NatWest Group plc

H1 2022 Results – Management Presentation

29th July 2022

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Alison Rose

Good morning and thank you for joining us today. I'm joined by our Group CFO, Katie Murray this morning and I'll start with a business update before Katie takes you through the results. We'll then open it up for questions. So, let's start with the headlines on slide 3.

We're announcing a strong first half performance today with operating profit before tax of 2.8 bn, up 12.8% on the first half last year, and attributable profit of 1.9bn. Our return on tangible equity was 13.1%, up from 11.7.

We're reporting strong income growth of 16.2% and costs were down 1.5% resulting in positive jaws of 17.7%. We continue to target a reduction in costs of around 3% for the year and remain on track to deliver that.

In a challenging macro-economic environment, we maintain a strong balance sheet and disciplined risk management. We have a well-diversified wholesale loan book, 93% of our personal lending is secured, and we are well provisioned.

We continue to deploy credit to support our customers and net lending grew 2.6% to 362 billion during the first half.

The bank is also highly capital generative. Our Common Equity Tier 1 ratio is now 14.3% and we have been clear about our intention to return excess capital to shareholders. We are declaring an interim dividend of 3.5 pence per share which represents 366 million towards our distribution of at least a billion pounds this year.

We are also announcing today a proposed special dividend of 1.75 billion with a share consolidation.

In addition to the directed buyback of 1.2 billion in March, this brings total distributions announced for the first half to 3.3 billion.

We have also recently completed the 750 million on market buy back announced in February.

Just over two years ago we set out our purpose-led strategy placing customers at the heart of our business as you can see on slide 4.

The rationale was simple – by helping our customers to thrive, we too will thrive.

Against a background of economic uncertainty, we continue to focus on our four strategic priorities in order to drive long term sustainable value and that starts with supporting our customers which I'll talk about more on slide 5.

While we are not currently seeing any immediate signs of stress, we are acutely aware of the pressures customers face this year with

higher inflation, rising interest rates, a steep increase in energy costs, and supply chain disruption.

The strength of our capital generation and balance sheet enables us to stand alongside customers and colleagues as they face into these challenges.

Many of our customers built up savings during the pandemic so household finances are in relatively good shape and businesses have healthy balance sheets. To date, we are not seeing an increase in arrears or requests for help.

But we do know that spending on utilities and fuel bills is up between 20 and 30%, so we are proactively targeting support to help customers navigate the economic uncertainty.

We have launched a 4 million hardship fund to provide support for individuals and businesses delivered through organisations such as Citizens Advice, Money Advice Trust and Step Change.

We are also proactively contacting 2.7m personal and business banking customers to offer information on managing the increased cost of living as well as support on supply chain and working capital management. And we are taking a range of actions if people do get into difficulty including waiving fees where appropriate, agreeing repayment plans and loan forbearance. In addition, we continue to carry out free financial health checks as well as helping customers to understand and improve their credit rating.

For commercial customers we are tailoring support to sectors most likely to be impacted – for example in Agriculture, which has been hit by rapidly increasing fertiliser prices, we are helping 40,000 customers including providing an additional 1.25 bn in lending for UK farmers. We also have a well-established ecosystem for small and medium businesses with sector specialists and business hubs around the UK. We are monitoring our customers carefully to identify early those who are having difficulties and have frozen any increase in business tariffs for our smaller customers.

We cannot support our customers without also supporting our colleagues who face the same challenges, so we are making targeted pay rises for our lowest paid employees across the Group.

So let me turn now to how we are delivering on our strategic priorities on slide 6. We have an extensive franchise – we currently serve 19 million customers, and we are the largest business bank in the UK. This means we start from a position of strength with opportunities to grow even in an uncertain economic environment.

I'm going to focus on three areas in particular this morning:

First, deepening our relationships with existing customers as well as acquiring new ones, second, supporting customers as they transition to a low carbon economy, and third, diversifying our income streams. I'll talk about each one in turn, starting on slide 7.

We are working to deepen relationships with customers by serving them at all the key stages of their lives and by engaging more effectively with them.

Our recent acquisition of RoosterMoney is a good example. RoosterMoney helps young children learn to manage money with real time notifications of their spending and gives parents the assurances they need by being able to block payments and freeze lost cards.

We acquired Rooster along with 130,000 customers last October and by connecting it with our own app, have gained 17,000 new customers during the first half. This is a perfect example of how we can serve the needs of our customers in a responsible way whilst also generating growth for the bank.

Our share of the youth segment has grown from 13.8% to 14.5% since 2019.

Another way in which we're deepening our relationships is by using data analytics to make our communications much more personalised. Data driven prompts now play an important role for customers across the bank. For example, 5.7 million personalised messages have been acted upon by customers to date this year compared to 1.4 million for the whole of 2021.

We are also acquiring new customers by delivering a wider range of products and services across our franchise, and by improving the customer experience through our digital transformation. For example, in Retail Banking we opened 310,000 new current accounts during the first half; in Private Banking, we added over a thousand new customers, of whom 20% were referred from other parts of the Group; and in Commercial and Institutional we opened 49,000 new accounts for start-ups, almost 40% of which were via our digital only business bank, Mettle.

This takes our share of start-up banking to 12.4%, up from 10.4% in 2021.

Turning to slide 8, another way in which we're meeting customer needs is by helping them transition to a low carbon economy where there is a strong commercial, economic and social imperative.

In Retail Banking, we have completed 1.4 billion of green mortgages since they were launched in Q4 2020, which give a slightly discounted interest rate to energy efficient properties. This is a 90%

increase from 736 million at the year end. We also have a carbon tracker on our app, which over 300,000 customers have accessed so far this year.

Our Private Bank is well recognised as having one of the best sustainability offerings in the UK and in February this year, we committed to achieve net zero alignment in at least 50% of the assets in each fund by 2025.

We are also the UK's leading underwriter of Green Social and Sustainability bonds. Last year we set a target of delivering 100 billion of sustainable funding and financing by 2025 and have contributed 20 billion towards that target to date.

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

Turning to smaller businesses, we launched the Natwest Carbon Planner at the end of June which is a free platform to help SME's work out their carbon footprint and then prioritise actions and targets to reduce it.

We're also helping small businesses with green loans to finance solar panels, electric vehicles or heat pumps with no arrangement fees.

The investment we are making to improve our customer propositions is also helping us to diversify income streams by both product and customer as you can see on slide 9.

We have relatively little unsecured lending which we are growing judiciously within strict risk parameters and in line with our prime appetite. For example, our credit card balances have grown 8% during the first half to over 4 billion, and we have issued 168,000 new credit cards, taking our share in cards to 6.5%

We have strengthened our offering for affluent customers by extending our asset management expertise to customers across the group.

Our affluent assets under management and administration have grown 4% since the year end to 2.6 billion.

This contributed to net new inflows of 1.4 billion in the first half, on a par with net new inflows for the entire year in 2020.

Another area where we are benefiting from serving more customers across the group is Foreign Exchange where we now offer our expertise to commercial as well as institutional customers. As a result, we have added around 350 new corporate customers

since April last year, and income from our Foreign Exchange business has grown 37% year on year.

Turning to slide 10, we are also working hard to improve the customer experience and increase productivity through our digital transformation.

We are now in the second year of our 3 billion pound investment programme, most of which is being invested in data, digitalisation and technology. And the benefits are increasingly clear.

The majority of our customers now interact with us digitally 61% of our retail customers are entirely digital and almost 90% of retail customer needs are met digitally; 84% of our commercial customers are active digitally, and 93% of all our youth accounts are opened online or via a mobile app.

We are also continuing to improve customer journeys to make it easier for customers to interact with us. 70% of retail accounts and almost all credit card accounts are now opened with straight through processing; Retail customers used our chat bot Cora 5.3 million times during the first half, almost half of which required no human intervention, and commercial customers made 157,000 digital service requests compared to just 6000 in the whole of 2019.

