think the premise of it is that customers can now write to you and say I don't have access to cash, can you do something about it. I think we sat next door when you talked about how much it costs you to send out letters in relation to deposit rates changing and the idea of 100,000 customers writing saying I need some cash and can you do some work on it. Do we think about that as being a material issue?

Katie I think what you do find is the increase in the banking hubs going through so if you were sitting in this room and we were talking about our 2025 cost numbers, you would hear me talking about providing a bit more banking hubs so that's a little bit of a feature of next year. It's not a big number, it's not meaningful, it doesn't change the cost base or anything like that but as you're looking about things that are coming in the growth line, that's something that would be there and I guess that's how we're hoping to deal with some of that access to cash. But you know we provide a very good access system, where we've taken branches out we have an exceptionally strong mobile network as well. I spent a day myself, just before summer going from the Isle of Skye down to Glenelg if any of you are very good on your very remote Scottish geography. So there is a lot that we do to try to get there and we're very committed to making sure that cash is still fully available, but we think we can meet that with what we do and also with the banking hubs as well.

Ben Thank you.

Katie Morning Jason.

Jason Two questions on NII please and then one on cost. So the sort of written work in the quarter is really all about hedge gains that are in the deposit line presumably deposit costs are rising. And so I’m being berated for not being bullish enough on 2025 NII, and I just wanted to check whether there was anything lumpy, you know very big margins expansion in Private Bank, pretty good in Retail also. I mean if we didn't see the same sort of expansion in NIM in the third quarter would that be weird or are we just focusing on too short a period?

Katie Yes can I do that and I'll come back through the other ones just to save me doing a memory test. So I think it's that, I certainly feel we've got margin expansion coming that's what our increased income guidance would suggest to you. I think exactly when it comes will also depend a little bit on when reductions come through, and the speed in which we pass them on. So I do think that expansion is coming, I think there could be a point that it may not necessarily come in every quarter on the margin because of the timing of those rate reductions and the speed at which we pass that through. But there isn't anything lumpy that's sitting. We did talk a little bit on the call on Friday around some of the kind of the one-offs we have in the centre, they do come, they're generally NII/non-NII swaps so that can sometimes create a bit of noise, but sitting here today there's not something that as I who have already seen a draft Q3 picture of that walk, you know that I'm sort of looking at going well there's something up there that you need to understand. But I think the timing and the speed of pass-through is something that could put it under a little bit of pressure.

Jason Okay you actually touched on the second part of that question which is the group centre, I've just got zero in for the group centre revenues in future years. Is there anything dependable about the outlook or is that just the best place to be?

Katie I mean I would put myself around zero, so if something comes through it's, I mean it flips one or two basis points and it's nothing that would be particularly significant. What we do try to do with the centre is that we're trying not to have stuff in the centre, we have an automatic pushing out into the businesses but we do sometimes have kind of flips between the two lines and then they get captured in there.

Jason And then the second question: I was somewhat surprised, perhaps I haven't been paying enough attention in the Retail division you look like you've cut nearly 4% of headcount in a quarter.

Cost control is a is a long-running feature of the bank. Is there a way that you can sort of generalise on gross cost saves, things that are not yet in the base, stuff being planned and that sort of thing, just to provide some colour around, you know the expectation that banks can run 2-3% cost growth over the next few years that's certainly where the market seems to be.

Katie I guess the way I'd probably think about it and Stuart I'll come to you in a minute. I mean obviously Retail, they've done a lot in terms of their costs, as they do every quarter, but this quarter has been quite noticeable. I guess if you go back to the year end, what we did talk about was that we had allowed a bit more budget this year and in terms of severance so that we could actually do some of the headcount changes that we wanted to do. We did them quite quickly. So things like the removal of Poland which will only actually, it will take us through 2025 to do that, so that the running costs will still be there, but we've recognised all the restructuring costs on that already. You know that's important what we've been doing I think on the digitisation journey on things like mortgages and the number of headcount we're able to take out there it's important as well. But that severance piece was to try to give us a bit more of a run into 2025. We did as much as we could in the first half of the year in terms of recognising those costs. But people also take time to leave and so there's not a particular silver bullet there, but I do think it is something that we really continue to focus on and we do think there's still more that we can deliver on it. I mean Stuart, is there anything else you would add?

