



NatWest
Group

NatWest Group plc

Fireside Chat at JPM

11.15am, Wednesday 19th November 2025

JPM UK Leaders Conference

Katie Murray, NatWest Group Chief Financial Officer

Moderated by Sheel Shah, Research Analyst

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Sheel Shah: Thank you very much for your time, everyone. I'm joined here by Katie Murray, CFO of NatWest Group. A pleasure to have you here, Katie.

Katie Murray: Lovely to be here. Thank you very much.

Sheel Shah: Now, the stock has done very well over the last few years relative to the UK market, relative to European banks as well, trading at 7.5 times PE, 1.3 times book for almost a 19% return on tangible equity on a number. So a very strong operating performance. Clearly the fiscal backdrop adds an element of uncertainty there. But if we start there, the news around the budget has been volatile, to say the least. Can you give a sense of the economic environment that some of the corporates and individuals are faced with and your view on that?

Katie Murray: Yeah absolutely. There's a lot of noise at the moment about the budget. And I'm sure all of us feel it's gone on for a long time as well. But there's also, I think the reality of what we see on the ground. The way that we look at economics internally, I guess our in-house commentary is one of cautious optimism. When we look at what's happening in the economics, base rates have behaved more or less as we expected them to. Unemployment has gone up a little bit, it's gone up to 5%. But the reality of 5% versus 4.7, 4.8, it's not a particular movement. It's still at incredibly low levels of activity. We still see wage growth continue to be high.

And what that kind of converts into, certainly for the retail depositors, that they've got their high level of deposits, there's high saving rates going on. We continue to see strong activity in that sector. I know we'll get into mortgages and things later. But that market's performed incredibly well this year. Therefore, you can see there's a level of confidence in the consumer that sometimes is at odds with some of the narrative we read externally. I spend a lot of time out with different corporate customers as well and seeing what's happening in their business. While they've worked really hard to do things like digest the NIC changes that were early in the year and the budget is definitely causing some of what's happening, I also see them growing and investing in their businesses. That kind of bears out some of our numbers that we've been posting as well.

There's often now worry of what's happening over here rather than what's happening in my business. And in my business, I can see the path. When we look at all of the various indices, which are in reality all a bit more positive, the print this morning on inflation was a little bit higher than we were expecting, but still down from where it had been. Our view of cautious optimism is the right balance to have. We'll obviously continue to review our economics, particularly as we get into the year end. But at this stage we've actually seen great stability in them throughout the year, which I think has been really beneficial despite the huge amount of noise that's been going on in the background as well.

Sheel Shah: If we focus in on your business here, you've upgraded guidance several times this year, targets of greater than 18% ROTE. What has surprised most against your expectations? And as I look into my forecast into the outer years, I see a high teens ROTE as being a strong level, possibly 20% upwards. Is that level a sustainable level? What do you think are the arguments that go against that?

Katie Murray: Yes, let me talk a little bit about this year first of all, and then we can talk a little bit about the later years as well. As we look at the performance, it's been very strong, and it's been great to upgrade guidance, but we don't generally like to do it every quarter, though I'm very conscious that we have. That's really been a result of a number of different things. The first one is actually importantly been the broad based growth that we've seen across, whether it's been the assets, the liabilities in terms of deposits, and also the AUM that we've seen good growth in all of those areas across the year. We've also seen the structural hedge. It's been reinvested at a level... I think at the beginning of the issue we were talking about reinvesting rates of three and a half or 3.6, and actually we've been closer to 3.8. So that's been quite positive.

But also importantly, the customer activity, you've seen the strength of that coming through in terms of our non-interest income. Really strong performance, particularly in places like FX where we've been able to take real advantage of the volatility that's been in the market and really work with our customers and also on our capital markets piece. As well as of course in non-interest income, we need to have that level of customer activity, and it's been quite strong. All of those things together is why we've upgraded up to around £16.3bn for income for this year and then greater than 18% ROTE.

