



NatWest
Group

NatWest Group plc
Q2 2025 Results Call Transcript
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Hosts: Paul Thwaite, CEO, and Katie Murray, CFO

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Management Presentation

(Amended in places for legibility and clarity)

Paul Thwaite

Good morning and thank you for joining us. I'll start with a brief business update. Katie will take you through the numbers and we'll then open it up for questions.

You will all be aware that since our first quarter results, the Government has sold its remaining stake in NatWest Group, so we are now privately owned for the first time in 17 years. This is clearly an important milestone. With Government ownership and a significant restructuring of the bank behind us, we are attracting new investors and driving growth. Customer activity has helped to deliver a strong first half, so let's turn to the financial headlines.

Customer lending grew 3.2% to £384 billion. Customer deposits were up 1% to £436 billion. And assets under management and administration grew 5.9% to £52 billion. This has driven strong financial performance. Income grew 13.7% to £8 billion, 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%. Earnings per share were up 28% at 31 pence. We have announced an interim dividend of 9.5 pence, up 58%, reflecting our higher payout ratio. And TNAV per share grew 16% to 351 pence. Our CET1 ratio is stable at 13.6%, with strong levels of capital and liquidity.

Successful execution of our strategy is driving strong capital generation, which allows us to invest in the business, support customer growth and deliver attractive returns for shareholders. We are pleased to announce a new share buyback today of £750 million. Together with the interim dividend, this brings total distributions declared to shareholders in the first half to around £1.5 billion. The chart on the right shows how the dividend and TNAV per share have grown year on year. Our new buyback programme will deliver further share count reduction in the future.

I'm also pleased with the progress we are making on our strategic priorities. So let me update you, starting with disciplined growth. We continue to grow our customer base across the bank. We attracted over 100,000 new customers as a result of organic growth during the first half. In addition, the Sainsbury's transaction completed in May, adding around a million new customers with about £2.4 billion of savings and

£2.2 billion of unsecured lending. We have grown across all three of our businesses. In Retail Banking, we grew lending 3%, including both mortgages and unsecured lending, and deposits increased 1%.

We continue to build out our mortgage proposition, including for first-time buyers, which has driven a 4% increase in our application share of this market since early last year. During the first half, we helped 24,000 people buy their first home. And we recently launched family-backed mortgages to help customers get on the property ladder by enabling them to add a second person to their mortgage while retaining independent ownership.

Our share in credit cards increased from 9.7% to 11% as a result of the Sainsbury's transaction. And we launched a whole-of-market offer for personal loans at the end of last year, extending them beyond our own customers following our successful extension of credit cards to the whole market.

In Commercial & Institutional, we grew lending 4% and deposits 2%. In Corporate and Institutional, growth was driven by project finance, infrastructure, sustainable finance and funds lending. In Commercial Mid-Market, we grew in a number of areas, including Social Housing, where we delivered another £2.7 billion of lending. In Private Banking and Wealth Management, we grew lending 2%, as well as attracting new Assets Under Management, where net new inflows of £1.5 billion represented an annualised 8.1% of opening AUM.

You will remember from our first quarter results that we have over-delivered on our £100 billion target for Climate and Sustainable 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 have extended the scope to include Transition Finance in line with the Government's Transition Finance strategy.

Our second priority is bank-wide simplification, where we continue to enhance customer and colleague experience and increase productivity. Let me talk you through some examples.

We have digitised over 30 customer journeys during the first half. In retail, this includes being able to change credit card and ATM limits, as well as accessing our new US Dollar travel account. In Commercial & Institutional, we made it possible last year for business banking customers to access up to £100,000 of unsecured lending within 24 hours. We have now extended this to our Commercial Mid-Market

customers, making life easier for them, as well as our colleagues, who save on average around two and a half hours on each application. And in our Private Bank, this includes the automatic renewal of fixed-term deposits.

We continue to streamline our systems and modernise our technology estate. In Commercial & Institutional, we have moved our commercial customers onto a new, modern Bankline platform, which has allowed us to start decommissioning the old one. And our Private Bank is re-hosting their core banking platform from a third-party provider in Switzerland to the Group Data Centre in the UK. This both reduces spend and increases capacity.

We are accelerating the use of data and AI. For example, we have just announced a strategic collaboration with AWS and Accenture to modernise our data capabilities. This includes 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.

We also continue to simplify our operational model as we streamline our legal entities and branches in Europe, reduce the number of branches we operate in the UK and relocate our private bank investment operations and technology teams from Switzerland to the UK and India. And as a result of growing income and lowering costs, we have reduced the first half cost income ratio from around 56% last year to around 49% this year.

Finally, as we actively manage our balance sheet, we have generated 101 basis points of capital in the first half, including 139 basis points from earnings. And we have taken action to reduce risk-weighted assets by £2.9 billion through a range of measures, including three significant risk transfers.

