



NatWest Group plc
Fireside chat at Morgan Stanley European Financials Conference
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Paul Thwaite, NatWest Group Chief Executive Officer
Moderated by Alvaro Serrano, Equity Analyst, Morgan Stanley

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Alvaro Serrano: Great. I think if we can make a start, welcome everybody with us to this session with NatWest Group. I'm delighted to have Paul Thwaite, the CEO of the company. I believe this is your first time at our conference presenting, so thanks very much for coming and welcome.

Paul Thwaite: Pleasure to be here.

Alvaro Serrano: As usual, we're going to start with a polling question.

After posting record profitability, what do you think will be the next driver for NatWest’s stock price?

- 1) Drive loan growth including market share gains in mortgages and cards;
- 2) Build non-NII revenues in wealth and markets;
- 3) Drive more efficiency via digitisation;
- 4) Explore more material M&A that builds on its capabilities;
- 5) Continue to deliver high shareholder distributions.

Quite a mixed bag, but a sound 31% non-NII revenues including wealth and markets the frontrunner.

Hopefully we'll touch on all of these themes during the session, but maybe we can start with a more general question.

2024 was your first full year as CEO. A fantastic share price performance by the way, I must say. But maybe you can talk through your thoughts on your first 18 months on the job, where the bank is, and where you're seeing the opportunities from here.

Paul Thwaite: Yeah, happy to. Thank you, Alvaro. As you said, 2024 was a really positive year for the bank. I think to meet or exceed all guidance is a great start.

I'd say I was particularly pleased that we are showing momentum across our 3 customer businesses. That's very important to me and to see the growth and to see

the momentum driven by underlying customer activity and for it to be broad based, I think gives us, well, it pleases us, but also gives us a sense of confidence as we look forward.

The fact that you've got both sides of the balance sheet growing, lending at 3.5%, deposits circa 3%, assets under management 20%, it kind of talks to the broad growth base we've got. That obviously allowed us to generate great returns of 17.5%, 240 basis points plus of capital. That puts us in a very strong position.

We distributed 4 billion of our 4.5 billion attributable profit, so I guess proving that the business model is good, it generates a lot of capital. And also it facilitated the sell down of the government share, which was another, what, just under 40% to less than 5%. It feels like there's good momentum there. The lower share count also helps, I guess, the double-digit growth in EPS, in DPS, and in TNAV per share.

So, I'd say the performance momentum of the business is pleasing. And then what I call the financial economics of the business as a consequence is pleasing.

Where does that leave us? I think we're very well placed. We've got momentum, we're demonstrating growth, we're confident in the outlook as we're at 2.5 months into 2025. And the challenge for me I guess 18 months in, and my challenge to the leadership team is, we've now got to make the most of the opportunity that we've created for ourselves over the last 18 months.

Alvaro Serrano: One of the things we've touched on in the previous two sessions, and I'm sure we'll discuss more, is around the government agenda in the UK in particular. We hear a lot about potential easing of your regulations. What changes have you seen for your business? And where do you see the main opportunities here in the growth agenda deregulation?

Paul Thwaite: Yeah, it's the topic du jour. It literally feels like there's new elements of news day by day, week by week. I think there's probably two main components to that question. There's the wider government agenda and policy agenda given where obviously we're very UK centric. And then within that, there's the regulatory dimension. Let me try and talk to both of them.

I think on the wider agenda, nobody's going to argue with the intent and the mantra of the government around wanting to unlock economic growth. I think that you won't be surprised to hear me say that I support that. I think what's encouraging about it is the mindset or the psychology around financial services as a sector, but also banks are a key component part of unlocking that growth.

You can't step away though from the reality of the fiscal constraints that the government has. I think some of the reforms that they're driving, especially the supply side reform, so planning, infrastructure, housing. I'm sure they are topics you'll get into over the next couple of days. I think they are the right things and I'm very supportive of that.