If we look to next year, you know in February I'm going to talk more about our 2026 and 2028 guidance, and we'll talk more about them then as well. But if I look at the trends that we're seeing of that balance sheet growth coming through, the strength of the structural hedge, the ongoing focus that we have on cost management, I think it's really important. There are obviously some headwinds that we'll get into in terms of RWAs, I'm sure. But overall that gives us the confidence around our greater than 15%, which is our existing guidance. We'll look at where we land and where we guide you to when we get to February in terms of what those outer years might look like.

Sheel Shah: Great. And if we dig a little deeper then, in terms of NII, the growth in NII has been particularly strong in the context of the European banks and the level we've seen there. The hedge is expected to be a tailwind across multiple years, including next year being another a billion or so greater of incremental NII from the hedge. What are some of the other moving parts we should be thinking about for that NII story as we look out?

Katie Murray: The hedge has done exactly what we wanted it to do. It's really important to remember that we have the strengths of the hedge because of the strength of the deposit franchise that we operate, which we've seen continue to grow, but with really good stability in terms of the mix of that. I think sometimes people

talk about X hedge and X this, but it's there for a really good reason. I'm delighted with how well it has performed and how well it's continued to run. I think that's important. But it's not the most important aspect of the numbers. What I think is really important as we go through is actually the growth that we continue to see in the balance sheet. If you look at lending, we've had a greater than a 4% compound growth for the last seven years. That is a huge testament to our business that's continuing to capture growth in an environment where actually growth is relatively low. Our ability to be out there and making sure that we're capturing that on both sides of the balance sheet is really important. Coupling that with the AUM growth we talked about, which has been 15% this year, I mean really quite startling numbers. So that's important. The hedge will continue to deliver the value that we have. Non-interest income we've talked a little bit about already, but the delivery on that is important. Rates in general have obviously been a big feature of all of the banking results. We've got the rate cut coming through. We think that we've got two more to go until we get to a terminal level of 3.5%. I think sometimes in models it is important to remember the cuts that we've had, and that takes about 300 million of income off next year. It's important not to forget that number as we all get excited about it going forward. But definitely growth is the big feature, along with the hedge and also that negative on the rate cut. Then they'll be supplemented by the non-interest income moving forward.

Sheel Shah:

That's helpful. If we double click into the lending side of the balance sheet, in terms of the growth that you've spoken about, 4% growth over the last few years, there's clearly been a strong level. If I look at the retail business, market shares and deposits sit around 16%. On the asset side, mortgages, maybe unsecured credit, it's maybe undershooting that level. How are you thinking about growth in this market in terms of market share gains? What are your market share ambitions for these areas?

Katie Murray:

Yeah, absolutely. I think as I look at something like mortgages, we're 12.6% market share for the whole group. In the time that I've been here for, I think that's come up three-ish percentage points, sometimes when you think of that number, you forget how huge the mortgage market is in the UK. I think it's like 1.2 trillion, so actually a percentage movement is an important movement in terms of the number. I think what's really excited me about our market proposition in terms of mortgages in this last year to 18 months is actually to see it growing, which is important, but actually widening, which has been really important. We talk a lot about the widening of the waterfront. You've seen things like the family-backed mortgage come out this week. We launched another mortgage proposition around shared ownership coming out as well. We've also gone into a relationship with Landbay in terms of increasing our access to private landlords, so increasing our vital exposure there as well. That's been combined with some regulatory changes, which have made mortgages a little bit more accessible for people. When I look at that mortgage market this year, a year ago we were talking about a mortgage market of say 240 billion. This year it's 285 billion. So again, it goes back to that macro of actually that's a strong market and it's strong because people are feeling that they are

comfortable to move. I think it is important as we move forward. We do continue to see growth within there. And we are obviously always very mindful of the ROTE that we're earning. You have sometimes in some quarters seen a pullback. But overall, if I look at it on a multi-quarter basis, that will continue to grow. In the unsecured space, it's been an absolutely fantastic journey on unsecured if I look over the last five years. We re-entered the market just before COVID and then it all went in the wrong direction as everybody paid down. And actually since then it's been an absolute metronome of growth. With the Sainsbury's acquisition coming through and really boosting that, I think we're at about 11% market share. We do think there's still a bit more that we can grow there. So we've developed our proposition, done an important acquisition for us, and also taken it to the whole market while still making sure that we stay within that risk appetite framework. So I think that you can expect to continue to see strong growth coming through on the retail side, on lending. And very comfortable with our deposit performance as well.

