



NatWest
Group

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Fahed Kunwar: Hi, everyone. Thank you for joining the Redburn Atlantic CEO Conference. There's obviously a number of sessions going on at the moment. This is a pre-recorded session. We're delighted to have Katie Murray, who's the Group CFO of NatWest joining us. So the Q&A function won't be working because it's pre-recorded. But if there were any questions that came up, obviously myself and Claire and the NatWest team are more than happy to answer. So, we'll probably just dive straight into Q&A. But firstly, thank you, Katie, for joining us today.

Katie Murray: It's lovely to be here. Good to see you all.

Fahed Kunwar: So the first question is inevitably on net interest income and deposits, I'm afraid. So just thinking about kind of deposit margin, obviously, it was quite a significant drag in the third quarter. It has moved around quite a lot because of the benefit of the hedge and then, obviously, the backward step of the deposit mix. Could we understand the deposit mix shift in the context of kind of the corporate deposits, private banking and retail deposits, and how you see the pressure points in each one of those segments if possible please?

Katie Murray: Yeah. No, absolutely. And it's interesting because they all have worked on quite different kind of timelines, and it's almost like they've gone from the biggest to the smallest. So, as you would imagine, if you're the top end of C&I, you have people that manage your money. So, treasurers and what we saw was this time last year, as rates started to go above that kind of 4%; they were really much more actively kind of moving their funds. At the same time, you saw private kind of come in for the exact same reason. They often have people that are managing their investments, managing their positions, and therefore they were making use of the kind of better rates that were available.

And I would say that was kind of the position. In fact, you might remember that for about three quarters in a row, I kept saying NIBBs and IBBs. NIBBs are about 40%. And one quarter was 39%. The next quarter was 40%. The next quarter was 41%. They were all kind of jumping around a little bit. But then what we really saw as we got into Q2 was that you saw that the term accounts, had grown from 6% up to 11% and then up to 15% by the end of Q3. So, you saw this pretty significant move.

And at the same time, then obviously that was impacting my net interest bearing numbers, and that we ended kind of Q3 35%. But it felt like it took quite a long time for that to kind of start overall. And I think that's because although you have big deposits, what you really needed was the whole book to really kind of start to migrate.

And we really saw during July and August that migration kind of moving forward, that kind of pace. What I said at Q3 we do expect this to kind of start to slow down now. It'll be the middle of next year before it kind of retake, really stabilizes. But we have seen that slowing kind of coming through in the last couple of months.

Fahed Kunwar: That's great. And then just to understand the kind of SME to the smaller end of the market that hasn't really moved too much. Was it the retail bit that moved a lot or the SME bit that moved a lot? That kind of in the last kind of...

Katie Murray: So look, I think we started to see kind of migration across both. Certainly, if you look at the retail piece, and I try to bring this a little bit from memory, but they kind of went from about [40]% to about 37%, so still higher than the overall percentage. But you saw a couple of moves, and it's something you can see the exact math in our kind of Financial supplement, if you want to see kind of where they were sort of going. But we really started to see those kind of move more in that June, July as rates really got above 5%. And I think also as people say to me, are people just lazy? Do they not understand? I think it's like, actually there's a lot of stuff going on in people's lives and people don't realize how easy it is to move deposits.

But then all of a sudden, there was a real kind of awakening of actually, look at those rates; I can get a better deal. I think banks were also making it easier for everyone to understand what those better deals were. And actually, once one person moved, they showed that – actually this is a really easy thing for us to do. And then you kind of have a natural kind of ripple effect.

Fahed Kunwar: That makes sense. And then just thinking about your point around the stabilization next year when we kind of go back to the pre-GFC numbers, like term deposits got to like 15%, 20%, I think, kind of – sorry, 35%, 40% of all deposits are about 15 right now in the Bank of England data. Do you think we go back to that pre-GFC mix or is there structural reasons why perhaps it doesn't quite go back to that level?

Katie Murray: I mean, it's almost the kind of the question, de jure, isn't it, in terms of how far does it go? So, I think there's a couple of things that are different from pre-GFC. First of all, I think then for us as a bank, we had a much greater mixture of domestic and overseas deposits that would have a bit of an impact as well, because there's obviously much more of a kind of international bank and there's different characteristics that you see there. We don't have that dimension any longer.

I think also when you look at the term accounts; banks are much more wholesale funded. And a lot of that was quite short dated money, but it would still have counted as term money because they all had kind of notice days and things on it that's kind of changed. So that kind of brings your percentage down a little bit.

