



NatWest
Group

NatWest Group plc
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Raul Sinha: Delighted to welcome Paul NatWest, CEO of NatWest for our next fireside chat. Paul has been with NatWest for over twenty-six years. We were just chatting and...

Paul Thwaite: Thanks for reminding me of that.

Raul Sinha: ...a long innings and long may it continue. But just before he took over as CEO this year, Paul was running the Commercial & Institutional business and obviously volatile circumstances. Paul, maybe we start off just zooming out on this year and thinking about next year, what are your priorities as you look at the group and on a personal level, as you take this role to the next stage, what are you really focusing on into next year?

Paul Thwaite: So first of all, good to be here. Thank you. Thank you for the invitation. As you say, I know the organisation pretty well, I think from a couple of perspectives. One because as you mentioned I was running Commercial & Institutional previously before that I ran the Commercial Bank and I've been involved with the last couple of strategy cycles. So I think I kind of understand the bank and I understand the strategic moves it's made. Which of those have been successful. Which of those haven't or could have gone better. So I think the reason for mentioning that role is... I think that influences what's important to me as I look forward because I've got a good sense of the past and I do think actually - notwithstanding the events of the summer - I think most would agree, the strategy that we put together in the tail end of 2019 and launched February '20 to the market. in the main has been pretty successful, whichever metric you look at.

So that's a way of saying, I think, at an underlying level, the bank's in pretty good shape. It has three good customer businesses: the commercial business, I would say that, but the retail business and the wealth business, I think those businesses are in good shape. So therefore, what's that mean for my priorities, probably three things I would say. First one is continuity. I think it's very important when you get this sort of event in an institution to give a degree of calm, decisive leadership and reassurance about strategy. So that's been a big focus for the last three months or so. So that continuity, making sure those three businesses are delivering on their strategic targets, their strategic metrics, etc., has been a big priority of mine. And really trying to, I guess, sharpen things around productivity and efficiency, which I'm sure we'll come back to. So that's been the first priority.

I think the second one is - having alluded to the strategy in Feb '20 - the context now in November '23 is very different. I think that's very important for people to think about. So I think inevitably, when I think about the quarters ahead or the time ahead, I think the sector and certainly NatWest and me are very focused on cost and efficiency and trying to make sure we mitigate some of those obvious inflationary headwinds. So that's on my mind. I think there are big opportunities to drive value from more productivity and more efficiency. And then the third big macro topic that is very much on my mind - and again is driven by where we are in terms of the circumstances and the context - is the whole broad topic of balance sheet management in its broader sense. I think we've got a very robust balance

sheet. Our cost of risk with anybody who's analysing the bank can see our cost of risk is very low

I think we're positioned well both for downside and upsides, so that's great. Capital ratios are good, liquidity ratios are good. But to me, one of the big differentiators as we look forward over the next 12, 18 months is going to be the bank's ability to deploy its liquidity and capital well. And I'm determined that we do that because that's what allows us to generate capital, it's what it allows us to distribute capital. So they're probably some of the bigger themes. Continuity. This isn't the time for 180 degree turn in strategy because we should accept that... we should acknowledge that the bank's strategy has been effective. Thinking about the things we can control, self-help and I think costs, capital, liquidity are those things which are in our grasp. I can't mould the macro, but I can - from a management perspective with the new management team - make sure I'm focused on that.

Raul Sinha: Before we run through the business. Maybe just to dwell on that macro backdrop for a minute, obviously it looks like the interest rate picture has shifted. We were talking about the realities that we have to face now. How does this kind of macro backdrop help NatWest and what are the risks that you see within that macro backdrop in terms of your early warning indicators or any other sort of things that you are watching very closely?