Sheel Shah:

And on the mortgage side, the actions you've taken to diversify the book, looking at other sources of mortgage flows, has that helped the margin? If I talk about the margin at the moment, it's sitting just below 70. During COVID time, that was 200 plus. What do you think of the push and the pull on that margin number going forward?

Katie Murray:

Yeah, there's definitely push and pulls. And as we talk about COVID, what's important to remember in late 2020, early 2021, it was one of the peak activity of people doing lots of moving and selling, and real peak rates. You can see that they're now at the five-year anniversary, so they'll be renewing their rates.

And so, therefore, from a margin perspective, we do see a bit of compression coming in into the book on that as that reprice is still comfortable with around 70 basis points but it is something that's a bit of compression. And definitely the expansion of that product offering is twofold. One is about bringing more of the bank to our customers to make sure that we can really service all of their needs. But it is also of course about diversifying the margin that we're earning. And it's helpful in that.

If I look at the vanilla mortgage product today, we're definitely writing below 70. And we've said that for the last number of quarters. And so that's obviously brings a little bit of pressure in there. Comfortable about the returns, but it is important that we supplement with what we're seeing in the broadening, but also importantly on retention. Retention is really important in terms of making sure that you take those mortgages and they stay with you for a number of years.

So we work really hard to make it as effortless as possible in terms of the renewal of that mortgage piece. And we're happy with the retention rates we've got in the high 70 percents. And again, they're also helpful on margin. So it is a blend and making sure you're pulling all of the levers to make sure we're staying in that around 70 basis points for the book.

Sheel Shah: Looking at the other side of the balance sheet, the liabilities and the deposits, it's clearly been a competitive market over the last few months. We had the ISA season volatility. Pricing seems quite tight at the moment as well. What are your thoughts on deposit growth going forward and deposit pricing in terms of what you're seeing now and into the future?

Katie Murray: When we look at the deposit growth, we feel quite confident on it. I'll talk retail and then commercial. The retail consumers has got a saving rate of about 10% plus even saw that got to about 12% earlier in the year. We know that with wage growth and things that will naturally have a bit of a flow through.

It has been a very competitive market. The ISA season was very competitive with some of the debates of what the budget may or may not do or the changes that might be coming through at that time. There's obviously some of those debates again. I would say at the moment when I look at competition, the real competition is in that fixed term, whether it's fixed term ISA or just fixed term accounts. You see there that actually many of us are pricing slightly below with a slight negative margin.

I'm comfortable with that because I look at it in the whole total of my funding stack and it works very well. The reason we do that is we know how valuable these deposits are. What you don't want to be doing when you get to the terminal rate is then fighting for deposits at that stage because you'll pay a lot more to get them back than you will to retain them. So very logical behavior within there. But overall, we do see it growing. We pleased to see the growth in current accounts. Over time, while I don't expect it to be material, that is something as you know that can influence on the hedge. It's not something we're making a big noise about at this point, but that growth in the current account is important.

The retention of your fixed term accounts is very important. I think we do very well retaining about 85% of our fixed term accounts. There's always an element of hot money that will move that but we're very happy with that retention level that we see.

It also shows that the retail consumer has got good spending power. So if they were to choose to start spending more, they can do that without impacting the quality of the book. And actually what we would see being the largest bank for a UK business, you would see that those balances move from retail, then you could see them then move into the commercial side.

Again, commercial, I think we do see growth coming through within there. It's not as easy to track as the saving rates. So obviously corporates do lots of different things, but again comfortable in terms of how that book's continuing to evolve as well. We do feel comfortable that there will be continuing to be growth on the balance sheet in that the three and a half percent terminal rate, that's obviously valuable growth for banks.