As a result of our strong performance, we are upgrading our 2025 guidance for both income and returns. We now expect income greater than £16 billion and a return on tangible equity above 16.5%. We continue to target returns greater than 15% in 2027. And with that, I'll hand over to Katie to take you through the results.

Katie Murray

Thank you, Paul. I'll cover 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 delivered operating profit before tax of £1.8 billion. Profit attributable to ordinary shareholders was £1.2 billion, and the 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 our three businesses increased 1.1%, or £43 million. Net interest income grew 1.6%, or £50 million 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.

Net Interest Margin was up one basis point at 228, mainly reflecting deposit margin expansion. We continue to assume two further 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. Retail Banking and Private Banking and Wealth Management benefited from higher debit and credit card fees. And in C&I, our Currencies business continued to perform well, given the heightened volatility.

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 as a result, we now expect 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 by £8.4 billion to £384 billion, evenly balanced across our personal and wholesale customers. Taking Retail Banking together with Private Banking, mortgage balances grew by £1.3 billion, with growth improving throughout 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 & 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 and 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 partly offset by a reduction in current accounts. Private Banking balances increased by £0.1 billion and the increase in Commercial & Institutional of £1.4 billion was mainly from larger customers in Corporates 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 our product structural hedge.

The strength of our deposit franchise, combined with our mechanistic approach to managing the structural hedge, is an important driver of income. The product hedge notional was stable in the first half at £172 billion and we continue to expect it to be broadly stable in 2025, which means a reinvestment each year of around £35 billion. As we show in the chart, for 2025, more than 90% of the hedges are already written and we have £4 billion locked in. We expect 2025 product hedge income to be £1 billion higher than 2024, given reinvestment rates and in 2026, we expect product hedge income to increase by more than £1 billion when compared with 2025. We continue to expect the hedge to be a further tailwind in 2027. Turning now to costs.

These increased 1.6% to £2 billion in the second quarter. Our annual wage awards 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 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. We are 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, benefiting from post-model adjustment releases of £64 million. We retain 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 Losses. 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 loan impairment rate below 20 basis points for the full year. Turning now to capital.

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, net of the 15 basis points impact from Sainsbury's. Strong earnings added 69 basis points and other CET1 capital changes added 11 basis points. Risk Weighted Assets increased by £3.1 billion to £190 billion, including £4.6 billion of business movements, which broadly reflects our lending growth, including Sainsbury's Bank and £1.4 billion from CRD4 model inflation. Partly offset by a £1.7 billion reduction as a result of RWA management, and a £1.2 billion reduction in other RWA movements, including FX.

RWA growth, excluding Sainsbury's, consumed 12 basis points of capital. This brings our CET1 ratio pre-distributions to 14.3%. As you know, we increased our ordinary dividend payout ratio from around 40% to around 50% and have announced an interim ordinary dividend of 9.5 pence per share, up 58% on last year. We have also announced a share buyback of £750 million. Together, these accruals consume 72 basis points of capital. Post accruals, our CET1 capital increased in the quarter and is up £900 million since year-end, to £25.8 billion. Our CET1 ratio, however, is stable since year-end at 13.6%, in line with our target range of 13 to 14%. 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 the CRD4 model outcomes. With that, I'll hand back to the operator for Q&A. Thank you.

Moderator

Our first question comes from Alvaro Serrano of Morgan Stanley.

Alvaro

Just on the deposit flows, obviously we had the ISA season, which has made a lot of noise, but you've lost some current accounts. Just if you can talk to that, it was a conscious management of yields and what did you see during the quarter? And I'm also thinking as we look forward, presumably this won't affect the hedge notional further down the line? So maybe to speak to that market share movement there.

And second on costs, you've now had a second quarter doing much better. I know that, Katie, you've called out the restructuring charges in the second half, but still it looks like you're doing underlying a lot better. So can you help us understand what the magnitude of restructuring charges are and how that compares to a normal year? Thank you.

Paul

Thank you, Alvaro. That's great. I'll share a bit on deposits and then maybe, Katie, you come in on deposits around the hedge notional. And then we'll come to costs. So on deposits overall, Alvaro, I think your read is pretty accurate. We did grow the base, but obviously some of that was supported by the Sainsbury's acquisition. We've talked before about the competitive ISA season, primarily driven by the wider media and policy discussions around what may or may not happen to ISAs. So there was a competitive ISA season. From our perspective, it normalised relatively quickly. If you look at our market share, we saw our ISA balances go up. Our market share was consistent and stable. Likewise, our overall deposit share is stable as well.

You'll also see from Katie's slide, our mix has remained pretty much consistent. So we haven't seen any massive shift there. As you rightly alluded to, we were very thoughtful and disciplined around our pricing, especially as there was quite a bit of volatility in the swap curves around the tariff dates. So we're very thoughtful about that, where we priced our products and we're comfortable in terms of the deposit strategy and the deposit base. Katie, on hedge and notional?

