



NatWest
Group

NatWest Group plc
Fireside Chat at Bank of America Financials CEO Conference
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Moderated by Perlie Mong, Research Division, Bank of America

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Bank of America Fireside Chat
(Amended in places for legibility and clarity)

Perlie Mong Good morning, everyone. Thank you so much for coming to our 30th Annual Financials Conference. My name is Perlie Mong. I am the UK Banks analyst here at Bank of America. It's my pleasure to welcome Paul Thwaite, CEO of NatWest on stage with me. Paul took over as CEO in July 2023, so just over two years ago. And since then, the share price has more than doubled, so I don't think any further introduction is needed. Paul, thank you for joining us this morning. It's our honour to have you as the opening speaker.

Paul Thwaite Good to be here. Nice to see you, Perlie. Thank you for the introduction.

Perlie To set the scene with all the focus on macro, could you comment on how you see the health of the UK economy and the operating environment?

Paul Good morning, everybody. I'd start early with saying it's obviously an interesting time. In many respects, there's lots of mixed signals. My personal view is you can find what you want to find in the data depending upon which way you're inclined. Our view, the NatWest view, my view is there's still grounds for cautious optimism on the UK economy. There is GDP growth, but it's obviously subdued. You wouldn't describe it as stellar, but there is some underlying growth there. There is real wage growth. You can see in the ONS data that retail sales, a reasonable discretionary spend is okay. There are some signals on the corporate and commercial side. The most recent PMI survey is the best read in, probably 12 months. On consumer sentiment, I think we've had the best read for eight months. We obviously had a dip back in March and April.

From that perspective, I think there's cautious grounds for optimism. In many respects, all eyes are on the Budget, we have quite a long window now between where we are and the Budget on November 26th. We were looking at this the other day, if we take a step back and look at where we thought the macro would be in November, December last year, our forecasts haven't changed that much. GDP has come off a little bit, Inflation is a little bit higher. Unemployment's at absolute levels, relatively low. It's pretty much where we expected it. Net-net, I'm sure we'll come onto it, you look at underlying customer activity. I think the macro is okay and you can find what you want to find in it, but we feel cautiously optimistic about the underlying data.

Perlie I think certainly there's a gap between what the newspaper headlines are telling us and what you're actually seeing on the ground.

Paul Always.

Perlie

But one of the areas that maybe feels a little bit underappreciated is how strong your balance sheet growth actually is. You've delivered balance sheet growth of about 4% for six years. Do you see that strength continuing from here? And where are the areas you are particularly excited about?

Paul

If you look at the underlying customer activity, if you just look at our H1 results, which are strong, but they're strong because of the underlying customer activity, both on the consumer side but also on the commercial side as well. If you look at the time series data on both sides of the balance sheet, on deposits and on assets, the compound growth is about 4% over six years, it's come up and down, but you've seen some recent acceleration. I think what we've proven as a business, the underlying strength of the franchises can deliver balance sheet growth. We've got a strong track record in growing share. If you take the retail side first, you can see that in mortgages, several basis points of stock share over the last couple of years. Unsecured credit, we've gone from 5-6% market share to 11% market share over four or five years.

On the commercial side, the strength of the franchises has always allowed us to grow at a faster rate than the market - we averaged just over 4%. The market growth rate there is 2%. That talks to the solidity of the market share. The first part of my answer is that there's a good track record of growth, which is great. In terms of the areas of potential or I think you said excitement, for further growth, I think about them as very broad based. We can grow all three of our businesses. Why do I think that? I think the retail business, is a scale business, it's a great business. Our underlying customer base is about 16% market share. You look at some of the key customer segments and the key product segments, we've still got some runway there. Mortgages are about 12% stock. We touched on unsecured credit, 11%.

