



NatWest
Group

NatWest Group plc
Q2 2025 Fixed Income Call Transcript
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Director of Finance, Retail Bank, Andrew Wells Director of Finance**

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Katie

Thank you for joining us, particularly in the room here. With me today on the line, I've got Stuart Nimmo, Finance Director of our Retail bank, Donald Quaid, our Group Treasurer. And in the room, I've got Andrew Wells, Director of Finance and Claire, who is known very well to all of you and of course, helped by Nick and the rest of the IR team. Before we open up for questions, I was just going to remind you of a couple of the key messages from our first half results.

We're pleased with a strong start for the year, delivering a return on tangible equity of 18.1% for the first half as our three businesses delivered broad based growth across loans, deposits and assets under management. Capital generation was also strong at 101 basis points pre-distribution in the first half and 53 basis points in the second quarter, net of the 15 basis points impact from the Sainsbury's Bank acquisition.

This allowed for our first-year distributions of £1.5 billion as we raised our interim dividend by 58% year on year and announced a new share buyback of £750 million, while reporting a common equity tier one ratio of 13.6%. The strong first half performance means that we've raised our full year guidance for both income and ROTE to greater than £16 billion and greater than 16.5%, respectively. We reiterated our guidance on costs, impairments and risk weighted assets, and with that, I'm very happy to take any questions that you might have.

Perlie Mong

A couple of questions, one on non-interest income. I guess we've had a few quarters of very strong performance. There are obviously various things going on, volatility and whatever, but it feels like the underlying trend is also very strong.

So, can you just help us a little bit on what is the underlying growth? Because, within that income line, you also have Coutts and some of the growth initiatives in there, and I think if you look at consensus, it looks to be pretty flat this year versus next year. How much of that underlying growth should we model and how much volatility can we maybe expect on top of that?

Katie

It's a good question. I guess the way that I would think about it is it's good to take out the Centre as that gives you the real growth because when you look at non-interest income, first of all, it's like 15% growth, but when you look just at the three businesses ex Centre compared to last year, it comes out about 5% [H1'25 vs H1'24].

I think the other thing, if I look to the Private Banking and Wealth Management business, what we've started to show you on their page of the IMS is we split out the AUM income. And what you can see is the AUM went up in the quarter, but the income was quite similar, and that's because of the impact of when it comes in. The increase came in at the end of the quarter as you don't earn the income from it. Now you can have views as to what happens to markets, but I think what we were pleased about within Private Banking and Wealth Management is that we had 8% of new flows as a percentage of opening AUM. And for me, you want to always be above 5% to show that you're good and an 8% figure is really important, so that shows that I'm bringing money in, in terms of the net cash flow and I'm not losing it out the back door. I'm really comfortable with that as a piece. It's an important number of that income, but it will grow as the AUM grows as well. Then if you look at the C&I business, traditionally, it's a quieter quarter, we know that August is quieter, and we know that December is quieter. But at the same point, our performance for that business, even in the fourth quarter last year, was also strong, and this really is a question of volatility. So when you have the volatility going through, we're good with helping our customers take advantage of that volatility and making sure we're making the right trade.

If we were to see Q3 as a more volatile time, you would expect that number to be better. And you go, okay, so you told me you'd be down and now it's up, but that's because you've seen more volatility in the market.

But that's what drives that number as you go through. So, I think those are some of the things to think about how does that continue to deliver. But we've seen, three very strong quarters, you can be sure we're holding the business to good pressure on that.

And then when you go to the Centre, you then have noise with the FX arbs. Again, that comes when it's volatile, in terms of the numbers going through. That's why we say for Centre to look at it on a total income basis, because otherwise, you just have noise between lines that isn't meaningful or insightful, and very hard for you to model.

Perlie Mong

On loan growth, commercial had a very strong quarter, especially CMM. If you look at the Bank of England data that just came out yesterday, it looks like large corporates, are actually coming down a little bit and the growth is coming from small businesses. I guess what I mean is, there is a lot of mixed messages coming out of this. There's a lot of worry about

the UK economy in general, what might happen in autumn, business confidence, but equally, this quarter, we've seen pretty strong commercial loan growth across the board for everyone. So, it's just a bit of mixed signals.

Katie

I think the challenge with the signals is people often hang on to what signal resonates with them. When we look at it, we know we've had a strong record of growth across all of our businesses, we deliver annual loan growth and deposit growth, it's about 4% for six years, that's compound. That outpaces UK household and corporate lending of around 2%. Thus, we know given the broad base of their waterfront, particularly on that C&I side of the business, that we will capture growth because of the model that we have where we operate. When we look at it, I was very pleased in this quarter, that we saw the growth coming through in CMM, because last quarter, it had been a bit weaker, and lending was more at the top end. So I think you have to look for different places. We've demonstrated that we can continue to grow. If I look at what we've done in mortgages over the last number of years; what we've done in credit cards, obviously, part of that was the acquisition, but that was done very deliberately; the AUM we have already talked about; and we know that we're the largest provider to startup businesses as well.