Sheel Shah: As the largest corporate bank with a 25% of market share on deposits, almost 20% on lending, we've seen 6% growth in the lending book and the corporate side year to date. Which considering the UK backdrop of being gloomy on the

consumer side and on the business side is quite impressive. What's underpinning this level of growth?

Katie Murray:

we run a model that's very focused on the nations and regions of the country. when I travel around the country to meet different customers and work with different regions, that model and that depth that we have within local areas is just really, really important.

And it's also something that's quite hard to replicate because it's often relationships that have built up over 10, 15, 20 years with the bank when we've taken businesses on their own growth journey or we've taken them through transfer businesses from parent to child and things like that. I think the value of that model, so you have people who are really specialized in that area or we have sector specialists who can then go across region is one that's really important.

There is competition. We can see people look at our stats, 20% market share and above 25% in deposits. That's a very attractive area. So we do feel that competition and we observe it. So it's important that we continue to evolve with those customers. I think one of the things you've also seen us doing, which is helped drive things like non-interest income over this last year is making sure that we're bringing more of the bank to more of our customers. So really increase that FX penetration that we have or making sure we're meeting some of their capital needs as well.

I think that those sort things have really helped. We're making big investments in some of the IT systems that those corporates reduce and that means that you're very integrated into their businesses as well. And as that system continues to improve what we can see, it helps not only the efficiency of the relationship managers but also helps on the income line as they continue to do more business with us.

It's an area that we're naturally very proud of and one that we're very protective of. So making sure that we really continue to evolve and develop it with our customer base.

Sheel Shah:

If I follow up on that, a lot of the UK banks are targeting this corporate space. We had Barclays on earlier talking about one of the areas that they may be undershooting, where they could grow is the corporate space. It's traditionally been deposit heavy as opposed to lending heavy for a lot of these banks. Are you seeing that come across into margins? How are you thinking about this competition?

Katie Murray:

Yeah, so it's interesting on margins and those of you're familiar with my NIM walk would know there's not a lot of noise on front book back book margin in the corporate space. It's pretty stable on the lending side. We do observe the competition. We are aware of it and it's important that we don't minimize any of that and we certainly don't. We just keep moving forward in that real depth and deep experiences that we have with our customer base. It is good to see relative stability on that lending side on the margin piece.

Obviously the deposit margin, it varies. The C&I business is very broad, so those margins will also vary as well from when you're negotiating with the treasurer at one of the biggest banks to when you're a much more retail experience, when you're down at the business banking side of things. But also really making sure that we get the right products in the hands of those customers to make sure that they're also able to manage their funding appropriately. But we do see it as a real strength. It's something we are justifiably proud of, but we'll continue to defend.

Sheel Shah: If I look at the third of your key businesses, the private bank wealth management business, the business has traditionally been a very strong private bank. Maybe less so on the wealth management side, but AUM has been picking up.

Katie Murray: 15%. I'd give that a good pick up. Yeah,

Sheel Shah: 15% and 56 billion AUM. So it's of a decent size now. Considering the market is quite fragmented, we've seen some of the FCA's proposals come through to try and narrow this advice gap or the gap we see in the UK wealth market. How do you think that fits into your strategy for this business?

Katie Murray: Look, I mean the private banking, wealth management, you're absolutely right. It's something where we traditionally see more as a private bank than as the wealth manager. We spent quite a lot of time talking to all of you about this business this year. And as I look at it, we've got targets out to 2027 of a cost income ratio that's in the mid-60s and above 20% ROTE. So it's smaller in the group in terms of the absolute size, but it's definitely very mighty in its performance.

