NatWest Group plc
Q2 2025 Fixed Income Call Transcript
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Hosts: Katie Murray, CFO, Donal Quaid, Treasurer and Paul Pybus, Debt Investor Relations

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Katie

Good afternoon, everyone and thank you for joining our half-year 2025 Fixed Income Results presentation. I'm joined today by Donal Quaid, our Treasurer, and Paul Pybus, our Head of Debt IR. I'll take you through the headlines for the year before moving on to the financials for the second quarter. Donal will take you through capital, liquidity and funding and then we'll open up for questions.

Starting with the headlines on slide three. Customer activity has helped to deliver a strong first half. Customer lending grew 3.2% to £384 billion in H1. Customer deposits were up 1% to £436 billion and assets under management and administration grew 5.9% to £52 billion. Income grew 13.7% to £8 billion year-on-year while costs reduced 1.4% to £3.9 billion. This resulted in operating profit of £3.6 billion and attributable profit of £2.5 billion. Our return on tangible equity was 18.1%. This morning, we announced an interim dividend of 9.5p and a new share buyback of £750 million. Our balance sheet remained strong with a CET1 ratio of 13.6% and we reached an important milestone in May with the Government selling of selling its remaining stake in NatWest Group. So we are now privately owned for the first time in 17 years.

With a significant restructuring of the bank and government ownership behind us, we are now attracting new investors and driving growth. Turning to our strategic priorities on slide four. We continue to grow our customer base, attracting over 100,000 new customers across the bank as a result of organic growth during the first half. In addition, the Sainsbury's bank transaction completed in May, adding around a million new customers with about £2.4 billion of savings and £2.2 billion of unsecured lending. In Commercial and Institutional, we are building on our strength in social housing and have delivered £6.8 billion of our lending towards our £7.5 billion 2026 target.

We've over delivered on our £100 billion target for climate and funding and financing and have now reached £110 billion. We are announcing a new target today to deliver £200 billion of climate and transition finance by 2030. We continue to work on bank-wide simplification to enhance customer and colleague experience and increase productivity. We are accelerating the use of data and AI across the bank through collaboration with others. For example, we have just announced a strategic collaboration with AWS and Accenture to modernise our data capabilities, including the creation of a platform that uses AI to give us a single view of customer data across the bank. This will enable greater personalisation, faster onboarding, better protection against fraud and stronger customer engagement.

Finally, as we actively manage our balance sheet, we have generated 101 basis points of capital in the first half. We have taken action to reduce risk-weighted assets by £2.9 billion through a range of measures, including three significant risk transfers.

Turning now to our second quarter performance, using the first quarter as a comparator. Income, excluding all notable items, was up 1.5% at £4 billion. Operating expenses were 3% higher at £2 billion and the impairment charge was £193 million or 19 basis points of loans. Taking this together, we have delivered operating profit before tax of £1.8 billion. Profit attributable to ordinary shareholders was £1.2 billion and return on tangible equity was 17.7%.

Turning now to income. Overall income, excluding notable items, grew 1.5% to £4 billion. Excluding the impact of one additional day in the quarter, income across three businesses increased 1.1% or £43 million. Net interest income grew 1.6% to £3.1 billion. This was driven by volume growth across lending and deposits, including portfolios added from Sainsbury's. It was also supported by margin expansion, as tailwinds from the product structural hedge more than offset the impact of the base rate cut in May and lending growth. We continue to assume two further base rate cuts this year, with rates reaching 3.75% by the year-end. Non-interest income across the three businesses was down 0.8% compared with a strong first quarter and up 2% compared to the prior year. Given the strength of the first half total income, we now expect full year total income, excluding notable items, to be greater than £16 billion and return on tangible equity to be greater than 16.5%.