But the benefits from those types of activities, first of all, you have to make the tangible changes and then the benefits flow through in the medium term. But for a bank like ours, deep into housing, whichever part of the system that's deep into infrastructure, project finance, that's naturally where the opportunities on the financing side and the banking side will come. But the way I think about that is, are there opportunities now? Yes, there are, but I think over time, as those wider policy changes take effect, you'd see more opportunities.

The Reg agenda is a very broad topic as well. How would I summarise that? First of all, the fact that we're having the conversation I see is very positive. I think there is an appetite amongst all stakeholders to make sure that we've got a regulatory environment that is fit for purpose for 2025. And I think in my experience that's the mindset in which I guess the different actors and participants are engaging.

We need high quality regulation. I personally feel it can be a source of competitive advantage for the UK. My mindset is, let's make sure we retain that reputation for high quality regs, but also let's make sure we've got consistency, transparency, alignment where it's appropriate to other international regulators. And that should create an environment that allows the UK sector, or the operators in the UK sector, to operate well, but also to give investors confidence in the UK.

And then if you break it down between the potential and the conduct side, my summary of this is - there have been some positive changes but at this stage they're relatively modest. I think the intent is greater than the current level of change.

Whether it's on the prudential side on the capital regs, there are some of the changes that were made to Basel 3.1 were positive, changes that were made to ring fencing, positive, some of the changes around SME and infrastructure and risk weight. That stuff helps.

I think on the conduct side, reviews announced on the mortgage side and affordability, the review or the consultation around the wealth advice boundary, I think they are things that can help into the future. But they're all things that are still to happen.

I guess, Alvaro, my message on these things is the intent feels the right one. I think the spirit of the discussions feels positive, but proof is in the pudding. And the reality is, until some of these reviews are completed and it's clear to all stakeholders what the changes are, whether that be mortgage affordability, whether that be wealth advice review, whether that be clarity on the end stage of the risk weights related to CRD4, I think that will be the time to take stock about how transformational the change will be. But directionally, I think it's definitely a net positive for the sector.

Alvaro Serrano:

Great. Maybe we can start touching on activity levels, loan growth and deposits. First of all on the loan growth angle, specifically you pulled back a bit on mortgages last year. I'm wondering if that was a deliberate choice and how you see competition in that market now, and maybe your views on mortgages overall.

And also, you showed very impressive growth in C&I, 9.4% up year on year ex-government schemes. That's very, very strong growth. Where's it coming from and why do you think you're taking share there?

Paul Thwaite:

Yeah, on the direct question, was it a conscious choice in mortgages, yes, I'll come back to it. But I guess just let's nail that now, yes, very conscious choice at the tail end of '23 actually, which feels an awfully long time ago.

Lending demand generally, yeah, I think I was very pleased with '24. I think to grow 3.5% percent across the whole business, as I said at the start, it was broad based, so I think that that's encouraging. We're doing some work. That's the sixth consecutive year of growth and a CAGR of greater than 4%.

I've always believed that the NatWest franchise has latent potential to be a strong lending business. That's what it's grown up as over a large number of years and I think that the medium track record suggests that. I was very pleased with that. And it shows when demand's there, we'll capture it and grow our business. That's good.

On the specifics, mortgages, I like our mortgage business. It's digitised, it's scalable. We've added -- we've grown it organically. We've added portfolios inorganic. I still think we have potential to grow our share there, but you'll have heard me say, and I'm sure many people have also heard me say, I won't go and grab volume if the right returns aren't there. Really, last year our mortgages was a bit of a tale of two halves. In the first half of the year, because I pulled back at the tail end of '23, what you saw is some of the reality of those application volumes flowed through in the first quarter. But once the market returned, both in volume and also at the right margin, we grew.

Overall, we grew our mortgage business in '24. We grew strongly in the last two quarters of the year. We added the metro portfolio, but we did it at the returns that we're happy with. And that's the mix that we want to create.

