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NatWest Group plc
H1 2024 Results, Fixed Income Call
Friday 26th July 2024
Hosts: Katie Murray (CFO) and Donal Quaid (Treasurer)

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Katie Murray, CFO:

Good afternoon everyone - thank you for joining our Q2 Fixed Income results presentation.

I'm joined today by Donal Quaid, our Treasurer, and Paul Pybus, our Head of Debt IR.

I will take you through the headlines for the first half before moving on to the financials for the second quarter.

Donal will take you through the balance sheet, capital and liquidity and then we'll open up for questions.

Slide 3: Our business has delivered H1'24 RoTE of 16.4%

We have had a strong first half, with significant growth quarter on quarter.

Income was £7 billion and costs were £4 billion resulting in operating profit before tax of £3 billion, with attributable profit of £2.1 billion.

Our return on tangible equity was 16.4%.

And given the strength of our performance we are upgrading our 2024 guidance, which I will talk about later.

We remain focussed on generating capital in order to reinvest in the business and make shareholder distributions.

Our CET1 ratio is within our target range at 13.6%, and we increased capital through earnings as well as active management of risk weighted assets, which added 140 basis points during the first half. As a result, this morning we announced an interim dividend of 6 pence, up 9% on last year.

This is in addition to the £300 million on market buy back announced in February, which completed this week, and a directed buy back of £1.24 billion that we did in May.

Slide 4: Progress against our strategic priorities in H1'24

Turning now to our 3 strategic priorities; disciplined growth; bank-wide simplification and active balance sheet and risk management.

We have continued to build on our strong market positions through both organic and inorganic activity.



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The growth in new customers of over 200,000 has contributed to growth across the bank: lending in Commercial Banking to mid-market customers grew by £1.8 billion; and AUM are up 11% to over £45bn.

We are accelerating this organic growth by making selective acquisitions where we have opportunities to add scale in our target areas at attractive returns.

We announced today that we are acquiring a £2.5bn portfolio of prime UK residential mortgages from Metro Bank, and we expect the deal to close in the second half this year.

Our Sainsbury's transaction is expected to complete in the first half of 2025, adding around a million new customer accounts with about £2.5bn of unsecured loans and £2.6bn of savings.

We continue to simplify the bank to increase efficiency and improve customer experience.

For example, we have 3 strategic hubs in the UK, India and Poland which we are reducing to 2 by closing our operations in Poland.

Our third key priority is to deploy capital dynamically and maintain strong risk management.

In addition to disciplined origination, we are actively managing our risk weighted assets and have delivered a £4.3 billion reduction in the first half, using a range of means, including Significant Risk Transfers and Credit Risk Insurance.

By focussing on disciplined growth, improving efficiency, and managing our capital dynamically we are driving capital generation in order to optimise shareholder returns.

I'd like to talk now about our updated macro assumptions.

Slide 5: UK Macro outlook

Overall, the UK economy has performed better than we expected at the start of the year and we are pleased to see consumer and business confidence returning. This means the Bank of England has not yet started to reduce interest rates.

We initially assumed rates would start falling in May, reaching 4% by the end of 2024 and 3% by the end of 2025. We now assume that rates will start to come down in the third quarter, reaching 4.75% by the end of the year, with a further 5 cuts in 2025 to 3.5%. Of course, the actual outcome may be different.

The headline rate of inflation is now 2.0%, in line with the Bank of England's target, and we assume that it will stay around this level. We continue to assume moderate real GDP growth and some increase in unemployment.

I'd now like to talk about our financial performance in more detail.

Slide 6: Strong financial performance supported by income



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All my comments use the first quarter as a comparator.

Income, excluding all notable items, increased 5.2% to £3.6 billion.

Operating expenses were 2.3% lower at £2.0 billion.

We made an impairment release of £45 million or 5 basis points of loans, which included post-model adjustment releases of £117 million.

Together, this delivered operating profit before tax of £1.7 billion.

Profit attributable to ordinary shareholders was £1.2 billion and return on tangible equity was 18.5%.

Turning now to income performance in more detail.