Katie

In terms of the hedge notional, the reality is it moves relatively little, Alvaro, so I'm not expecting to have any new guidance on that. In reality, overall, NIBBS down a billion. So very, very stable in H1. The hedge is £172 billion. We guided you to think of that level by the end of the year. We see no reason to change that. What's great, of course, though, on the hedge is, because of higher average rates, you can see that we've raised our reinvestment rate for the year to 3.7%. We know that we're going to be a billion this year in terms of income and then greater than a billion as we move into 2026 on the hedge. So it's good to see that stability coming through in terms of a real push towards the income line.

And then if I go on to costs as well, Alvaro. Our guidance for operating costs, it's unchanged. I did mention some of our transformation costs that we've had coming in with Sainsbury's coming in. We spent £34 million of the £100 million in the first half. We'll spend more in the second half.

Our cost narrative, Alvaro, is kind of boringly similar each time we talk. We've given you the number that we'll hit this year, £8 billion as the base and £100 million of those additional costs. What Paul and I work really hard to do is to create capacity so that in the second half of the year, we can go to our investment shopping list and go back. We want to invest in these things to help accelerate the simplification of the business. I would just see that lumpiness will come through, we're very clear on the number we're aiming for at the end of the year, making sure we're delivering real benefit for the simplification of the business. Thanks, Alvaro.

Moderator

Our next question comes from Sheel Shah of JP Morgan.

Sheel

Two questions, please. First on the lending outlook. The performance was quite strong in the quarter at just under 2% underlying excluding Sainsbury's. How should we think about the outlook? Is this something we should be annualising, especially in the context of the UK economic backdrop, which looks a little bit more challenging compared to the start of the year.

Secondly, on capital, could you talk through some of the moving parts we should be thinking about? I'm particularly interested as to how you're thinking about potential M&A and maybe holding a bit of a buffer against that and how that plays into operating within the range, and when we come towards the year end, how you're thinking about the definition of a surplus capital position. Thanks.

Paul

Thank you very much. I think Katie, I'll take both of them. On lending overall, I'm pleased to recognise the strong quarter, Sheel. It's been good to see that the growth continued in quarter two after quarter one. I'd say it's encouraging because it's very broad-based. You can see growth in our Commercial & Institutional business. You can see continued growth in mortgages and unsecured. And obviously we've had the helping hand of Sainsbury's as well. So year to date from memory it's just over 3%. That feels good. We don't guide on future lending, but what I would point to is our track record there of being able to deliver broad-based lending growth in excess of market growth. To your point on the UK outlook, if you look at our track record over the last couple of years, you can quickly work out our lending performance versus the wider market performance, both on the business side and on the consumer side. So I'd say we feel confident around our ability to continue to drive growth in lending.

On capital more broadly. We finished the half year at 13.6%. It's a good print. You'll know it's well above our regulatory minimum of 11.7%. That also includes the accrual for the ordinary dividend and for the buyback that we announced today. So very strong capital generation in the half year, 101 basis points, which is great. 53 basis points in the second quarter, through a combination of earnings and good RWA capital management. That's allowed us to increase the interim dividend, but also announce the buyback. We're very mindful in terms of the investment case and how important return to shareholders is and we hope that's a strong signal.

I guess the context, the second part of your question is really around the broader allocation, and I'd reiterate very clearly, no change there. We're happy to move between the 13 and 14%. We think that gives us a good balance in terms of being able to invest in the business, support customers, but also return to shareholders. So very much a balanced approach is what I'd say. What you should expect from us, with the Board, we'll review at the half year and we'll review at the full year in

terms of surplus capital and distribution. We obviously have a model that's generating a lot of capital, which is great. As I alluded to earlier, we understand the investment case and the thesis and the importance of distributions and to be explicit, we are not building any buffer or war chest in respect to inorganic. Our approach hasn't changed there. Very happy with the organic growth in the plan and the growth that we're delivering. Thanks.

Moderator Our next question comes from Guy Stebbings at BNP Paribas Exane.

Guy I was going to ask around the structural hedge, but also how it interplays with other parts of the balance sheet. It's clearly working through very nicely and thanks for some of the updated disclosure, which only reinforces conviction for support into 26 and 27 too. I guess a debate out there is how much this flows straight through the P&L or whether we see any give back on other line items, given plenty of other banks are also seeing similar support. And we have seen mortgage spreads tighten slightly this year. You put a couple of basis points of decline in the lending margin in the Q2 bridge. So one could argue it's starting to happen already a little bit. And so just to get your view there as we work through that hedge benefit, whether you see any give back elsewhere, whether that slight tightening in mortgage spreads will hold around these levels, or if you see a risk of it drifting lower, offsetting some of that hedge support, or if you think the market should retain enough discipline to keep the floor on spreads.

And then just a follow on to that question is just around what you're seeing on current application spreads in the mortgage book, or whether you could give us maybe what the back book spread is now on mortgages. Thank you.