And then when I move out of that term into the instant access kind of area, I think also the way our current accounts are, we're all so used to not paying any or getting any interest in our current accounts, we forget that actually pre-GFC we did. And so therefore that percentage – was non-interest bearing was that bit smaller. So look, I think there are some differences.

If I lead to guided to the end of this year, we think we'll be about 17% and we're on track for that kind of percentage, number or term by the end of this year. We do expect overall deposits to stabilize. And that's because what we've seen in the market, what we've seen in our private book, where we've seen them kind of stabilize already, I think you'll notice I'm very consciously not giving an absolute percentage at this stage as to where we think they might stabilize. I wouldn't be bold to say it'll be above 17, but I wouldn't like to call a number out just yet.

Fahed Kunwar:

No, that's fair enough. It's been a rapidly moving feast. So I appreciate that. If I kind of move on to mortgages, I think we didn't give the mortgage spread number on 3Q, but it's probably lower than your 80basis point planning assumption. How is that mortgage book shaping up at the moment? Obviously, swap rates have come down a little bit as well. Have we seen spreads starting to stabilize or improve slightly in the last couple of couple of months? Couple of weeks?

Katie Murray:

Yeah. So if we take a step back and think about how we talk about our mortgage book, what we've seen over the last number of quarters is the mortgage book kind of has lost, let's say overall in the book, about 15 basis points a quarter, sometimes a little bit less, sometimes a bit more. And that's as we've kind of digested the end of the COVID loans, which we all know, we're a much higher margin.

So now the total book has gone from 102 end of Q2 to 86 basis points at the end of Q3. What we say is that over time we want to kind of try to write this book around about 80 basis points. I would kind of probably not too strongly, but we'd stress that kind of over time we know that it will go up and down and we know that what we saw during Q2 was like 140 basis point rise in terms of the swap rate. So that definitely has impact.

So we were certainly writing at levels that are below that level. I haven't given you the number. I'm not going to give you the number because otherwise we'll just dance in the head of that pin every time we talk. But I think that what's important for us is that we make sure that we are trying to manage the volume with the value, to make sure that even though if we're writing at lower levels, it's still a number that's above our cost of capital and we're happy to do that. I think the other thing that's really important that we don't talk enough about is retention.

So we know that we retain about 75% to 80% of every mortgage that we write. And so that means in that first year you might be at slightly lower level and then obviously the next time you write it, you'd hope it would be slightly better and better. So over the kind of lifetime of that kind of endowment effect, you get the kind of positive kind of coming through in terms of that mortgage piece, but still looking to write around about 80 basis points, but really do accept the very competitive market at the moment and got some more unusual dynamics. So we're probably a little bit below where we'd like to be at this stage.

Fahed Kunwar: Okay, that makes sense. I mean, any thoughts on the TFSME as well, potentially improving pricing. I mean, obviously a lot of those challenger banks will come under funding pressure as you roll that.

Katie Murray: Yes, I think for me, the things that will improve pricing is stabilization of the swap curve. Because actually when you're chasing it up or chasing it down, obviously when you're chasing it down, it's then your benefit. But what happens is it all depends where other people are in their own kind of hedges and things like that. And as to how quickly people kind of move, so you can end up you see movements quicker than you might necessarily kind of prefer. I think also where it kind of stabilizes. So what we see in mortgages that once it got below 5%, we saw a little bit more activity.

And then what we kind of seeing is once it gets below 3%, you see even more activity. So when and where that might kind of come in. I think the TFSME piece is going to be impactful on mortgages, but also on deposits. What we know is that people have got significant repayments they have to do this year and a bit in 2024. I think the 75 billion is due to be repaid with industry in 2025.

And I actually think that we'll see more of these kind of special offers that we've seen come out in terms of a two week limited edition saver and someone's looking to raise funds there and then you'll see them the week after make a repayment on their TFSME. And we've seen that a couple of times now and I think that's quite interesting. But certainly we are only £12 billion. We have to repay a bit in 2025 and another bit in 2028. We're very comfortable from our own funding stack, but that's not an issue for us at all. I know there are some others who have a little bit more discomfort in that space.

Fahed Kunwar: That makes a lot of sense. And then wrapping up the questions on NIM, the structural hedge obviously is a long tail benefit. There's quite a lot of differences in the aggression with the use of the structural hedge. You're notably less aggressive and it's quite clear what your strategy is. Is there a case to be made that perhaps you're too cautious? And kind of – what's the risk of overhedging the book given where rates are at the moment?