Paul Thwaite: I won't surprise you that we spend a lot of time, as I'm sure you do, doing a whole host of different stress testing, scenario analysis, thinking about what this might mean. Our early warning indicators continue to be, I'd say, remarkably stable. Whether you look at our consumer bank, our small business bank, our commercial and corporate bank. What I'm very alive to is - notwithstanding the fact that you've got those stable metrics because of these moving parts - I'm not sure all the impacts of Fed have gone through the system. So I'm still very... I think I and the team are acutely aware that it might take a while for some of those impacts to work through. So I'd say I'm suitably disciplined and cautious around that. In terms of the outlook, I don't think we've suddenly hit peak rates and we're through. I think there's still a lot to be vigilant about, albeit I guess most of us probably feel slightly more confident than we may have done several quarters ago.

In terms of what that means for NatWest, I think I alluded to it in my first answer. I think we've positioned the balance sheet very conservatively, which I think will stand us in good stead. So where we see opportunities to grow in a disciplined way at the right returns, deploy capital, and we should only deploy capital where it's appropriate to. I think that's... I see as an opportunity. You can see our LDR ratio, you can see where we are. So I think that's important. But net-net, we've got big market shares in business banking, big market shares in commercial banking, big shares in mortgages that you can't escape the reality of what the UK macro will play out. So we just have to remain super vigilant around that.

Raul Sinha: Right. Maybe if we start looking at the business, and one of the things that you talked about on the last results call was a shift towards a slightly more competitive position on deposits.

Paul Thwaite: Yup.

Raul Sinha: And obviously if you think about the context in terms of your very low loans to deposit ratio, very strong balance sheet, very strong liquidity position. What's driven that, could you flesh out that decision? And then linking into that perhaps a little bit more color around pricing in the marketplace. What are you seeing in terms of competitive behavior if that's evolved since you last spoke to us?

Paul Thwaite: Yeah, that's an important question. So on deposit strategy is probably the best way to think about it. I mean, we did make a very conscious and deliberate decision to, I guess, defend our deposits. I think that's an important way to phrase it. And to maintain our share. The strategy wasn't to grow our market share, it was to maintain our share. And for those of you who watch us closely, you'll see that those changes started really in quarter one of this year, both on term products and on - to a certain extent - on our instant access. And the reason we took that decision at the time, in many respects was simple because the counterfactual of continuing to lose market share and continuing to lose deposits, would obviously impact income, impact customer relationships, obviously you're losing high liquidity value deposits as well. So it was a very conscious decision to do that.

We launched a range of different products in quarter one, quarter two. There was the most significant change in customer behavior we saw latter part of quarter two and then going into quarter three. And that was really the migration to term product and term deposits. So in a way, to me, the strategy summary is pretty simple. Defend what you've got because we see value in it. You'll also know that during quarter two, the competitive environment was highly competitive. There's a variety of offers out there from NS&I, from Stander, from others paying very high rates. I thought important that we defended that side of the balance sheet. So that's the strategy. But what I would say is it was a set of activities that started back in quarter one. It didn't just start in quarter three. And if you look at the Bank of England data, you could see for three or four quarters that our market share in, certainly in retail deposits, was gradually declining.

So I think it's a very rational strategy as I alluded to the counterfactual of then having to win those deposits back would be even more expensive and more impactful on income. And the second part of your question is what are we seeing now, I think.

Paul Thwaite: We noted in quarter three that we'd seen a slight slow down in terms of the migration from sight deposits - or instant access deposits - to term. I think logic would suggest, as you hit the top of the rate cycle, that's what should happen. I think many of us, we're making assumptions, but you can't control those variables, but that's what I would expect to see in the marketplace. What I would

add though is I don't think competition for deposits is going to go away. I think if you look at the combination of quantitative tightening, you look at the funding profiles of some of the market participants, different levels of dependency on TFSME, I do think it is going to be a competitive environment in deposits and that's going to continue, in my view, through '24 and '25. Maybe the acuteness of the competition might dissipate a little bit, but I certainly fully expect it to be highly competitive, yes, on the retail side, and it will inevitably be so on the corporate side, given, as you'd expect, the sophistication of corporate treasurers.