I guess what gives us confidence as to where we go from here, I think of it as three things. How do we penetrate our very strong customer base more so they also see us as a wealth management? And look, in many of your houses, 56 billion in terms of assets under management is a small number compared to what you manage. But actually, it is meaningful and it's growing because of as we continue to improve that penetration into our customer segment. So that piece is important. The other real benefit we have as well, being the large corporate commercial bank that we are, we have access to people who should be Coutts customers who are either having liquidity events because they are selling their business or within their own private environments. So actually, how well do we do the referrals from one bit of the bank to the other? And that's just a feeder line that we can continue to improve. And one that I think if you look historically it happened, but not in the way that it should and that what Emma's doing is being really systematic to actually say, How do we make sure that we're talking to the right customer base? And that's a very rich vein for us to continue to look at.

Then on the other side, which is why this business is so lovely in the group, they're also the provider of the wealth management services into the retail bank. That's where I think some of the real changes of wealth advice would

come through. So we've got a good wealth management business. We've got a product called RBS Invest, NatWest Invest, which has grown quietly and steadily in the background over the last number of years. But actually, with the advent of more advice coming through, then you can actually see how that will really continue to help develop the services that the Coutts business can provide to the rest of the group. So we are excited about that. I know that all of the regulations are not quite where they need to be yet in terms of being published and out and making the availability of that advice easy to provide. We are very pleased with the direction of travel and we do see it as something that's an opportunity for us as we continue to grow that business and make sure that we are hitting that greater than 20% we'll see for that PBWM segments.

Sheel Shah: And in line with this opportunity, do you think there is an inorganic strategy that maybe fits into the wealth business and your strategy there?

Katie Murray: Yeah, I mean, inorganic is something we've obviously talked about, we talk about a lot and when we look into the wealth business, it's something that we've always said is a high bar and the reason for that high bar is as much to do with actually can you find a business that strategically makes sense with what we have in terms of this very strong private bank and the wealth business? Can we culturally integrate it as we bring it in? And then does it make a real differentiation for our customers? But really importantly, there's also a price angle to it as well. Given that there is a pricing differential between these two business, there has to be something that you're very comfortable on integration ability and very comfortable on strategic sense. So we continue to look at things from time to time as they might become available and we will continue to do that, but I would say there is a high bar.

What I would say in terms of the strategy we have around those 2027 targets and our ongoing delivery, they're not dependent upon an acquisition for that business, but we do believe that there is good growth that we can continue to deliver. When we think of that business and the CAL, which is the total customer assets and liabilities, we talk about assets under management being greater than 50% of that. We've made lovely progress in that space over the last couple of quarters and we're sitting at 49% at the moment and we'd expect to see that continue to grow. So we will look at things, but it is a high bar and strategically we're really comfortable with our delivery if that was not to come through.

Sheel Shah: Still on the topic of inorganic growth, you've done several portfolio acquisitions in the past, whether it's Sainsbury's, whether it's Metro Bank portfolios as well. Is this an area that you'd be looking at as well to maybe beef up the asset side compared to the deposit market shares that you have?

Katie Murray: Yeah, we do definitely look at it, and in retail, that's where we've been most active. If you look at the strength and depth of our commercial business, it's harder to see what we could take externally to bring in to continue to grow that. I wouldn't roll it off the cards but you have obviously seen our activity more in the retail space. But the Sainsbury's acquisition was a fantastic acquisition for

us. It really accelerated our unsecured business, also brought in some good level of deposits, and some nice personal lending. We've done the integration of that business into our business, so everything has now been transferred. They're on our systems. And actually, if you think it was a transaction that closed in May, the fact that we can say as a bank they're now all in our systems and we're servicing those customers from our own systems and it's only November, I think that is a really, really strong point. So, we're not sitting there for many years with multiple systems and going through. And then also now the fact that they are our customers, that also gives you different and greater opportunity to continue to develop them. I think it was a great transaction for us. It was a good transaction for our customers, but also it really showed our ability to leverage the systems that we have that we could add something of that size on, add a couple of percent of market share instantly overnight. And actually there was no dip in the service quality, we didn't have to do things in our system, so really important in terms of the ability to continue to leverage what we've got. Metro, again, we've done two transactions with them over the years. Again, very, very good integration, good customer outcomes as well.