Paul Thanks Guy, so mortgage margins and application spreads, Katie, and then you probably lead out with the hedges.

Katie Thanks Guy. It's definitely doing what we plan to do. We run a very mechanistic process and it's great to see that increase coming through on the yield. And we know that that will continue to increase as we go

forward from here. You can see as you look into 2025 we've got the billion being delivered here, greater than a billion in 2026. And we do expect a further tailwind to come through into 2027. I'm not going to give you guidance on that, but you can see from our slides, 50% of the hedges have already been written. So we've got £3.8 billion of that income already locked in as you move forward.

In terms of how we think about it flowing through? So we're very clear on our view here that returns are the metric that we work towards and we work towards the returns within the individual product class. There's obviously some level at the total of cross-subsidisation. You see that the lending margins are a bit lower because, in terms of our NIM, we're sitting there at 228 basis points. So mathematically the mortgages are going to depress that a little bit given where they are. We don't look at it as overtly as I'll subsidise this product with that product. We make sure the products standalone in terms of their returns. But naturally as you flow all the way down through the P&L, there is a little bit of subsidy that happens.

In terms of mortgage spreads. If I look at the NIM walk, you can see minus two on the lending side. That's mix in terms of the pool of accounts that comes in there. But I'm not seeing a big back book/front book differential when I look at the totality of the mortgage book. Mortgages are always competitive, and it's definitely been a competitive period, but I would say also the market seems to be quite rational. We are writing below the 70 basis points that we talk about a lot, but it seems to be stabilising at that kind of level. And we'll see it strengthen as other things move around. So that's good to see that kind of stabilisation, but overall we're happy with where the book is and obviously happy with the returns that we're writing mortgages at, at the moment, which I think is critical.

Paul

Thanks Katie. The one thing I'd add, which I think comes across in our slides, is in mortgages, we're also broadening the proposition. You can see the breadth we've added to the first time buyer proposition but also aspects of the buy to let proposition and our market share improvements, the 4% up in both areas on this time last year. And obviously there's a larger margin there versus a traditional low LTV vanilla mortgage. So as Katie said, there's some general dynamics but we also think given where we are around 12.6% stock share, we see opportunity in the mortgage market, and broadening the proposition

opens up that opportunity to us. And that's what we have been doing and will continue to take advantage of.

Moderator

Our next questions come from Aman Rakkar from Barclays.

Aman

There's two that I'll ask. The first one is I'm just taking your upgraded revenue guidance at face value. It implies a decent step up in the revenue cadence in H2 versus H1. And probably in excess of consensus. I'm just trying to work out the drivers of that. I suspect there is a better run rate for net interest income in H2 that's underpinning this upgraded guidance, but also versus consensus. So could you lift the lid on that at all, confirm, deny or otherwise, if you share that view.

And the second question, I'm interested in your reflections. I think where we are right now is at H1, the assumptions that sit behind your revenue guidance in terms of interest rates, haven't really changed that much since February. I think when I scan back to when you gave us the original guidance, looking for a similar rate curve here, maybe swap rates were a touch better, but we're about to potentially beat your revenue guidance by about a billion pounds versus the kind of level that you were pointing us to at the beginning of the year. So what's coming in better than what you had expected? Is it volumes? Presumably markets is a bit better? And just for full disclosure, the reason I'm asking is because I think it's a conservative guide. I think it was a conservative guide at the beginning of the year, continues to look conservative to me. And I want to be able to calibrate that. So any colour there is really appreciated. Thank you.

Paul

Very fair and very clear. Katie, I'll take the reflections. But do you want to talk a little bit around the specifics around the revenue guidance?

Katie

Thanks and morning, Aman, as ever so good to hear from you. So guiding you to greater than £16 billion. That, of course, implies at least £8 billion in H2, which would be equivalent to the first half, but obviously we're guiding you to greater. There's always a number of variables that we need to think about as we look at it, some of them NII and some non-interest income. So continued volume growth in H2.

We've also obviously got the full run rate of Sainsbury's as well, given the completion was on the 1st of May. We've got some extra days, always frustrating to talk about extra days as it feels so unscientific, but the reality is it does make a difference. That adds about a hundred million of income into the second half.

The structural hedge repricing, more than 90% of the hedges are locked in now for this year, which means we'll have that higher hedge income coming through of about a billion.

And I would say you're right on our economics. They've been very consistent in the main, but the swap curve, I think was particularly a bit more generous to us in the first quarter. And you can see that we've raised our average repricing coming through. So that that's definitely helped a bit.

There's also a few headwinds, with two more Bank of England cuts that we're expecting this year to get us to 3.75% coming through very consistently. You'll have the six-month impact of the two rate cuts we had in H1. On non-interest income, it was up overall across the Group 15.4% on H1 24. 5% if I look just at that central business area. We do expect some seasonality in C&I in the markets business in H2. We know that traditionally August and December are that bit quieter. We've been very pleased with how that business has reacted to the volatility, really working with customers to make sure that they are able to maximise the outcomes for them, but obviously being beneficial to our income statement as well.