We can continue to grow into those customer segments and those products. You'll have seen, and I'm sure many of the audience have seen, we've been broadening our proposition to attack more of those addressable markets. If you look at mortgages, we have extended our first time buyer offer, we've extended our buy to let offer with some forward flow agreements, and you can see the benefits of that in the last 12 months. Our flow share on both first-time buyers and buy to let is up about 4%, so that's why I've got confidence we can grow into those areas on the retail side.

On the commercial side, we have an incredibly strong franchise and we touched on the relative growth rates versus the market. Within the business bank, we're the number one share for startups. So that's fuelling the pipeline of future borrowings, that's good and we will keep topping that up. We have the biggest mid-market business and it's the fastest growing mid-market business. I think the underlying proposition there in many ways, it's the crown jewel of NatWest. You've got very long-term established

relationships, you've got bankers and relationship managers all over the UK, you've got real deep sector specialisms, we can continue to grow at those rates.

We haven't touched on it so far, but our third business, our private banking and wealth management business, we've proven there that the growth rates have increased. We think we can add customers, we can definitely deliver more of the product. When you think about NatWest and when I think about where the opportunities are, I think about all three of our businesses and we're trying to drive, and I think we're being successful so far, a broad-based growth strategy, which helps deliver on the top line, but also, we've very tight management of the costs and the balance sheet.

Perlie

That's great. I do have a question on the private bank for you in a moment, but before we get there, maybe just to wrap up the discussion on NII. So aside from base rate movements, you've talked about volumes. Do you think there might be pressure coming from competition? Do you think there'll be more competition in deposits and/or mortgages going forward? And how do you think about your competitive advantage?

Paul

On the retail side, it's competitive. No doubt about that, both in deposits and in mortgages. Mortgages, to many extents, is a disintermediated market, it's a commoditized market. We can all see that the rates move two or three times a week. That's really why we've been trying to broaden the proposition. So rather than just competing historically where NatWest has been a very kind of vanilla product range, we've broadened the product range that allows you to secure slightly richer margins. We've played very smartly in terms of customer retention there as well, again, which has a different margin mix. There's no doubt mortgages will remain competitive. Deposits, a couple of observations there, it was particularly competitive around end of the tax year.

Perlie

Yes, ISA season.

Paul

Yes, the ISA season, the tax year. That also was conflated with the announcements of the wider macro announcements around tariffs. You had quite a bit of volatility in the swap curve. Some of the pricing on fixed rate ISAs etc., in my view was uneconomic at that time, but that calmed down pretty quickly. You had extreme competition for a three, four-week period. Slightly dysfunctional competition, but that's calmed down and pricing now is still competitive, so that's good for customers, but it's a lot more rational both on fixed rates and on instant access.

You can see in our results, and you can see in the peers' results, the movement of deposits from non-interest-bearing into fixed has levelled off, that's plateaued. I still see it as competitive, but we've got good tailwinds on

the NII side. We've got volume growth, which is great. We'll have the full impact of the acquisition of Sainsbury's and previously Metro. We've obviously got a positive helping benefit from the structural hedge, which will take us through '25, '26, '27, which is the end of our current market target periods. We feel like, although it's competitive, we've got very good tailwinds on the income side and we expect it to grow through to '27.

Perlie

Fantastic. That's everything I have on NII. So, non-NII, the performance there has been very strong in recent quarters. You mentioned the private bank and the wealth aspect of it. Can you remind us the progress you've made there in the wealth offering? How much do you think you can benefit from the government's initiatives promoting retail investments?