Raul Sinha: Thank you. That's helpful. Maybe just linking that into the group's NIM, I think we're going through this process of resetting to a lower level and there's a little bit of uncertainty of where we land towards the end of the year, to say the least. But when you think about the broad drivers of the NIM, obviously deposits is key to that. Could you perhaps talk us through where you get your sense of comfort when you look at those drivers in terms of that stabilisation message that you've given to the market around the margin?

Paul Thwaite: Yeah. I guess at quarter three, our guidance was for the year, we'd expect them to be above 3%, so we know that we're very clear on that. I think there are three building blocks or three constituent parts, which you have to make assumptions on all of them, so we should be very open and candid about that, I think. Start with deposits, there's two dimensions there. There's the migration to term and the assumption around does that decelerate and at what point does it top out? Then there's just a general pricing in the market - not withstanding the shift to term - so I think that's a trend where you can take a view on is the pain over? Is there still some more pain to come? That's one. The second big building block and trend is obviously the structural hedge. As you refinance that at higher rates, that eventually starts to flow through the income statement. That's the second one.

I think our disclosures are very extensive on that. Everybody can see what's rolling off, what's rolling on, and what that would mean. In quarter three, it wasn't enough to offset the reduction in terms of the pricing. We'd certainly expect that to help us as we go through half two '24. Again, we've disclosed that. That's the liabilities' impact. The other part of the equation is primarily the mortgage book. And you have this phenomenon of higher margin mortgages written, not exclusively, but primarily during the pandemic period that are rolling off, and obviously, being refinanced or new origination at much thinner margins. Now, if you look at the impact of that on our NIM, you can see it's been relatively consistent actually for three quarters. That's nine or 10 basis points per quarter. At some point, you would expect that to wash through, number one, because the pool of higher margin mortgages is declining all the time, so that will wash through.

And then the other part of that is the front book pricing. Front book pricing has been incredibly competitive. You'll have seen from the actions we've taken, we've withdrawn and reduced our flow of mortgage market share by a couple of basis points in quarter three, and you'll see that it's fallen further since then as the pricing has got more competitive. But I guess as the changing capital weights for

mortgages works its way through, let's say, the market, and one would assume you start to see some changes in volumes and demand and people will have different views on whether that demand changes in half one or half two, I don't know if there's been anything announced on mortgages in the Autumn Statement, but as you see that, you'd also expect some recovery, I'd say, in front book margins.

If you take those three factors and then link it to your question, what would give you comfort, I think you've obviously got the effect of the structural hedge. You have to take a view on how quickly the mortgage is, what high margin to low margin is going to wash through, and what origination margins are realistically going to be. And then you've got the confidence level around movement to term, when we've seen a deceleration, but where does that stop? To me, for those trying to get a handle on it, they're the three constituent parts and you have to take a view. You can look at the trend data, but you have to take a view and then work that through in terms of what that means for NIM. Does that give you a sense of it?

Raul Sinha: Still comfortable with stable?

Paul Thwaite: Yeah, that's what we said. Of course, that's what we said at quarter three - stabilisation.

Raul Sinha: Banks are obviously very complicated companies for generalists to analyse and we spend all our times on the analyst calls asking very detailed questions. But when we boil it down to the heart of it, one of the biggest challenges for the industry has been this mortgage margin spread. I mean, there's been obviously a lot of competition and we've been waiting for repricing for a while. What are you seeing in the market currently in terms of mortgage market? Are you seeing...

Paul Thwaite: It's still very competitive. Obviously, the volume is very thin. We can all see the market data, that you can see what I call the non-bank providers being very competitive. Whether that's the mutuals, so you can see that. It's very competitive. I don't think the risk weights have worked their way through into pricing and returns yet. When you've got relatively small supply or demand, depending upon which side you look at it, relatively small demand, I think it's inevitable that margins are very tight. My view is I'm very clear we need to be very disciplined in that market. I don't want to originate when we've got better alternative uses of capital. That's why we've withdrawn our pricing to a certain extent. We've reduced our flow. I think I said it, it will come down again in four, so I don't think pricing has normalised.