Slide 7: Q2'24 Income up 5.2% to £3.6bn, strengthened FY'24 guidance

Income, excluding notable items, of £3.6 billion, was up 5.2% on the first quarter with growth in both net interest income and non-interest income.

Across the three businesses, income grew by £147 million, driven by higher deposit income and fees.

Group Net Interest Margin was 210 basis points, up 5 basis points from the first quarter.

Given this positive performance, and our updated economic assumptions, we are raising our guidance for 2024 total income, excluding notable items, to around £14.0 billion.

Turning to our deposit income drivers.

Slide 8: Deposit costs stabilising

For the first time in two years, the average rate of interest we pay on our customer deposit funding has stabilised. It remained at 2.1%, in line with the first quarter. This stabilisation reflects modest changes in mix and limited adjustments to deposit product rates.

As UK Base Rates come down, we expect to pass through reductions on our customer deposit rates. But clearly the quantum and timing of this is subject to competition as well as contractual terms and conditions.

We have updated our illustrative interest rate sensitivity on the right of the slide. The managed margin is the more relevant sensitivity for changes in the base rate and deposit passthrough.



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Based on our first half balance sheet, a 25 basis point downward parallel shift in the yield curve would reduce annual income by £125 million. This is mainly driven by our unhedged deposit balances and assumes a pass-through of around 60%.

Turning now to the structural hedge.

Slide 9: Structural hedging provides a multi-year income tailwind

It is an important driver of income so I will recap a few key points.

£175 billion or 41% of our deposit base is part of the product structural hedge where yields are depressed relative to current rates. The yield in the first half was 1.58%.

Our product structural hedge has an average duration of 2 and a half years, which means it takes a full 5 years to reprice. And we reinvest maturing balances at the prevailing 5Y swap rate.

As we show in the chart, before further reinvestment is taken into account, more than 90% of income is already written for 2024, and product hedges already written will deliver income of £2.9 billion in both 2025 and 2026.

The actual income from the structural hedge in coming years will reflect any changes in notional balances, as well as the difference between the redemption and reinvestment yield.

The product notional reduced by £10 billion during the first half, which reflects our 12 month look back at average eligible deposits.

We continue to expect around £170 billion by the end of this year, based on a static balance sheet. Overall, we expect the product structural hedge to deliver higher income in 2024 than 2023, and for this to deliver a more significant income benefit in 2025 and 2026.

Turning now to costs.

Slide 10: Other operating expenses on track

We remain on track for other operating expenses to be broadly stable compared to 2023, excluding the increase in bank levies of around £100 million, and costs associated with the potential Retail Share Offering of £24 million.

Other operating expenses of £1.9 billion for the second quarter were slightly lower than the first, as a result of the Bank of England Levy.

Severance, branch and property exit costs increased in the first half, as we accelerated our work on simplification. The second quarter includes costs relating to our announced exit from Poland.



Turning now to impairments.

Slide 11: Asset quality remains strong, 3bps impairment charge for H1'24

Our diversified prime loan book continues to perform well. We are reporting a net impairment release of £45 million for the second quarter, taking the first half charge to £48 million, equivalent to 3 basis points of loans.

In Retail Banking, a charge of 12 basis points reflects broadly stable stage 3 inflows, partially offset by further Post Model Adjustment releases.

Commercial and Institutional reported a release of 28 basis points, driven by Post Model Adjustment releases as well as a reduction in stage 3 impairments.

Our balance sheet provision for Expected Credit Loss still includes £302 million of PMAs for economic uncertainty.

We have also reviewed and updated our economic scenarios which drove a £17 million release.

We have included economic forecasts and weightings in our Appendix.

Stage 3 charges have remained low in the first half. And as our economic scenarios are relatively stable, with little sign of deterioration, we now expect a loan impairment rate below 15 basis points for the full year.

Finally, turning to guidance.

Slide 12: Delivering attractive returns to shareholders

For the full year 2024 we now expect: Income, excluding notable items, to be around £14.0 billion; other operating costs to be broadly stable with 2023, excluding additional bank levies of around £100 million, and Retail Offer costs of £24 million and our loan impairment rate to be below 15 basis points.

Together this delivers an expected Return on Tangible Equity of greater than 14%.