Paul

Maybe start more broadly on non-II. I've been pleased with the progress there. We've been very deliberate in trying to grow that part of our business. Again, across all three businesses, not specifically wealth, which I will come back to. If you look at 2024, customer business fee income grew by 9%, which is strong. The half year to date, it's grown by 5%. If you break it down within the businesses, again, I'm pleased about the broad base, the C&I business, which is about three quarters of the fee business. That grew last year by 10%. It's up 5-6% at the half year. The wealth business grew 16% last year on a fee basis. It's a much bigger proportion of that business than, for example, C&I or retail. Wealth is 11% at the half year. On the retail business, we've seen some nice pick up from more debit and credit card expenditure. When you look at fee income growth, we're demonstrating it across our three businesses. You then touched upon the private banking and wealth business, which we're optimistic about and confident about. I know you were at the investor day that we did back in June. We showed a lot more of that business, where the strengths are and the opportunities. But even if you look back over multiple years, you can see that client assets and liabilities have increased by 20%, so that's good. Assets under management have increased by almost 50%, so we are showing positive momentum.

My challenge and our collective challenge as the management team is it's off a relatively low base. On the other hand, that's where the opportunity is. We laid out in a very detailed way where we see the growth opportunities there in June. When we put some very public targets out there, we think we can grow the number of clients with greater than 3 million assets by 20%. We've had great progress in referrals from our commercial and institutional bank. But we've upped the ante and we've said we think we can do 3X more referrals. We talked about improving and increasing the investment proposition to the retail base from the wealth business, so that there's growth opportunities, growth factors, however you want to think about them.

For the first time we put out from a target perspective in line with our '27, we expect a return on equity in that business to be greater than 20%, and also the cost income ratio to be in the mid-sixties. We've been quite public there, which I would encourage people to take as a statement of intent, but also a statement of confidence in that business. It's got a great brand. It's got a great banking proposition. Increasingly, it's got a good investment proposition. The final part of your question, which helps all that is the general trajectory around the investment culture in the UK, the regulatory changes around retail investment culture. The Advice Guidance and Boundary Review, the AGBR.

Without oversimplifying it, if the net effect of that is to bring more of UK consumers into financial advice in a low-cost way, in a way that's easier for large institutions and banks to deliver that advice without some of the historical concern around conduct and regulatory risk, over a multi-year period, even if that consultation finishes at the tail end of this year, it's not an immediate sugar hit. You would expect that to be a very helpful tailwind for what I call a mass market, but also a high net worth banking and wealth management business. So, we feel confident about it.

Perlie Fantastic. You've always said in the past that you can fund a lot of growth from cost efficiencies. Or in other words, cost control is a way that you create capacity for growth. So, can I ask you a couple of questions on costs?

Paul Of course.

Perlie Your cost control has been very strong in the last few years. So far in the first half, you've been running below the run rate guidance for the full year. So, could you tell us what is going to drive the cost base as we look forward from here?

Paul We've definitely been pleased over the last couple of years with the momentum we've got on driving productivity and efficiency. I've been on a simplification mantra, but that's simplification of everything. It's simplification of our tech estates, it's simplification of our property estates, it's simplification of the organizational design. All the things that are difficult to do, but drive a lot of efficiency out. It's simplification of our legal entities. You'll see we've simplified some of our international operations, closed down our Polish operations, moved some of our private bank operations from high-cost locations, such as Switzerland to the UK and India.

Costs generally within the management team is something that we're very focused on and we hold ourselves accountable to. Even though the revenue line is growing and you can see very positive high single digit jaws it's crucial to keep the cost piece very tight, which is what we've done. The incentive in the businesses, if you're running one of the businesses in NatWest, the

incentive is if you can create the efficiencies and the productivity, then that creates the capacity for you to invest in your business and make things better for customers - that's the holy grail. That's how we want people to think about it. On '25, you're right, the half one run rate is encouraging.

We guide to £8billion plus £100 million of integration costs, which relate to Sainsbury's. We finished the half year at £3.9billion. I don't want people to get too carried away with that. There are some natural things in the second half of the year that will pick up that cost number. We have the annualized effect of the wage award, the national insurance increases, some of the integration costs will follow in the second half of the year as we complete the migration of the Sainsbury's clients. We're still guiding to that original number, but we're pleased with the progress. Net-net, one of the important things to remember about NatWest and RBS previously is a lot of the restructuring and cost taken out previously, was about exiting businesses or closing products, exiting countries. What we're now going after and where there is opportunity is more of the business as usual efficiency. I touched on some of those things. Property, legal entities, desks, tech estates, etc., simplification of platforms, common platforms. That's where we're focused now. Hopefully, we can drive a nice healthy balance of strong revenue growth, continued efficiency coming out of the business, but that we reinvest to make the business better for the medium and long term.