By improving the customer experience we have significantly increased customer satisfaction and this is reflected in net promoter scores: For example, Retail is at 17, up from 4 in 2019; our affluent score has increased to 28 from minus two, and we have one of the leading scores in Commercial Banking at 23. Of course, this also helps to attract new customers.

We continue to proactively manage capital allocation and risk in order to maintain a strong balance sheet on slide 11. We have a well-diversified wholesale book and 93% of our personal lending book is secured. 92% of our retail mortgages are fixed, with an average loan to value of 53%, and the level of defaults across the Group remains low.

Our phased withdrawal from the Republic of Ireland continues to progress well and we now have binding agreements in place for 90% of the book Deposits reduced 16% to €18 billion during the first half as customers move their accounts to other providers. We continue to expect the majority of sales to complete in 2022 and for our withdrawal to be capital accretive. Turning now to slide 12.

This is a highly capital generative business, demonstrated by the fact that we delivered operating profit before impairments of 2.8 billion in the first half, which is broadly in line with the entire year in both 2020 and 2021.

This capital strength gives us the flexibility to invest in the business for growth, consider other options that create value as well as return capital to shareholders.

The proposed special dividend announced today of 1.75 billion, together with the interim dividend and directed buyback, brings total distributions announced for the first half to 3.3 billion.

On the back of our strong performance combined with lending growth, a robust balance sheet, well managed risk and significant capital strength we are upgrading our guidance today on slide 13. We now expect income in the region of 12.5 billion in 2022. We continue to target a reduction in costs of around 3% this year but have revised our target for 2023 when we expect them to remain broadly stable. We remain committed to growing the business whilst managing cost growth to deliver positive jaws. Our aim is still to achieve a CET 1 ratio of 13-14% next year and we are close to our target of around 14% for this year. Taking all this together, we are upgrading our 2023 return on tangible equity target to 14 to 16%. With that I'll hand over to Katie to take you through our financial performance.

Katie Murray

Thank you Alison. I'll start with the performance of the Go-foward group in the second quarter using the first quarter as a comparator. We reported total income of £3.2bn for the quarter, up 7.1% from the first. Excluding all notable items, income was 3.1 billion, up 12.3%. Within this, Net interest income was up 13.9% at £2.3 billion and Non-interest income was up 7.7% to £797 million. Operating expenses fell 1% to £1.7bn driven by lower conduct costs. We made a net impairment release of £39 million compared to a release of 7 million in the first quarter which reflects a continued low level of defaults. Taking all of this together, we reported operating profit before tax of £1.5 billion for the quarter. Attributable profit to ordinary shareholders was £1.1 billion, equivalent to a Return on Tangible Equity of 15.2%. I'll move on now to net interest income on slide 16.

Net interest income for the second quarter of £2.3 billion was 13.9% higher than the first, as a result of higher margin and strong lending. Net Interest Margin increased by 26 basis points to 272 basis points driven by wider deposit margins which added 34 basis points. This reflects the benefit of higher UK base rates, which increased by a further 50 basis points in the quarter; and higher swap rates on our structural hedge. These increases were partly offset by lower mortgage margins on the front book which reduced net interest margin by 4 basis points, and by the repayment of higher margin loans in Commercial & Institutional, which decreased

it by a further 3 basis points. Turning to our interest rate sensitivity on slide 17.

You can see here the strength of our balance sheet and the positive tail wind from rising interest rates. The UK base rate has increased 115 basis points since December which has added around £0.4 billion of managed margin benefit in the first half of the year compared to the same period last year. We are projecting a year-on-year increase for the full year of 1.1 billion, reflecting the full run rate in the second half.

We have reviewed our economic assumptions, as usual at this time of year, and now assume the UK base rate will reach 2% by the end of 2022 and remain there through 2023, a revision upwards from 1.25%. Using an illustrative 50% pass-through this would add a further £0.2 billion of managed margin benefit this year with the full run-rate benefit flowing through in 2023.

Turning now to the structural hedge. Total hedge income for the first half increased by 0.1 billion, compared to the first half last year, as notional balances grew by £40 billion to £230 billion at the end of June. Assuming balances and UK swap rates are in line with levels at the end of June, we expect this to result in year-on-year income growth of circa £0.6 billion.

This brings the total year on year benefit in 2022 to £1.9 billion. Clearly the actual benefit depends on the timing and size of rate increases, changes in deposit balances and pass through decisions but this is how I am currently thinking about the potential impact of higher interest rates on our 2022 income. If we move on now to look at volumes on slide 18

Gross loans to customers across our three franchises increased by £4.4 billion or 1.3% in the quarter to £338 billion. In Retail Banking and Private Banking, Mortgage balances grew by £3.6 billion or 1.9%; and Unsecured balances increased by a further 500 million, the strongest quarterly growth since the onset of the pandemic. In Commercial & Institutional, gross customer loans increased by £500 million. While lending to large corporate and institutional customers increased £1.4 billion, driven by growth in our funds business and greater use of credit facilities, this was partly offset by continued repayments on government lending schemes. I'd like to turn now to non-interest income on slide 19.

Non-interest income, excluding notable items, was £797 million, up 7.7% on the first quarter. Within this, income from trading and other activities increased a further 8.3% to 222 million, as we benefited

from ongoing volatility and increased customer activity across our suite of markets products. Fees and commissions increased by 7.5% to £575 million, driven by higher card and payment fees as consumer spending increased, and demand for corporate credit generated higher lending and financing fees. I'll talk now about what this means for 2022 income on slide 20.

We are strengthening our guidance and now expect 2022 income excluding notable items of around £12.5 billion up from £10.1 billion in 2021.

As I explained earlier, our year-on-year interest rate benefit through managed margin and the structural hedge adds around £1.9 billion. You then need to consider the impact of lower mortgage margins which will partially offset this.

We also have the additional net benefit of higher average lending volumes and higher non-interest income. This guidance is underpinned by our assumptions that the UK base rate increases to 2% by the year end, and UK swap rates remain broadly in-line with where they were at the end of June leading to Net interest margin above 270 basis points for the full year. Turning now to Costs on slide 21.

Other operating expenses for the go-forward group were £3.2 billion for the first half. That's down £50 million or 1.5% on the same period last year as we continue to work to meet our targets. This cost reduction combined with the improvements in income has supported a 9 percentage point improvement in the cost income ratio to 55% in the half.

Like other businesses, we are experiencing the impacts of inflation on our cost base. Despite this we are confident that we can deliver a reduction of around 3% for the full year though this will not be linear and you should expect costs to be higher in Q3 than Q2, with the savings weighted to the fourth quarter.

Looking now to 2023 - we expect some of the current inflationary impacts to be more significant next year. We are protecting our investment spend and remain committed to delivering the same gross cost savings in the plan.

However, the net effect of this is that we now expect our cost base to be broadly stable in 2023. We remain committed to maintaining cost discipline and improving operating leverage with positive jaws across income and expenses. Turning now to impairments on slide 22.

As you know we have a well-diversified loan book and we are not yet seeing any significant signs of stress. In the first half we saw ongoing improvement in the performing book with migration of balances from Stage 2 back to Stage 1. This underlying strength in the loan book, with low levels of default, has resulted in a reduction in ECL provisions and coverage to 93 basis points at the end of June, down from 103 basis points at the year end.

This has driven a net impairment release for the Group of £54 million in the first half. We are strengthening our guidance for the full year loan impairment charge from below 20 to 30 basis points to under 10 basis points. This guidance is underpinned by our updated economic assumptions on slide 23.