Moving now to lending. We continue to be disciplined in our approach, deploying capital where returns are attractive. Gross loans to customers across our three businesses increased £8.4 billion to £384 billion. Taking retail banking together with private banking, mortgage balances grew by £1.3 billion, with growth improving through the quarter following the stamp duty deadline at the end of March. Our stock share remained stable at 12.6%. Unsecured balances increased by £2.7 billion, mainly reflecting the addition of the credit card and personal loan portfolios from Sainsbury's Bank. In commercial and institutional, gross customer loans, excluding government schemes, increased by £4.6 billion. Within this, loans to corporates and institutions grew by £2.1 billion, mainly driven by project finance, sustainable financing and funds lending. Loans in our commercial mid-market business grew by £2.1 billion, reflecting increased lending across social housing and residential commercial real estate.

I'll now turn to deposits. These were up £2.4 billion across our three businesses to £436 billion, continuing the quarterly growth trend. Retail banking increased deposit balances by £0.9 billion to £197 billion. The addition of £2.4 billion of deposits acquired from Sainsbury's Bank was partially offset by a reduction in current accounts. Private Banking balances increased by £0.1 billion, and the increase in commercial and institutional of £1.4 billion was mainly from larger customers in corporate and institutions. Deposit mix was broadly stable, as the proportion of non-interest-bearing balances remained at 31%, and term accounts increased slightly from 16% to 17%.

Turning now to costs. These increased 1.6% to £2 billion in the second quarter. Our annual wage award and higher national insurance contributions both took effect in early April. We also incurred £27 million of our guided one-time integration costs during the quarter, bringing the total to £34 million for the first half. We remain on track for the other operating expenses to be around £8 billion for the full year, plus around £100 million of one-time integration costs. This means expenses will be higher in the second half, driven by further business transformation, the remaining one-time integration costs, and the bank levy. Our focus remains driving cost savings to create capacity for further investment to accelerate our bank-wide simplification.

I'd like to turn now to impairments. Our diversified prime loan book continues to perform well, and we're reporting a net impairment charge of £193 million for the second quarter, equivalent to 19 basis points of loans on an annualised basis. This includes an £81 million one-time charge on acquisition of balances from Sainsbury's Bank, equivalent to 8 basis points. Excluding this, the charge was £112 million, or 11 basis points. We retained post-model adjustments for economic uncertainty of £234 million. We have reviewed and updated our macroeconomic assumptions, with minor changes that drove £10 million of additional expected credit loss. Overall, we have no significant concerns about the credit portfolio at this point, and given the current performance of the book, we continue to expect a lower impairment rate below 20 basis points for the full year.

Turning now to guidance for 2025. We now expect income, excluding notable items, to be greater than £16 billion, and based on the strength of income, we anticipate return on tangible equity to be greater than 16.5%. Our cost, impairment, and RWA guidance remains unchanged. We expect other operating expenses to be around £8.1 billion, including around £100 million of one-time integration costs. The loan impairment rate to be below 20 basis points, and RWAs to be between £190 and £195 billion. Where the figure lands within this range still depends on CRD4 model outcomes. We also continue to target returns greater than 15% in 2027. And with that, I'll hand over to Donal.

Donal Thank you, Katie. Good afternoon, and thank you for joining today's call. I will start by sharing some highlights for the half year, before moving into more detail on the balance sheet, covering capital, liquidity, and funding. I will then update you on the progress against our funding plans for the year, and plans for the second half of the year.

Starting with an overview of the key metrics on slide 13. We ended the quarter with a strong capital, MREL, and leverage position, comfortably above the regulatory minima, with a CET1 ratio of 13.6%, a total capital ratio of 19.7%, a total MREL ratio of 32.4%, and a leverage ratio of 5%. Our average liquidity coverage ratio was 150%, giving us comfortable surplus over minimum requirements. Our loan to deposit ratio was 86%, and our average net stable funding ratio was 136%.

The group's funding is very well diversified, with a strong retail, private, and corporate deposit franchise, with around 437 billion of customer deposits. We have made solid progress against our 2025 funding plan, with £5 billion sterling equivalent of benchmark issuance from the holding company, across senior MREL, AT1, and Tier 2 capital securities, and £4.2 billion sterling equivalent from the operating company, NatWest Markets. Thank you for your continued support for our transactions. June marked another positive step in our credit ratings journey, as Fitch upgraded all rated entities while affirming a stable outlook.