And at the moment, you touched on the current conditions, I'll come to C&I, we touched on the current conditions, mortgage volumes have been good so far this year. Swap rates, as everybody knows, have been moving around, so there's been a lot of products coming and going, people changing products. But we're comfortable we're right in around our target of 70 basis points. We're obviously through the back book/front book kind of effect. We passed that point in the middle of next year, the middle of last year. So it feels like our momentum in mortgages, we've got a good foundation for momentum in mortgages, but we'll stay disciplined around volume versus return. Generally, I think the mortgage market will be stronger from a volume perspective this year, but it will stay competitive.

On the C&I side, again, the heritage of NatWest is a strong commercial business, which we can capture lending demand. The growth is very strong. You alluded to it being greater than 9% last year. That's a good growth rate.

Since we set up the Commercial and Institutional franchise, the kind of CAGR lending growth rate there has been 7%, so pretty impressive lending growth. Worth pointing out that the cost of risk last year was 7 basis points in that business and also the year before. So, we're managing to drive asset growth, but also keep the cost of risk very low.

Your question, rightly, was where's the growth coming from? Again, it's quite broad based. A third of the growth is coming from our mid-market business. To me, that's the crown and the jewel of the commercial bank. That's a large number of relationships all over the UK, whether it's extending their credit facilities, drawing down on asset finance or trade finance. A third of the growth came from that kind of commercial mid-market business. Two thirds of the growth came from the large corporate institutional business. And that's across infrastructure, project finance, funds and sponsor lending. So particularly strong in that part of the book. The transactions are quite lumpy, so I wouldn't necessarily take the half two picture as the go-forward, but broad based in C&I.

We also grew, you didn't touch on it, but whilst we've grown mortgages, grown commercial and institutional, we've also grown our unsecured book, and we come off a very low base there, so we added a billion of lending across our personal lending, our unsecured personal lending and our credit card. I'd say I feel that we've

got the inherent strength for the franchise. We've got sources of growth and lending engines. But they are across retail, they're across C&I, and that should set us up well.

Alvaro Serrano: And then on the other side, on deposits, the strong franchise you have has obviously supported the improvement of profitability. You've given very good disclosure on the structural hedge, but how do you feel about the deposit pricing and volumes going forward? Have you seen any changing customer behaviour? Obviously we've now had 3 rate cuts. Have we seen any changes there in customer behaviour?

Paul Thwaite: Yeah, I think where I'd start there is that deposit growth in '24 was probably greater than we'd anticipated. I was pleased to see it growing each quarter as we went through the year and across different businesses. So that was very encouraging on the deposit side. Then when you combine that with the fact that the mix of deposits has stopped changing, then you've got volume growth, you've got stable mix, that obviously drives, as you alluded to, good income. And the benefits of the structural hedge offset the couple of rate reductions that we had during '24, so that was a nice mix as we went through '24.

What are we seeing now? I mean I think from a pricing perspective, we've had 3 rate cuts. We've passed through in the region, we do a weighted average basis, around 60%. That's in line with the sensitivities and the disclosures that we share. I think the pricing response from both the large players and the kind of challenger banks has been very rational, so that's encouraging. We're not seeing any change in product mix. The amount of deposits that have moved to term have stayed pretty much flat. There's been a small tick up from non-interest bearing to interest bearing, but I'm encouraged by both the volume and the mix there.

As you mentioned, the structural hedge is a really positive tailwind for us as we go through '25. We've been explicit that we expect that to add around a billion of income in '25 compared to '24. And then through the life of the plan that we've shared externally, it'll increase again in '26 and '27. That's a nice tailwind and that will help offset whatever the rate reductions are as we go through.

But customer behaviour as I say is in my view very rational and isn't really changing. I know there was a debate, as we as we hit the peak rate cycle, would we suddenly see more customers move to fixed term? Or as rates started to come down, would we see that? The reality is, we haven't seen that, so I feel like the deposit book is operating as you would wish it to. Household savings are up, so that supports it. They'll probably be up slightly less in '25 than '24 given where notional wage inflation and inflation will settle. But it's a great source of strength. You can see the business mix we have, it's a great source of structural strength for the NatWest franchise.

