



NatWest
Group

NatWest Group plc
Q1 2026 Results Call Transcript
1st May 2026
Hosts: Paul Thwaite, CEO, and Katie Murray, CFO

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions, or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our Q1 2026 Results Announcement published on Form 6-K on 1 May 2026.

Management Presentation

(Amended in places for legibility and clarity)

Paul

Good morning and thank you for joining us today. As usual, I'm here with Katie. I'll start with a brief introduction, before Katie takes you through the numbers and we'll then open it up for questions. We started the year with strong momentum across our three businesses and made good progress against each of our three strategic priorities. First, we continue to pursue disciplined growth. In Retail Banking we increased our share of the mortgage market as we expand our offering and announce new partnerships, such as becoming the exclusive mortgage provider for Rightmove. In Private Banking and Wealth Management our acquisition of Evelyn Partners makes a strong addition to the Group. The transaction is progressing well, and we expect it to complete in the second quarter, subject to the usual regulatory approval. In Commercial and Institutional we are one of the leading banks for UK start-ups and we grew our share this quarter as we onboarded 24,000 new start-ups, a 25% uplift on the same period last year, supported by easier agentic onboarding. Second, we are leveraging our investment in simplification and have delivered over £100 million of additional cost savings in the first quarter. We now employ over 12,000 software engineers and we are complementing that talent with Artificial Intelligence. So over 40% of our code is now written by AI and we are scaling our agentic software development. Typically, our development process for new customer propositions requires 12 engineers and takes 6 weeks. But in some scenarios, with a team of 3 engineers and 7 agents we can deliver in just 6 hours, making us more productive and delivering faster for our customers. Third, we continue to manage our balance sheet actively, helping to free up capacity for further growth and allocate capital dynamically in this fast-changing environment. So let's turn now to the financial headlines....

Customer lending grew 6.6 % year on year to 400 billion whilst customer deposits grew 2.6% to 445 billion. Lending growth of 7.3 billion in the first quarter was well balanced across our businesses, including 3.3 billion in mortgages and 3.8 billion in Commercial and Institutional. We also provided over £10bn of Climate and Transition Finance, taking the total to £29bn since last July, making good

progress towards our £200bn 2030 target. Deposits increased by 3.1 billion in the first quarter, with growth in Corporate and Institutional partly offset by an expected decrease in Retail and Private Banking as customers used their savings to make annual tax payments. Assets under management and administration grew 16.9% year on year to 57 billion. 23,000 people invested with us for the first time during the quarter with net inflows to assets under management of 900 million pounds. Taken together, client assets and liabilities have increased to just over £900 billion, up 5.2% year on year, in line with our 2028 annual growth rate target of more than 4%. Income grew 6.9% to 4.2 billion and costs were up 4.8% to 2 billion, as we increased our operating leverage and reduced our cost income ratio by 2.1 percentage points to 46.5%. Our return on tangible equity was 18.2%, driving strong capital generation of 65 basis points in the first quarter. Earnings per share grew 15.5% year on year to 17.9 pence. Tangible Net Asset Value per share was up 15.1% to 4 pounds. And we continue to maintain a strong balance sheet with a CET 1 ratio of 14.3%.

Since we announced our full year results in February, war in the Middle East has clearly increased geopolitical uncertainty. While sentiment is now more considered, we have yet to see any material impact on our customers. Both households and corporates remain resilient, with historically high levels of savings and low levels of debt and arrears. In light of this uncertainty, we have revised our economic scenarios and now expect higher inflation with interest rates remaining at 3.75% for the rest of the year, resulting in slower economic growth and a modest increase in unemployment. This means we have taken an additional provision in the first quarter of 140m, which reflects our macro-economic assumptions - not our credit performance, which remains strong. With rates staying higher for longer we now expect full year income to be at the top end of the 17.2 – 17.6 billion range we set out in February. So we remain confident about the outlook and our 2026 guidance. That confidence is underpinned by the knowledge that we have built a resilient business which is well positioned for a broad range of macro environments. We have a clear strategic focus on growth that delivers good returns with a prime lending portfolio that's well diversified and

largely secured; We have invested and simplified so that we are now the most efficient large UK bank with a cost income ratio that continues to improve; And we are actively managing our balance sheet. For example, we have taken the opportunity of a sharp move upwards in the yield curve to accelerate the increase in our structural hedge, supporting income growth in the years ahead. We have also increased our capital efficiency significantly in recent years, driving high levels of capital generation. All these factors have contributed to our strong performance in Bank of England stress tests, giving us confidence in our outlook and guidance not just this year but over the medium term. With that I'll hand over to Katie to take you through the numbers in more detail.

Katie

Thank you, Paul. My comments for the first quarter use the fourth quarter as a comparator. Income excluding notable items reduced 1.1% to 4.2 billion, and total operating costs were 9.2% lower at 2.0 billion, delivering 11.6% growth in operating profit before impairment to 2.3 billion. The impairment charge was 283 million, equivalent to 26 basis points of loans, including the charge for our updated economic scenarios that Paul mentioned. This resulted in operating profit of 2.0 billion pounds, with profit attributable to ordinary shareholders of 1.4 billion, and return on tangible equity was 18.2%. Turning now to income.

Income excluding notable items was 4.2 billion. Excluding the impact of two fewer days in the quarter, income across the three businesses continued to grow, supported by both volumes and margin. Net interest margin was 247 basis points, up 2 basis points, due to deposit margin expansion and a small benefit from funding and other, with lending margin declining 2 basis points, mainly driven by mortgages. As you heard from Paul, our 2026 guidance now assumes that the Bank of England base rate remains at 3.75% this year, rather than coming down to 3.25%. Together with our revised economic scenarios, this means we now expect income, excluding notable items, to be at the top end of our 17.2 to 17.6 billion pounds range, excluding the impact of Evelyn Partners. Turning now to customer assets and liabilities, or CAL.

You will recall we introduced our 2028 growth target for CAL in February. I am pleased we are entering another year with strong

growth, continuing our track record. Our CAL increased by 8.4 billion, or 0.9% in the quarter to 900 billion. This includes lending growth of 7.3 billion, deposit growth of 3.1 billion and a reduction in Assets Under Management and Administration of 1.8 billion, as strong AUM inflows were offset by market movements. I'll touch on each of these elements in turn.