Turning to our capital and leverage positions on slide 14. Our CET1 ratio of 13.6% is within our guided target range of 13 to 14%, and we're currently operating with 310 basis points of headroom, above the maximum distributable amount of 10.5%, equivalent to £5.9 billion of nominal CET1. Our UK leverage ratio was 5%, leaving around 115 basis points of headroom, above the Bank of England minimum requirement. The slide also shows the impact of the other systemically important institution buffer applied to NatWest holdings, that results in a group risk add-on for NatWest Group of 1.2% for CET1, and 40 basis points for leverage. Although not part of minimum ratio requirements, or combined buffer requirements for NatWest Group, it does form part of our minimum supervisory requirements, resulting in a buffer of 190 basis points, or £3.6 billion of nominal CET1 capital, and 75 basis points for leverage.

Moving to capital generation on slide 15. We ended the second quarter with a common equity Tier 1 ratio of 13.6%, down 20 basis points on the first. We generated 53 basis points of capital before distributions. Strong earnings added 69 basis points, offset by 15 basis points from Sainsbury's, and one basis point from RWA increases and other CET1 movements. We increased our ordinary dividend payout ratio from around 40% to around 50% earlier this year, and this morning we announced an interim ordinary dividend of 9.5 pence per share, together with a share buyback programme for £750 million. Together, these accruals consumed 72 basis points of capital. Risk weighted assets increased by £3.1 billion to £190.1 billion. This comprises £4.6 billion of business movements, which broadly reflects our lending growth, including Sainsbury's Bank, and £1.4 billion from CRD4 model inflation. These movements were partially offset by £1.7 billion reduction as a result of RWA management, and a £1.2 billion reduction in other RWA movements, including FX. We continue to expect between £190 and £195 billion of risk weighted assets at the year end. Where the figure lands within this range still depends on CRD4 model outcomes. Our target CET1 ratio remains unchanged in the 13 to 14% range.

Turning to our total capital position on slide 16, we currently have an AT1 ratio of 3.1%, with 6 billion of securities outstanding. Earlier this month, we announced the call of the August 1.15 billion US dollar AT1 notes, which reduced CET1 by approximately five basis points. The impact arises due to changes in FX rates since the date of issuance of the notes. Our Tier 2 ratio is 3%, with £5.7 billion of securities outstanding. We are currently running with excess headroom in AT1 and Tier 2 compared to our minimum requirements, having taken advantage of positive market dynamics in 2024 and 2025 to pre-fund both AT1 and Tier 2 calls. However, over time, we expect to return to more normalised levels of AT1 and Tier 2 capital relative to our minimum requirements.

Turning to our total MREL position on slide 17, our total MREL is very healthy at 32.4%, significantly higher than our risk weighted asset requirement, leaving us well positioned for any further growth in risk weighted assets by the end of the year. Having built out the maturity curve of our MREL stack, we have an annual refinance requirement of 3 to £5 billion over the next few years.

Turning to liquidity on slide 18, our liquidity position remains very strong. At the end of the quarter, the LCR ratio was 150% on a 12-month rolling average and 147% on a spot basis, reflecting around £52 billion of surplus primary liquidity above minimum requirements. Our total liquidity portfolio was £217 billion, comprising primary liquidity of £161 billion and secondary liquidity of £56 billion. Primary liquidity decreased slightly in the first half, driven by an increase in lending, including balances acquired from Sainsbury's Bank, partially offset by issuances during the year. Secondary liquidity reduced due to the normal amortisation of collateral pre-positioned at the Bank of England. Looking at our primary liquidity, cash balances of £86.6 billion placed with central banks represents around 54% of total primary liquidity, with level one high quality government and SSA bonds of £61.5 billion, making up a further 38%. We continue to transition the portfolio from cash holdings into securities, which provides a tailwind to income. The percentage of primary liquidity held in central bank balances has reduced from 87% at full year 2022 to 54% at H1 this year, inclusive of net repo positions. Looking at the composition of the securities portfolio, 73% are held to collect and sell and fair value through other comprehensive income, and 27% are held to collect and held on the balance sheet at amortised cost. The remaining primary liquidity is a smaller percentage of level one high quality covered bonds and level two securities.