Alvaro Serrano: I hear you talk quite constructively about volumes, both in loans and deposits, so growth dynamics look very healthy. But then I look at your guidance of 15.2 billion to 15.7 billion revenues for this year. It looks conservative. And we have our consensus as well. We're already at the higher end or even slightly above that range. Where would you say you're being more cautious than consensus, Paul?

Paul Thwaite: I shared a range in February. My view is I think if you look at the bottom end of the range, that's about just over a 4% revenue growth. If you look at the top end of the revenue range, 15.7 sterling, that's a 7% growth. And yeah, I think it's my job to give a balanced view of where I think the outcomes would be.

I'm not trying to land the income number on a pinhead. Not least because you and your peers and colleagues would criticise me if I missed that pinhead. But that's what I'm trying to do. As you know, there's a number of variables, a number of factors that could affect the revenue outturn, so, you're right, I've talked to confidence around organic growth on both sides of the balance sheet. That's obviously going to be impacted and influenced by just the rate of the underlying economy and how customers and their confidence respond to that. So, that's one particular aspect.

On non-interest income, we had a very strong second half of the year last year, taking advantage of the volatility that was there in our markets business. I don't want to make the assumption that that continues. That being said, we've had a very, very strong start on that front this year. So, I guess they are examples of the puts and takes.

As we continue to do more capital actions, there's some contra revenues, so there's a variety of things. What I like to do, and hopefully it's appreciated, is I like to give a balanced view of where we are. I think our disclosures are very extensive. If analysts want to take a different view on some of the assumptions, whether that's the number of rate cuts, whether that's the reinvestment rate for the structural hedge, I think our disclosures allow people to work that through.

I'm not going to guide you to, what are we, 10 weeks into the year to a point in the range. What I'll say is we feel confident about the way in which the year has started and we'll keep people updated as we go through the quarters.

Alvaro Serrano: Fair point. Maybe I want to go into some of the strategic priorities. One of the three strategic priorities is simplification of the business. Do you think that there's more that you can do to simplify the business? And to what extent is that dependent on tech investment?

Paul Thwaite: It's a very big priority for me and the leadership team. And I've been very high conviction on, if you think about my broadest priorities as discipline, growth and simplification, I've been very high conviction for the last 18 months that that's a good path for us to be on.

After 18 months, in a way I'm even higher conviction. Because wherever I go in the business, whether it's with customers or whether it's colleagues, everybody points out the opportunities there are for us to get simpler and better and quicker at the way in which we do things. That encourages and frustrates me in equal measure because it's opportunities, that are good, that encourage me, but frustrate me because I'd like us to go faster and get more done.

What I would point out though is simplification is much more than tech investment and cost out. It's a much broader program around improving the customer and client experience, improving our risk controls, making our colleague experience better, simpler. It touches tech, but it touches operational processes, it touches legal entities, it touches governance. It's really just how we get things done in the organization.

And one of my observations internally and externally is that on one hand we have a very simple business and business mix. But when you look at our business, it isn't simple. And I think that's the opportunity of simplification.

We're going after, Alvaro, all of those things, not just tech simplification. There's a very broad program. And if we get that right, it will continue to drive very good operating leverage, which we already have, but it'll also improve much better client experience and colleague experience.

And maybe just to give you a flavour on the tech side, given you mentioned it, first of all I should point out our cost guide has everything in. We don't have things below the line. Our cost guide has wage inflation, tech inflation, the investment in the business, the restructuring charges, whether they're people or property, so it's all in. And a big part of that overall cost guide is our tech and data spend.

But to bring the opportunities to life, we think we can decommission the best part of 600 applications, which would be a significant percentage of our current technology estates. We feel we can move from 23 customer datasets to maybe a couple. There's big strategic tech changes that drive efficiency and hopefully drive more opportunity. But there's also a lot of tactical stuff, which we think as an institution have a very good track record on as driving efficiency, driving out costs from the organization. And that should just put us in a stronger place.