Stuart Perhaps just in terms of the movement in the quarter it was quite large. I'd say that's just timing of some of the initiatives we got out the gate quite quickly at the start of the year. Flavour of those, I mean if you think about branch network, not always the most meaningful driver of cost reductions but clearly more impactful, some of the frontline staff. We've probably closed about 100 branches announced over the last 12 months. I think in the slides you saw telephony systems reduced from 20 to 5. We've been strategically re-platforming our contact centres onto AWS, that brings with it efficiency, so some of the reductions were in that space.

And we've been investing over a number of years in our mortgage operations and some of the headcount reduction was also in the mortgage space and we put some contact teams together between other parts of customer contact and the mortgage centre, so there's just a build of things. If I step back and think about where we go ahead there are still certainly choices around how we serve our customers and there's still more that we can do, I think in the end-to-end digital servicing of our customer base, but what we need to ensure is that we surface those journeys such that they're the best journeys that our customers want to engage with. And when customers can't do what they want through those journeys we've got enough in our physical distribution to make that experience top class as well which at the moment I'd say we're still not quite there on the latter but the more that we can continue to digitalise I think it can help us with our overall customer experience.

Katie Thanks Stuart. Thanks Jason, good to see you. Grace?

Grace Morning, thank you very much. Just a couple of quick ones maybe, I'll move away from NIM. On the acquisition, so just thinking about the Metro Bank portfolio, so is that coming across as a standardised portfolio or can you include that in your IRB and is there a cost associated to hedging those mortgages as you acquire them. And I guess linked to that, on Friday you talked about above market loan growth, are you thinking purely in terms of organic growth there or also thinking about the inorganic? Thank you.

Katie Sure thanks, I'll take the second one and then, Stuart I'll come to you on the Metro Bank as you've spent a lot of time making sure that deal got across the line. So we don't guide on loan growth is probably the first thing that I would say, if I look at loan growth from here I would look at that as both the acquisitions that are coming on, Metro will come on in the second half of the year and then Sainsbury's will come on in 2025 as well and then what I would expect to add to that in terms of my loan growth, but we don't kind of guide on above market loan growth. Stuart, do you want to talk a little bit about Metro?

Stuart Yeah absolutely, so specifically the question, does it come across, is it on standardised risk weights? Yes, it is until we essentially re-paper the customers onto a NatWest product, so that in plain English at the point customer rolls over if they stay with us, when they switch then they'd move to AIRB treatment. Is there a cost of hedging these customers?

	Yes, there is, clearly we're at market rates today as opposed to when these loans were written but what I would say about that is the economics of the deal reflect that dynamic and the overall return on the acquisition presents a good return on the use of capital.
Katie	Lovely, thanks Stuart, thanks Grace. Thank you. Anything else in the room, Chris?
Chris	Morning, it's Chris Cant from Autonomous. If I could ask one very quick one on the hedge, when you give us the net, the yield on the overall position, I guess I'm surprised that hasn't come down a bit given how much your expectations have come down for 24 and 25.
Katie	You mean the 370 estimation?
Chris	The 1.6% yield on the hedge as a whole hasn't changed very much, it's actually gone up a little bit in the half, but you're telling us now that we've gone from 80 to 50 to 40 and zero in terms of the roll off yields. So when you're doing this netting down, that's also reflected in 1.6, I think it is? It is reflected?
Chris	So logically from what you're telling us, the yield on the maturing positions as we get out to 27, 28, shoot up.
Katie	Yes they've certainly increased, definitely.
Chris	I just wanted to confirm. And then on the pension, you still have this really weird deduction on the capital schedule.
Katie	We do, we do.
Chris	When does that go away? I don't get why you have it.

Katie I'll tell you what I think we've said and I'll tell you more about it. So, we'll see if it helps or not. So, you remember when we did the pension agreement that we agreed that we would do 500 contribution per year and then they were in such a healthy state, we said to them, we don't really think we should do the last 500. So we put it into this fund, not into a fund but an account. And because we don't have complete access to that, we've had to take it as a deduction. So we can't control that coming in or out.