Looking beyond 2024, we believe the business is well positioned to achieve our 2026 target for Return on Tangible Equity of greater than 13%, with a CET1 ratio in the range of 13-14%.



With that, I'll hand over to Donal.

Donal Quaid, Treasurer:

Thanks Katie. Good afternoon and thank you for joining today's call.

I will start by sharing some highlights for the first half before moving into more detail on the balance sheet; covering deposits, liquidity, lending and capital. I will then give an update on progress with our funding plans for the year.

Slide 14: Solid capital, MREL and leverage positions

Starting with the highlights on slide 14.

We ended the first half with strong capital, MREL and leverage positions; comfortably above the regulatory minima with a CET1 ratio of 13.6%, a total capital ratio of 19.5%, a Leverage ratio of 5.2% and a total MREL ratio of 31.7%.

Our Liquidity Coverage Ratio was 151%, giving us a comfortable headroom over minimum requirements. Our Loan to Deposit ratio was 83% and our Net Stable Funding Ratio was 139%.

We ended first half with £425bn of customer deposits across our retail, private and corporate deposit franchises.

We have made solid progress with our funding plans year to date, with 3.8bn sterling equivalent of issuance from the Holding Company across both Senior MREL, Tier 2 and AT1 and 4.3bn sterling equivalent from our operating company, NatWest Markets; and we returned to the Covered Bond market for the first time since 2019, issuing £750m from NatWest Bank.

Thank you for your continued support in these transactions.

Slide 15: Strong liquidity metrics and a high-quality portfolio

Turning to liquidity on slide 15.

Our liquidity position remains very strong. At the end of the first half, the LCR ratio was 151% or 147% on a 12 month rolling average, reflecting around £54.5bn of surplus primary liquidity above minimum requirements.

Our high-quality liquid asset pool totalled £227bn, comprising primary liquidity of £160bn and secondary liquidity of £67bn.



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Primary liquidity increased in H1 due to an increase in the customer funding surplus, together with HoldCo and OpCo issuance. Secondary liquidity reduced due to the normal amortisation of collateral prepositioned at the Bank of England.

Cash balances with central banks represent around 70% of total primary liquidity at £112bn.

The remaining 30% of primary liquidity mostly comprises highly rated Level 1 LCR securities with a smaller percentage of Level 2 LCR securities.

We have £12bn currently drawn under the Bank of England's TFSME scheme, with £3.8bn repayable in October 2025 and the remainder repayable from March 2027.

Slide 16: £5.2bn deposit growth across all businesses and migration slowing

Looking at our customer deposits on slide 16.

Across our three businesses, deposits were up £5.2 billion to £425 billion.

Migration from non-interest bearing to interest bearing deposits continued at a slow pace, as expected.

Non-interest bearing balances were 32% of the total, compared to 33% at the end of the first quarter, and term accounts remained at 17%.

In Retail Banking there was strong growth in savings driven by record ISA inflows.

In Private Banking there was good demand for instant access savings, including some short-term transitory inflows.

In Commercial and Institutional both non-interest bearing balances and savings grew, driven by our Commercial Mid-Market customers.

Our loan to deposit ratio at the end of second quarter was 83%, down from 84% at Q1.

Slide 17: Disciplined approach to growth in targeted areas

Turning to lending on slide 17.

Gross loans to customers across our three businesses decreased by £1.9bn to £358.6bn.

Taking Retail Banking together with Private Banking, mortgage balances fell by £0.8bn as customer redemptions more than offset new lending. The pace of reduction slowed in the second quarter with gross new lending increasing over 20%, reflecting stronger market volumes and stable retention levels.



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We expect the book to return to net growth in the third quarter, given both stronger market volumes and an increase in our share of new applications during the second quarter.

Unsecured balances increased by £0.3bn to £16.1bn, with continued growth in credit cards partially offset by lower personal lending. We continue to grow our share of unsecured lending and the Sainsbury's Bank transaction will support this.

Within Commercial and Institutional, lending to Mid-Market customers grew by £1.0bn, driven by demand in social housing, asset financing and invoice financing.