What that kind of tells me, is that we can grow. If you look at where growth is sitting, and that we normally outstrip it a little bit, you get some comfort within it. We know that the UK economy is expected to grow, we're expecting that kind of nominal growth of three to four percent, and that's what's in our base case. We also know in our position that we will capture growth. Now, I can take you to some sectors and some customers who won't be growing, and they'll have different issues within their detail, but when you look at the breadth of customers that we have, and the number of customers we have, that we're confident growth will come through. I'm not willing to say it'll be x percent this year and y percent next year. But we do know that over a pretty long period of time that we outstrip the growth that's there.

Why don't I go to Ben from Goldman's? Hey, Ben, good to see you.

Ben Caven-Roberts Hello there, good to see you too. Thanks very much for taking the questions. I just had two, please.

One just as a follow up to the Leeds Reforms, which I think were a topical discussion on the call. One area of focus within that was offering

more investment opportunities and financial advice to customers. Do you see any competitive pressure from platforms which offer more investment opportunities and how are you thinking around building out that proposition more broadly within your own platform? And then the second question on capital, I know it's not something that technically you need to disclose quite yet. But any comments you would provide on the output floor, when that eventually becomes effective, and if you expect it to be meaningful or not? Thanks.

Katie

Sure, I can give you something on both of them. If I go with the output floor, first of all, as you know, we've got our Basel 3.1 guidance, which is due to come in on the 1st of January 2027. We are also in the middle of our CRD4, which we've seen some impacts already, we're expecting some further impacts to come through on that this year.

The output floor will only start to report in any of our pillar three documents in Q1 in 2027. But where we're looking at CRD4 at the moment, we're not expecting the output floors to particularly bite. We don't think it will be particularly meaningful once we finalise CRD4 and if there's anything more interesting than that, I'll tell you in advance of Q1 2027. At this stage, the guidance you've got is probably a good vision into that. If there is something more, we'll let you know, before we get to that day. We need to finish this piece off, then get to that bit.

If I look at investment advice, you need to always be aware of the competitors, particularly from the platforms. What we do with Coutts, we talked about at our Spotlight, they are there as our asset management centre of excellence. They provide the asset management that we do within our retail mass affluent space, which is where the platforms are more of a challenge. If you're in the higher net worth, it's not generally platform competition that you've got. We provide a very simple set of products and when we provide those products to the customers, it's a better choice for them. We can see the customers who are investing in some of the platforms, and we can also work out what they are investing. We can then think you're on a platform that may or may not be the right platform for you, given the expense of the cost within it. We don't think it's necessarily about having hundreds of different funds that you should pick but having a simple offering for that more mass area that is very accessible at the right price point, but also there's the availability of investment advice where you need it. We've started to do a small piece of work offering some of those investment reviews as a very small team that does it, and what's been

interesting is how busy that team is in terms of doing some of that research and being aimed at that space. It's trying to work out what's the right thing around wealth advisory when you're the higher net worth, what's the right thing on the hybrid where I can talk to somebody or those areas that are really self-directed. We're very excited about the changes in investment advice, because we do think it's a real issue. In the UK you just cannot get advice unless you are wealthier, and it's such a gap. I think it's really important, so we see it as a great opportunity, mindful of what others will do, and how to make sure that you're capturing the right clients with the right outcome for them as they move forward. Thanks, Ben.

Ben Caven-Roberts Thank you. Very clear.

Chris Cant It's Chris from Autonomous. I had a couple, please. On the hedge, you've guided in terms of this year over year, gross income, like some of your peers. So, a billion year over year this year, greater than a billion next year, greater than greater than a billion in 2027. Now, I'm not asking you to give me what the greater than greater than is, but I guess I'm finding it mathematically quite tricky to see 27 over 26 as a bigger year over year step, given what you've told us about the maturing yields. So maturing yields are very low, this year and next, and then they step up a lot in 27. So, to get to 27 being a bigger step up year over year, do we need to be thinking about, for instance, 26 maturities being very back-end loaded, or 27 being very front end loaded to actually make it, because it's annual periods, right?

Katie Yes, so without wanting to talk you down or be particularly negative, unless I've said it by accident, I haven't said how much more 27 will be than 26, only that it will be greater.

Chris That answers the question completely. I've misinterpreted it. I thought it was 1/ 1.2/ 1.4

Katie No, it will be bigger, but not necessarily by the same amount that it'd be bigger in 26, 25.