We have summarised the changes to our base case in our economic assumptions at the top of the slide. While we have not changed the 45% weighting to our base case scenario we have increased our weighting to the extreme downside scenario from 5% to 14%. We have also adjusted down our expectations for GDP growth and UK employment, to reflect the latest consensus of economists. And as I said earlier, we have increased our UK base rate outlook to 2% by the year end to reflect higher inflation. All the details can be found in the appendix and IMS.

The net effect of these changes was a £41 million increase in the ECL provision as shown at the bottom of the slide. The Post Model Adjustment for economic uncertainty is stable over the first half at £583 million. However, the components have changed as we reduce COVID 19 overlays and increase provisions to reflect the challenges our customers face, including the increased cost of living and supply chain disruption. We continue to be cautious on the release of these provisions as we have yet to see the full impact of these challenges play out. Turning now to our progress on Ulster Bank on slide 24.

We now have binding agreements for around 90% of the Ulster Bank loan book. The Irish Competition and Consumer Protection Commission announced last week that it has cleared the asset sales to Permanent TSB which means we have now received clearance for around 60% of the loan book. We expect the majority of these asset sales to be largely complete by the end of 2022. We expect the mortgage sale to AIB to complete in the first half of 2023, subject to any necessary regulatory approvals. Both income and direct costs associated with these asset sales are now in discontinued operations and will roll off in-line with completions. We continue to expect to incur exit costs associated with asset sales and restructuring of around €900 million, with the majority incurred by the end of 2023. Around half these exit costs will be booked in

discontinued operations and half through continuing. We expect to recognise around €350 million of these exit costs through discontinued operations in the third quarter as the mortgage book is reclassified to fair value. Ulster Bank remains very well capitalised, and we continue to expect the withdrawal to be capital accretive. As transactions complete, we will look to restart dividend payments from Ulster Bank back to the Group. Turning now to look at Capital and Risk Weighted Assets on slide 25.

We ended the second quarter with a Common Equity Tier 1 ratio of 14.3%, down 90 basis points from the first quarter due to capital distribution. This includes IFRS 9 transitional relief of 16 basis points, down from 23 basis points at Q1. We generated 53 basis points of capital from attributable profit, net of changes to IFRS 9 transitional relief. This was partly offset by higher RWAs which are up £3 billion to £180 billion driven by growth in lending balances and updated models. This reduced the ratio by 25 basis points. A reduction from shareholder distributions of 111 basis points includes: - a further accrual of £250 million for the ordinary dividend towards our stated £1 billion minimum commitment; and the proposed special dividend of 1.75 billion. Turning to my next slide on the special dividend.

The decision to announce a special dividend with share consolidation enables us to distribute more capital than an in-market buy back; reduce the share count and offset the dilution to Tangible Net Asset Value per share of the special dividend; whilst also treating all shareholders equally and ensuring the Government' shareholding remains below 50%, which the Board has determined is in the interest of all shareholders.

We will publish a General Meeting notice and Circular with full details on August 9th, ahead of the General Meeting on August 25th. Shareholders on the record date on August 26th will receive the Special dividend payment on 16th September. However, the consolidation of shares will be effective on August 30th. Turning now to our balance sheet strength on slide 27.

Our CET1 ratio of 14.3% is moving towards our target range of 13-14% as planned. Our UK leverage ratio of 5.2% is in line with the first quarter and 195 basis points above the Bank of England minimum requirement.

We have maintained strong liquidity levels, with a high-quality liquid asset pool and a stable diverse funding base. Our liquidity coverage ratio of 159% is down from Q1 due to growth in customer lending, redemption of own debt and share buybacks. Headroom above our minimum is £76 billion. Turning to my final slide.

As you heard from Alison, we have strengthened our guidance. We now expect to deliver income, excluding notable items, of around £12.5 billion for 2022. This assumes UK base rates reach 2% by year end supporting Net Interest Margin for the full year of greater than 270 basis points. On costs – we expect to deliver a reduction of around 3% this year and to keep them broadly stable in 2023, with positive jaws. On loan impairments - we still expect to remain below the through the cycle level of 20-30 basis points in 2023 but now expect to be below 10 basis points in 2022 and we reaffirm our guidance on capital. Taking all of this together we expect to deliver a 2023 return on tangible equity between 14 and 16 percent. With that I'll hand back to Alison.

Alison Rose — Thank you Katie. So, to conclude. We are reporting a strong performance today and continue to make good progress on all our strategic priorities in an uncertain economic environment. Our strong capital generation and robust balance sheet enable us to continue supporting customers as well as to invest in growth, consider other options that create value and return capital to shareholders. The special dividend we have announced this morning brings distributions for the first half to 3.3 billion. And on the back of a strong performance combined with a robust balance sheet, well managed risk and significant capital generation we have upgraded our guidance today and now expect to deliver returns in the range of 14 to 16% in 2023.

Operator — And our first question comes from Aman Rakkar of Barclays. Could you please go ahead.

Aman Rakkar — Hi, Katie. Hi, Alison. Hopefully you can hear me okay. I am on.

Alison Rose — Yep, we can hear you.

Aman Rakkar — Great. I had a question on the RoTE guide for next year. The 14 to 16% range does imply a range of outcomes on profit, I suspect, and that relates to your view of revenue. But I was interested in where you see the kind of sensitivities to RoTE next year. What gets you to 14% versus say, 16% next year? And the second was around your assumed interest rate benefit as base rate goes to 2%, the managed margin benefit of £200 million this year. Thank you very much for that disclosure. I was interested, if you could help us understand what you thought of kind of full 12 month run rate for that number would look like and what kind of deposit pass through assumption are you embedding as part of that? Thank you.

Alison Rose — Great. Thank you. I'll get Katie to take you through the detail. But when you look at our RoTE guidance, I mean, there are a number of drivers to that. Clearly, what we've demonstrated is a well-positioned business and we're growing revenue. Our transition plan is delivering operating leverage, you know, strong balance sheet and risk diversification and obviously the capital base with a clear commitment to the capital returns. And so, taking that together gives us the ability to strengthen that 14 to 16%. But Katie, do you

want to take through a little bit more detail in that and then the other questions?

Katie Murray Yep, sure. Absolutely. Hi Aman. So, if I look at the RoTE, there's obviously a number of factors that will impact where we end in that 14 to 16. And you know, one to think about is the progression of that tangible equity through to the end of 2023. So, with our announcement today, we've increased the pace on our journey down to our CET1 target of the 13 to 14 to get to the around 14 by the end of this year. Clearly, the timing of further distributions from here and when they actually hit tangible equity rather than CET1, has a little bit of an impact. RWAs Ulster, we have around 9 billion of credit RWAs that should roll off with asset sales complete through 2022 and H1 2023. And any residual RWAs there for some of the residual assets and operational risk, which would take a bit longer in terms of that and then for the rest of the group, for the go forward group, the drivers on the RWA will be very much loan growth and any ongoing capital optimisation we do, there's nothing to call out on equity deductions in terms of anything on that. When you look at the interest rate benefit and I'm glad you like the disclosure on Slide 17, I think probably the easiest way to answer your question there is to look at the sensitivity that we've given you on them within the accounts and also, it's in the appendix of the slide. And what we've also shared with you there is what would it mean in terms of our 100-basis point rise. When we spoke originally, what we had said in that sensitivity is that as rates rise, the pass-through rate would increase. Now that we're up at that level, we're looking at that level above 2% we've done it on an illustrative pass through of 50% of any rate rise as we go forward from here. I would remind you, Aman, we've only passed through 15% of the total to date, but that's how we've done the illustration going forward. And we feel that's a relatively good proxy for you to move forward from here.

Aman Rakkar Thank you so much.

Katie Murray Thanks a lot.

Operator: Thank you. Our next question comes from Rohith Chandra-Rajan of Bank of America. If you could please unmute, go ahead.