I'm hopeful, as the market size recovers, I think some of the competitive pressures from some of the non-banks to compete to capture, they can capture the same volume of a much bigger market so maybe that eases that pressure, but otherwise, we'll stay very disciplined. Over time, we've built, I think, a very scalable, efficient mortgage machine. You can see that we've moved to the second-biggest mortgage provider in the UK. That's been fine whilst the margins

and the volumes are there. If the margins aren't there and the volume isn't there, then obviously, we have to calibrate our strategy, because ultimately, I want to make sure we're generating capital and returning it to our shareholders. So I'm very thoughtful about the mortgage market.

Raul Sinha: Thanks. Income diversification is something that we were just talking about.

Paul Thwaite: Jumping around, yeah.

Raul Sinha: Obviously, there's, before we get to the commercial side of the business, maybe we spend a little bit of time talking about Coutts and expand that into the broader wealth mass affluent strategy where I think you've expressed ambitions of growth. Firstly, how's the sort of momentum, business momentum within Coutts? Has there been any impact? And when you think about this kind of broader income diversification drive, where does wealth fit into your thinking?

Paul Thwaite: Let me take the Coutts one head on because obviously there's been a significant, what I call brand reputational challenge over the course of the last three months that's played out primarily in the media, I would say. What's interesting is that we've been doing a lot of tracking around brand sentiment, customer sentiment, both for the NatWest brand and for the Coutts brand. The Coutts brand sentiment and tracking didn't really change on the back of events. People very much associated it with the individuals involved and the Coutts brand. The Coutts brand did take a hit in the heat of the event, but has actually recovered relatively quickly, and notwithstanding that business flows didn't really change on the back of the event so it's quite easy to cover off. The broader strategic questions of diversification, I would say, to me, it's important we continue to diversify our income streams. I think that's a stated strategy. It's a strategy that I'm committed to. You can see our dependence on net interest income. That's helped us in certain respects, but it creates vulnerabilities in its own rights, so I think it's very important we continue to diversify our revenue streams. Wealth and asset management is one aspect of that, but it's not the only aspect. Our payments business continues to grow double digits. Our FX business has grown well as well. So I think there are different levers we can pull on the non-interest income, but wealth management is an obvious one to alight on.

As you allude to, I think the biggest opportunity is really taking some of the wealth management product and distributing it across our mass affluent or retail customer base. Because what we have in our private bank, we have a very strong brand notwithstanding what's happened, we've got a very good banking and lending business in there. But what we've also built is a very good centre of excellence, into the asset management center of excellence. But what we now have to do is make sure that asset management centre of excellence can build a distribution into, call it the mass affluent customer base or the retail customer base. And really that's about building simple digital journeys.

It's about surfacing those journeys in our market leading digital app. And that's what will lead to the diversification of income. So it's very much an organic

strategy I would say. We've spoken about it before, but that's a steep hill as some would say, to grow organically. Assets under management, which we all know is a scale game is crucial. So it's an organic strategy and we'll continue to push at it, but we need to be ambitious but also realistic about how fast that can change. And even if you're growing your assets under management at certain percentages, and your payments at 10 plus percent and your FX at similar, the notionals in the context of the size of the balance sheet and the net interest income are still relatively small. So that's not something that we suddenly transform in one year. That's three, four, five years of continual push. You asked a few questions, did I answer all the parts of it?

Raul Sinha: Yeah. I guess the part I want to pick you up on is this point about whether or not you have the full product suite currently. Do you think there are any bolt-on acquisitions that might be able to infill any gaps-

Paul Thwaite: In the wealth space?

Raul Sinha: Yeah, just looking at, let's say the non-NII-

Paul Thwaite: Yeah.

Raul Sinha: Diversification piece, obviously you're a full-service commercial bank.

Paul Thwaite: Yeah.

Raul Sinha: But when we think about the other parts within that growth line.