Turning to slide 19 and our funding composition. Although customer deposits account for over 80% of the Group's funding, we also have access to stable and diverse sources of wholesale funding across a range of products, maturities and currencies. Of the £91 billion of wholesale funding outstanding, the large majority is MREL and capital issuance from NatWest Group and senior unsecured issuance from NatWest Markets. As part of the mix, we have £12 billion currently drawn under the Bank of England's TFSME scheme, with £3.8 billion repayable in October this year, and the remainder repayable from 2027.

On slide 20, you can see that we've been very active in the first half in wholesale funding markets, issuing from both the group holding company and our NatWest Markets operating entity. From NatWest Group, we have issued £3.3 billion sterling equivalent in senior MREL, against our guidance of £4-5 billion for the year. In addition to issuing MREL, we've also issued £750 million of AT1 and £0.9 billion sterling equivalent of Tier 2 capital during the year. While for NatWest Markets PLC, we issued around £4.2 billion sterling equivalent against our £4-5 billion guidance for 2025. We continue to take opportunities to diversify our currency mix, issuing in our core currencies of euros and dollars, together with Australian dollars and Swiss Francs. The progress we have made in the first half leaves us well placed against our capital requirements for 2025. In the second half, I expect to be active in senior issuance from the holding company and in senior unsecured from NatWest Markets. I'll also start to consider 2026 funding requirements later in the year.

And finally, turning to credit ratings on slide 21. It was pleasing to see progress in our credit ratings during the first half. In June, Fitch upgraded the rating of NatWest Group PLC to A+ from single A and upgraded all rated operating companies, including the issuing entities, NatWest Markets PLC, NatWest Markets NV and RBSI Limited to AA- with a stable outlook. With that, we can open up for questions.

Moderator If you'd like to ask a question today, you may do so by using the raise hand function on the Zoom app. If you are dialling in by phone, you can press *9 to raise your hand and *6 to unmute once prompted. We'll pause for a moment to give everyone an opportunity to signal for questions.

Our first question is a pre-submitted question. You have a guided up to a billion pounds, AT1. You have issued £700 million. Are you expected to issue another small transaction before the end of the year?

Katie Donal, do you want to take that?

Donal Sure, Katie, I'll take that one. So yes, guided to a billion. We've actually issued £750 million sterling earlier on in the year. I suppose if I look ahead, our current AT1 ratio is 3.1%. We do have an upcoming sixmonth par call later on in December. If we were to call that security, that would bring our ratio back down to a more optimised 2.1%. So the way we think about it is evolution of risk rates into year end and into next year. So I think putting all that together, there is potential for a clean-up AT1 transaction later on this year, or early next year, subject to the trajectory of risk rates.

Katie Lovely, thanks.

Donal Thanks for the question.

Moderator And our second question is one of your peers was asked yesterday about the gap in ratings between S&P and other credit rating agencies. Is this a concern for you? And what do you plan to do to close the gap?

Donal Katie, I'll take that one as well. Yeah, so as you point out, S&P are now the only rating agencies that do not have an A rating for NatWest Group. We've got Fitch at A+, we've got Moody's at A3, and S&P at BBB+. I'd obviously like to see S&P join the other two agencies with an A rating, which I personally think is more than deserved, given the balance sheet strength of the organisation and the consistent strong financial performance of the Group, both on a relative and on an absolute basis versus European peers. However, I think when you look at S&P ratings methodology for UK bank HoldCos, it's overly punitive versus others. That's reflected in the minus one notch applied for structural subordination. I think NatWest and peers are also penalised by S&P's views on the UK economy, which keeps the score lower than other European countries. Again, if that improved, our rating would likely go up one notch for stronger capital. So we'll continue to deliver on our strategy and continue to deliver strong results and emphasise the operating strength in discussions we have with all the agencies, particularly S&P.