Rohith Chandra-Rajan Hi. Good morning. Thank you very much. Again, can I come back to your helpful slide, slide 17. I was just wondering if you could walk us through that in a little bit more detail in terms of the progression that you're seeing in the first half and how the dynamics of difference for the second half, or for the full year versus what we've already seen in the first half. In terms of you talked a little bit already about it pass through, but there's also a lot more hedge benefit coming through as well. Thank you.

Katie Murray Lovely. Thanks very much, Rohith. Yeah, no, look, it's a good side. We enjoyed kind of pulling it together to try to give you some good guidance. I'll give you a bit of a fuller answer so that you can understand the three component parts of that 1.9 billion. Firstly, it's important to remember the margin profile during 2021. The low point for margin was in Q3 21, when NIM was 2.28%. And as such, the year-on-year growth will be more significant in H2 than it is in H1. I just take the different components first. So, the 1.1 billion of managed margin benefit from the base rate at 1.25%. This is effectively the full year benefits from the base rate increases through to June across Retail, Private and Commercial institutional has been limited pass through in H1. We have, as many of you know, announced the deposit rate change for our retail customers, which becomes effective on August 1st. And following that change, the cumulative deposit pass through for the group is approximately 15% of 115 basis point increase in the UK base rate since December 2021. If I move to the point two managed margin benefits. The managed margin benefits for future rate rises through to 2% by year end is based upon our updated interest rate sensitivity disclosure. We've previously discussed how we expect the deposit pass through to be at lower for rate increases below 1% and return to more normalised level of pass through as we approach that 2% level. And so, for the illustration on this slide, we have assumed the

blended pass through of 50% of each rate rise. So, the 200 million reflects the proportionate share of the full year benefit of three times 25 basis point increases in the second half. Clearly the actual benefit depends on the timing and the size of rate rises and also the ultimate level of pass through, which may vary from the illustration. And then finally, 0.6bn of structural hedge benefit, that represents the year-on-year increase we expect in total hedge income in 2022. And there's two main factors to think about in there. First of all, we're refinancing at the higher front book rates. We have around 20bn of maturities rolling off a yield of around 75bps and they're being invested at the current five-year swap rate. And obviously, you'll have seen on the slide as well that we've got an increase in notional of 17 billion into the second quarter and that was invested at a blended rate of two and a half percent. And it is important to remember that hedge income in H2 21 was lower than in H1 21. And so, the year-on-year benefit is greater in the second half of the year as we move forward and hopefully, Rohith, that's helped. just add a little bit of colour to that to that slide.

Rohith Chandra-Rajan: Very helpful. Thank you very much.

Katie Murray: Thanks, Rohith.

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

Martin Leitgeb: Yes. Yes, good. Good morning. First of all, congratulations to the the strong set of numbers today.

Katie Murray: Thanks.

Martin Leitgeb: I was just wondering if I could follow up on the comment you just made on the on the 15% pass through in terms of deposits so far, is that on deposits within personal or is that also include commercial? And I was just wondering on this slide, you show a meaningful deposit margin benefit in the period from C&I. And I was just wondering, is there any difference in terms of how C&I deposits and deposit pricing will behave going forward as opposed to personal?

And secondly, the last quarter, we discussed the mortgage pricing and application margins coming back into in to the 60-basis point range, which now has fed through in terms of completion margin, it appears. So, it's just wondering what you see or what your outlook is in terms of mortgage pricing going forward, would you expect current pricing to hold it? It seems increasingly swap rates are being passed through. Or could there be a scenario that some of the economics for mortgages shift over to deposits? Thank you.

Alison Rose Thank you. Katie are you happy to take this?

Katie Murray Yeah, no, absolutely. Thanks very, very much, Martin. So, as we look at the pass through assumptions of what we've done to date, so, 15% of the total as we've come through. So limited pass through across all areas. What I would say is it does differentiate, Martin, across the different sectors. So, if you look at the pass-through rate that we've got within our managed rate, within retail savings, it's 17%. So, an increase of 20 basis points compared to the 115 basis points since the rates have gone through. Within, C&I that is 99% sorry. So only ten basis points that have gone through. So, you can see that decisions are not uniform across the bank. We offer also, a range of different deposit accounts, you know, in terms of things like our digital saver, which offers 3.25% for balances below £1,000. And if you're in a small business space, there's a 40-basis point account as well. But you look at Q2, the customer funding rate was ten basis points in retail versus the five you had in Q1 and then nine basis points in in C&I versus the two basis points that we had in Q1. So, there will be a differential rate within there. What we've done in our illustrations is that we've used a 50% illustrative pass-through rate as we move forward. Clearly it will depend on a little bit when the rate rises come through and the timing of those. But we do we do look at our suite of customers and our products and then see what's actually happening in the market as well, which I think is very important to consider. But I think that illustration is a good guide for you to think as you go forward. Then in terms of the mortgage margin disclosure, what we're trying to do is to lift you a

little bit to the NIM guidance for 2022. And Martin, I know that we all danced around that for a few quarters, and that's fine. You are very much trying to manage both sides of the balance sheet to improve the margins and mortgages. It's just obviously one part of that. You can still see the disclosure in the financial supplement on the retail banking, and mortgage income, as well as the deposit income. And this allows you to see the development of the mortgage margins over time and which with the group book, that book declined from 158 basis points to 150 basis points in Q2, driven by that lower completion margins as expected. Swap rates have continued to move up in the second quarter. We saw significant movements in there. When we spoke in Q1, I said that we were not happy with our application margins at 44 basis points and following action on the customer rates, the application margins for the groups were above that 60 basis point number that I was aiming for as we got to the end of Q2 with some further widening in July. You know, Martin, your question on how we think it will develop from here, the swap curve has been so volatile over these last sort of six months. And I think what we've seen is the market reacting to it very sustainably in terms of actually taking that customer rate up to deal with the swap rate movements. I think we kind of got to the right place or no. I think what happens as we go forward from here will obviously depend a little bit in terms of what happens on that swap curve and also kind of wider customer behaviour. But I think from our side we've got the benefit of the strength of the hedge income coming through. So, it enables us to absorb some of that volatility should it come through. Thanks, Martin.

Martin Leitgeb Thank you.

Operator: Our next question comes from Alvaro Serrano, Morgan Stanley. Alvaro if you could please unmute. Alvaro, you are next if you would like to unmute

Alvaro Serrano Yeah, I think. I think we're good. Thanks. Yeah, thanks. Just two

questions. Obviously the 14 to 16% RoTE is very healthy and nice to see. I wonder beyond sort of the short-term sort of sensitivities and the numbers you've already provided. What do you see the biggest risks medium term? Because it does look quite healthy. And I'm wondering if we are going to perpetuate this or value on that 15% RoTE. What do you think is the biggest risk? Is it competition on deposits, competition on mortgages? The regulator sort of increasing the pressure maybe on to remuneration on deposits or what do you what do you see as the biggest medium-term risk of making too much money, if I can say that. And on cost just a very on that flat cost guidance for 2023. What CPI are you assuming there? What underlying inflation are you assuming? Thank you.

Alison Rose

Thank you. Well, the guidance we've given you, as you know, we're very thoughtful about when we when we give you guidance and how we look at that clearly as we project forward. Clearly, the impacts of cost of living, inflation are challenges. And I think we can see good growth across all of our businesses, but we're not significantly dependent on volume of lending growth as we go as we go forward. I think the biggest risk is we see a slowdown in growth as customers, both on the consumer side, and the business side, grapple with the challenges of cost of living and inflation, the supply chain disruption that we're seeing. And that's why we're being so proactive in terms of outreaching to help our help our customers. And obviously, we're keeping a very close eye on impairments and early warning indicators of stress in the book. But as you can see, we have a well-diversified book predominantly secured and we're well provisioned. So, I think as we look forward, the economic uncertainty is really a challenge for growth and having a strong balance sheet, to sort of answer your question, a strong balance sheet with capital, means that we can continue to lend and support our customers through that cycle. And I think that is a positive and an important point of being a well-capitalized, well risk, diversified bank supporting customers. Katie, you want to pick up the cost question?