We've got we've got this tailwind of balance sheet growth, structural hedge, and the harder we work on the efficiency of the bank, that will set us up well. And I often quote some of the numbers I see in my European peers who have a very similar business model, but some of their cost income ratios are lower and we should make sure we have a mentality of continuing to drive that.

Alvaro Serrano: Right. Maybe a couple on capital allocation from my side and we can open up for Q&A from the audience. You raised your dividend payout to 50%. How are you thinking about capital allocation? As the government exits the register, do buybacks still make sense given your share price valuation?

Paul Thwaite: We thought, myself and the board, thought it was the right time on the ordinary dividend. With the very pleasing pace of progress on the government shareholding, down to less than 5%, we thought it was appropriate to look at capital allocation.

We made the decision to move the ordinary from 40% to 50%. To me, that shows the confidence we have in the business, but also the underlying capital generation of the franchise. We still do have the potential of course to do further directed buyback should we get the opportunity to do that. When I think about capital allocation, that is still in my mind. With the 50% dividend ratio, that still gives us the potential to both invest in the business and return surplus capital via buybacks. I think we're striking a happy medium there of strong ordinary, invest in the business, potential for buybacks.

And then to your final question, yes, we've seen significant increase in our valuation and things related to that. But given the continued momentum we've got in TNAV, my view is that the buybacks still make sense at the current level. That's how I'm thinking about capital allocation. We've upped the ordinary, there's potential for one, for every directed buyback should we have the opportunity. And where we have surplus capital, we'll consider returning that to shareholders. And the buyback still makes sense at the current valuation in my view.

Alvaro Serrano: Maybe last one for me, and we've discussed at length your organic growth opportunities, but how do you think about inorganic growth opportunities? You've announced two add-on deals last year, but there are areas of the business like

wealth where you might look at -- would you look to make an acquisition in areas like that one? And given the returns the group is generating, does it raise the bar for potential M&A?

Paul Thwaite:

First of all, I'll come to inorganic, but on organic, I think you can see that we're very focused on the organic plan. I'm very confident that we've got runway in all three of our businesses to grow and we can put capital to work very effectively there. That's how we think about it. On the inorganic side, we're pleased with the 2 transactions. In some ways, they're opportunist. We saw the opportunity to add customers, scale, at the right returns, and we've learned a lot by doing them. From that perspective, I think they've worked through a variety of different lenses and stakeholders.

More broadly, how do I think about inorganic? Very clearly. It has to, and you've heard me say this before, but it has to offer really compelling shareholder value, but also strategic congruence. That's an absolute requirement. And given the returns that we're generating in the business, you can see 17.5% last year, you can see our guidance this year 15% to 16%. It's a very high bar. It's a very high bar financially. Especially when you compare it against the counterfactuals of deploying internally or share buybacks. That's how I think it through.

What I would add though is it's not just a financial high bar. There's an operational high bar as well. Given the momentum we've got in the core business, the distraction factor is high, and we're very mindful of that. Not only is the financial bar high, the operational and culture bar is high for anything that could I guess distract from delivery of the plan that we put out externally.

On wealth, specifically, the punch line here is that the multiples make it very difficult. Are we very committed to growing our wealth business organically? Absolutely. We've got a very strong new leadership team. They're driving momentum and they'll continue to do that. To add to that, within organic it is just very difficult the way the current kind of multiple differentials work. And if we were sitting here last year, you could argue the multiples have converged, but it's still a meaningful gap.

It's hard in my mind to create a value creation case that is really compelling at those multiples, be it for scale or capability. We'll always look there, but what I'd say is the economics of it look pretty challenging at the moment. One would love to have exposure to some of the dynamics of a bigger wealth business. The demographics, the capital light income, how that helps distributions. And so that's why it's in our minds. But we can't be seduced by that if the economics don't make sense.

Alvaro Serrano:

Makes sense. That's all for me. I want to give the opportunity to the audience to ask questions, so who wants to ask the first question?