The other thing just to think about in terms of what could be in our minds for the second half of the year, we do have some contra revenues that come through from capital actions. We've got some of those planned in the second half as well, as you would expect, which would go across Retail and C&I, and that would have a little bit of a drag on income as well. We do think it's a strong start, 13.7% up on last year. We're more confident about the outturn for the full year, and we are now expecting that income, as you know, to be greater than £16 billion. Paul, do you want to do some reflections?

Paul

I feel like you've done quite a lot of the reflections. Aman, I guess the big picture where I'd say you're right is that there haven't been any fundamental changes to our interest rate assumptions. But what's been different as we've travelled through the end of quarter one and into

quarter two? Obviously, volumes have remained very strong – we've been pleased with the volumes, both in the Retail Bank on mortgages and on unsecured. If you look at non-net interest income, we've had two strong quarters. So that's been very encouraging, and as Katie alluded to, really underpinned by strong levels of customer activity. So we now have two quarters of that.

The other thing is the reinvestment yield has been slightly higher on the hedge. They're things that as we've gone through quarter two, have really given us confidence around the income picture, but also the returns picture. And as you'll have seen, we've been very clear. What we've said is greater than £16 billion and greater than 16.5%. The one thing I would add to what Katie said is, as you will have in your calcs, our tangible equity will build during the second half of the year as well. So that does play into the returns outlook. But overall, I think quarter two has not only given us very strong performance, but given us increased confidence in terms of the outturn for the year. Thanks Aman.

Aman

Is it possible to ask a follow up? I mean, you've lifted the ROTE guide this year and just me being me, I'll emphasise the greater than 16.5% Return on Tangible Equity. But I'm just trying to think into next year. Is there any reason to think of a meaningful step off from that level of return on tangible equity? I mean, if you did print 17% this year, I know that we've got rate cuts and what have you, but there's so much momentum in terms of the hedge, in terms of volume growth. I can't actually see why we would be expecting any meaningful step off in the return on tangible equity that gets us anywhere near the greater than 15% ROTE aspiration.

Katie

Let's chat a little bit about the 2026 income outlook, because that's obviously the numerator in there and then I'll come on to the denominator as well. But we do expect annual growth as we go through all the way to 2027, we remain confident about the growth trajectory beyond 2025. The key drivers of 2026, as I look at it, first of all, there's growth. We've got a strong track record of growth across our three businesses, outpacing wider sector growth. Our breadth of businesses means we're well-placed to capture demand when it's there. We remain very disciplined on our ROTE guidance. So we only deploy

capital when returns are attractive. Second, the hedge, we've talked about it quite a bit on the call already. We do expect a stronger structural hedge tailwind into 2026 versus 2025. So expecting over a billion higher than the 2025 print.

Third, of course, rate cuts, one further rate cut in 2026. So a terminal rate of three and a half percent at the moment. And whilst this would be less than what we had for four rate cuts in this year, we will see a bit of an averaging effect of that coming through into 2026. On non-interest income, we are pleased the delivery from the business this year, really strong overall demonstrating the strength of our customer franchise, but also the strength of our central activities in terms of that treasury activity. And our strategic efforts of bringing more of the bank to more of our customers is really paying benefit in that non-interest income line. So overall we've got good confidence on that income coming through as we move into H2 and then beyond.

Then when you think a little bit about the denominator, we've got nice growth coming through on TNAV. We do have some regulatory changes coming through as we get into 2026 in terms of that Basel number unchanged from the £8 billion we've spoken about historically. So they come through, but overall I'd say we're feeling pretty comfortable as we move forward from here. Paul, anything you'd add to that?

Paul No, I mean, obviously we're not going to get drawn into this. February will be the time for 2026 guidance, Aman, but you can sense from Katie's comments there that we feel pleased with the momentum and the outlook as we start to look ahead to 2026 and 2027. Thanks.

Aman Thank you.

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

Amit One question, maybe minutiae, in the central items, there's negative NII and positive other operating income. It seems like that relates to these FX risk management derivatives. So I just wanted to check exactly what

those are and what the contribution is and then what to expect on that going forwards.

And then second question just on the back of the Leeds Reforms, curious if there's anything there that you think could change your outlook a bit or if there's any incremental volume that you could see from the loan to income cap and things like that. Thank you.

Paul Do you want to take the centrals?

Katie We've talked about the FX arbs a few times before, and it's interesting. We talk about them as we see greater volatility in the FX markets, because what we do is that with treasury, we identify opportunities on our surplus FX cash positions to take advantage of that volatility. It's negative to NII and you have the offset on non-interest income. It's a little bit annoying on the lines because it makes a little bit of noise. Overall, it's positive in terms of income. I've not given you guidance in terms of how much that would be. And it also depends on market volatility. It's not something we see as definitely coming all the time, but we do look to take advantage on it.