Katie Murray Yeah, no, absolutely. So, if we look at the sort of inflationary impact on costs, I mean, it's within 2022. You were obviously seeing some of that in terms of the wage awards that we put through in 2021 and then implemented in Q2. And the average cost of that was three and a half percent. And we've now done in July a further support for our 22,000 employees earning less than £32,000. Those together kind of come to a kind of increase in salaries of £100 million as we have them implemented. You know, and when you see as we move into 2023, we can see that there could be some more pressure on our wages. And we also are seeing as many businesses are increases in our contract renewals which are going up as well. And even things like a marketing spend, you can see that kind of coming through. So, inflation, you know, reached 9.4% in June. Our expectations is that it will it rise to 8.4 annually for the whole year. And so that's really what we're reflecting in terms of that inflation piece. But I think what we try to do is to make sure that we manage it tightly, focus on making sure that the investment spend is available and that that's protected within that space. And then we continue to drive out the efficiencies as we move forward. So even as we look to 23 while our guidance is flat, there's still significant cost efficiency that has to be delivered to make sure that we can maintain that broadly that guidance. Thanks Alvaro.

Alvaro Serrano Thank you.

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

Katie Murray Morning, Omar.

Omar Keenan Good morning, everybody. Congratulations on a very strong set of numbers and the RoTE guidance upgrades as well. I have two questions, please. One, on the impairment guidance for 2023 and just sorry, another one on the on-deposit beta. So, first on the on the impairment guidance for 23 to remain below through the cycle levels, I guess that depends on the base case, UK economic assumptions that you gave. And I just wondered, given the level of

economic uncertainty, what gave you the confidence at this stage to give a guidance on 23? Is it the presence of management overlays that give you the comfort to do that? When you think about the range of outcomes that could potentially happen? Particularly, on the deposit beta, I'm still very surprised at how good it's been in the in the C&I business. I understand that, you know, a lot of the as you said before, a lot of the deposits are managed rates. But I still would have thought that there would have been a little bit more pressure, upwards pressure there. Is there any more colour that you can give maybe on what the secret sources in the C&I business? Thank you.

Alison Rose Thank you. Well, Katie can take you through the details of all provisioning and impairments. So, what gives us the confidence as we as we sit here today and as we look forward? Firstly, I think look at the mix in our book. We have a well-diversified book, predominantly secured, 92% of our book is secured. We have good risk diversification, and we are well, well provided for also. As we as we look at the performance of our book, we're not seeing any signs of distress or default or deterioration both in our consumer and business book. And customers have significant liquidity and buffers sitting on both their business and consumer household balance sheet. So, we are actively looking for the signs of stress and early warning indicators, and there's a very extensive outreach programme of proactive support to encourage customers to come and talk to us so, we can help them manage through. So, I think it is a combination of the risk diversification, the active management and the mix of our book. I think probably that's where I would start. And then as you look at provisioning, we are well positioned, Katie, do you want to give a little bit of colour on that and then obviously pick up the deposit points.

Katie Murray Yeah, no, absolutely. So, you know, what we've done for 2023 is to maintain the guidance we've given you previously. And I think that that's really important and building what Alison says, you know, we're not seeing signs in that in those books of strain. If I can take

you a little bit to where we are on the PMA, I think might be helpful. So, we've got various PMAs. The one I think that's most interesting is the one for economic uncertainty. It's £583 million when we looked at that PMA this quarter. What we've done is release a significant portion that was in relation to COVID. And then we've also added other items which are very much in relation to the cost of living and supply chain type issues. And we've done that very forensically by looking through the book as to where our customers are, who might be impacted by the challenges we think that are coming. So that 583 gives us some provision for things that are coming down the road. And then the other place I would encourage you to look at is on page 27 of the accounts where we show you the sensitivities. And what we do there, if we took you to the extreme downside, 100% on that downside. What you could see in stage one and stage two ECLs is we'd have our increase in our provisions of £969 million. Now with that PMA that you've got with that kind of level of stage one and stage two hit, it will clearly be stage three hits, which we don't we don't provide estimates for. But that kind of all together gets you to a place where you can see that below the cycle guidance actually has got capacity for some very significant deterioration and still be within that guidance. I would kind of encourage you to put those bits together and then also have a look at the flow tables. As you can see, just a positive progression. Stage two back in stage one is really strong. And then just moving on to your deposit. So, if we look at C&I. You know, C&I deposits are £223 billion and they're on an average cost to us of 9 basis points. 9 basis points to 125 basis points. I'll leave you to do the maths.

Alison Rose And I think the one thing I'd add on, your C&I secret or the secret source, we have an incredibly strong franchise on leading market position in commercial number one NPS sector specialists who are dedicated to sectors. So can deeply understand what's happening, deep relationships and competitive positioning across the ecosystem. I talk quite often about the ecosystem of SME support

and all of that combined to give us a very strong franchise. And that clearly is part of the balance that you're seeing playing here.

Omar Keenan Thank you.

Operator: Thanks very. Much. Our next question comes from Guy Stebbings. Guy, would you like to unmute and go ahead?

Alison Rose Hi, Guy.

Guy Stebbings Hi, morning Alison. Thanks for taking the question. The first one was on RoTE and then a second one on cost. So, on RoTE, I guess 14 to 16% is quite striking, especially in the UK is expected to battle a downturn. I just wondered how sustainable you view that beyond 2023. Is there anything unique about 2023 versus future years? And I guess you're assuming a benign impairment. But you wouldn't expect that to jump from that level. Cost pressures, maybe build beyond that year, but you would be hopeful, I imagine, of delivering positive jaws. Indeed, one might expect volumes to be stronger beyond 2023 if we're coming out of the sort of a down. So, I'm just interested if you're in sort of high-level thoughts as to whether 23 is unique in any way and sets a high base or if you think that is a return that can't be sustained or indeed, you know, if we're staying at those levels and peers are close, might eventually get competed down. And then secondly, on costs, you know, it's a bit of a shift in the guidance 2023, but it's still flat costs facing into inflationary pressures. And you're obviously not expecting a markedly different revenue environment. I just wondered whether or why flat is the right number. Have you given any consideration whether to invest even more and see absolute costs actually rise? Given that revenue backdrop, given 14-16% ROTE and the capacity to invest that provides and I don't suppose you might be that's coming at all beyond 23 as to what we might expect in 24. I appreciate we don't have a crystal ball on inflation, but is it fair to assume costs of more like two to rise and decrease in 2024? Thank you.

Alison Rose Thank you. Well, as you can imagine, I'm not really going to comment beyond 2023, we'll update you on that probably in February. Next year. I mean, I think on RoTE, nothing, nothing

unique, nothing special. What I would say is what you're seeing is a consistent delivery of our strategic priorities. And we're seeing the benefits of the strength of our franchise, we're two years into our 3 billion investment programme, which is delivering positive outcomes. And you can see pleasingly as well the growth across the whole part of our franchise. We're seeing growth in all of the key areas that we strategically focussed on. So, there is nothing, nothing unique but positive tools and our commitment to operational leverage I think is the key to think about. On, and Katie can sort of comment a little bit more on the costs. But your question of could we invest more, there is a point around how much capacity my businesses CEOs will always ask for more money to invest. We're being very focussed on strategic delivery, making sure that we invest for growth. You can see that digital and technology and you can see the benefits of that coming through. But we are committed going forward to continuing to drive operational leverage through our business, and that will be something that will continue Katie, do you want to add anything on costs.