We'll continue to look at those things. Other bits over time we've added in terms of capability, Rooster Money is probably one of our personal favorites. We talk about it a lot, but it's been really important for us in terms of bringing that pocket money account. One of the things that we didn't quite appreciate at the beginning is actually what it would also do for the connectivity you have with the parents of those children and that we can see if you're a Rooster Money account holder then actually you're far more engaged with us as a parent of those children, so actually they become more valuable customers as well. That was a classic piece of what was actually a tiny acquisition in reality, but accelerated our build by six or seven months and actually got a really good product that already had good awareness out to market. We'll continue to look, but you're right, retail is somewhere we're probably more focused on.

Sheel Shah:

If I talk about capital now, which I think has been the key talking point. Clearly we have the Bank of England's capital review coming up. Expectations are building into this. Your capital ratio, or should I say your capital target range at the moment is 13 to 14%. The gap to MDA is maybe one of the bigger gaps compared to the UK and other European banks as well. What are your expectations for this big sort of Bank of England FPC meeting and therefore where do you see your capital target going towards? Is it possible that we talk about a 12 point something capital ratio, capital target for the group?

Katie Murray:

The capital journey has been a really important one. We set our 13 to 14% targets in 2019, so we're six years further on. In that time, we've completely reshaped NatWest markets, we've exited Ulster. We've also coming to the end of our second very active program of RWA management actions and I think we've been very successful in the first couple of years of that and it will continue to be something that goes along. Sheel, I'm always quick to remind you, not necessarily the levels you get in the couple of years as you go out. You can see that we've been really trying to manage our capital position a lot over the last

number of years. We started to talk about whether we might look at capital a little bit in July, our Q2 results, and then also since then we've announced this review that's been published in early December, which we're all awaiting to see what might come out.

We note the comments that Sarah Breeden has been making and that gives us some view of positivity. We'll see what they say in December. But when we look at it, you're absolutely right. We've got a gap of about 140 basis points from our statutory regulatory minimum requirement up to the bottom end of that range. We know that that reg. requirement is going to fall further when Basel 3.1 comes in. So in theory, that gap would continue to grow and when we look at the additional RWAs that we'll bring through CRD IV and also through Basel 3.1 we'll see that we're holding more nominal capital for a business that's actually not increasing in risk.

It is something we are actively looking at. We'll talk in February around our 2026 and 2028 targets. And while I'm not committing to make a change, it's a conversation that we're doing and it's a conversation we've had with many of you as our investors on both the debt and equity side just to kind of take soundings as to what their kind of view is. So we look forward to December, we'll see what that comes through with. It's not going to make the decision any harder, but you never know what might make it a little bit easier as well. So we'll wait to see how that comes through.

Sheel Shah:

I appreciate that we can wait until February for the update there. How would you think about capital distributions with a potential reduction off the capital target? You've just increased the dividend payout ratio to 50%. Is there any scope for that to change further or how are you thinking about distribution in its entirety?

Katie Murray:

When we look at the capital, I think before we even get to distribution, it's almost a broader question of allocation. So where do we spend the significant capital that we do generate? I mean, we've generated 202 basis points in the first nine months of the year. That's a particularly good year I think, but you have seen us do around that 200 mark. So when you look at it, the first question that Paul and I ask ourselves is, are we investing appropriately in the business? Because there is good growth, it's a growing business, but businesses grow because you continue to invest within them and we're comfortable that we are, but that's our first allocation. We then look at the businesses and those of you who are involved in business plans will know that this is a busy time, so the businesses talk about this is where they can grow, this is what they believe they need in additional capital. We try to make sure that we don't constrain that and just say, actually, where is it? Given the business we write is capital generative, we want to make sure we're doing that, so we do that next. Then obviously last year we raised the payout ratio up to 50%, around 50% payout ratio. You could imagine that given we look on a two or three year outlook whenever we're making any capital decisions, we probably had some views of capital at the time we did that. I wouldn't anticipate that that number would go up. And in fact, I think a 50% payout ratio is a really strong payout ratio, but it also gives an

organization flexibility to do the other things that the capital might want to do, whether it's more investment, more organic growth, or even inorganic activity.