So you know that the pension fund is in a process of kind of doing a series of buy-ins. When they get to a certain point, we will then get access to that and it will come back to us. I'm not worried about it. It's a slightly odd deduction. It's one of those things, you know, when I eventually leave, I might give a memo to the next CFO that says don't forget we've got that sitting there, it will come back. It's not decades away but it's not this year or next year. Not that I'm making any statements on my own departure, just to be clear. I don't want you to read anything into that, sorry. Maybe not the best analogy to be using, but it's something that's going to take a few years for it to work its way through.

Chris And in terms of the pension issue, is there an advantage to the bank remaining in terms of capital benefit in a two-way if they do go through?

Katie So there are some advantages to, well, the 500 will come back clearly, but I think there are some advantages as they're in a good place. Just if you think around the triennial valuations, you can see from our accounts that we still make kind of contributions for existing service members, given where they are maybe that's something you talk about, but I think it's not an immediate advantage. What we're interested in is some of the rules that are coming out and being looked at around how companies might access their pension surpluses. And that's something that's probably more interesting going forward from here, but it's far too early to say what that interest could be. But overall, I guess we're in a good, comfortable position. And we can kind of see that sort of being reflected, but it's not meaningful at the moment in terms of our accounts. And that's mainly because of the way pension accounting works. You always keep trying to go back to the norm and almost denying the strength of the surplus that you're sitting in within there. But it's not unhelpful to us.

Chris And if I could ask one other one on RWAs. So you're 200 billion, talked about CRD4 generally being worse than expected. You're doing two inorganic transactions, which have been about three billion of RWAs. I'd say on balance, your commentary around growth is maybe slightly positive relative to the tone we had previously. I don't know in terms of your expectations because you never told us, but my reading of the body language is I don't think that's got worse.

Katie No, no, I'd say we're definitely more positive on mortgages than we were at the beginning of the year. That's definitely improved. And you all know that because the mortgage market's improved. We all watch the headlines, as you do, of people holding back with expectations of rates. So we're comfortable there. Clearly, what we're doing with credit cards, we're happy with in terms of growth, and that continues to go well. Sainsbury's helps it go better, but even the organic growth we've kind of got within there. And within C&I, we can see kind of different activity. You know, business banking's tiny, but it's stable. So that means there's just enough kind of activity in there, and that's about confidence to just keep that ticking over.

Our paydowns that are coming through on the various government schemes have been very consistent. I mean, when you look over the course of a year, it'll be just over 2 billion that you're then obviously netting down from that, but they're performing really well. But still, in CMM, they've had a good couple of quarters. So look, I would say that we're kind of, we're comfortable, quietly confident, I'm not sure exactly what the right word would mean, but I think economics are better, confidence is a bit better, mortgages, which is a big important line in our balance sheet, are better than we thought they would be at the beginning of the year. So I think you're probably about right.

Chris In terms of the 200 then, what's the offset? So you've added 3 billion inorganics, the organic stock is better, CRD4 is maybe a bit more inflationary than you thought. So was the 200 just very conservatively struck when you gave it to us?

Katie No, no definitely there were things like capital management actions that we need to deliver, I'm comfortable with what we've done on there. I think the challenge we've got at the moment on Basel 3.1 is we've all got a big narrative that it's going to come down, but I've no rules and no guidance as to what that might say. But at the same time, you know, CRD4, there's lots of different narratives that we get from that, all of which is quite unwritten and not spoken about by the regulator, but actually what you're bringing in and you've seen it in other accounts that we're still bringing in bits of mortgage inflation. It's a whole other bunch of models that they're still looking at that they haven't looked at yet, so you kind of have a bit of concern on there. So it is a bit more meaningful than it was. And that's been, I think, a bit of a surprise for all of us. So when I've got an update, if I have an update, I'll share with you one way or the other way that I've nothing to update you on, to say actually 200 is still a good number. It's just that there is a lot of movement in those lines.

Chris Thank you.

Andrew I've got a couple of follow-ups. There's one on mortgage spreads. You've always given us the new completion spreads and you gave us the blended back book. I look at what Lloyds always gives us, they give us the new completion spreads, but they give us the maturity profiles of running off that. So when you talk about inflection point, and you talk about inflection point because of current completion versus the blended back, presumably the stuff maturing is still slightly above that blended back book price, so anything you can give us around that would be useful.