Moderator Thank you. Our next question comes from Dan David of Autonomous. Dan, if you'd like to press *6 to unmute and ask your question.

Katie Hey, Dan.

Moderator Dan, please go ahead and ask your question.

Dan I've got the right buttons on my phone and you can hear me.

Katie We've got you now, Dan.

Dan Great. Hopefully I've done that right. Perfect. Congratulations on the results and thanks for taking my questions. I have a couple. The first one is just on issuance plans and the second one's on CET1. Just kind of touching on the AT1 point, I want to focus more on the currency of the issuance that you potentially could issue in H2. Do you think it would be kind of non-dollar sterling? And I wanted to just ask on euro AT1, I think it's quite a scarce resource amongst UK banks now. Is that a reflection of reducing demand from European investors for UK banks paper? And is this a concern going forward, given that, I guess, the uncertainty around the UK budget, is that something you think about?

And the second one is just on the CET1 target and buffer that you tend to hold and kind of picks up on some of the points I think you made on the call this morning. I thought one of the justifications for UK banks holding lower CET1 buffers was a high counter cyclical, so 2%. And I guess that thinking about the Mansion House speech, that could potentially come down. So, if the counter cyclical comes down, should we expect UK banks like yourselves to hold a higher CET1 buffer target? Thanks.

Katie Yeah, so I'll take the second one, Donal, and then come back to you for the assurance.

Donal Sure, yeah.

Katie So if I look at what we said on the call this morning, as well, in terms of this, our CET1 numbers is something we look at, you know, regularly, as we look at the changes that we see coming through regulation and also the changes within our own book. We don't have any particular insight into any thoughts on whether the counter cyclical buffer will come down or not. But what I would say is, as regulation changes, we adapt to that regulation. It's something that we do look at regularly. So we'll continue to do that as we work our way through things like this, or Pillar 2, or the implementation of Basel 3.1. Donal, do you want to take the issuance plan?

Donal Yeah, sure. Hi, Dan. So in terms of currency, again, as usual, you know, we won't tie ourselves to any currency. We'll be open just depending on pricing at any point in time. At the moment, if I look at AT1, I think dollars and sterling probably look most attractive, you know, particularly where it swaps back to sterling. I think in terms of your question around kind of European demand for AT1 and reducing demand from investors, I think that's not something we've specifically seen. I think it really comes down to pricing. When we look at kind of pricing across the three majors, dollars has been most attractive, I think, from an AT1 perspective, and probably followed by sterling for most of the year. That's not always the case. But I think that's really the key driver of the lack of supply maybe in euros from UK banks in particular.

Dan Thanks, Dan.

Moderator Thank you. Our next question comes from Robert Small. Robert, if you'd like to unmute and ask your question, you can do so by using *6 on your keypad on the phone.

Katie Hey, Rob.

Robert Hi, thank you for doing the call and hello, and congratulations on some good results. I also concur on your thoughts on S&P, by the way. Just a couple of quick questions. On the provision, still almost de minimis, but

I'm looking at slide 10 and going forward, when I look at the economic assumptions, the weighted average seems to be weaker for 26. Can we assume that we start to get into that 20 to 30 basis point range further out? Or are we still going to be on the lower end of that is my first question. Secondly, in terms of loan growth, you've been very active in project finance. Is that a steady pipeline at this point? Or is that really lumpier as projects and contracts come in?

And then two other potentially related questions. One on NSFR, it's probably something you don't necessarily manage to, but you want to keep liquidity, but that number is very high. Is there a reason for that? Or is that just an outcome? And then more generally, on loosening the ring fence, I know early days in talking about it, but what are some of the implications for the mortgage market general liquidity overall? Thank you.