We are reporting another quarter of strong broad-based loan growth across the group with gross loans to customers up by 7.3 billion. Retail Banking and Private Banking & Wealth Management balances grew 3.5 billion, or 1.5%. This comprises 3.3 billion in mortgage lending and 200 million in unsecured lending. Mortgage stock share increased marginally to 12.6%, and we have a robust pipeline following record applications in March. Commercial and Institutional lending increased by 3.8 billion, or 2.4%.

This includes: growth in Corporate & Institutions driven by good demand across a broad range of sectors including Project Finance, Renewables & Utilities, and funds lending, together with increased lending in Commercial Mid- Market, notably in Commercial Real Estate and the housing sector. You'll also see we have provided a detailed breakdown of our Financial Institutions exposure, including Private Credit, in the appendix of our presentation. Turning now to deposits.

Customer deposits increased by 3.1 billion, despite the expected higher seasonal tax outflows. Commercial and Institutional deposits increased by 5.1 billion. This was partly offset by a slight decline Retail Banking and Private Banking & Wealth Management deposits, as a result of higher customer tax payments of 10.3 billion pounds. Retail Banking outflows were partly offset by growth in current account and ISA balances. Overall, our deposit mix remained broadly stable. Turning now to assets under management.

Assets under management and administration closed the quarter at 56.7 billion. We are pleased with positive AUM net inflows of 0.9 billion, which equates to 8.2% of opening AUM, demonstrating continued client confidence and strong momentum. There was a reduction in Assets under Administration of 1.4 billion driven by gilt redemptions to support client tax payments. Overall, balances were

impacted by negative market movements of 1.7 billion, however these have reversed during April. Turning now to costs. Following a period of global macro uncertainty we have revised our economic assumptions. In our revised Base Case, we assume inflation now means CPI will peak at 3.5% in 2026 rather than fall to 2% by the end of the year. This means interest rates stay higher for longer and we assume the Bank Rate remains at 3.75% throughout the year. We expect lower GDP growth of 0.4% and a modest increase in unemployment to a peak of 5.7%, above our previous assumption of 5.4%. This remains at levels we are comfortable with in terms of lending risk appetite and credit quality. We will continue to review our assumptions as the situation progresses. Our balance sheet remains well-provisioned with an Expected Credit Loss of 3.7 billion and ECL coverage of 84 basis points. Our latest scenarios also show that even if we were to give 100% weight to our new moderate downside scenario, this would increase Stage 1 and 2 ECL by 99 million pounds or 2 basis points. Turning now to the impairment charge.

The impairment charge for the quarter was 283 million, equivalent to 26 basis points of loans. This includes: a charge of 140 million pounds as a result of changes in our economic scenarios and total post model adjustment releases of 34 million as elements were effectively consumed by changes in our economic scenarios. Excluding these, our underlying impairment charge was 16 basis points. There were no new signs of stress across our 3 businesses and the current credit performance of our book remains strong. We continue to expect a loan impairment rate below 25 basis points for 2026, so our guidance is unchanged. Turning now to capital.

We ended the quarter with a Common Equity Tier 1 ratio of 14.3%, up 30 basis points since the end of the year. Capital generation before distributions was strong, at 65 basis points. This includes 69 basis points from earnings. Other regulatory capital movements added 16 basis points. Growth in risk weighted assets consumed 21 basis points of capital. And our usual accrual for ordinary dividend payments reduced capital by a further 37 basis points. Risk weighted assets increased by 2.7 billion, 4.3 billion of Business Movements broadly reflects our lending growth and increased market risk, this was

partially offset by a reduction of 2.2 billion as a result of actively managing our RWAs to create capacity for further growth. Other movements included FX and immaterial CRD 4 model updates. We remain confident in our ability to continue generating strong capital from earnings and to manage risk-weighted assets, and expect around 200 basis points of capital generation before distributions this year, whilst operating at a CET1 ratio of around 13%. Turning now to guidance.

We now expect, income, excluding notable items, to be at the top end of our range of 17.2-17.6 billion, excluding the impact of the Evelyn Partners acquisition. All our other guidance and targets remain unchanged. With that, I'll hand back to the operator for Q&A. Thank you.

- Operator** We'll take our first questions from Andrew Coombs of Citi. Andrew, if you'd like to unmute and ask your question.
- Andrew** Morning. Thank you for taking my questions. If I could just have one on loan and deposit growth, and then I guess the second on average interest-earning assets. On the loan and deposit growth, again it's a strong performance Q on Q, again led by C&I. If I speak to any investor, particularly those outside the UK, they always struggle to link the economic performance from the UK with the strong loan growth and loan demand that you're seeing. So perhaps you can just touch upon: What drove the loan and deposit growth, particularly in C&I? Where's that demand coming from? How sustainable do you think it is throughout the remainder of the year and into next year?
- And then the second question, I mentioned that loans are up Q on Q, deposits up Q on Q, but your average interest-earning assets are down 0.2% Q on Q, and it seems to be due to a reduction in the liquid asset buffer. So perhaps you could just touch upon that as well, and what's driving the disconnect between the average interest-earning assets and the movement in the loan balances. Thank you.
- Paul** So, Andy, as you say, good strong growth on both sides of the balance sheet. Pleased on lending and deposits, especially, as you know, that the context for quarter one deposits is always higher outflows because of tax payments. Why don't I give an overview and then I'll drop down into C&I because I'm conscious you wanted some specific colour there.

So lending overall, I'd say it's pretty broad-based. You can see growth in mortgages, you can see growth in C&I, you can see growth in unsecured within Retail as well, and within C&I, you can see it through different business lines. I'd also add that the pipeline remains pretty strong as well in both businesses, so we're encouraged by that. So not only is the activity good, the pipeline of activity looks strong, looking ahead into quarter two and quarter three. As you know, we've consistently grown above market growth on the lending side. I'll come back to some of the reasons why I think that's true.