When you look at the centre, it's always good to look at the centre on a total income basis and not think so much about the line split. But I'm going to give you a little bit more detail on it. When I look at NIM for this period, it's the funding and others that is flat, but there are two things that are going on within that line, there's the positive from some repositioning we've been doing of the liquidity portfolio into Gilts. And then that's offset by the NII drag from the treasury FX activity. So, that was a minus two basis points in there and two positive on the other side. So it does have an impact. It's hard, and I'm not going to guide you on what it would be in this quarter because it clearly is dependent upon activity, but it's a meaningful little nudge in terms of our numbers and very happy to take that. Paul, can I give you Leeds...

Paul So on the Leeds Reforms, the headline from our perspective is we're supportive of the direction of travel. We think that they're positive for the sector and ultimately for the UK. In terms of the mortgage specific you mentioned, we've already implemented changes on the back of the FCA's earlier affordability changes. So that's increased the amount of

borrowing that we can provide to some of our first time buyers. So we see that as a positive and similarly, as has been referenced in numerous places, the current consultations we think will also be helpful and nudge things along a little bit. I just put that in context though, the mortgage market is already relatively big. I think this will create opportunities to bring more people into the mortgage market, but it's in one segment of that wider market.

But, more broadly, I think some of the prudential reviews that are happening around capital and also ring-fencing have the potential to be helpful in terms of the level of support we can provide to customers and the economy. And as you've heard me say before, and you will have seen at our Wealth Investor Spotlight, the advice guidance boundary review and the review into savings and investments we see as really an opportunity to bring more financial advice to more of our customers at lower cost and help them with their savings and investments, so we see that as a positive as well. And we're doing a lot of work on that, although a lot of those reforms are still in the consultation phase. Thanks Amit.

Moderator

Our next question comes from Chris Cant of Autonomous.

Chris

Two sort of follow up questions really. First just on growth. I know it's relatively small now, but the BBLS book is looking quite small in the context of the overall commercial book. And I guess we're starting to see the underlying growth come through a bit more strongly with that runoff tapering. It seems to be a pretty consistent £0.4 billion a quarter of runoff on the Government guaranteed loan book. Is that what we should expect continuing for the next six quarters and then it's gone? Or do we get down to a sort of rump of the book where the remaining customers are going to take the full term? And I think some of them could take 10 years. I think it was extended to that, wasn't it? So that was the first question just in terms of understanding what are the growth dynamics we might see coming through.

And then I just wanted to follow up Paul on your comment there about the prudential reviews and particularly around capital. I mean, I read the FPC minutes earlier this month and didn't really make much of it given that they said they think the level of capital is broadly correct. But the fact that the Chancellor in her speech talked about the Treasury

working with the Bank of England to assess the right level of capital for the system suggested maybe there's going to be a bit of downwards pressure there. So I'm just curious to know whether you have a view on what form that might take. Do you think we might have a revisiting of the through the cycle 2% countercyclical buffer calibration, for instance, which is quite high relative to many other countries? And if we did get something like that, how would you think about this as a management team in the context of your own capital target calibration? I think you're already targeting a higher level of buffer to MDA than one of your nearest domestic competitors. How much would you actually want to take into how you think about the capital target, or is the 13% minimum just your management view of this is where the bank should run. And it sort of doesn't matter if the underlying MDA changes. Thank you.

Paul

Thanks, Chris. It's a while since I've talked about BBLS. Thank you for that. I had to test myself, bounce back loans. Simply, I think your assumption is right, a pretty consistent level of roll-off quarter on quarter. There's very little incentive for customers to accelerate payments, given the low cost of that borrowing and absent some sort of big economic event. I don't think there'd be any driver for customers to extend their terms. You are right in that there was the potential for borrowers to extend to 10 years. But I think your assumption is the right one. On the much bigger topic of prudential review and capital, I think the angle that you alight on around ensuring international competitiveness is the right one. And I think in terms of the discussions and inputs that we'd like to provide, I think that's where we'll be highlighting it's important to have consistency from an EU and a US perspective.

Then you drop down into specific elements that are different. You mentioned the countercyclical buffer, that will be one topic I am sure, but there are others as well. So that's your logic, and I guess your thought process is how we're thinking about it in terms of what the areas for review are. It is early days, literally obviously the announcements were relatively recent. So it's hard to give you any more insight into that. What that would then lead to if there were changes or thoughts, obviously we'd then, from a management perspective, look at that in the context of the absolute level of capital, we hold the percentage of CET1, our regulatory minimum. But to me,

they're kind of downstream events from the wider review of the capital. Do you want to add anything to that?

Katie A little bit. So we do look at capital risk appetite and buffers versus the supervisory minimum. Clearly, if that changes, then we would look to review that. I think the other thing, Chris, is as we look at the RWAs increasing over the next 18 months, that will increase our nominal capital requirement without a change in the risk of the balance sheet. As these things change, I think we might start to look and think about actually what kind of level of capital targets and buffers you might need, given that that target is now based on a much higher level of nominal capital. So we'll have a think about things as they evolve. Thanks Chris.