Paul Thwaite: Yeah. And I mean you can see some of what I call the small M&A activity we've done, we acquired Cushon, which is a workplace pension FinTech. So that extends the product range for our, let's call it our wealth management business. I think they're the type of opportunities which make strategic sense for us. They're relatively small in terms of scale, so they don't impact the fundamental capital levels of the bank, but they play to our strengths. As you say, we've got a full-scale commercial bank, a lot of those customers require a workplace pensions offer. We've got distribution to those customers, 30% market share. So we can buy a very good provider and then distribute through our commercial bank. That makes a lot of sense to me. I think the bigger opportunity, and there's been some other small acquisitions as well, but I still believe the biggest opportunity in terms of the wealth or asset management business is basically just distributing at scale through the, not all of the 19 million customers because they're all not suitable.

But if you think about us as having 19 million customers and 12, 13 million retail customers with opportunities, that's where I think the biggest opportunity is. And that to me is about building better product, yes. But I think we've got the core of the product set. I think it's about building the distribution, the digital journeys, the education within the customer base about the differences between savings and

investments, making those choices very easy within what is primarily a digital led proposition.

Raul Sinha: Just before we go on back to the group level, on the commercial business, you've talked about broadening and deepening relationships for a while.

Paul Thwaite: Yeah.

Raul Sinha: And obviously the NatWest market is integration obviously, has worked out quite well.

Paul Thwaite: Yeah.

Raul Sinha: The business is actually doing pretty well when we look at it on a quarterly basis. What more is there left to do you think?

Paul Thwaite: A lot would be the simple answer.

Raul Sinha: Right.

Paul Thwaite: I think there's a lot. So as you know, I've been very high conviction on bringing the commercial institutional bank together nearly two years ago because I saw, to me there was just a lot of latent value that we weren't capturing. I think it's been successful. I think the fact that we've organised, we have what we used to talk about as NatWest market, so we now have in effect a product center of excellence which delivers FX, rates, DCM financing to the customers of the group. I think-

Raul Sinha: Yeah.

Paul Thwaite: I'm glad to see you recognise it, but I think that has been successful, and we have a very strong banking and lending product set as well. So you have a banking product set, a lending product set, and let's call it a markets product set. And then we have a brilliant customer franchise. And to me the strategy was very simple, 18, 21 months ago, we just want to bring more of this product set to more of our customers. So I think we've done that and I think you can see the improvements we've made in terms of our penetration of digital FX, rates, et cetera, transaction banking and payments. So that's good, but I think there's a lot more to go after because I think we can, yes, do more on product and revenue, no doubt about that. But I still think there's a lot of efficiencies that we can drive out of the business when you bring together what were in effect three businesses into one franchise. So there's still a lot of simplification and efficiencies available to us I think in that franchise.

So we need to optimise for cost within the franchise, but also optimise for capital. Obviously we've got in effect three different entities and balance sheets there. So capital efficiency, cost efficiency I think are opportunities for us to continue to

grow the C&I franchise, to build on what's there. So I don't want the guys getting complacent about what we have done in the 18 months because I think there's even more to go after there.

Raul Sinha:

And then what does that mean when we maybe take a step back and go back to the group, think about the cost base. You've been on a journey getting more efficient. Obviously you've got targets out there in terms of cost:income, the environment is still quite challenging it feels like from an inflationary perspective even if headline inflation is coming down. Where do you think the pressures on costs versus the investments that you need to put through the business kind of land eventually, and does that give you enough comfort that you're still on track to kind of hit your efficiency metrics?

Paul Thwaite:

So like we confirmed in quarter three we were on track for our cost targets this year, so I can, happy to reiterate that. So the answer is yes for this year. We don't have '24 targets out there, we'll talk about them in February for costs. More broadly, yes, you're right. There are pressures on inputs. The big three costs are obviously: people, property and technology. We all know that, we can see the pressure on people and technology contracts. What I would say is I think we've got quite an extended year, number of years of track record of making cost commitments and delivering on them. So I think we should take confidence from that as a business because we have proven we can get efficiencies and productivity out of the business. In terms of the intersection with the investment part, I think if your question is, will we need to invest more to take more cost out?