On Deposits, two sides to this. As I say, we've got the tax outflows in Retail and Private Banking. They were up 28% year on year, so it's a big number, £10 billion of deposits. And that was offset by growth in C&I, which was from a combination of things. Some of that was operational deposits, some of that was Interest-Bearing Deposits. I think there, when you think about the size of our Corporate and Commercial franchise, the reality is we benefit as deposits flow onto Corporate balance sheets.

If you look into Retail, actually Personal Current Accounts, we're up, which is good. That's obviously healthy from a number of factors. And we are starting to see the impact of what we call our boxed proposition, where we're providing savings products to companies like AA, Saga, and Sainsbury's, etc. That is also supporting Retail Deposits, that hopefully gives you a big picture view.

On C&I specifically, demand has been strong. I think we're very well-positioned on what I call some of the structural drivers, so Project Finance, Infrastructure, Transition Finance, Utilities, Funds Lending, Energy Transition, etc. I think what you can see is the growth in those parts of the market is bigger than, let's call it, the UK system's growth. I think that helps to explain why our C&I franchise captures the opportunities there, but also outperforms the market. As I said, the pipelines are strong. So to your point on sustainability, I think those trends are structural trends, not kind of short-term opportunistic trends. I think the lending growth and the lending pipelines will continue to support sustainable growth. So net-net, good balance sheet performance, C&I, yes, but also on the Retail side of the business as well, so hopefully that gives you a bit of colour.

Katie Hi, Andy, so you're absolutely right. When you look at AIEAs, they were sort of stable in the quarter. They were down 0.2%. A couple of things within there, the reduction reflects the optimisation of our surplus liquidity. We repaid around £4 billion of TFSME at the end of Q4, and we deployed surplus liquidity to meet our customer loan demand, which we've just been talking about in a quarter of seasonally-lower deposit growth. If you look at the Q1 loan growth of £7.3 versus the £3.1 billion of deposit growth, there's a natural mismatch within there. What I would say is, we're 3% higher than AIEAs a year ago, and we do expect them to grow from here going forward as our customer lending increases. Thanks.

Andy Thank you.

Operator Our next question comes from Alvaro Serrano of Morgan Stanley.

Alvaro I actually had two questions related to spreads, and the first one is on Mortgages. I had the expectation of a step down in spread on mortgages in Q1, given the roll-off of the COVID ones, but actually the spread has held up reasonably well versus my expectations at least. I think the contributor is £324 million. Maybe this one's for Katie, but can you maybe talk to if there's still sort of headwinds ahead and talk to the mortgage front book spreads. And then similarly on Commercial, the spreads there compared to Base Rates have been increasing steadily the last eight quarters or so. As you grow the book, what kind of business are you underwriting there and what do you think, should it continue to improve? Or how do you see the outlook on pricing on corporates as well commercial? Thank you.

Paul Okay, great, Alvaro. Do you want to start with Mortgages?

Katie Yes, absolutely. Thanks very much. And morning, Alvaro. So if we look at Q1, we continue to write mortgages at front book spreads that were below the back book, as we did through last year, which we talked about a lot. Very much in line with our strategy of delivering steady growth at attractive returns. So I'd say our year-to-date margins are in line with expectations.

We did see a bit of volatility in March. We repriced every two days. So that's 11 changes in 22 days, which I think is a great testament to the flexibility we've built into the system. And we can even see that ability to handle that increased mortgage demand as a result of that investment in the platform and digitisation, which has meant we've

been able to execute new business at margins which are ahead of the back book in April, which is great to see.

You're absolutely right to mention the COVID mortgages. We are seeing a little bit of the book margins being impacted by that churn of the five-year COVID era mortgages, and they're rolling off at spreads that are higher than we're currently writing. I would expect that to have worked its way through during the rest of this year. So we expect a little bit of pressure from this on the book margin with the coming quarters.

But I guess as I go to where we are today, where we're writing the mortgages in front book spreads which are below the back book, what we're seeing is it's starting to bring that back book margin down. We're writing now you've heard me talk a lot about this below 70 basis points over the last number of quarters. That's continued. And as I look at that number, I think that we will see the book margin to reprice to around 60 basis points over the course of this year. Interestingly, April margins have been above the back book, and we're pleased we were able to capture that.

So I talked, you remember, at the year end, Alvaro, around one to two basis points impact on our NIM walk per quarter throughout this year. You actually saw that already in our walk that this quarter, you should expect to see that. But what I'd also really encourage you is don't forget to see that you'll have the deposit margin expansion that's going to more than offset that negative. Hopefully, Alvaro, that gives you what you need. Paul, are you going to do the Commercial spreads or shall I?

Paul

Yeah. Happy to. Thanks, Katie, and thanks, Alvaro. On Commercial spreads, couple of general points first. I would say, Alvaro, actually, Commercial lending margins, I would see them as fairly stable on a product-by-product basis. So that's how I think about it. There's obviously always a mix effect, depending on what way you write the business. But there's been no material deltas, changes, over the recent past, nor would we expect it going forward. So that's one positioning piece.

Secondly, in our Commercial book, a significant proportion of customers are paying variable rates. So you will see rates repriced in line with short-term rates and how that changes. So hopefully, those two points just contextualise what you'll be looking at in terms of the Commercial lending book.

If you drop down into the individual businesses or asset classes within the Commercial institutional bank, there's different dynamics. Obviously, at the very small end, margins are much higher, but the total value of lending there is small relative to the overall Commercial book. So whilst we're growing that business and it's higher margin business, from a weighted-average perspective, the impacts are relatively limited. In the Commercial mid-market, that's a competitive space across the field. But depending upon the asset class, the margins can vary quite a lot. So if it's social housing, lower margins, but very high risk-adjusted returns. Commercial real estate, thinner margins, more of a commoditised product. Then at the large corporate side, obviously you've got the revolver aspect to that, but also where you've got project financing and infrastructure finance, a bit of the same dynamics as my example on social housing. At a spread level, margins are relatively tight, but given the capital treatments, the risk-adjusted returns are very attractive. So they're all very good areas to deploy capital at good returns. So nothing major to call out, I'd say on Commercial spreads, but that hopefully gives you a bit of the contours of how that business works. Thanks, Alvaro.