Paul You're on the right track, Chris. Thank you.

Moderator Our next question comes from Jonathan Pierce of Jefferies.

Jonathan I've got two actually. One is sort of a follow-up to the last question, but coming at it from the impairment angle, the metrics on every front are still extraordinary really. Your ECL in the extreme downside scenario is now only £2 billion. That's with GDP down 4% and unemployment up at 8%. I mean, even if all that came in one year, that's only 45 basis points of loans, or a quarter of your current pre-provision profits. I see that on the commercial book you had more loans flowing back to stage one than you had flowing into stage two in the first half.

I'm just really looking for a comment around how you're thinking on the through the cycle impairment charge today, after a number of quarters now of very benign, very low levels of impairment coming through. Is it really 15 to 20 basis points, not the sort of 25 to 30 we might have talked about in the past? And linking it into the capital question, presumably, if your ECL calculations are right, and that feeds into this year's stress test, your Pillar 2B buffer is going to be very small. So again, is that putting downward pressure on your equity tier one target the way that you think about it?

The second question just quickly, the liquidity pool in the second quarter saw about a £9 billion drop in cash and £7/8 billion increase in gilts. Is that you taking advantage of the gilt swap spread? And is there more of that to do because you've still got nearly 60% of the pool in cash at the moment? Thanks a lot.

Katie

I'll take your second question first and – simply put – yes, it is us taking advantage of that. We'll probably do a little bit more as we move forward, but it's something that's been a nice additional improvement to income as well. Focus a lot on our equity hedge positions as well within there, which we don't talk about quite as much. So yes, very pleased to see that. In terms of the impairment angle and through the cycle impairment charge, so our guidance at the moment, it's 20 to 30 basis points. Jonathan, I'd absolutely agree with you, as you look at what we've experienced over the last number of years our guidance again this year is below that.

So I'm not updating the guidance on that particularly today. I think what we've been trying to give you more recently is just annual looks as we move forward. And it definitely seems to be at the lower level. I mean, even the print this quarter at 19 basis points and 8 of that is the Sainsbury's good book recognition. So really it's a kind of 11 number compared to the 9 of last year. We'll continue to monitor that, and if it's something people are more interested in, we could look at refreshing that, but I think the annual look forward is quite helpful.

And Pillar 2B, we don't disclose that as you know, but I think what you see is our nominal CET1 capital in absolute terms is rising significantly. We added £900 million to that in H1, and we know that there's going to be more rises coming through with RWAs and that doesn't reflect more risk on the balance sheet. So it's something I think we look at overall in the round and we'll continue to do that as we move forward. Thanks, Jonathan.

Jonathan

So, sorry, it does sound like you are not even indirectly, pretty directly, suggesting the 13 to 14% equity tier one ratio target is under very firm review. Is that right?

- Katie** I think it's something we've talked about quite a few times. If we think Basel was meant to be coming in at the end of this year and it's now been delayed a year. And what I said was once we got clarity on CRD4, the Basel changes that were coming through, what was happening in Pillar 2A, it's something that we would have a look at and see how things are coming through. We need to still get some of Pillar 2A and things like that finalised, but we're always alive to how these things look and what's happening in the market. And we're pleased to see how our nominal capital is evolving and developing as these different changes are coming through.
- Paul** I think it's responsible for management to do that, given all the changes that have come through. And, as Katie says, once you're through the back end of that, you have to decide where you think the right level of absolute capital is.
- Moderator** Our next question comes from Ed Firth of KBW.
- Ed** I just had two questions. One was, can I just take you to the structural hedge slide on slide 12? I hate talking about the structural hedge because your eyes roll, but just to check my understanding, because what I don't understand is that in 2026, you're telling us there's a higher redemption yield and a lower reinvestment yield, but the benefit is bigger, even though the roll-off is the same amount. And I'm just trying to work out how that works. So that would be my first question, because it's probably just an understanding one.
- And then the second one is in terms of M&A. I think in the past, when you've been asked about this, you said that you look at things that would add a skill to what you have, was one of the criteria. But I guess if one looks at what's happened in the first half, clearly you've been looking at stuff that, well, it'd be tough to argue that some of that stuff added any skills to you at all. So I'm just trying to get a sense as to how do you look at acquisitions now? Has that shifted a little bit? Or should we take the buyback as a sort of indication that they're pretty much off the table for the foreseeable future? Thanks.

Katie 2026, it's quite simple. You've got the averaging effect there and also, importantly, the lack of the offset from reducing the notional that we had through 2024. So you've got a stable notional and deposit build is important as well. And also we've done 70% of the hedge already. So that portion's already locked in, and your redemption and reinvestment yield is only in relation to that last 30%. Paul.