In thinking about that, the first thing I'd say is I do think, if you think about what we can control in the next 18 months, the cost and efficiencies I think is one of those key levers. So we are focused on it. The change that I guess I've driven through is not in the scale of the investment or the quantum of the investment. I think we invest a lot in the business, three-and-a-half billion over three years, a significant investment, but it's in the shape of that investment. So we've really, given the external environment, we've pivoted that investment to focus on simplification, digitise, or more focused on simplification, digitisation, and automation. There was a lot of money going towards those things, but what we've dialed that up and I think in the current environment that's a rational thing to do. So that gives me confidence that there's more efficiencies, we can realise more efficiencies. I look across some of our businesses where there's still high numbers of operational processes, et cetera.

So they all lend themselves to driving efficiency. So yeah, I don't think I need a fundamental change in the size of our investment spend. It's a change in the shape of that investment spend. But I'm confident there are efficiencies that we can drive out of the business and the new technologies will obviously play a part in that. But I think it's, and we talked about C&I, that's an opportunity when you think about some of the complexity there. I think we've done a great job in digitising our retail bank. David and the team have taken that forward considerably, but there's still more to go after.

Raul Sinha: Sorry to push you on this, but new CEOs like taking restructuring charges in your sector.

Paul Thwaite: Yeah.

Raul Sinha: You've sort of ruled out restructuring?

Paul Thwaite: I ruled it out on the quarter three.

Raul Sinha: Yeah. And that's still the...

Paul Thwaite: Hasn't changed in six weeks, so...

Raul Sinha: Yeah. Excellent. Thank you. The one thing that did change at Q3 was the RWA guidance. And obviously the track record of NatWest has been very significant capital return the last few years. That did obviously moderate to some extent the expectations around capital return. So could you talk a little bit about the level of conservatism you put through that guidance? There must be some. Is there any scope for further mitigation there? And then secondly, the sort of importance of dividends versus share buybacks, just given the context of today's potential retail offering. Does that change anything in terms of... Your thought process. Not looking for answers around it.

Paul Thwaite: Yeah. So on the... Where do you...

Raul Sinha: Maybe the RWA question.

Paul Thwaite: Yeah. The RWA. So our view on RWA is we had an obligation on the back of the treatments of our models to make sure that we shared that. So we shared that in quarter three. I'd probably take a step back first though, Raul, so for the avoidance of doubt, ROTE is the north star because that's what allows us to generate capital and return capital, and I know how important that is to the... central to the investment case. So we don't take those decisions lightly. So that's what guides me. It's what guides the management team. We're absolutely committed to accumulating capital and distributing it appropriately.

I think to me there's a bit of a disconnect in the rhetoric at the moment between what I call the regulatory regime saying that Basle 3.1, CRD IV is capital neutral at a system level. I guess that's not our experience on the basis of a couple of big product categories. So that's what drove some of the changes in guidance. I would say, as you would expect us to be, we're heavily engaged with the regulators on that to make sure that the loss data that we have, the track record of that low losses is properly reflected in the model. So am I determined to try and mitigate some of those impacts? Of course I am. Any responsible management team would be so. So we will try and do that.

I think there is probably a phasing point about where people take the RWA inflation. I think it's the right thing to do. My general philosophy is to be a straight shooter. If we can see that there's RWA uplifts, we'll share the RWA uplifts, but you alluded to it I guess in two dimensions. I think we've got a good track record of working hard to mitigate and we've got a very good track record in distributing capital as well over the course of the last four years. So they're very much the focus. And then in terms of the wider piece, we're trying to strike the balance. You can see how we've distributed the capital across the different mechanisms that are available. We know different investors value different parts of that. We're committed to the 40% dividend ratio. Obviously, we've executed a number of DBBs, on market buybacks. So we'll try and get the balance right on that, but I'd want people to be in no doubt about how clear we are and how central that is to the investment case. And that's what guides putting together the strategic plan, putting together the financial plan. That's what we're doing. It's also the high bar for comparison because on some of the topics we talked about earlier, distributing capital back versus some of the product classes that we talked about, or inorganic opportunities. That's the bar against which we assess things because that's what shareholders will do as well.