Balances in Corporate and Institutions decreased £1.9bn, partially due to customers taking advantage of stronger capital markets, which is reflected in the performance of NatWest Markets.

Slide 18: Strong capital and leverage positions provide confidence and flexibility

Turning to our capital and leverage position on slide 18.

Our CET1 ratio at the end of the quarter was 13.6%, within our target range of 13-14%. We are operating with 310bps of headroom above the Maximum Distributable Amount of 10.5%.

Our UK leverage ratio decreased by 10 basis points in the quarter to 5.2%, leaving around 135bps of headroom above the bank of England minimum requirement.

The slide also shows the impact of the Other Systemically Important Institution buffer for NatWest Holdings that results in a Group risk add-on for NatWest Group of 1.2%. Although not part of minimum regulatory requirements or combined buffer requirements for NatWest Group, it is included in our minimum supervisory requirements.

Slide 19: CET1 13.6% post Directed Buyback

Looking at the drivers of the CET1 ratio on slide 19.

Capital generation was especially strong given our impairment release and active RWA management; we generated 63 basis points of capital from earnings and 41 basis points from lower risk weighted assets.

RWAs decreased by £5.5 billion to £180.8 billion. Active capital management, accounted for £3.9 billion of this reduction.

This activity is in line with plan, with a number of actions successfully completed in the second quarter, and whilst it is an important capital management tool, it should not be considered the run-rate going forward.



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We currently expect around £200 billion of RWA's by the end of 2025. Growth will not be linear, and will include the impacts of the Metro and Sainsbury's transactions; further RWA management; and ongoing regulatory headwinds.

We are still awaiting publication of the final Basel 3.1 and we are also liaising with the regulator on CRD 4 model changes where we expect some further inflation in the second half of this year and through 2025 although timing and quantum remains uncertain.

We will continue to operate with a CET1 ratio in the range of 13 to 14%.

Slide 20: Total Capital and MREL above requirements

Turning to our total capital and MREL positions on slide 20.

Our total capital ratio for the year is 19.5%.

We currently have an AT1 ratio of 2.6% with £4.7bn of securities outstanding. Two of these securities, with a total nominal of \$2.65bn, have their first call in 2025.

Our Tier 2 ratio is 3.3% with £5.9bn of securities outstanding.

We are currently running excess headroom in AT1 and T2 given recent issuance. However, over time we expect to continue operating with optimal levels of AT1 and Tier 2 capital relative to our minimum requirements.

Our total MREL continues to look healthy at 31.7%, significantly higher than our risk weighted asset requirement.

Slide 21: Good progress against 2024 wholesale funding plan

Turning to our issuance during the first half, on slide 21.

From NatWest Group, we have issued USD 2.8bn in senior MREL, against our guidance of 4-5bn sterling equivalent for the year.

In addition to issuing MREL, we also issued USD \$1bn in each of Tier 2 and AT1 in H1.

While for NatWest Markets plc, we have issued around 4.3bn sterling equivalent in EUR and USD which leaves us well placed against our £3-5bn guidance for 2024.

From NatWest Bank, we issued £750m covered bond, within our guidance of up to £1bn for the year.

Looking ahead to H2, we expect to be active from both the Holding Company and NatWest Markets to complete our annual funding requirements and will also give consideration to the potential of pre-funding our 2025 requirements if the right market conditions prevail later in the year.



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With that we'll open the line for questions.

Operator:

If you would 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 star 9 to raise your hand and star 6 to unmute once prompted. We will now take a short pause for a moment to give everyone an opportunity to signal for questions.

Our first two questions come from Lee Street from Citi Group:

What is the sum total, measured in RWA terms, of SRTs that are currently in existence? What is your capacity to do further SRTs?

And when you do an SRT, does that mean that the risk is permanently removed from the balance sheet?

And the second question is, what part of your loan book is of the greatest focus presently, sector or type of loan?

Katie Murray:

Thanks very much, Lee. I'll just deal with the first one.

The reality is, Lee, there's no one bit of the loan book that I would call out.

I mean, overall, as you can see by the charge and the write backs we've had in the quarter, that in reality, the book is performing incredibly well.

Clearly, we're very focused on all different parts of the book, but there's not one area that I would call out particularly ahead of any of the others.