Perlie

Great. I certainly look forward to seeing all that progress in the not so far future. A couple of questions on capital and strategy. You mentioned at the half year that post Basel and once you've got clarity on CRD4, pillar 2A, etc. and there's a counter cyclical capital buffer review going on as well, you might revisit your CET-1 target. In the meantime, would you be comfortable working towards a lower end of your 13-14% range, which still looks quite conservative?

Paul

On the specific point, I've said previously, we're happy. Our range is 13-14% and we're very happy to operate at the lower end of that, and we have done previously. Strong capital generation varies as we go through different quarters, but on the specific, that's right. More broadly on capital, you mentioned the FPC review. We welcome that, it's good. But given some of the messaging and sounding, I don't sit here thinking that that's suddenly going to deliver some significant or meaningful change to the expectations around capital requirements for the UK banks. That's not our starting assumption. What I would say though is if you look at NatWest, we've just had the latest SREP. That reduces our Pillar 2A requirement by 17 basis points. That flows through into the supervisory minimum and the MDA, and likewise into the buffers that we have, 270 basis points and 140 basis points across MDA and supervisory minimum. There's some good buffers there, but we still have some unknowns. We're still working through some of the

CRD4 modelling, Basel 3.1 will be with us, all things being equal, 1st of January, 2027. The way myself and Katie and the board think about it is we review capital levels annually through ICAP and the stress test, but we'll take stock. It's important to get clarity on some of those still what are unknowns. To broaden it out, I do think there's some important context. If you look at NatWest in 2022, we've added 25 billion of RWAs, that's about 3 billion of notional capital, arguably in a business that's carrying less risk than it was at that time. I touched on the SREP Pillar 2A reduction. We're going to have more increases in notional as we see the finalization of Basel 3 and CRD4, so that goes up. Likewise, we'd expect Basel 3 to reduce Pillar 2A as well. We are, maybe different to 2021, '22, highly capital generative as well, so we're generating in the first half over 100 basis points of capital. There is a lot that's changed, but I think it's important myself and the board are thoughtful and strategic around capital levels and the appropriate levels of buffer. To be thoughtful and strategic we need clarity on some of these uncertainties. I'll only look at it through the eyes of all the different stakeholders, not just equity investors. Debt investors, look at our relative position to European peers and to UK peers. So that's just to give a bit of context about how I'm thinking about it. Happy at the bottom end of 13%, welcome the review. A lot has changed for the bank, but let's see whether all that plays out, and I'm not signalling or committing to any change in the 13 to 14% target.

Perlie

That's very clear. And then on capital use, distribution is of course important, but maybe on M&A? You've always been clear that, with regards to M&A, the bar is high in terms of economics as well as cultural and strategic fit. Can you comment on the type of business that you would be interested in? Is there a size limit?

Paul

I think in some ways I've become boringly consistent on my M&A response. The high bar phrase has been out there for a while. It remains out there. When you've got a plan, as we have, which is generating really good returns organically, 18% in the first half of the year, it's appropriate to have that approach. The acquisitions we've done we're very pleased with. They've satisfied those criteria and we can see the benefits. We've learned a lot, that's another important thing to say, bringing customers onto our platform, bringing products onto our platform, engaging with those customers. We've got playbooks now. We've got playbooks for mortgages or credit cards or personal loans or app transfers. From that perspective, we're happy with what we've done.