And then completely unrelated, you mentioned, you called out Poland and the severance charges, but running cost carries through until 25. Is there any indication you give us of just how much of a cost save that is coming through at 25?

Katie So, let me do those two different parts. So at the moment we're writing it around 70 basis points, the book's around 70 basis points, but I would say you're right, there'll be some slightly higher coming on, but I don't want to think there's a whole bunch of then lower that's coming through on that. So I’m probably not going to give you anything more helpful than you have already on that piece, but we're happy with how it's rolling. But there will definitely, if you think of that we still have five year deals coming off, they're definitely going to be coming off at higher levels for a couple of years, but in the size of the book is not kind of meaningful.

In terms of Poland piece, I’m not going to split that out at the moment. So because you're closing a whole operation, normally you can only recognise costs 12 months out, but because we're exiting a whole country, you can recognise all of the costs of the exit, which is what we've done in what we've put through just now, but people will start phasing out from this year into next. I’ve got a lot of finance people there, who will be some of the slower to phase out, so there will still be some of those costs as we go through into next year, but I mean I think in our total cost base it's important, but it's not that meaningful.

Aman Just on mortgages**,** I just wanted to check to what extent your completions in Q2 were kind of held back by your risk appetite in H2 last year.

Katie A little bit, they were, so what you saw at the tail end of Q2 coming in, I think Paul said it on the call, in June what we saw was the book returned to in the June month, which is why we're comfortable and confident when we talk about growth coming through in Q3.

Aman So is there any chance you can help us with market share? Like so, what was your share of flow?

Katie So our overall market share is about 12.4%, we're writing more or less around that to this level at this time.

Aman Okay.

Claire The completion share would be lower because that would affect your application share, you know, in the prior months.

Katie So I mean what we said is that in absolute terms and like monetary terms, not necessarily market share will increase in the quarter, but you know I’m expecting the book to return to growth this quarter. And the reality is, you know, we've got good visibility of what's going to come onto the books in Q3 because of what we've already written. So I mean that's a confident statement.

Aman And when we cast our NIM predictions going forward, how should we think about asset mix as a potentially a drag from here, right? I think C&I lending you'd want to do a bit more of, a bit of mortgages that you'd want to do a bit more of. Should we be thinking about an offset from a kind of adverse mix from here?

Katie I’m going to leave you to predict your NIM as you go forward from here. I’m just guiding you to total income. I’m sorry, I’m not going to get into any nuance on which, where the subset of the NIM might move. Sorry.

Guy When I come back to the acquisitions, on Sainsbury's and the Metro book, you've been sort of clear in terms of the rationale behind them in isolation. But I just wanted to talk about the decision to pick those particular markets, so residential mortgages and unsecured, over perhaps specialist mortgages, corporate, wealth, just other segments. So was it that those are the deals that were on the table and they just made sense? Or was this kind of a deliberate choice to go for those markets?

Katie I think in any one quarter, it's what's actually on the table that makes sense. And they made good sense for us. I wouldn't say that we'd never do anything else or we'd never look at anything different. We have a Corp Dev team who spend a lot of time with every deal that comes up.

You could imagine that we would have looked at it. You know, some we may have gone further and some we would have pulled back and said, no, it doesn't make sense for us. We either don't like the RoTE or we don't think it's a cultural fit or actually it would be too distracting in terms of the effort the organisation has to go to, to bring that in. But I mean, the Metro deal, that's our second mortgage book I think we've done with them.

And the Sainsbury's Bank one, I think it's really helpful to accelerate our return to credit card growth. So I’d say in that quarter, we managed to execute those transactions in that quarter. But that's not to say that we wouldn't do other things in other quarters. We do look at everything and I’d actually say strategy is the first step that we do. So strategically, does this make sense? And then culturally, can we actually deliver it? And then does the RoTE work in terms of probably the order of things that we look at it.

Guy Thanks.

Katie Super, any other questions? No, well, I just wish you a quick afternoon for your own sakes to finish off and thank you for the support. And hopefully after Barclays, we're very spread out this time, aren't we? That after Barclays, you get a bit of a rest while the sun seems to be shining here in the UK for a little while. And thank you as ever for your support. And we'll see many of you over the next quarter. Take care. Thanks a lot, Donal. Thanks, Stuart. Take care.