Operator

Our next question comes from Benjamin Toms of RBC.

Ben

Morning. Thank you, guys for taking my question. The first one's on your income guidance here, which you've upgraded to the top end of your previously-provided range. Just wanted to get some colour on your thoughts on whether you'd characterise this guidance as being conservative. I'm just noting that consensus is still quite a way above that guidance and whether you're comfortable with that gap.

And secondly, there's been some pretty fairly intense competition in the ISA, Cash ISA, deposit market. NatWest Group are competing, but one of your large peers is not. Can you just talk a little bit about how you weigh up collecting deposit volumes versus margins at a group level at the moment. Thank you very much.

Paul

Great. Thanks, Ben. I'll take the Guidance and Income, Katie, and then you can talk a little bit around Retail Savings and ISAs. As you said, Ben, we've strengthened the Income Guidance. We're guiding to the top end of the range of the £17.2bn to £17.6bn. We're doing that for a couple of reasons. One, you can see the momentum in quarter one, so the underlying performance has been good, which is great. And then you've got the net effect of the change in economics. Obviously, we've changed our rate assumptions. You've seen that going from assuming

two cuts now to zero. But we've also assumed, you have to follow the logic through. You would assume if you don't have rate reductions, it would be reasonable to expect some small softening in demand. So we've assumed that. But net-net, we see that as positive to income, so that's how we're positioning at the top end. We haven't changed the guidance for ROTE, we're maintaining the greater than 17% there, but we're increasingly confident on that. As I said in February, and I'll say again, that's always been a greater-than guidance, and we always aim to beat our target. So we haven't changed that, but we're increasingly confident because obviously, the conditions for that are supportive.

I should point out, I think it's obvious, but that all excludes Evelyn. But net-net, Ben, I would say it's a good start. We're confident around '26, hence the nudge up in Guidance. We haven't changed '28, but obviously, you can see from the trends that the conditions are supportive towards the medium term as well.

Katie

Hi Ben, If I look at our ISAs and the recent activity, I think the first thing I would really say is we see really strong relationship value in our fixed-term deposits. We have high retention rates, greater than 80%, and some of those are retained in the higher margin Instant Access products, as well as us also having an opportunity in the future to engage with these customers on investment products, and we've seen good growth there as well this quarter with a lot of new investors coming in. But we'll also expect that ambition to grow, and that's supported by the acquisition of Evelyn Partners, obviously, in this last quarter.

During Q1, with the volatility that we saw in the swap markets, we actively managed our hedging across both our assets and liabilities, which enabled us to really price effectively on the fixed-rate deposits. Overall, you can see our deposit mix has been stable, both at the group level and in retail. When I look at fixed-rate ISAs specifically, the balances are small in the context of the group, low single-digit percentages of deposits. And in terms of overall deposit dynamics and margins, really very happy with the progress, particularly around things like Current Account growth, and we expect to see ongoing Group deposit margin expansion in the coming quarters. Overall, a real comment on balance across the portfolio. Thanks.

Ben

Thank you.

Paul I'd add one small thing on that, actually Ben, because I've got the pricing tables in front of me. It's quite interesting when you look through, as Katie said, we've been very thoughtful about how we manage the volatility and swap rates and how we play that back into pricing to maintain margins. And you can see you've got three or four of the larger banks ahead of us on pricing, but as Katie alluded to, the volumes have been encouraging. I think we've been very thoughtful in how we're playing that market. Thanks.

Ben Thanks.

Operator Our next question comes from Guy Stebbings of BNP Paribas.

Guy Hi, morning. Thanks for taking the question. I think I just have one broad question on the Income Guidance for this year and the assumptions underpinning it. It's clear in terms of what you're doing on policy rate, but in terms of the longer end of the curve, when we're thinking about the hedge reinvestment, could you confirm what the assumption is there?

Then in terms of volumes, just trying to work out whether you're assuming slightly more conservative macroeconomic assumptions as per the ECL models, but that would be going against the positive comments you're saying in terms of what you're actually seeing on lending volumes, etc. So can you clarify what the expectations are on volumes?

And then on Mortgage spreads, just in light of the comment you made there, I'm just trying to understand whether anything's changed. You've talked about the stock of the back book trending down towards 60. I presume that's entirely consistent with what you were expecting a few months back, and actually your comment on April being above the back book is slightly encouraging. So could you just confirm if those mortgage spread trends are in line, better or worse than what you were thinking a month or two ago? Thanks.

Paul Great, thanks, Guy, very clear. Katie,

Katie

I'll start off with spreads and hedge, then why don't you come back in on volume? If I look at the hedge, first of all, a few things to share with you on that. When we talked about the hedge at the year-end, we said that we would increase our structural hedge this year above £200 billion, and as we've seen that as deposit balances have grown and equity base will increase given the business growth. What we did earlier in Q1 was as we saw those yield curves move really sharply higher in the quarter, we did take a decision to accelerate the increase of our product hedge. So we added about £5 billion additional in Q1. That means that we've locked in income for the outer years and of course, modestly reduced our rate sensitivity as a result of that.

When I look at the first three months of the year overall, reinvesting our product hedge about 3.8%, that's against guidance I'd given you at the year end of 3.5%. I would now expect that reinvestment rate on average for the whole year, given what we've seen also in April to be around 3.9% on the product hedge and 4.7% on the equity hedge, which is up from 4.5% as we go through there. As I look at those current assumptions of rates, the growth that we've seen, I do continue to expect total hedge income will grow annually through to 2030 as you see the improved levels that we spoke about in February.

If I then look to your mortgage spread, you've got it completely right.. Mortgage margins are very much in line with our rate expectations. They are currently a little bit better. I would encourage you not to bank that forever, but we're very happy with how the team are managing the book at the moment. We can see the reduction in book margin's absolutely being driven by refinancing. If you think a little bit of our mix, 30% of the book will reprice this year, and the roll-off is a little over 90 basis points on a blended basis. That really drives the stock margin lower over the course of the year, completely in line with our expectations and very much in line with the income guidance that we've given you throughout this year and upgrading this morning.