Donal, do you want to deal with the SRT question?

Donal Quaid:

Yeah. So, on the SRT, Lee, we don't disclose the total sum, but just to help you in some degree, in the pillar three, you'll see in terms of the SRT transactions we executed in Q2, they deliver about a £1.2 billion benefit to risk weights.

You'll also see there that the nominal value of the SRTs has increased from £2.3 billion to £5.8 billion. So I think you can use that to assume that the existing transactions that are already on the book before Q2 weren't going to be material in terms of that RWA benefit.

On capacity, I think plenty of capacity. We do have aspirations to build up the program from a low base.



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And then the final part of that, does it permanently remove the risk weight from the book? The answer is no, just for the lifetime of the transaction. But, you know, we do want to get into a more consistent rolling program so that we can roll these transactions going forward as well.

So hopefully that answers your questions.

Katie Murray:

Thanks, Lee.

Operator:

Our next question is pre-submitted.

Could you elaborate a bit on the funding for H2? It looks like you have more work to do on MREL, potentially Tier 2. Any thoughts on currency?

Katie Murray:

Donal.

Donal Quaid:

Yes, I'd say very well advanced on our funding plans for 2024. In MREL in particular, we did guide in February of 4 to 5 billion sterling equivalent for the year. We've done £2.2 billion, so we're just above kind of 50% of that requirement. So do expect us to be active in H2 with, I would guess, at least a couple of transactions.

As always, you know, we're open on currency depending on where the investor demand is and also from a pricing perspective as well, so we'll consider that on an ongoing basis.

Maybe just touch on other elements on AT1 and Tier 2. You know, we're looking, I think, pretty much complete.

I think AT1 we set up to a billion. We did a \$1 billion transaction and on Tier 2, we got it to 1 to 2 billion and we're just shy of the 1 billion at 800 million equivalent. Saying that, we will keep an open mind just depending on market dynamics into H2. And if there is good opportunities, then we will look at that.

From an OpCo perspective, NatWest Markets PLC, we guided to 3 to 5 billion for the year and we're very well placed there. We've done about 4.3 billion sterling equivalent across euros and dollars. Saying that, I probably do expect to be active from the OpCo as well in H2.

Operator:



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Thank you. A quick reminder that if you would like to ask a question, you may do so by using the Raise Hand function on the Zoom app. If you are dialling by phone, you can press star 9 to raise your hand and star 6 to unmute once prompted.

Our next question is, the impairment charge of 3 basis points for the half year is very low. What would it take to move impairments higher? And when do you think the rate will normalise?

Katie Murray:

Yeah, no, thanks very much. That's a great question. As I look at the charge for the moment, we've changed our guidance today to be less than 15 basis points.

When we look at our kind of through the cycle guidance, we've traditionally talked about 20 to 30 basis points.

I mean, what I would say is for the last number of years, certainly since COVID, we've really struggled to kind of hit that level. I think the real reality with the strength of the kind of deposits that our customers are holding and now the improving kind of economy, it's very hard to call when you might actually see us getting back to that through the cycle guidance.

It's clearly not something we're anticipating this year with the less than 15 basis points.

We continue, obviously, to be very vigilant on the book and spend a lot of time looking at different kind of sectors. But as I said in one of the earlier comments, there's nothing particularly that I'm looking at that's causing us over concern, but we do continue to watch for developments.

Thanks very much.

Operator:

Our next question comes from Paul Fenner [Société Générale]. Paul, if you'd like to unmute and ask your question.

Katie Murray:

Hi, Paul.

Paul Fenner:

I just wanted to – I've got two questions. One on the supply front, just to clarify.

So you mentioned tier two. There seems to be a gap there between your plan and what you've done so far. Or is there not a gap? Are you saying that you're more likely not to have any more need than you are to doing another transaction, just to clarify your tier two needs going forward?



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And then the other question I had was you've got the management provision buffer of 300 odd. Just to get an understanding of how you might go about releasing that.

If rates start coming down, presumably the risks, assuming it isn't for a slowdown in economic reasons, all other things being equal, rates come down, unemployment, assuming it doesn't go up, the cycle seems to be softer. Does that mean there's kind of like a, more or less a linear glide path to zero? Or is it never going to go to zero?