Chris The other question was commercial other income. When I look at C&I other income, if I strip out NatWest Markets, for the non-NatWest Markets bit of C&I, it was down half on half. First half versus second half of last year. Is there anything going on in there that we need to think about in terms of this transfer pricing change that you've put through? Is the amplitude of that transfer pricing changing? I know NatWest Markets are just a subsidiary disclosure, but it is

something that I think a lot of people look at, and the non-NatWest Markets other income was down quite a bit.

Katie If I look at other income in C&I, it was £654m in Q2'25, £677m in Q1'25, £686m in Q4'24 and then £677m in Q3'24. It wouldn't be to do with the transfer pricing in relation to NatWest Markets, as obviously being a ring-fenced bank, we don't fund them, they fund themselves.

Chris Sorry, maybe transfer pricing is the revenue share. I mean, you changed it to some more revenue.

Katie We did do some revenue share changes, but Andrew, correct me if I'm wrong, I think that we restated the financial supplement for the revenue share change within NatWest Markets. Let's double check that.

I think what you might find within there is that some of the transactions we do in terms of the RWA management will go through that line. If in one quarter, we did a credit insurance that we didn't do in another quarter, it would account for a little bit of the change within there. I think on the revenue share, we did update it going backwards so that you didn't have a number that was too big for it to be a one quarter event.

Chris I'm just wondering whether there was any further change on revenue share because I guess the question then becomes if it's not that, is there an underlying weakness in the non-Markets bits of commercial operations?

Katie No, not that there is. You can find that there are small things that come through.. They're often more Retail than they are Commercial in a particular quarter, but there's nothing that springs to mind on that. I don't think it's the revenue share, but Andrew will quickly check.

Benjamin Toms Hello, thanks for taking the questions and for the session. In the last quarter, there was lots of discussion around the acquisition of TSB, and Santander ultimately bought it on a return on invested capital at 20% plus, even on a price that was probably way over what some other banks might have wanted to pay.

If I look on my screen at your tangible value at 1.3 times. Can you just give us an idea in terms of buybacks at 1.3 times, are you still generating return on investments that are significantly above the 20% level and there's more to go before buybacks become less attractive relative to acquisitions? Some colour there would be helpful.

As I run through my model post this quarter's results, valuations feel a bit stretched, and I started pulling on the cost of equity lever, which maybe others are also doing too. I was wondering, I'm sure you're not going to give me an answer to this, but maybe if you can give me an idea about how internally you might think about your cost of equity?

Katie

We have spoken about it from time to time. If we look at the buyback, I don't have a number in my head that says, actually I would stop at 1.6 or 1.7 or something like that. We do look at the US banks and we can see that they continue to do buybacks.

Every time we do a buyback or whenever we look at any other transaction, we do look at it with the counterfactual and say if I did this share buyback transaction, would that be a better use of capital, or would it be better to do this other transaction? Now within there, that's also quite simplistic because with a share buyback you announce it and you just do the transaction. Whereas if you're making an acquisition, there's a little bit of jeopardy that you've got to integrate it. You hope that your cost model is right. You hope that it doesn't take you too long. But for example, when we did the Sainsbury's transaction, you'd be very confident, but at that same point, we also looked at what the share buyback would be for the admittedly small capital that was involved. But we said, no, actually, this makes far more sense for us to do in terms of this level of investment.

And when we look at the share buybacks, we do look at where we think TNAV growth is coming out. So, we don't compare it to TNAV today, we will look at TNAV in terms of what our own plans are saying internally for 26 and 27.

There's no hard and fast number, but it is something that each time I take a proposal to the Board for a buyback, we do go through as to why we're so comfortable, why would we do this now, given what we think our forward valuation is as well, so that's something we do spend a bit of time on. In terms of the cost of equity, I've talked about it from time to time. We generally work between 11% and 12% internally.

I'll move that around a little bit depending on which product domain, which area we're looking at, how hard we think the integration might be if we want to flex it at different levels. That doesn't feel as far away from the market as we were a year or 18 months ago when it had its 16/17% of cost of capital, but that's the sort of numbers we look at. The other thing we care about is that our return on tangible is greater than

15%. It needs to something that's not going to be dragging that down for an extended period of time. We look at the numbers in a number of different ways to get there, but that's the benchmark that we have internally.

And Ben, if you worked with all the different models, you would come to that same range, I would suspect.

Benjamin Toms Okay, thank you very much, that's very clear.

Katie Thanks very much, Ben. Anyone else in the room?

Aman Rakkar It's Aman from Barclays. I'm going to ask you three, if that's okay. On the growth piece, I just don't understand why you can't be more explicit on growth in your business. It's a post hoc observation that your growth is better than what we had expected, and your print is awesome. You've got a track record, you're taking market share, nominal GDP is growing. Why can you not be more explicit around the growth?

Katie Because I feel I give you a lot of market guidance, and I give you more than I think I probably need to give you already. I'm leaving some things that you need to make decisions about yourself.

Aman Which is fair. But I think your share price suffers as a result.