Katie Murray I think on costs, I think you've done it all. Shall I take the RoTE question. And so sometimes there in terms of answers to uniqueness about 2023 there there's a couple of things that are obviously interesting in 2023. You'll be familiar with our Ulster guidance. A lot of those costs will hit in 2023. So that's actually a bit of a drag in terms of that number, which is also, I guess, why we've got this this range. Clearly, I think you've got to have a view as to where interest rates might go beyond 23. At the moment, we're assuming 2% for the end of this year and then flat into 2023. But we're comfortable with the range that we've given you is an appropriate range. I'm not going to get drawn on 2024 and 2025. We will, I'm sure, talk more about that in February. But at this stage, we're comfortable with we've given you a pretty robust number. Guy: That's helpful, thank you.

Katie Murray Thanks, Guy.

Operator Thank you very much. Our next question comes from Chris Cant of

Autonomous. Chris, if you could unmute and go ahead.

Katie Murray Hey, Chris.

Chris Cant Good morning, both. Thanks for taking my questions. One on sort of balance sheet churn numbers and one asset quality, please. So, you mentioned a number on hedge maturities for the second half. Could you give us a sense of the proportion of the hedge which is rolling into 2023? I'm guessing we should be taking something like 20% ish of the 230 billion if you've been doing it pretty mechanically. But if you could give us a number there. And then against that, obviously, we have this negative churn dynamic on the mortgage book. One of your large domestic peers called out 2023 as a particularly heavy year for mortgage refinancing pain. Do you see a similar lumpiness there into 2023? I suspect you were doing a little less two-year business back in 2021 than said peer Bank, but obviously it's quite hard for us to assess from the outside. So, any colour would be appreciated. And then on asset quality, are you seeing any signs of strain in the SME book specifically? So, I appreciate the kind of the high-level view as everything is very benign. But if you kind of focus in on the SME exposures you have, you seeing any different trends there relative to the broader commercial book, please. Thank you.

Alison Rose Thank you. So let me let me pick up the asset quality in SME and then Katie will take you through the other questions. So, the short answer is, no, we're not seeing any signs of strain. What we are seeing is still relatively muted demand in the small SME side of the book, mainly because of that higher government scheme lending levels in the sector. And actually, what we can see, Chris, which is interesting, is still around 20% of the Bounce Back loans sitting on deposit of SMEs. What we obviously do is look at our whole commercial sector really very much by large mid corporate and SMEs, and we also take a sector lens. But we're not seeing deterioration or stress. Clearly, one of the areas we're really focussed on is the degree of change of challenges that businesses are facing with supply chain disruption, with fuel costs and hedging,

which is why we've put this very targeted support out. And I talk this morning about the 1.35 billion we put out to agriculture, you know, the 42,000 farmers we support. So very short answer. No deterioration. And we're obviously keeping a very close eye on it, but still a lot of liquidity and actually, lower demand coming from the SME segment at the moment.

Katie Murray Thanks, Alison. If I just move back to the hedge. It is very mechanistic. The product hedge rolls off at $1/60^{th}$ a month given it's 5-year nature. The way I would think of that in 2023, Chris, is about roll-offs of 35 to 40 billion in terms of the amount that would come through. When you also look at the pressure in terms of 2023 around that two-year business. It is certainly a theme. But you're right, we have been writing a lot of five-year business and we've seen that continue to increase this year, but even a couple of years ago, we were up above that kind of 60% level. So that kind of helps push it further. I mean, our five years share of our mortgages in this quarter was 69% compared to 66% the previous quarter. And we do think that that the strength of the hedge investment that we've done this year certainly helps offset it in 2022. And I think we've got a relatively positive journey into 2023. Obviously, it would depend a little bit on customer pricing and what happens in the second half of this year. But we have considered that in our RoTE guidance of the 14 to 16%.

Chris Cant Okay, great. So, nothing in particular to call out on mortgage lumpiness.

Katie Murray Absolutely.

Chris Cant Thank you both.

Katie Murray Lovely. Thanks, Chris.

Operator: I think our next question because Ed Firth of KBW. Ed, if you could, please, unmute, and go ahead.

Ed Firth Sorry. I think that it's that working. Morning everybody. I just have two questions. One was on Ulster and costs and I guess the indirect costs. Now that you're working through the disposals. Are you still

reasonably confident that I guess what annualised almost 200 million of central costs paid by Ulster at the moment that you're going to find ways of stripping those out? I guess that would be the first question. And then the second question. About the cost-of-living crisis. I mean, I guess there's a lot of talk politically about the cost-of-living crisis. And I guess it's not aimed just to you this question its more the sector, but I guess you're a big part of it. As a sector, you're obviously taking the full benefit of the rate rises, as we've highlighted, passing on virtually none of the none of the downside or none of the benefit to customers, I guess, of the of the downside of rising rates, which I guess we've seen in the oil sector in various others. After a while, politicians tend to get quite interested in that. Is there a level at which you start to feel your margins are becoming sort of too big or that you should you should say, well, actually we do, fairness says that with 20% market share, we should actually share some of the benefits that those for savers should actually get more of the benefit than we're giving them today. And how do you feel about that in terms of what is a sort of, you know, a reasonable margin for a big incumbent to be making? Thanks very much.

Alison Rose

Thanks. Well, let me let me take the question on cost of living and interest rates. Clearly, we balance both sides of the balance sheet when we're looking at the returns we make and we're very targeted around making sure we put support in the right areas. At the moment, we're seeing lots of liquidity sitting on household balance sheets and a lot of liquidity still sitting on business accounts, as I touched on before. So, as we're making our decisions on pass through rates as well as obviously what we've seen on the on the swap curve of the mortgage rates is we look at balancing what is what is the right return. And then very specifically, we're looking at how can we target to support to those most in need who are really going to see the squeeze in cost of living and really having a material impact. And that's where the package of measures that we talk about around proactive support have been put in place. I've put

£4 million into a hardship fund with our charity partners to help. We've outreached to around 3 million customers where we think we can do more to help them. We're running 5000 financial health checks a week, working with our customers, looking at their balance sheets and how we can save the money and help them structure different things. We're freezing tariffs on our business current accounts for 12 months to help SMEs and we've also just thinking about the mortgage is proactively helped around 100,000 customers secure new rates by extending our roll off window. So, we look at it in the round of the support for our customers. The thing to remember about the mix of our book as well is we are predominantly a secure book. Nine out of ten of our customers are on fixed mortgage rates or are not having any impact of the rising rates at the moment. So, we do look at it in a very balanced way to make sure that we're putting the support in the right place. And as Katie mentioned, with our pass through rates, we look at it on a product by product, customer segment by customer segment basis. We've got 40 basis points, saving account for small businesses. We've got our digital saver accounts paying 3.25% and we will look at it constantly on that basis, and the team will always balance that to make sure we're balancing both sides of our balance sheet and also supporting our customers in the right way.

Katie Murray Should I take on the costs? So, if we if we look at the guidance, when we first spoke about this was a euro 200 million reduction in their costs between 23 and 2021. And so that’s unchanged. We're fully so considering the Ulster cost as we give you our RoTE guidance for it for 2023, both the direct and the indirect. You know, work is obviously ongoing to deal with both direct and indirect. And those are going to be on the indirect. So, a level of cost that get eliminated. So, by their very nature will stay within the group a little bit as well. But it's something that we feel we're continuing to manage well and that's all been built into their cost guidance we've given you today for 23 and also, the RoTE guidance.

Ed Firth I'm just thinking, Katie, in terms of you give us a go to group or the

go-forward group. But that obviously assumes all the indirect costs are out. So, I'm just trying to think, is there any risk to that go-forward group number in terms of the base going forward, in the sense of some of those costs actually, then have to come back in?

Katie Murray — No, we will have considered what might come back in in terms of that piece in the guidance.

Ed Firth — That’s reflected?

Katie Murray — Yeah, that would be fully reflected.

Ed Firth — Great. Thanks so much.

Katie Murray — Lovely. Thanks, Ed.