What's the bottom of that? What's the minimum amount that you are likely to hold in your management provision buffer? I know that's not what you called it, but whatever it is.

Katie Murray:

Don't worry. So I'll take that one then, Donal. You can come in on the tier two.

So I guess as I look at it, what I've always said about this provision, so the post-model adjustments, is that there'll be a multi-quarter kind of event in terms of release. In this period, we actually released about 110, particularly from this bucket, so a little bit more.

A couple of things were driving that. There were some model enhancements in retail, but also the update in economics would have had a little bit of an impact as well.

I don't think it will ever be completely linear. It will certainly not be linear as it gets released. It's interesting whether it goes to zero. We did have it at zero, I think, for one year.

And then the following year, we added on something like 95 because of Brexit. Then obviously COVID, you saw us add on several billions of provision in that kind of bucket as well. And it's unwound very, very significantly since then.

I mean, I'd never say never, but it feels that it should be a number that kind of toggles up and down a little bit. But at the moment, you're right. If we were continuing to see improvements, rates falling down, as long as the other economics stayed more or less in line, you would start to get some comfort that it would come down. But I do think it will be a multi-quarter event.

Donal, do you want to take the Tier 2?

Donal Quaid:

Yeah, on Tier 2, maybe I wasn't clear enough. Yeah, you're right. We're slightly shy of kind of the lower end of our 1 to 2 billion guidance.

But we will keep an open option on Tier 2 for the remainder of the year. You can see we are currently running a bit of a surplus at 3.3% versus the 2.8% requirement. But I also have a maturity of \$750 million maturity in the second half of the year.

So I wouldn't rule out Tier 2 issuance in H2.



Paul Fenner:

Okay, very good. Thank you both.

Katie Murray:

Thanks very much.

Operator:

Our next question comes from Daniel David from Autonomous. If you'd like to unmute by pressing star six and then asking your question.

Katie Murray:

Hi, Daniel.

Daniel David:

Good afternoon. Hopefully I've navigated the IT. Congratulations and thanks for taking my questions.

I've got three. First one is just a quick one on AT1. So if I understand your comments correct, should we assume that the AT1 bucket could reduce?

So could you call out the next AT1 you've got coming up, given you've built a headroom quite early before the next AT1 comes?

The second one, I hear your comments on Basel 4, but I guess we're pretty close to 1 Jan '25. I'm just looking for any guide, any indication of what we can expect coming from headwinds from regulation.

Anything you can say would be helpful. And whether there's any mitigation potentially via SRTs or any other items that we should be aware of.

And then thirdly, just more of a broad question. So, given what we've seen from the building societies in the UK, do you think there's been any change in competitive dynamics in the market? And I guess when I look at what you've done recently with Metro and Sainsbury's, those two transactions stand out. I'm just interested whether you consider anything larger further down the line. Thanks.

Katie Murray:



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Yeah, sure. So let me kick off and I'll come back to Donal on AT1. So I guess in terms of that kind of competitive dynamic piece, I think there's obviously been quite a lot of change with some of the transactions that have gone on.

I think one of the things that has helped is, I think some of people's kind of level of funding requirements where we had seen a lot of TFSME kind of coming up for a relatively quick repayment. Actually, I think with some of the movements that have gone on, that's kind of taken away some of the pressure from some of the kind of smaller players, which as a result, I actually think on the deposit side, it's been relatively benign in terms of competition. Rates haven't moved a lot.

You saw that in our own charts around the cost of funding that we didn't have kind of rates kind of going up. But similarly, they haven't yet started to come down. So I think that kind of has certainly had a bit of an impact just in the kind of short term.

I think we'll see how it continues to roll through. But we're very pleased with both the Sainsbury's and the Metro transaction. Both of them made good strategic sense for us.

It's something we have a team that we are always looking at, very constantly reviewing, and it's one of the areas that we do think if we can see something that is really adding capability or the right kind of level of volume, we're very interested to participate within it.