Paul

On volumes, Guy, so as you say, this trying to thread the needle a little bit between, the mechanistic logic of the economic assumptions versus activity year to date and pipelines. I think that's what we're trying to balance. If you take the logic of the economic assumptions through, i.e. higher for longer, slight tick up in unemployment and slower growth,

then the logic of that would be you would see some softening in, for example, the mortgage market. These are original predictions, and likewise some softening in business lending. So that's what the economic assumptions drive.

Then when you look at the activity, as you rightly point out, what we've said is quarter one has been very strong on lending side. The pipelines in the respective businesses look strong, so the activity is there. I guess what we're trying to do is strike the right balance between optimism on that side, but also, , the reality of how the economics play out over the course of the next nine months might impact demand. We've factored that into how we've guided toward the changed guidance to the top end of the range. Hopefully that just unpacks a little bit how we're thinking about it. Cheers, Guy.

Operator

Our next question comes from Jonathan Pierce of Jefferies.

Jonathan

I've got two questions, please. The first: the other C&I Non-Interest Income, it's been running at about £230 million to £240 million a quarter for the last six quarters. Dropped down to £170 million in the first quarter. It does feel like there was a bit of a one-off in there. I don't know if you can quantify how big that was and whether you've seen anything else coming through since the end of March.

Secondly, more broadly on this impairment sensitivity, just trying to get a feel as to how much confidence you have - I've asked you this before, Katie, actually - in the IFRS 9 ECL models. I mean, you're telling us today that the weighted average assumption for GDP growth is about 0.3 to 0.4% a year for next couple of years. The downside is -0.4% this year and -1.6% next year. It's also got unemployment going up to 6.2% next year, I think. But you're telling us your ECL in that scenario would only increase by about £99 million. Now, I get that that's a general provision measure, but by definition, the ECL on those Stage 1 and 2 is reflective of losses you expect in the future on the performing book. So are you genuinely confident? If so, why more qualitatively in this idea that even if we saw a recession, even if we saw unemployment moving into the sixes, your impairment charge ex any initial ECL build would not move up very significantly at all? Thanks a lot.

Paul

Good. Thanks, Jonathan. I'll take the first one, Katie. You can take the second one. Jonathan, your characterisation is right. Obviously, pretty stable income line last six quarters, C&I Non-interest Income dropped off in quarter 1 '26. If you look at that [Fixed Income performance] compared to '25, it's I think, £20 million [in Q1'26] versus £64 million [in Q1'25]. Not exclusively, but almost exclusively, it's explained by sterling rates, as you say, so a kind of one-off. You've seen that across lots of desks and lots of banks. We have a relatively small rates business. It's obviously indexed to sterling, given what we are as NatWest. So that really explains the delta that you're seeing there. You'll see, £64 million in quarter 1 '25 and £20 million in quarter 1 '26. That's a big part of the difference versus the previous quarters. Couple of things I'd say, it's obviously very small in the context of the overall revenue line. Given the more subdued volatility, we'd expect improvements as we go through quarter two onwards, not just in that line, but overall on C&I Non-Interest Income. I think you're seeing it and reading it pretty accurately there. Okay, Katie.

Katie

Thanks, Jonathan, and good morning. Because as I look at it, these are models that we test extensively. They go through both our own verification and independent verification, and they're also reviewed very closely by external parties, so I am comfortable in them. I think that the thing that I do like with IFRS 9 is this concept which is around the PMA. That enables me where there are moments of discomfort. You can see that we sometimes have them when you can see in different classifications, it's wider than just the economic uncertainty. When you see other numbers in there, you can go, actually, that's a bit of the model they're working on. So completely comfortable on the models is what I would say first.

And you're right, if I look to the ECL on Stage 1 and 2, if I went 100% to the downside, it suggests an extra £99 million. But I would remind you that's Stage 1 and 2, so there would be some Stage 3 losses. They are impossible for us to quantify as to what they would be, so we don't seek to attempt that. I would probably suggest to you that the actual charge could be a bit higher if that was the case. Obviously, that's not our Base Case just now. In terms of what we're looking at, at this stage, we are happy with the Base Case. We're happy with the Guidance that we've done. We've obviously added a bit on the MES, £110m net, a little bit out of PMA. That's just the mechanics of the calculation, which

has taken us to the 26 basis point charge this quarter. But if I take out that MES we've overlaid, it's 16 basis points. What we can see, is it's a good, well-diversified, well-performing book to-date. We've given you a good estimate if we were to move, but at the moment, obviously we're comfortable and happy to have that little bit of extra buffer as we enter a little bit of greater uncertainty than we've seen recently, so comfortable at this stage, Jonathan. Thank you.

Paul Thanks, Katie.

Operator Our next question comes from Benjamin Cavan-Roberts of Goldman Sachs.

Benjamin Morning, thanks very much for the presentation and for taking the questions. Just two for me, please. First, a follow-up on the cost of risk. I see you mentioned about 60% of mortgage balances are now with customer rates above 4%. How are you thinking about the refinancing profile for that remaining portion and the extent to which those customers are moving onto rates a fair bit higher than what they'd expected when entering those mortgages? I know you do stress rate assumptions as well when issuing the mortgage originally, but clearly a lot of volatility in swaps and rate expectations right now, so just keen to your thoughts on that.

And then secondly, thanks a lot for the extra disclosure on the financial institutions. If we look at that business and private credit altogether, how are you thinking about the growth of that book? Is it something you expect to grow more quickly or more slowly relative to the recent past? And have you changed your strategy at all in terms of the underwriting there? Thank you.

Paul Great. Thank you, Ben. Katie, you go for the first question.

Katie Hi Ben, in terms of cost of risk, you're absolutely right, and you've obviously got far in the pack this morning. Slide 32 lays it out really nicely. I guess a couple of things I would talk about as we look at our

prime mortgage books. Obviously, the level of security gives us a lot of comfort. Our greater than three-month arrears are below the sector average and quite significantly, so it's well -underwritten. I guess the guide on the financing of the remaining 40% that aren't on customer rates over 4%, we do use what's happened in the last couple of years to help guide us on that. What you've seen in that time, obviously, there has been wage growth across the different areas. People who are coming up are very aware that they're coming up.