In terms of looking forward, my view is, given we've got a great retail business, we have a highly digitized, scalable platform, opportunities to add to that platform at relatively low marginal cost make sense, providing we can satisfy the other criteria. It's less obvious we can do something on the

commercial side, just given the strength of that franchise and the size of our market shares. And then the other area which I get asked about a lot, is wealth and what are your thoughts on that? I guess from my earlier comments, you and the audience will have a sense that it's a business that we have ambition for and we have opportunity. I'd like it to be bigger. It's a business that lends itself to scale. As I've said before, buying things in that space, buying fee income, is expensive, and there are other considerations around conduct, regulation, etc. The value creation case to justify investments in that space, to offset what are some very obvious PE differentials or earnings multiple differentials, it's quite difficult to make. They're the two areas, but a ladder back up to the criteria. We have an active team, we'll look at things, but the strength of the organic plan is a very strong counterfactual and we are very thoughtful, as you know, about capital allocation versus investing in the business versus buybacks, which we know are important - distributions and buybacks, which are important to our shareholder base. We've got a clear-eyed, thoughtful approach to opportunities as and when they arise.

Perlie

All makes sense, thank you. While we are on the topic of strategy, we've talked about your organic plan and maybe some inorganic as well, but can you comment a bit on the upcoming Budget, because obviously the context matters as well. So what are your expectations regarding the impact of the Autumn Budget? I appreciate that you probably don't have more information than we do, but is there anything that you're particularly concerned about? Clearly lots of headlines on bank taxes, changes to central bank reserves, pensions.

Paul

Yeah, lots going on. Well we have a date now. That's where it starts, last week in November. That is a long way out. I understand the reasons for that, but in itself, I think that creates, not just for financial services and banks, a degree of uncertainty because it allows more time for speculation. That's just a fact we're all having to live with. I'm also very cognizant of some of the pressures and challenges that the Chancellor and the government face to square the fiscal position and all the various pros and cons of a variety of changes. The aspiration is to have a Budget there that is fiscally disciplined, is seen to support growth, but that's a lot easier said than done. That is the reality. There's going to be a lot of trade-offs to be made by the Treasury, both economic and political. That's the reality of national budgets.

I'm not going to speculate on specifics for the banking sector. When I think about it, I think about what we do as NatWest. We're the biggest corporate and commercial bank. We've provided a lot of capital to help businesses grow. If businesses are growing, all other things being equal, the wider economy is growing. We're the biggest lender to infrastructure finance or bank lender to infrastructure finance in the UK. We're one of the biggest

providers of mortgages. My view is I want to use the bank's capital to support our customers. If they're growing, the economy's growing, which satisfies the wider aspiration of the Budget. That's my stance and posture. That's the best use of the banking sector's capital and certainly of NatWest's capital.

More broadly on policy, the industrial strategy that the government launched - financial services was one of the eight pillars. The aspiration, if you read that strategy, is for the UK to be the global centre of choice for financial services, for investment, for growth and innovation. My view on that is it's important that the policy agenda is consistent with the aspirations of the industrial strategy, and we all know that stability, consistency in policy, be it tax or fiscal, is crucial. I think the sector has benefited from that, if I'm honest, over the course of the last 12 months, and I think we will benefit more from stability and consistency and any government has to be very mindful of the messages and signals it sends to investors through its different policies, and that's probably as far as we'll go.

Perlie

Thank you. I think this is a good time to open the floor up for questions. Anybody's got a question for Paul?

Audience Member

Thank you very much Perlie for your wonderful questions, which of course excluded any comment about asset risk. So have we forgotten about credit? Is that no longer something that's going to affect your P&L? Give us a little bit of an outlook.