Operator — Andrew Coombs from Citi, if we can go to your question, please. Thank you very much. Thanks.

Andrew Coombs — 2 questions and one might be what Jonathan is trying to ask in any case. So, following on from Ed's comments, just on the whole point about the magnitude of your RoTE. Interested in any discussions you've had with government authorities with regards to the bank tax? Obviously, the previous Chancellor talked about reducing eight to three alongside the increase in corporate tax rates. But given the amount of uncertainty and where we had with conservative leadership contest and interested in any discussions you've had on this both for yourselves personally, and the sector as a whole? And then the second question would just be on the on the special dividend, you've announced clearly much larger than expectation. On Slide 26, I think it is, you outlined the rationale, but interested in why you have elected to go down the special dividend route where it's essentially a one and done distribution as opposed considering ongoing buybacks where you have the potential benefit of EPS accretion. It sounds like the government's 50% ownership is a barrier to you, but interested in any comments you have. Thank you.

Alison Rose — Thank you. So, let me on the bank tax. No, we've had no discussions and no discussions have happened to this. You know, there are already bank taxes that we pay with the levy, but there have been

no active discussions that. On the special, well, look, we decided to undertake the special and share consolidation for a number of reasons. As you know, we have a number of different ways in which we can return capital and we keep all of them live. But we felt it was appropriate to go the special and share consolidation route this time for a number of reasons. Firstly, it broadly mimics a share buyback, increasing EPS and TNAV per share. Secondly, it allows us to return a greater amount of capital, the 1.75 billion, rather than a further H2 dribble programme would achieve. So, it gives us the pace of distributions that we wanted. And thirdly, it doesn't change the shareholding ownership structure. HMT going below 50% was an important milestone for us and that ensures that we don't disrupt that. So, we will continue to use all the tools at our disposal. We felt this was the appropriate route to go at this stage.

Andrew Coombs And next update on capital return plans will be with full year, presumably rather than Q3. Given what you've already set out in terms of general meeting?

Katie Murray I think we've got a good guidance on capital return and I think we just stick with stick with that guidance as we go through. But yes, the general meeting is on the 25th of August to deal with the consolidation.

Andrew Coombs Thank you.

Katie Murray Thanks very much.

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

Fahed Kunwar Thank you both for taking my question, and thanks for the incredibly helpful disclosure on the margins. I had a question on the commercial institutional business. Within commercial institutional Corporate Institutions business is up 60% year-on-year and a lot higher than the period we've seen in the last seven or eight quarters. How much of that was kind of the deposit margin deposit income we've been talking about? And how much of it was just the old NatWest markets business? And following on from that, if I look

at kind of other income in C&I, it's up about 16% ex owned credit. Do we expect to keep on growing? Have we reached a stabilisation for NatWest Markets business now which has been the revenue have been disappointing for a while. Do we start growing from here with the still more kind of risk wwight asset reduction, which will lead to more revenue to come in that business? Thank you.

Alison Rose Thank you. Well, look on C&I lending growth has continued, so, it's increased by £0.5 billion. So, the main increases are in the Corporate and Institutional business. And that's largely been driven by increased funds activity and facility utilisation. We've seen RCF utilisation in the business increased from 13 to 15% over the first half. In our commercial and mid-market business, we've seen further growth in assets and invoice financing. And then we've got obviously some of the offset coming from the repayments of the government schemes. So, a further £0.7 billion in the quarter, which is in line with our expectations. So that's taken the total government scheme repayments in the full half of £1.4 billion. So, I think we're seeing good growth there, I think as we look forward. Commercial lending is going to be dependent on demand as the economy recovers. Our customers do still have a lot of liquidity sitting on their balance sheets. I mentioned the 24% of the government debt still sitting on deposit. So, I think as you look forward C&I continued growth will depend on that continuing speed of economic recovery as people restructure their balance sheets and rearrange their working capital, business confidence and investment spending, and then that ongoing customer behaviour with regard to government schemes. I mean clearly in the C&I numbers you've got NatWest markets and NatWest markets had another good quarter in Q2. What we can see is the business NatWest Markets PLC income from the three business lines is up 26%. So, the business has managed really well the volatility through the periods and you're seeing good performance. So, income in the first half of £427 million. As I've said, the restructuring of that business is largely complete in terms

	of the shape of the business. We'll continue to optimise C&I in terms of its cost base, but we're pleased with that performance.
Fahed Kunwar	Brilliant. Thank you. Just one follow up. Why is RCF utilisation increasing with this many cash from deposit?
Alison Rose	I think I mean, it's a mixture. RCF utilisation is I mean, I would look at it in a slightly different way. It has been artificially low. If you think about the pre-pandemic RCF utilisation, it was much higher. There's lots of liquidity. What we're seeing, particularly on large corporates as they restructure their working capital lines, they're just drawing down on those lines on a more normalised basis as they're trading out of the pandemic. But they're still at below average levels that I would expect.
Fahed Kunwar	Brilliant Thank you so much.
Katie Murray	Thank you.
Alison Rose	Thank you.
Operator:	Our next question comes from James Invine of Société Générale. So, James could you unmute and go ahead. James, if you are able to please do unmute and go ahead with your question
James Invine	Sorry. Good morning, Alison. Good morning, Katie. I've got two, please. The first on capital, the second on RoTE. On the capital, I guess, debates about your target range, you've always been a bit academic because you've had such a big surplus, but now we are getting close to that range. So just wondering if you still think that 13 to 14 is the right target range, given that the bank was in a very different position when it was when it was originally set. And the second one then just on RoTE, I mean, you're talking about 14 to 16% today, Alison. I think when you set out your strategy on becoming CEO, you were talking about 9 to 11% was clearly a huge upgrade from that. What impact does this change likely have on the strategy of the group? I think you kind of mentioned a little bit to do with investment earlier on. But, you know, does it change the way you think about the mix of the balance sheet, the mix of products, maybe some products that you didn't expect to be kind of above cost of capital for you, but now are looking much more attractive.

Alison Rose — Sure. So let me take the first question. I mean, I think we're very happy with our guidance of 13 to 14%. It's really shaped by what we think is the risk diversification of our book and the mix, the business that we have. So, we're comfortable with getting around 14% this year and 13 to 14% next year. So, it's really dictated around having still quite significant buffers above our minimum level and the shape and mix of our book, which remains very comfortable, so, our guidance on that remains. On the RoTE and our strategy, what you're seeing is a consistent delivery of our strategy and what we're seeing is with the investment that we're making, you know, two years into the 3 billion investment programme, you know, the positive impacts of the investment in data, digital and technology. And we're also seeing a broader delivery of the deepening relationships that we have. So, what I'm very pleased about, when you look at our lending of £9 billion in the first half, it is it is spread and diversified across all of our product areas. You know, we've got growth in current accounts, 310,000 current accounts opened in the first half, 49,000 start-ups. Our market share is increasing. Part of our strategy, we're seeing, you know, judicious growth and credit cards, 168,000 new credit cards and balances, prime book and with our own customers, green mortgages are growing by 1.4 billion. That's up 90% on the full year, which is in line with our climate strategy. So, we're seeing the benefits of that investment. Clearly, I'll update you next year in terms of as we move forward. But I think that's delivering a business that is simple and efficient, data and tech led. We're seeing the benefits of that coming through and that will drive operational leverage continuing going forward, continuing an acceleration of digital, a better experience for our customers is driving customer acquisition improvement in our NPS. So, I'm very comfortable what you are is delivery of our strategy.

James Invine — Thank you very much.

Operator: — Thank you. Our next question comes from Raul Sinha of J.P. Morgan. If you could, please go ahead.