Unidentified Speaker:

Maybe you could just talk about Coutts. It's a great brand name, but it feels like it's never really gone the places I might have thought it would have gone within NatWest. Thoughts on the investment needed there, maybe getting more fee revenue coming through there, and the utility of the brand more broadly beyond just the current focus on high net worth individuals.

Paul Thwaite:

Hi, Fiona, good to see you. I agree with you. I guess more importantly, not that I agree, but whenever you do any sort of benchmarking around private bank brands, with the greatest respect to all my peers who may or may not be in the room, the Coutts brand index is incredibly highly [valued] from a kind of value and attribution perspective. We have a very good brand. We have a very good banking business

within our Coutts and private bank. And like you, I think it presents a significant opportunity both organically in terms of how we currently use it, but also how we think about some of the product manufacture and distribution that we could have across the wider retail base.

We're very ambitious for what we can do with our private bank. Coutts is part of that. It's not the whole private bank in and of itself. We have a good underlying tech platform, we have a product set that we probably need to broaden a little bit to appeal to the client base that the brand attracts. And then we need to distribute that product, not necessarily always under the Coutts brand, potentially under the NatWest brand, across in a very seamless, frictionless way, across our mass affluence and our retail base.

We're optimistic about the organic plan, but I've heard, as you will have heard, Fiona, I've heard a lot of people talk in the sector about the opportunity in mass affluence. Our philosophy here is to get focused on the delivery, give you the proof points rather than make very grand claims upfront as to what it could be. But if you're looking at the raw ingredients, a brilliant brand, a good tech platform, a strong banking business that has the potential and should be doing more on the wealth management side. That's how I think of it.

Alvaro Serrano: Okay, thanks. Next question please. I've got a couple more, but I just want to give the audience an opportunity as well. In the third row please.

Unidentified Speaker: I have a question about where do you see the opportunity from the government agenda, notably in terms of focus on defence, and maybe it will be an opportunity for your business clients, or just to help you beyond that?

Paul Thwaite: Yeah. Thank you for the question. There's no doubt, as governments and sovereigns increase their commitments to defence, I think that presents opportunities. Opportunity to ourselves. We're a big supporter of the defence sector already, as you'd expect for a bank that has a big corporate base. I think that will only accelerate. We're in very positive engagement with our defence clients, but also with some of the government departments in terms of how they're thinking about investments in the sector, growth in the sector. And it's a place where private capital can definitely be deployed quick and at good returns.

Within our commercial institutional business, we're very focused on it. We do think there will be opportunities. But a bit similar to what I've said in relation to housing and planning earlier, these things evolve over a couple of years. The reality is, as national budgets change, as contracts get awarded, it takes time. I feel it's a strong underpin to the medium-term growth rather than a very kind of short term sugar hit.

Alvaro Serrano: Next question? Maybe I'll touch on one. I had a question on asset quality. Across the board where we look at all the banks, it remains very benign. You mentioned 7 basis points in C&I. And Katie obviously often talks about 20 to 30 through the cycle. How should we think about asset quality? It remains very benign. Can it stay like that for much longer? How do you think about it? You should have, obviously as the CEO, I'm sure you're...

Paul Thwaite: Yeah, we spend an awful lot of time on it, both in this job and in my previous job, given the amount of credit we put to work in the C&I franchise. Nine basis points last year overall. We've guided to less than 20 basis points this year. We still have post model adjustments of the best parts of 300 million that we haven't released yet.

If you look at the current performance of the asset books, incredibly strong. In 2024 our mortgage book cost of risk was 0 basis points, so the asset quality is very strong.

When I was in my previous job, I guess I was the one always agitating, thinking that this was going to deteriorate. The reality is, it hasn't. We've got a really strong book that's been built up over an extended period of time. But also, we need to be mindful that NatWest and some of the other large UK banks, there's been a period of derisking post crisis as well. The reality is the clients and the risks that are left in the book are those that you've very consciously chosen to have. I think we get rewarded for having a very low-risk business model, relatively thoughtful risk appetite. I'm not convinced widening our risk aperture would be rewarded in valuation versus the value we get for having a low-risk business model that we currently do.