What we see that has been really interesting over the last couple of months is a greater increase on the use of the two year versus the five year. If we look at our five-year fix as a percentage of our fixed book, it's about 66% five year. But actually, if I look just at what's even been happening in the last little while, that's flipped almost completely to that we're writing about 77% two year at the moment, so customers, they understand what they're doing. They are understanding what they need to do in terms of managing their exposure. We do see them looking to lock in refinancing early so that they can get the benefit of the rate, and they've certainly been preparing for this. As we talk to them, as they go through those transitions, obviously it's a big change when you go from your COVID rate to the new rate, but it's something people have definitely been looking for. And we've seen them managing it really quite well, I would say. Paul, on credit.

Paul

Ben, so I'm glad you like the new disclosure. We hope that's helpful to everybody. In terms of outlook, obviously it's a very broad business when you look at the breakdown there. But in terms of the areas that you referenced, we have been growing the business over a number of years, but it's been in a very disciplined way. If you look at limits there, they haven't really moved since this time last year, so Q2'25. Likewise, we haven't materially changed our risk appetite. We're all very focused on being senior lender, good protection from first loss, making sure that the risk-adjusted returns are supported. So our strategy really has been not around growing limits, but prioritising risk-adjusted returns versus volume-driven growth. As you know, we haven't been involved in any of the recent public names.

Looking forward, what I would expect actually is to see some of the spreads to widen, so i.e. the same business, the same risk, but actually better risk-adjusted returns. That would be my assumption. Because as you know, a lot of that business is relatively short term in nature, so you

get to reprice. That's how we're seeing, I hope that gives you a sense of it in terms of limits, but also I guess business strategy, which is returns-led rather than volume-led. Thanks.

Benjamin Very helpful, thank you.

Katie Thanks, Ben.

Operator Our next question comes from Chris Cant of Autonomous.

Chris Good morning. Thanks for taking my questions. Two, please. On Commercial Banking, in the context of what we've got going on in the Middle East, are there any areas of your book that you'd be more nervous on, please? And I'm not thinking specifically just about oil price as an input here. I guess there is the potential for product shortage or oil-related product shortages regardless of price, if this persists. Are there any sectors that you're nervous on when you're speaking to your Corporate customers? What are they worried about?

And on the comment around Refi of the mortgage book, my understanding there is that customers essentially have sort of a bit of a free option to lock in, but then change product if rates shift after they've pre-emptively locked in. Are there any risks to you and to NII later in the year given Swap volatility? Just conscious, I guess the value of that option being given to customers is arguably higher right now. So any comments on how you manage that, how we should think about that, would be appreciated. Thank you.

Paul Thanks, Chris. I'll take the first. Katie, you take the second. On I guess the core mid-market Commercial bank, Chris, obviously we're staying very close to all the various sectors and also the different regions there. It's very consciously a very diversified book. We give you quite a lot of breakdowns on the relative sectors and segments. In terms of your specifics around sectors or sub-sectors that might see greater impacts, probably similar to some of the previous challenges. I would say sectors like Agriculture, aspects of Hospitality and Leisure.

So where you see some of not just what you'd call pure energy input prices, but fuel, fertiliser, food, etc., where you see exposure there would be areas that we will pay more attention to. As we've done in the past, we work closely with those sectors if support packages are needed. We're not at that stage yet and we're seeing no deterioration. I think generally what I'd say, if you think back through what we're seeing in the Middle East, what we saw through the tariff period, similar time last year, through Ukraine and even to the pandemic, I'd say business customers are a lot more adaptable and resilient than maybe they were prior to the pandemic. Their ability to change their cost base and/or pass on costs, the way in which they've engineered their business models over time have given them more flexibility. So what we see is both faster response, but also greater adaptability, which ironically, I think is down to the fact that a lot of these businesses and sectors have had to face a lot over the course of the last four or five years. That's how we see it, but there are probably two sectors that are on our minds. Katie.

Katie

Sure, thanks very much. And your great question, Chris. We've watched this happen historically when we've seen other peaks. But look, it's something that we manage incredibly tightly on this. We've got very sophisticated modelling that we have in play. We base on it looking very much at the individual customer behaviour, looking at what happened in other periods of interest rate volatility, who would move, who would stick. You heard me mention earlier today as well that what we've done in the investment that we've done within our mortgage system has allowed us to be able to react really, really quickly. I mentioned that we repriced 11 times over the course of 22 days during March. I mean, that is a significant change from where we were a number of years ago, so very comfortable with the dynamic overall.

What I would add is that we do see that most people who do refinance with us do ultimately stick with us as well. So there's that good customer engagement, which is really, really critical. We're also largely locked in already for our forthcoming roll-offs. But what I would say, all of these things are embedded in the guidance that I've talked about today about the book actively repricing to 60 bps over the course of the year. And so while we manage it actively, I don't see it would be something that would change what I've said to you this morning already on that number. Thanks very much, Chris.

Paul Thanks, Katie.

Operator Our next question comes from Sheel Shah of J.P. Morgan.

Sheel First question on Corporate Deposits, please, because this is a line item that has remained under £200 billion or so for the last two years. And we're finally seeing a lot of growth come through the business. And not only the growth, but also the rates that you're paying on these Corporate Deposits looking at your other disclosure looks to be declining as well. So I'd be interested to get some insight as to what's happening there.

And then secondly, on the cost base, I know first quarter had some increased investment and restructuring costs, but you also mentioned on the call earlier that the cost profile will be uneven through the year. So just wondering how you're thinking about that across the remainder of the quarters, thanks.

Katie Yeah, sure.