Now I think we've demonstrated over the last number of years a really strong practice of returning excess capital back to shareholders and that's obviously the next bit that you do and I think that's something you wouldn't expect to see a difference in that. This is obviously a point in time when we'll look to maybe change our capital ratios and we'll deal with that as we go through. Being able to see the end of the increases coming through from the GFC is again, very helpful, but I don't actually think it changes our distribution narrative or our allocation narrative fundamentally.

Sheel Shah: And part of the capital allocation has been towards investments. The cost base has been managed quite well through recent years. How should we think about cost growth going forward? Where are the investments that the bank is making?

Katie Murray: When we look at the cost growth, so this year we'll be up about 2% and I'm really very, very focused on making sure that we give you an annual target on costs. It's a number that we work really hard to hit more or less exactly in terms of that delivery. And that's really important, I think internally, just to absolutely maintain that cost discipline that we have, and that cost discipline is something that's very much part of the DNA of the organization and something we continue to develop. We'll talk more about numbers and targets in February, but you should assume that we wouldn't step away from that kind of cost type delivery as we move. Going forward really making sure that we're able to continue to drive the operating leverage of the business across all of our businesses. It's great when we do these spotlights so you can hear them talk about their developments as they go forward. If I think of where we are investing in this year, we'll invest around 1.1 billion in addition to what we spend on a day-to-day basis, which is obviously developing the business as well. Technology is always a main part of our focus on that. You've seen us talk about some of the collaborations we've done on things like ai, some of the work we're doing in terms of our data, our data piece, but it's just a continuing evolution to make sure that the customer experience is as strong as it is because we know that that's how we manage costs, but it's also how we know how we manage our revenue line. It'll be continued investment along those veins, making sure that we are investing in the new as well as continuing to update some of the older parts of the system, which is why today we have a good technology that's not looking for a big single moment of truth as it has to move from one to the other because it's been a constant consistent investment that we've done over a number of years.

Sheel Shah: And the way you look at costs and the way your businesses, the divisions look at costs, do you think about costs on an absolute basis or would you have a preference towards cost to income because cost income for the bank, there's a clear side of that declining given the growth on the income side as well.

Katie Murray: No, it's really important and it's something we have talked a lot about internally and if you look at our JAWS for this year and the guidance we've given you, it's incredibly strong. It's high single digit delivery, so you go, right, the leverage is working, the income's going, the costs are being dealt with. Importantly, I really like absolute numbers, particularly in the year because the cost income ratio is one that particularly when you have good income and helpful notable things that come in, I'm very mindful of all of a sudden your cost income ratio looks great, but actually your cost line hasn't changed. But I do think it's something that you need to look at together actually because it does show you a trajectory, but I think in the year you have to have an absolute number as well. For me, we're very focused on a net number. I'm not interested in the gross takeout because generally when you're talking about that, the net number is going up as well. So actually what is the absolute number that we're going to hit. But I can hear the arguments on cost income ratio and maybe we appreciate them more, but I'm always very mindful there's two lines in that piece of maths and I want to make sure they're both going in the right direction. So really very focused on both of them in balance.

Sheel Shah: That's clear. And if we take a step back, the UK market has seen a fair amount of consolidation. We've seen some of the challenger banks consolidate, including the building societies as well. How are you looking at the UK landscape? Where are the elements of competition coming from, whether it's the fintechs, the NEOs, the big tech, there are multiple avenues?