We're thoughtful. Where there's opportunities to get better risk/reward on a tactical basis, Alvaro, we take it. You can see the growth in our unsecured book, for example. We've expanded our credit card proposition. We went whole of market early 2023. The credit quality there has been good as well, but we have taken a bit more risk. Likewise, if you look at our infrastructure business or our project finance business, we are very thoughtful about risk/reward, and where we see opportunities to do a little bit more, we will do it.

But what that isn't is a fundamental change in risk posture. Because I think we're valued and rewarded for being a low-risk business. So, I'm hypervigilant around it. I think it's good to be paranoid about it, to think that it could get worse and what would that mean.

But we've consistently beat our guidance for quite a bit of time there and I'm comfortable with that as long as we have this mentality of where is the good risk/reward. And where is the market going to take the defense opportunity, or take the housing opportunity? Where we see those opportunities, let's make sure we're thoughtful and participate if we think it plays well.

But yeah, you look across mortgages, you look across unsecured, you look across the small business book, you look across the large corporate book, asset quality is very strong and we've not seen any deterioration at all. The two books I always look at because where I think we'll see the early signals are the unsecured small business bank and the unsecured kind of retail lending book. And where we're assured that even though the impairments have gone up in unsecured, it's very proportionate to the size of the growth in the book. So far so good.

Then big picture, I know I'm giving you a long answer here, but big picture what I'd also say is, if you look at some of the fundamentals, employment remains pretty robust, which obviously supports the kind of retail side of things. And businesses, it varies between sectors that's fair, but businesses have been relatively cautious. And if you look at their leverage relative to other periods of time, there are some exceptions to this, but in general, the relative degree of leverage is limited. That gives confidence to me about the structural position and also where we lend into. A lot of the lighter covenant activity, arguably wider activity, doesn't necessarily happen in the banking sector anymore, which I'm sure you know.

Alvaro Serrano: Yeah. The risk is outside the bank's balance sheet it looks like?

Paul Thwaite: Yes.

Alvaro Serrano: Any last questions in here? Third row please.

Unidentified Speaker: Good morning. Thank you. Just following up on that last answer, which was very thorough, so thank you.

Some of the soft surveys of the employment market and parts of the employment market in the UK, particularly at the lower end, are looking to be sending quite a difficult message over the coming months. But that doesn't seem to resonate at all with what you're seeing in the business. How do you square what the economists are looking at and what you're seeing? Is it just that you're not exposed to that customer group with your loan book? Or are there other things happening which are more positive to offset those potential challenges? It's just it's an unusual time when the top-down people are saying something very different to what you are seeing.

Paul Thwaite: Yeah, and we have the same debate. You'll be pleased to hear, we have the same debate internally. What I'd say is it depends which survey you read. I think depending on which economist you get slightly different sentiment. We look at them all. It's our job to have the 360 view. I think there is something in what you say about our business model. The reality is of a 15-16 year kind of rationalisation, consolidation on the business side into certain sectors and certain exposures. I think the reality is, where we are exposed is probably the less risky parts of the UK economy, so there might be a slight disconnect or decoupling from the whole economy versus, I'd say, where the where the larger banks lend.

But what I'd finish with, Ian, is that there's different surveys literally daily, weekly. They move around. We try to not get excited either way about one or the other. We look at the underlying activity. We speak to our customers, and I often hear that customers are worried about the economy, but they feel okay themselves. That's a common refrain. But there are some sectors, aspects of retail, aspects of leisure, where some of the changes that are coming through in April are obviously putting pressure on profitability rather than, I'd say, solvency or credit. Thanks, Ian.

Alvaro Serrano: Great. There's room for one quick question if any of you have a quick last question. Okay, if not, we can leave it here.

Thanks very much, Paul. Very interesting session. Thank you very much.

Paul Thwaite: Thanks, Alvaro.