Paul

Yes, happy to. We certainly haven't forgotten about asset quality and credit, you'll be pleased to hear. As you would expect as a management team and personally we spend a lot of time reviewing the portfolios, looking at leading indicators, trying to work out whether there is any deterioration, whether it be the mortgage portfolio, the credit card portfolio, the small business portfolio. The cost of risk remains very low. You can see in our half year numbers, 19 basis points, but that includes a one-off from the absorption of the Sainsbury's portfolio. The underlying cost of risk is 11 basis points. Customers have proven incredibly resilient on the consumer and on the business side, I'm pleased to say. They've weathered COVID. They've weathered the cost of living crisis. They've weathered interest rate spikes. We feel confident and comfortable around the quality of the asset portfolios, but we're in no way complacent. I've said before, I was convinced probably 18 months ago, we'd see more deterioration in the commercial and corporate space. That hasn't transpired. We're always looking for leading indicators across the portfolio.

I think anybody forgets about credit risk at their peril, that's the mantra. The perfect mix for me is low cost of risk, a lot of capital velocity around the balance sheets, strong management of costs supported by a growing income

line. That's a healthy combination for sustainable bank earnings. That's how we think about asset quality. Hopefully that gives you a sense.

Perlie Yes, that gentleman over there.

Audience Member Good morning. Thank you, back on the fiscal situation with the government, please, can you give us some insight as to how closely engaged you are with the government, with the key decision makers? Do they listen to you? And with regards to the trade off of more or less tax, more or less growth, what is the key thing that you would advise them to do to stimulate more growth in the UK economy?

Paul Thank you. I'd say the engagement with policymakers and decision makers across the key government, secretaries of state, ministers, regulators, is very good. That's true for the sector. That's not a NatWest specific comment. We do that bilaterally as you'd expect, but we also do it collectively so that we have very good access. We make our cases on a data-led approach, so access is good. There is an understanding of the role, more broadly, that financial services can play, but also banks can play in the need to get the country growing. That's understood, we are listened to. Obviously, there's economics and then there's politics. There's a different layer of politics that any government has to consider so that we're less sighted on that.

In terms of the specific, what is the biggest thing that the government or the Treasury could do? It's probably more than one thing. If I had to encapsulate it, the sense of fiscal discipline with policy, consistency, stability, and predictability creates the foundation for medium and long-term growth. If you had to choose one, that's not a policy in itself, but it's an aggregation of a whole host of policies that gives you that environment.

Perlie You've done a series of divisional deep dives in the last year. The next one up is the retail bank in November. Can you give us a taste there and maybe comment on priorities and opportunities in that business, what we can look forward to?

Paul The background to doing the spotlights in the investor days was, rather than do one big reveal, the feedback I had from our investors, from the analysts, was to give more detail on all of our respective businesses. The spotlights have proven a good way of doing that. We had the commercial institutional one in March. We had the private banking and wealth management one in June, and as you've said, retail is the day before the Budget. I actually can't quite work out whether that was a good or bad choice, but it is what it is.

Probably don't want to give too many spoilers, but it's going to be the same principle. We want to give more transparency on the businesses, the drivers

in the businesses. I guess, shine some light on the progress that has been made, really bring to the fore where we see the opportunities.

We have a new leadership team in retail. We have an excellent new CEO who's thinking deeply about the strategy for the retail business, building though on a position of strength. We'll show where we see the opportunities. We'll, no doubt, do a bit of a deep dive on mortgages and unsecured credit. We really want to also talk around the digital transformation that's happened in the retail business and how we're using the significant progress we've made on the tech estate, the data estate, some of the more successful GenAI use cases that are starting to feed through into our retail business around customer contact. We're trying to bring that to life and just allow people to see the business at an additional level of detail so they can understand what the future of that business looks like, and give access to management so it's not just me, it's not just Katie. People can see the individuals who are running the businesses, how they think about the businesses. I don't want to give all the content away, but directionally that's what it will be. It'll be a very consistent format, and we're looking forward to it.

Perlie

I'm certainly very looking forward to that. I'm sure we'll all be tuning in the day before the Budget in our diaries. Thank you very much, Paul, for joining me this morning, and that brings the end to the session.

Paul

Well done to you. Thank you.