Paul So I'm pleased you've noticed the trajectory there, Sheel. Deposits in the Commercial Bank is a big area of strategic focus for the team, and has been, I would say, increasingly over the course of the last 18 months. So part of the performance momentum there is around focus. Given also the growth we've seen in lending, there's been a natural need to increase deposits in the Commercial Bank. So focus has played a part, but we've also broadened the product range. We've also digitised parts of the product range as well. So we've got business focus. We've got enhanced proposition for different segments within the Commercial and Corporate Bank. And as you'd expect us to have, we also have a much broader focus on Transaction banking, which obviously brings high-value operational deposits. And to your point, depending on the nature of those deposits, high liquidity value, but also in relative terms versus interest-bearing deposits, good cost of funding. So it's a strategic focus supported by a number of operational and tactical activities that support our client base, but also help the LDR.
Katie.

Katie

On costs, you're absolutely right. Q1 is a little bit higher than normal, reflecting some of our decisions to front-load investments and restructuring costs, alongside staff and inflation-related increases from 2025. But you'd expect me to say this. It's our history. It's what we deliver every single year. We are really confident in hitting our cost guidance of around £8.2 billion. That excludes the impact of Evelyn. I'm just going to take the opportunity just to talk a little bit about Evelyn costs. We'll share more about that as well when once we've finished the acquisition, which is going well, but there are a few things that you need to be thinking about that will impact some of those Evelyn costs as they come through.

Obviously, first, we've got day-one transaction costs. That was included in our Guidance of the 130 basis points of Capital. We've obviously got the Operating Costs that will come through from the point of consolidation in terms of Evelyn's own costs. We're then familiar, we've talked a lot about the cost to achieve in terms of the £150 million Total Costs to achieve to drive the £100 million of cost synergies. And finally, we are going to have ongoing amortisation of the Intangibles that will be created upon completion. That doesn't impact our Capital Generation going forward as we've incurred that as part of the capital impact of the 130 basis points.

Obviously, I'll give you more detail when we get to the point of completion, but when you think of lumpiness, think of they're absolutely rock solid on their 8.2. That's where they'll land because they always do. But there will be a little bit as Evelyn comes in. So think about that in your models of those four different kind of categories. Hopefully, that's helpful to you, Sheel, as well.

Paul

Great. Thanks, Sheel.

Operator

Our next question comes from Aman Rakkar of Barclays.

Aman

I had two take questions then. So, could I just trouble you on the deposit margin, please? I think that two bps deposit margin Q on Q contribution, I think it's the softest uplift Q on Q. And obviously, you got multiple moving parts in that, noticeably a massive structural hedge tailwind, but presumably offset by compression on kind of actual

deposit spreads in the quarter. So, I was interested in your sense of the deposit margin contribution on a sequential basis in coming quarters, please. And to what extent you think this kind of intense deposit competition dynamic, particularly for term deposits, I mean, lots of people writing term deposits at a negative spread, kind of feed into that would be really helpful.

And then the second question was broader question just around actually the income dynamic beyond this year, because it feels like there's a building confidence around the income profile beyond this year, principally because of the interest rate environment. It's not really materially moving the needle on this year's guide as much as it perhaps will do on the forward look, not least because of the structural hedge. But I'm thinking about the cadence for Net Interest Income through the course of this year is presumably going to be quite robust, right, in terms of what it means for the next year. Is that the right characterisation? And what do you as a management team do with that, the kind of building confidence on the income outlook in the medium term versus what is quite an uncertain near-term dynamic with the Middle East? Thank you.

Katie

Perfect, so deposit margin, two basis points in this quarter. I think you need to just think a little bit about the overall movement in balances in the quarter. So you've got tax outflows, £10.3 billion. They are predominantly in January. Some do dribble into February, but they are predominantly there. We're confident around the deposit margin expansion will be greater in the coming months as we move forward from here.

If we then look at kind of income beyond 2026, we expect annual income growth sort of through 2026 to 2028. We're confident in that growth trajectory. Obviously, disciplined growth across Lending, Deposits, and AUMA's continue in line with our CAL target of greater than 4%. That will obviously be boosted by the Evelyn Partner acquisition when it comes online. The higher for a longer interest rate environment, we've now got the terminal bank rate of 3.75% alongside the actions that we've already taken in Q1 to move higher in the yield curve, meaning that we are increasingly confident on the income tailwind from the structural hedge, supporting income all the way through to 2030.

You've got other variables like customer behaviour, competitive behaviour around pricing and macroeconomics. We'll see how these develop, but again, you can see what we've got in terms of our economics in there. And given that kind of interest rate sensitivity that we have, we do see that as a net positive for income beyond 2026. So overall, confident in building on our confidence that we had when we spoke to you in February as well. Thanks very much, Aman.

Paul Yeah, and to your final point, Aman, how do management characterise that? I think as Katie finished there, net-net it feels like we're in a stronger position on income and returns, both '26, but also looking out to '28. Thanks.

Operator Our next question comes from Amit Goel of Mediobanca. If you'd like to unmute, Amit, and go ahead and ask your question.

Amit Yeah, so two: one, just kind of following up. I suppose just on slide 30, deposit margin and contribution, I'm just trying to reconcile on each of the divisions, it seems like the cost is coming down, but on the Group, it's flattish. So I just wanted to check what's driving that.

And then secondly, just on Evelyn, curious if you've got any colour in terms of how the business has been developing since the acquisition announcement, and I guess during the first quarter and beyond in terms of AUMA, so just anything on that would be helpful. Thank you.

Paul Great, okay. You go first.

Katie I'll do the first one. Absolutely. So if you look at the businesses, what that is, is that's representing the customer rate on deposits or loans. Whereas if I look at the Group number, it's the overall cost including hedging. So it's not perfectly like-for-like as you look across those two lines. Paul, Evelyn.

Paul Yeah. So Amit, obviously, I can't comment on a business that we don't yet own, so that wouldn't be appropriate. What I would say is in terms of the planning to close, it's going very well. We're moving at pace. We hope to announce that in the coming months. The appropriate work on integration is progressing really well. You can see from our AUMA performance, as in NatWest AUM performance, the strength, net new money [as percentage of opening AUM] above 8%. Again, despite the market movements, top quartile investment performance. Going back to the AUM [net flows] , kind of 10% up year-on-year, which is great.