Raul Sinha — Good morning. Thanks very much for taking my questions. I hope

you can hear me. I've got two, please. The first one is on asset quality risks, and I'm sorry to come back to this, but if we do get a deeper downturn than the broadly benign environment you assumed for next year. Where in the book do you think there might be risks this time around? You know, I see the commercial real estate disclosure you've given us very helpfully. It's only three and a half percent of your book and the LTV is pretty low. What are the areas that you might be more focussed on in terms of managing credit quality if we were to have a deeper recession? And then the second one, I guess, on the cost guidance change. Thanks very much. I think it's much more realistic given the current environment, but I was interested more in when exactly you have allowed for higher costs within your new plan. So, if I can just I sorry if I missed this and we already this. But relative to your previous assumptions, what exactly are you building in more cost? Is it wages or is it something else? Thank you.

Alison Rose

Thank you. So, on asset quality, I mean, clearly, we're very mindful of the challenges of in the economy and the cost of living, squeezed, you know, as we look. You know, remember the mix of our book. It's predominantly secured 92/93% secured. So that is the first aspect. In terms of our business exposure, obviously, a substantial business exposure. We look at that sector by sector. We're not running high leverage. There is a lot of liquidity sitting in there, but clearly there will be challenges for businesses as they go forward. I do worry a little bit about, you know, post pandemic fatigue as businesses are going into other areas. And a lot of the challenges businesses are saying to us at the moment is actually getting access to skills and labour to support their growth, as well as obviously the cost of living challenges and supply chain disruptions. So, they're facing inflation. So, I think it is the normal challenge that we would expect to see in different sectors and their ability to either absorb inflation or pass on inflation to the consumers. On the consumer level, we are a prime book. We are keeping a close eye on consumer spending and proactively reaching out to customers to

make sure that we can help them, our customers are not running high levels of debt, but clearly, we're mindful that they may multi bank. We're keeping an eye on those aspects as well. So, there's nothing, you know, particularly in our book that we that we worry about. But I think that reduction in disposable income and that the amount of debt that people are carrying, bigger buffer on their balance sheets and then in business to sector by sector. You're quite right we've been actively managing our balance sheet and our risk. You can see over the last few years that we've had no single name exposures, that our RWA intensity has been coming down and our exposure at very low LTVs. But you know, clearly we are not a risk-free business, so, it's more about us proactively managing those.

Raul Sinha: Can I ask Alison if the fact that there is there's a there's now a significant chunk of the book under government guarantees of various sort is partly responsible for your confidence just given, I think we look at broader data corporates and SMEs have paid down bank debt and borrowed instead on CBILS and BBLS. Is that one of the factors that's playing out?

Alison Rose: No, I mean I mean, clearly, you know that the amounts of liquidity that is sitting, which is really an impact of the quantitative easing that has been putting in in the system and the amount of active management of personal balance sheets. I mean, on the government scheme lending, that really has actually when we talked last year and earlier courses is that that's led to muted demand for lending from us because customers are sitting on that liquidity and 24% of those bounce back loans are still sitting in cash on businesses current account. So that lending is with our customers. We only, as you know, on the government schemes, we only advanced into our own customers. And clearly, we keep a close eye on that. So, there is less leverage sitting on business balance sheets. That's absolutely right, which gives people a buffer. But it is the broader economic environment that they will operate in, which I think is going to be an issue. The other thing to remember

about the economic outlook, we are in an unusual situation, and this will feed into a little bit of the cost question where we have pretty full employment and still high vacancy levels and that full employment also gives us a bit of confidence going forward.

Raul Sinha: Thank you. On the cost.

Katie Murray: I just I'll just give you another little bit of colour data that will kind of help you as well, that's in our results. I think it's important to remember, you know, we've got go forward and group lending of £361 billion. £10 billion of that is on the government lending schemes. So, it's important, but it's not a significant number in terms of that. And you can see if you into our IMS this morning, there's a nice schedule on page 26, which shows you the performance of the associated lending in relation to the BBLS and it's performing well. That's one of the areas I look at a lot. And similarly in those sensitivities I talked about earlier, in the wholesale space we split it between property and non-property. So, you can take out some of the anomalies within that. And just finally, one thing to share with you at the year end, we shared in our accounts then what a single factor would be for impairment. So much of the biggest trigger for me is the unemployment number. And when we looked, and we stress that unemployment all the way up to 7.5%, what we showed there, that would increase the ECL by 4.5% for retail and 2.5% for wholesale. So, I think, you know, our guidance is 20 to 30 basis points through the cycle. Those are still quite significant charges, and what these sensitivities are kind of showing you within there are how the things kind of interact. So hopefully that's helpful. On the cost the cost side, we did talk about it earlier. I mean, it's mainly wage inflation and supplier inflation the same as it is really for all other corporates that we're dealing with that. And that's what brings us back to that broadly flat number for 2023. Thanks much.

Operator: Thank you for our last question. Going to go back to Jonathan Pearce from Numis. Jonathan, please do go ahead.

Jonathan Pearce: Hello there, can you hear me okay now?

Katie Murray: That's perfect, Jonathan, thank you again.

Jonathan Pearce Sorry, I think it's probably all the vpn's I'm using to make it look like I'm still working in the UK when I'm actually in France. I just have one very top-down question. Actually, one of the reasons that the domestic banks are now able to generate these sorts of returns, the likes of which you've guided to this morning, is because of all of the pandemic related money creation and the liquidity that we've seen coming into the system in the last couple of years. And clearly there's an enormous gap today between the rates you're paying on your own deposit accounts versus what the Bank of England is paying on the cash you are holding with them overnight. So, I'm just wondering whether you see the risk, of a change in that reserve remuneration policy increasing and particularly given that the sort of RoTE guidance now given if I was in the treasury thinking about ways of saving a bit of money given new voters, cost of living pressures then then banks earning 14/15% RoTEs the reserve remuneration would be one of the first places I would go. So, I'm interested in your broader thoughts around that, but I'm also interested in your specific thinking at NatWest, because NatWest has the most to lose with the to be a change in policy. You've got £170 billion at the Bank of England, which is big versus others. Are you minded to maybe start changing the mix of your liquidity portfolio moving forward or not? Thank you very much.

Alison Rose Thanks, Jonathan. Well, look, I think what you're talking about tail risk and so far, it's been ruled out by both the Bank of England and HMT. One of the things I would say, as you know, taking the top down view when, when I set the strategy for NatWest group, when I stood up before I said what I wanted to have was a bank that was stable and secure, well-capitalized, with a good balance sheet where we were able to deploy credit safely and operate in a low interest rate environment, which is really driven our strategy going forward. What we have been able to do is you can see through our lending of the £9 billion is we are deploying capital safely and responsibly in order to put capital into the economy and therefore

support both consumers and businesses with the largest business bank through what are challenging economic times ahead. So, we are aware of that conversation. We do see it as a tail risk. And, you know, in terms of cash, we do have the ability to deploy cash into other assets. So, as I sit here today, you know, highly resilient balance sheets, good risk diversification, capital increase, which means we can support the economy as we move forward.

Jonathan Pearce Okay. So, it's really not something you're worried about at the moment, but you may start to think about moving some cash into other forms of liquid assets. Is that right?

Alison Rose If we felt that was appropriate, we have other options. But as I said, that's been ruled out by Bank of England, HMT. It's a tail risk. We would always, as you know, Katie and I are both very prudent in how we do things, but we're very comfortable at the moment.

Jonathan Pearce Brilliant. Thank you very much.

Katie Murray Thanks, Jonathan.

Operator: Thank you and I will hand back to Alison, for any closing comments.

Alison Rose Right. Well, thank you very much everyone for your time and the questions. What you can see today, hopefully, is a strong financial performance building on 2 years of progress in challenging economic environment. We are using our robust balance sheet to deliver the customers and shareholders; we're supporting those who are likely to need it most with very targeted support and we are continuing to protect the investment to transform the bank that is delivering real value and sustainable returns for shareholder. Thank you very much for your time.

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