Paul And on the M&A piece, Ed, I wouldn't characterise our previous position as exactly as you did. What I've said consistently is when we do look at things, we look at them whether they can add scale or whether they can add capabilities, which I guess is your skill point. So that lens hasn't changed. And you'll probably be bored of me saying it, but when we look at things, we look at it through those two lenses. If you look at the returns we're generating in the organic plan, it's a very high financial bar as well as operational bar to justify it vis-a-vis the organic plan or the buyback. So we will continue to look at things, but we'll look at it in a very disciplined manner. And it's very much a balanced approach though, making sure we're investing in the business, returning capital and giving good returns and distributions to shareholders, but also thinking about the opportunities that might come from either capabilities or scale. So no change in philosophy, and I guess just reframing a little bit that it was always about scale or capabilities, not just capabilities. Thanks.

Moderator Our next questions come from Jason Napier.

Jason Just one for me really. And it goes to the continued outperformance relative to market expectations on costs. I can easily see how things like bank levies and Sainsbury's Day 1 costs can get you to the 7 or 8% half on half growth in OpEx that you're guiding to. I guess, philosophically though, the other thing that tends to happen is when we're presented with the notion that you've got a long list of ways that you'd like to simplify the bank. And I guess inherent in that thinking is a sense that there's an appropriate level of cost growth that you ought to embark on whether that's to run the bank or to change it. And I just wonder whether you might talk a little bit about how long the list is, how big the opportunities are? And indeed, whether you think that the cost base ought to continue expanding a sort of 2-ish percent underlying on an

ongoing basis. There's an appetite amongst investors for sharing in the benefits of outperformance that they see on OpEx. And it looks like we're getting a better bank rather than one that might be more profitable in the immediate near term. You know what I mean?

Paul

Thanks Jason. We do. The reception was a bit scratchy, but I think we got the gist of it around costs. A couple of things I'd point out. First of all, I've been very consistent in the two years of updates I've been giving that we very much look at it as an all-in number. Everything is above the line. There's nothing below the line. Our cost guide includes wage inflation, national insurance inflation, tech contract inflation. It includes our significant investment in the business and it includes our restructuring costs. So I think that's a very clear and transparent way to do it. As Katie alluded to earlier, we work very hard on what I'd call BAU costs and efficiency. And what that creates is capacity to invest in the business. And that's the bit that's building the better bank for the future, whether it's simplifying the tech architecture, whether it's digitising the customer journeys, another 30 customer journeys we digitised in the first quarter of this year. So it's that kind of hard yards and discipline around BAU cost management that creates the pools of investment, which are within our overall cost guide to invest in the business and create the better bank of the future – that's how we think of it.

And if you look at what's happening, I think we have a really nice combination, Jason, where we are driving underlying efficiency out and we're investing in the business. If you look at the cost income ratio reduction, you can see year on year we've come down by 7 points, you know, 49% at the end of half one. The jaws are quite considerable. If you look at absolute income growth and you look at cost reduction, so very strong jaws. And if you take the guide that we've given today around income, depending on where you guys settle on it, the reality is, what we're saying from a jaws perspective is, we're going to have high single digits. So what you can see there is not only good cost discipline, but also significant investments in the business. And we're seeing that. And I was going to say, there's a number of levers. When we talk internally about it as a management team, one is digitisation. We still see big opportunities to do more digitisation across the bank and not only improve the cost base, but actually improve the customer experience. And we've got lots of evidence of that.

The second is the much broader technology simplification. You'll have heard us talk about how we're simplifying the technology estate, how we're moving, for example, some of our technology estate from Switzerland to the UK, how we're reducing the number of our applications. You heard me in the first quarter talk about some of the promising use cases from an AI perspective where we're driving a lot of efficiencies and customer experience improvement. And we continue to simplify the operational model.

Sometimes I think it's easy to think about NatWest, that the simplification of the operational model has been done. That simply isn't the case. We're reducing our number of licences and branches in Germany from 4 to 2. We're just about complete on our exit of Poland, which is great. We're moving a lot of our investment operations from Switzerland. We're right-sizing our branch network. So, to me, we feel like we've got a number of levers we can pull that are building a better bank, but we're doing that within a cost envelope that is still, I'd say, aggressive and disciplined in terms of how we manage things. So hopefully that gives you a sense of both how we're doing it, but also why we feel optimistic that it's creating the investment we need to create that bank of the future. Thank you.

Moderator

Thank you for all your questions. I would now like to hand over to Paul for closing comments.

Paul

Okay. Thanks everybody. We appreciate your time on the call. So, to wrap things up, I hope you've got a sense that we're pleased with the strong performance and the very obvious continuing momentum we have in all three of our customer businesses. But in addition to that, we see opportunities across all three businesses to continue to take market share and grow. We've updated income and returns guidance today. If we don't see you, I wish you a very good summer and I'm sure we'll speak to you shortly. Thank you.