Katie We're very comfortable on our 26 growth in income. We said that we'll talk more to 2027, we're comfortable on that greater than 15% return on tangible equity. We feel that we give you good guidance, we do see strong growth in income, we're very cost controlled, we're giving you good guidance on what's happening on practically every line in the income statement, and then get to the overall equity position, so I am comfortable.

Aman Maybe it's not really a question, I guess it's just an observation upfront. I think sometimes investment cases are at risk of just being a structural hedge, and need a repricing story, and actually, that's just not really fair.

Katie No it's not fair, we have good growth.

Aman Because you've got franchise momentum. I just sometimes think it'd be great to just tell us and say, we're going to be doing it.

Katie As we work our way towards year end. I wouldn't do it at Q3, certainly. But we'll take that thought under reflection. Thank you.

Aman Thank you very much. So I think there are emerging signs of deposit composition in terms of...

Katie Oh, definitely. I think Q2 showed us that.

Aman Q2, but I can see NS&I have kind of launched a bond that's heroically underwater. How mindful are you of this intensification?

Katie So we're being very mindful of it. I think as we look at it, what we always talk about is we manage for returns. There were moments during May that some of our one-year bonds would have been a little bit underwater. And the reason for that in the second quarter was because we had very big rollovers coming through. If you think of our own history of where we were as rates started going up, we didn't have the right products at the beginning of that year. We built a lot of our growth in Q2, Q3. That's where some of our relatively bigger rollovers might be. If we've got a big rollover that we're looking to defend, we may go slightly underwater for that period.

You can work that out from the rates when you track them on a week-by-week basis. I think for us, what we're in is a very strong position on a liquidity basis, so we're not having to chase deposits for the sake of having deposits.

Given that there's that strength, and given that we're so guided by returns, unless there's a reason to really chase on them, we'll try very hard not to, which might mean that you might see our market share move around a little bit. Stuart, this is something you debate a lot in the Retail space. Do you want to just give a little bit of colour of how that debate goes in your world?

Stuart I'll echo what you've said so far. We obviously manage our deposit base with reference to a number of factors. One of them is clearly where we price relative to swaps, and where our book is positioned in terms of maturities, etc.

So as Katie said, at moments in the later part of Q2, we had more to defend, and we acted accordingly against that. I guess the NS&I move, not a massive surprise, actually. We know the funding targets, significantly up on what they had last year.

Typically, they tend to be more active in the second half of the year. If I think about the shape of the cycle, over the last two or three years, if I

look at market maturities, the second half is bigger than the first half in terms of the fixed rate bond and ISA markets. We are similar to that, and it's a good mix between one and two a year. You can think about where rates were and how competitive the market was at those points in the recent rate cycle. We analyse a lot of data on our customer base. We balance carefully where we will price on retention and balance that against what it would cost to replace, and replacing includes cannibalisation. I guess what I'm saying is you'll expect us to compete in the second half of the year against the shape of our book and against competitors with a forensic review of how our customers are behaving and where flows are coming from and going to. But I agree with Katie, I think the first half was definitely a bit more competitive. If you step back across the entire first half, the deposit picture for us was clearly up including Sainsbury's, but pretty flat excluding that. Some heightened competition around ISA season, but actually that's dissipated and the balance is quite flat across the first half of the year despite the competition.

Katie Thanks, Stuart.

Aman Thank you very much. I'm aware of pretty active discussions on ring fencing that have taken place amongst banks and regulators and various parties. I was interested in how you see this playing out. I think we talked about potentially the first £35 billion outside the ring fence bank, if that is a potential tailwind for you?

Katie That's certainly something to think about. You can see in our numbers, how much we pay in interest costs because of the wholesale funding. I think if that was something that we were able to use, you wouldn't get it all immediately because you've got debt that would mature, but it would mean that we would fund NatWest Markets quite differently from how we fund it today. That would be a benefit for us. I don't have any insight into where they're going to go. You've heard all the lobbying, you know as much about it as I do. But to me, just in terms of equality, the idea that some banks can use that to fund investment banking activities, but local banks can't, feels quite inappropriate. I would hope that they would do something on that and let's see if they do. Thank you.

Andrew I was wondering why I wasn't remembering so quickly, Chris, just on your questions on Revenue share. We implemented in 2023, so it was quite a long time ago to change. We didn't restate, but it's a broadly consistent year on it.

Katie

Thanks, Andrew. Any other questions on the telephone?

Katie

If there's nothing else in the room, I'll give you time back. Thank you very much for your time and support as ever. If there are any questions you have, you know how to get hold of Claire and then I'll see some of you at various Salesforce meetings as well over the next few weeks once we get past the August holiday. But just a big thanks for all the help and support. We are always grateful for suggestions around guidance or different disclosures. We are very keen to hear them, so thank you very much indeed.