So there's a limit. There's obvious limits to what I can say. But in the work that we're doing so far, we're very encouraged. I've spoken at length around the scale and the capabilities that Evelyn will bring. I think if you look at the success we're starting to have around Retail Investment and Premier Investment in the NatWest space, the acquisition of Evelyn is only going to accelerate that. So to me, the demand signals and the performance signals are good. Once we've closed, as Katie alluded to earlier, in relation to the cost question we'll obviously share a lot more detail in terms of the overall numbers and the plans, and we are eager to do that as soon as we can. Thanks, Amit.

Operator Thank you very much. Our final questions come from Ed Firth of KBW.

Ed Yeah, morning, everybody. Thanks for the questions. I just have two. The first one was just on detail. I think at the time of Evelyn, we were talking about £300 million of revenue and £300 million of costs in the first year. Is that still the right number we should be getting? And that was just my first question.

Paul Nothing's changed since the original disclosures, Ed. That's the best way to think about it.

Ed Perfect. Okay, thanks very much. And then the second question was related to Jonathan's question really about risk. Because I'm just struck that in your sort of worst case scenario, you're talking about a low few hundred millions of credit losses, I guess, something like that. I know it's more than 99, but it's not huge. And that's on a £30 billion Tangible

Equity Base. And you're making pre-provision profits of £10 billion a year. And so I'm just wondering, how do you think about appetite to risk? I mean, do you really feel confident that you're taking enough risk? Because it feels to me that potentially there's quite a gap there for you to be doing quite a lot more and growing revenue quite a lot faster than you are.

And I guess related to that, can I just ask about slide 33 again? I mean, it's a great slide. And thank you very much indeed for giving it to us. And I wish all the other banks would as well, but it does strike me that particularly your funds lending looks quite a lot bigger than I would ever have imagined. I mean, I don't know the market that well, but I guess you do. Are you a market leader in that space? Would you imagine that you are sort of bigger than most people or would you think that you're just a player and that's pretty standing? Because unfortunately, other people don't give us that type of disclosure, but thanks very much.

Paul

Great, okay. Thanks, Ed. Good to hear from you. Quite a few different questions there. So, we've got the kind of the extreme downside credit piece. Katie, why don't you have a shot at that and I'll cover funds. And then there's a bit, I guess, linked to lending risk appetite as well.

Katie

Yeah, so I'll crack on on impairment. You can jump in after that. So, Ed, what I'd probably do is guide you a little bit. If you go after the call on page 27 of our IMS today we gave you, I think helpfully as a non-standard Q1 disclosure, what our new change in our scenarios would be. And you can see that on the downside scenario, for Stage 1 and Stage 2, it's £99 million additional. But if you went to the extreme downside, that's a £1.7 billion hit. So really very different in terms of numbers. And you can also see that that's obviously greater than the hit we would have had at the year-end in that space. So I'd probably just rebalance your numbers a little bit on that. That's obviously just Stage 1 and Stage 2. I would point out that that extreme downside is really quite far away from our Base Case, but obviously it's blended into the number. I think we give it about a 14% probability weighting. So quite far out there, but it is something to consider as you look at the numbers. And Paul, shall I come to you for taking the other?

Paul

Thank you, Katie. I'm glad you like the disclosure, Ed. So I would say on funds lending, that's a really longstanding business for us, in excess of 20 years. A large part of that business is in our RBSI, which is our Channel Islands business. It's been in our Disclosures for all that period of time. Probably worth diving into a little bit of the detail. I wouldn't say we were a leader in that business. I'd say we're a strong player where we choose to participate. It's worth bearing in mind of that funds lending business, 80% of it is I guess what you'd know as subscription lines or capital call facilities. So that's where you've got exposure to LPs and we take security charge over the LPs. Typically, that's pretty short-dated as well, just to give you a bit more context, you know 1 to 3 years. So when you look at that line, best part of £17 billion is sub lines. The other part is NAV, which is a smaller part, kind of £3 billion, £4 billion. And that's where you're in effect a senior creditor when you're lending on to a particular asset. Average LTVs, again, just to help you there, around 30% and you've got an institutional investor base.

So very long-standing business. It's been predominantly led out of our Channel Islands business. No historical losses. So a good business, but as you look across European US banks, you'll see different levels of exposure. I'd say we're strong, but certainly not a leader. Thanks.

Katie

And in terms of risk, do we feel we've got the balance right? Pretty much. We're taking Ed to his last question.

Paul

Yeah, Ed, I hear both sides of the story. For some investors, I hear they really value the low-risk business model, well-diversified credit base, high risk-adjusted returns that you see. And then you hear the other side is, could you take more risk?

I think the way we've approached our different asset portfolios, both in Retail and Commercial has stood us in good stead. It allows us to perform well with a low cost of risk. We generate a high amount of capital. Our ROTEs are obviously sector leading. So it feels like we've got the balance right. We do at times increase our risk appetite. You go back over the course of the last couple of years, you can see some of the moves we've made in Retail. We've broadened our addressable markets in Mortgages and Credit Cards. But I kind of feel that a UK-centric, low-risk business model, high-capital generation serves us well.

So it feels like we're in the right space. Hopefully that gives you a bit of insight into how management think about it, Ed. Thanks.

Operator Thank you for all your questions today. I will now hand over to Paul for closing comments.

Paul So I just want to close with a couple of key points which I think are particularly important given the context we're in and I think demonstrate why we think we're very well-positioned as a bank.

The first one is our Deposit franchise and the gearing that gives us to rates. Obviously, that's driven by our Corporate franchise. It supports our revenue growth, especially in a higher-for-longer environment.

The second thing I would point to is the growth track record that we've built and continue to build, and the targets that we've put out there. We think we've got a good track record and further opportunities across our three businesses. You can see also the progress we're making around Cost Management and our Cost-Income Ratio and continuing benefits of Operating Leverage.

And then to link it to Ed's question, if you look at the loan book and you look at the Bank of England stress tests, we are the most resilient bank under stress. I think that's as a consequence of our diversified business mix. So, the lowest stress draw-down of any UK bank.

You add all that up together, superior returns, high-capital generation, which can drive stronger distributions. So, from my perspective, we feel very, very well-placed as we look into the circumstances that face us. Thanks for your time. I hope you have a good weekend. Cheers.

Katie Thank you.