Katie Murray: Even the US banks as well. The UK is a very competitive market. The reason for that competition like anything is obviously if you look at the returns that the banks can make in a steady state environment, they're definitely there and they've been very important. I think particularly some of the neo banks and the fintechs, they've been very important for the incumbent banks and have actually caused all of us to really improve our customer service, improve our experience for customers. I think what it's also demonstrated over the last number of years, that continuing to grow and continuing to make sure you've got the right customer offering scale is also very important. When you look at competition, naturally looking at where those scale players are, what's coming is something that we pay a lot of attention to. I think also you also see, particularly in places like deposits, we see a bit more of an emergence of some of the non-traditional additional players. It's been less about pure banks and more about some kind of money market experiences as well. I think being mindful of what's happening within there and also mindful of your margin is something. We do see competition as both a positive, but something we also have to be very mindful of to make sure that we're continuing to evolve, which is why that investment that we continue to do in our businesses is very important.

Sheel Shah: On the regulatory side, I know we've spoken a lot around capital, we've seen some moving parts in terms of redress and conduct. Are there any other areas that you think that the UK from the top down, from the political motive is helping the banking sector? Are we seeing that direction of travel heading upwards positively?

Katie Murray: As you know, we are big believers in strong regulation. We think that we're well regulated. We certainly have some views that are pockets that we'd like to be a bit less regulated. We've been quite public on some of those views, but overall, we think we have a strong regulator and we think that that's important. We've seen some of the real benefits of the changes that have been made and things like mortgage regulation recently. That's part of the reason why the market is bigger. We've benefited from improvements in there and I suspect that will continue to grow. We've talked already about the advice changes that are coming. We view them as very positive as they go through. There's obviously continued work that is going on within the regulator world. We'll see more of that again in December. But we are comfortable and we feel the direction of travel. It feels good. We'd like to see a bit more and we'll continue to see that as it comes through.

Sheel Shah: And with a potential speculated bank tax that may come in next week, how does that balance against maybe the UK's agenda taxing on one side versus maybe reform on the other?

Katie Murray: Being someone who has to balance a budget as well every year, it's a difficult task. Mine is slightly less complicated, I suspect, than the chancellor's in terms of how we do that. We'll see what happens next week, and we'll comment on that as and when it happens. I think what's really important for me for the budget is actually that it delivers clarity not just to banks, but to the wider economy. We know that, as they get that clarity, we are cautiously optimistic, and we do believe there's good growth to continue to come, and we'll benefit from that. I'll probably save any more deep comments on the budget until then.

We are feeling quite positive around the capital regulation, which we've talked about already, and then I do think that there are areas that we are overregulated, and we do carry more capital than we need to which is why we've been talking about our own capital numbers as well. And as they continue to develop, they will ultimately be good for the banking sector.

Sheel Shah: Great. Thank you. I'll open it up for any questions.

Speaker 1: Thank you. If the reinvestment yields on your structural hedge were to fall significantly below ... I think your current assumption is three and a half. Let's call it three or two and a half. Do you think there would be an offsetting factor on mortgage spreads which are still not that high by historical standards?

Would it significantly reduce visibility on the NII if such a scenario was worked out, or would you expect an offsetting factor on the mortgage side?

Katie Murray: I think it's a really important question. And if we look historically, a few years ago when I'd be in your office talking about the hedge, they'd be falling all the way down. If you look at our roll-off rate at the moment, it's zero in terms of what's coming off and what's giving. And we continue to go there. I talked earlier about the five-year mortgages that are rolling off just now. They're at much higher rates. You do see this ... It's a bit like the DNA helix. As they move,

you do see that happening. I wouldn't be as brave as to say yes, if we went to 2%, it would automatically offset completely in that space, but we have traditionally over time seen that when the deposit margin is tighter, the asset margin is a bit broader. I think you do see them working together in tandem.

I think then that makes it really important how well we manage the cost line, how well we take efficiency coming through from new technology and AI and all of those things, to make sure that if that income line is under challenge because of margins, to make sure we're getting the right growth. But we're managing it the whole way through the P&L, so we're ultimately continuing to deliver the right quality of sustainable ROTE that you'd expect us to be delivering.

Sheel Shah: Great. Any others?

No. Otherwise, Thank you

Katie Murray: Thank you very much. That's great. Thanks a lot.

Sheel Shah: Hopefully we'll see you again next year.

Katie Murray: We look forward to it. Thank you very much, indeed. Thanks for your time.