Raul Sinha: Right. Before I ask my final question, I just want to give the audience a chance if anybody's got a question. Want to raise your hands? One here.

Speaker 1: Thank you. Can I just ask about the Treasury announcement half an hour ago or an hour ago on the potential retail placing and what impact you think that would have, how it could be structured? Would it change the way you think about running the bank at all given the volatility in the share price as well?

Paul Thwaite: Yeah. No problem. So I've obviously seen the announcement, but I haven't seen if there's been any detail distributed as well. Not much detail. Okay. So to me, it's quite simple. I mean, I'm very focused on getting the bank back into private hands. So anything, any policy support that shares that ambition, I'm encouraging of. I think that's a good thing. I think to have a shared ambition around returning it to private ownership is a good thing. So I welcome the announcement. I've always said and will continue to say the mechanic for doing that, is ultimately up to the government and UKGI how they choose to do it.

If I understand the wording correctly, what they've said is they're going to explore a retail offer over the next 12 months, but if the net effect is to reduce the government's shareholding and we can do that in a way that is appropriate, done in an appropriate way, creates appropriate value for all the relevant parties, then I'm supportive of that. But ultimately it's a decision for them in terms of what, when, how, and we'll be very boringly consistent on that because it's their decision, not ours.

Raul Sinha: More questions? One here.

Speaker 2: Thank you. There's been a lot of debates over the last six months to nine months over whether your net interest margin is 2.9, 2.95, 3, 3.05, and it's been driving the share price volatility, not only for you but for a lot of the banks.

Raul Sinha: Everybody. Yeah, yeah.

Speaker 2: Yet when you look at the last 20 to 25 years, the margins have always been around 3% for any UK retail bank in any rate circumstances. And I guess the bigger question is when people who maybe spend less time looking at the details of quarterly NII for UK banks than others, they notice that in other countries actually these margins are much lower and they tend to ask analysts, "Why are these UK margins so high? And aren't we witnessing the first signs that competition is finally kicking in and these margins will come down?" What is your view on that? Do you see any reason why for more structural reasons these margins would be trending down in the next three to five years?

Paul Thwaite: I think it's hard to pin it on structural things. I mean, I think we've probably all seen the graphs on the deposit side, which compares all the different countries and the relative rates of pass-through. I think the reality is the pass-through in the UK market on deposits has been higher than many alternative European markets and to some extent wider than that. And I think that's a combination of some of I guess the messaging, being candid with you, in terms of regulatory messaging. So I think that's affected I guess some of the pricing strategies on that side. I think the mortgage market, which is primarily the other driver, is at a strange juncture because mortgage margins historically have been healthier. So to me, I'm optimistic that at some point that will reset.

So I don't think it's anything structurally different about the UK market. I just think we can obviously see that if you take the commercial bank, assets have repriced and deposits have repriced. If you take the retail bank, deposits have repriced to a certain extent but assets haven't repriced, and that's the missing part of the jigsaw. But I think when you've got a very thin volume and you've got what I'd call in effect mutuals, et cetera competing, I think you're seeing some strange pricing outcomes on the retail asset side. But I think they'll dissipate as volume... I would hope they dissipate as volume in that market increases and as we talked about, the different institutions start to flow through the risk weights into that asset class. That help?

Speaker 2: Yeah. Thanks. Thank you.

Raul Sinha: All right. That brings us to the end of the session, Paul. Thank you very much. We wish you all the best for your...

Paul Thwaite: Thank you. It's good to see you. Thanks, Raul.

Raul Sinha: Thank you.