But at the moment, very happy to have done those two literally within the last few weeks. In terms of your Basel 3.1 question, I guess our guidance for RWAs is around £200 billion for the end of 2025. That includes the Basel 3.1 movements. We've talked as well about the CRD4 movements coming in, and they've been more difficult to estimate in terms of quantum and timing, but they're definitely a feature of that. Within that around £200 billion, we've also got obviously the two recent acquisitions that we've done, as well as just some loan growth that we're expecting to see kind of strengthen a little bit as well.

So I can't give you exact pinpoint numbers. We are expecting the regulation to come out hopefully in the next kind of quarter. And then if we have anything more to say, we can update in October in terms of where that's sitting.

But it's definitely something that our RWA management that we've done this quarter using SRTs and other levers is something I think you should seek to see as a more continuous kind of narrative in our results as we move on from here.

Donal, do you want to talk about AT1? Or if you have anything to add to anywhere else.

Donal Quaid:

Yeah, no, to be honest I think it leads nicely into AT1 just in terms of the RWA trajectory as well, because you'll see we're running a buffer again at AT1 at present, 2.6% versus the 2.1% requirement. So, two things to consider. One, as Katie said, is the RWA trajectory of 200 billion by end '25.



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And then we do have 2.65 billion of dollar calls over two instruments, August '25 and December '25 next year to take into consideration. I suppose when we think around our issuance, we always say that we start thinking around AT1 pre-financing about a year ahead of plan. So that will start coming into our consideration into the second half of this year and into next year.

Given the buffer we're currently running, it's probably next year when we start thinking about further AT1 issuance, given we've done the \$1 billion transaction earlier on this year.

Katie Murray:

Super. Thanks very much, Daniel.

Operator:

Our next question is, I'm interested in your view on usage of Bank of England's short-term repo facility. Do you see it as an option as you look to refinance your TFSME drawings next year?

Katie Murray:

Donal.

Donal Quaid:

I shall take that one. So maybe starting off on TFSME, so from a NatWest Group perspective, we have 12 billion outstanding, of which about 3.8 billion is due to mature Q4 2025. So, in terms of refinancing, given our very strong liquidity position, we would just look to repay that from our excess liquidity we currently hold, given it's an LCR of above 150% at present. The remaining 8.2 billion matures from March '27. So, we'll start thinking about that kind of closer to the time.

There is an interesting question in terms of the STR and the short-term repo facility, because it is a topic we've been having a number of discussions with investors over the last few weeks. And so let me just, I think, touch on what that is, but probably more importantly, what it's not. The aim of the facility, as you're aware, is to ensure that short-term interest rates remain close to bank rate as central bank reserves reduce through repayment of TFSME and QT.

That allows banks to borrow central bank reserves or cash against level A collateral with gilts. So in effect, if repo rates increase, banks can access the reserves of the Bank of England as opposed to normal market repo activity. And this is exactly what we've seen in terms of the use of that facility over the last few weeks. So I'd say it's operating exactly as the Bank of England would expect.

In effect, it's only swapping one HQLA level one asset gilts for another reserves. So, in effect, it does not create liquidity. So hence, there's no real link to the refinancing of TFSME through the STR facility.



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What is probably more interesting is there was a recent, as you will have seen, speech by Vicky Saporta earlier on this week around ILTR and expectations there of potentially the growing use of ILTR and maybe some changes to the facility itself, with TFSME refinancing and QT over the next couple of years.

That is very different to STR because it does have the ability to create liquidity through the drawing of, in effect, swapping non-HQLA level C assets with UK mortgages that are prepositioned at the Bank of England for level one reserves in a similar way to TFSME at work.

So just to clarify, I think the difference there because there does seem to be some confusion.

Operator:

There are no more questions at this time. I would now like to hand over to Katie for closing remarks.

Katie Murray:

Lovely thanks very much Oliver. So, just once again, as ever, thank you very much for the support on this call, and also the support you give us as we do our issuance, it really is tremendously appreciated.

If there's anything else you'd like to follow up with after the call, Donal is obviously available as is Paul Pybus from our Debt IR and please do feel free to reach out.

Have a good weekend when you get to it, and thanks again. Bye bye.

After Q&A, operator to hand back to Katie for call close.

Call close.