Katie Sure, let me take a few of them. And then I'll come over to Donal as well to help me out. So in terms of the impairment piece, the 20 to 30 basis points, we talked about it a little bit this morning on the equity call as well. So we haven't given you any particular guidance at this stage in terms of 2026. And we will do that when we get to February. I mean, that's our kind of through the cycle number. I would say that as we've looked over the past number of years, we do seem to be operating much closer to the lower end of that. But honestly, Rob, it's something we'll talk more about in February. But certainly, if we were to see the economics deteriorate, then you could expect there to be more, but I would say even as I look at the kind of five-year average of the economics that we see, and then weighted across our different downsides, it's not something that's probably flagging a lot. Within the financial statements, you might not have got to this yet, but you can see our sensitivities that are on page 23 of those accounts that show, how much additional you would have if you brought through, say, 100% on the downside, It's like 786 or something, So that would clearly get you into a higher level of basis points. But that would be a very, very big depreciation in terms of the level of our current macroeconomics. And interestingly, what's there, as you look at it, it's slightly better than it was at the tail end of last year, because we're also seeing the benefit of the SRT transactions that we're doing, which are not only good for capital, but they're very good also in terms of risk management as well.

Your second question on the private finance, I think private finance by its nature is kind of lumpy-ish, is kind of how I would describe it. We've obviously got a lot of relationships in there, which kind of helps smooth it out. And it's probably been a theme of our increased lending at that top end of the market, really, for the last number of quarters. We kind of expect that to continue as these deals mature often quite quicker, and they're shorter lengths than some of the more standard ones. So we're comfortable that it's an important line with long-established relationships that we're keen to go into.

I'm going to deal with mortgages, and then I'll come back, Donal, to you on the NSFR point. So it's interesting, the mortgage market at the moment is very big, it's very active. Our estimation for this year is bigger than last year's. We do see a lot of competition within there. Again, on the equity call this morning, I talked about that our kind of back book and front book differentials in the round are still in the same sort of space. I think what we have been doing in our mortgage market quite a lot in the last year for us is really trying to expand our waterfront. So you've seen us do big improvements on first-time buyers, on buy-to-let, and also on this kind of family-backed mortgage product that we launched last quarter. So overall, we feel quite good about the mortgage market in the round. We just need to make sure that we continue to keep that right focus on managing the return and not kind of chasing share unnecessarily. Donal?

Donal Yeah, and maybe just to finish on the mortgage piece and bringing it back to the link to ring fencing as well. So I think, first of all, we welcome the announcement from HMT that they'll review the ring fencing regime in its current form, working with the Bank of England and reporting early in 2026. I think it's far too early to talk about any kind of potential benefits, if any, as we need to get more clarity first on the scope and extent of that review, whether that's legislative change or more focused on POA rules. I think our views on ring fencing are clear. We believe it does add cost and friction to both us and our customers, and also significant costs and dyssynergies from ring fencing as well, particularly when it comes to funding and liquidity. I think linking back to mortgage market, I'm not expecting any changes there to have any impact on the competitive nature of the mortgage market in the UK, as Katie said, it's very competitive and will continue to be so.

On the last point on NSFR, yeah, you're right, kind of very strong print, 134% on a spot basis, 136% on an average basis. It's not something we need to actually manage. It is more an outcome, I'd probably say more structural in nature. So kind of very, very comfortable with that aligned when we look at both NSFR and our liquidity coverage rates. We're in a very, very healthy position, primarily driven just by our very strong deposit franchise across our different businesses.

Katie Lovely. Thanks very much, Donal.

Robert Thank you. Thank you for the detail.

Moderator A reminder that if you would like to ask a question today, you can do so by pressing the raised hand button on the Zoom app. If you're dialling by phone, you can press *9 to raise your hand and *6 to unmute once prompted. We're going to give you a moment if you'd like to ask a question to signal.

There are no more questions at this time. I'd now like to hand it back to Katie for any closing remarks.

Katie Thanks Oliver, much appreciated. As ever, thank you very much for taking the time to come on the call. We do appreciate the support that you give us through the year in terms of the support that you give our ongoing issuance. If you need anything else, or you'd like any further information, please don't hesitate to reach out to Paul Pybus in our Debt IR team and he'll be able to help you. I look forward to meeting with some of you as we go into the upcoming roadshow season. Take care. Thanks very much.