Katie Murray: So if you overhedge the book, the hedge has got two sides of a transaction. If I overhedge it and my deposits move, I've lost the side that makes me money in reality. So there's nothing I can do at that point. So what you actually have is you end up finding that you have an income drag because you've now got this hedge that you're paying for that doesn't have an equal and opposite element.

So overhedging for me would be something that would be foolish to do. And where we have seen moments of it in our book, because obviously while we portray the hedge externally as one big hedge, there's many different aspects of that hedge for different franchises and things. And we can see that overhedging actually becomes quite expensive. I think what I would say is that we really like a mechanistic approach. We do 12-month loopback to see where we are, as we see those deposits stabilize, we'll look then to see actually how do you – what

volume do we hedge and whether actually in that moment do we make a little bit of a behavioral life adjustment.

Because actually you've seen the stabilization has brought changes. That's something we might debate. It wouldn't make a particular difference to the size of a hedge, but that's something that we would from time to time kind of have a little bit of a look at.

But we do believe, and it's one of these things Fahed, when the rates are on the way up, everybody loves me investing in the structural hedge. When they start to come down, they all tell me I should stop.

And we write paper after paper explaining why it's the right thing to do and actually to kind of catch that falling hedge is important as well. So, we're very comfortable with our approach and I've kind of proved out it works well for us. And I do think it's important to remember it's not to take an interest rate position. What we're trying to do is to smooth our earnings over a number of years.

Fahed Kunwar:

That makes a lot of sense. Thank you very much. Maybe just changing talk a little bit to loan growth, so you have seen loan growth coming through. Any sense on the outlook for loan growth? I mean, I'm just thinking, talking to investors, there's a lot of bearishness out there about the UK market. It's not something you can really control, but kind of people worried about people paying down their mortgage books, corporate loans coming down because all the bounce back loans. How do you see loan growth shaping up? And I don't need a number, but just over the next kind of like 12 to 18 months.

Katie Murray:

That's good, but I won't disappoint you by not giving you one then, which is helpful, because as I look at, I think it's important to remember we've got a customer loan book, £358 billion. We've added £8 billion of that this year versus 2022.

And interestingly, the first half of the year was more mortgages. The second bit of the year has probably been more kind of commercial institutional type loans. So, we do see there is activity within there, the kind of government loans, they're about £6 billion of our book. We pay £700 million a quarter. It's becoming much less of a feature of the book. But it does mean that when you're talking about your net loan growth number, that's obviously a negative. And when it's only an £8 billion growth, three-fourth of that is obviously you can't quite ignore it, but they're performing well and we're comfortable with them.

So look, as we go forward from here, we do expect to continue to kind of grow. What I think is important is that we always want to make sure that we're growing where there's value as well as just adding on volume. And that's something that's a real kind of focus for us. But as you see – you can see my own economics, we are expecting kind of a growing economy, albeit, at very muted levels. We will certainly be taking our share of that. And there are a number of areas where

we're very comfortable to grow ahead of where market might grow and take places like mortgages and credit cards and the rollout of kind of non-interest income products into our customer base. I still expect to see them as things that we're very focused on.

Fahed Kunwar: That makes a lot of sense. Could I ask about, because we're hearing different trends around people paying down debt and I guess as the mortgage rate falls, this trend should alleviate to some extent. But do you see that trend happening where excess savings are paying down like mortgage debt? And do you think that's a persistent trend? Or what kind of level do you think that stops at?

Katie Murray: Yeah. So yes, we've definitely seen it happening. We saw it starting, first of all, within the private book, if I think of kind of retail customers. So within the private book where you would have a lot of kind of asset backed lending, for the customer is normally kind of a floating rate kind of loan. And so we saw them being paid down quickly.

Then as you kind of get into the retail space, you can see people are trying to manage their monthly wage packet and they kind of go, well, I've got some deposits here and actually I can earn 2.5% to 3% on those deposits, but I'm going to pay 5% on my mortgage. But if I take that £20,000 or £30,000 and put it against my mortgage at the point where it's up for renewal, I can manage my payments down a little bit. So we've seen people do a combination of paying against it, extending their terms as they've kind of gone through to kind of see how they can manage it.

We've also seen people where they traditionally might have moved off one mortgage product a bit earlier. If you're on a lower mortgage product, you've stayed on it for much longer. So we know that our book is about 67% I think five year. So the average life for the book is just kind of just over 2.5 years. And you can see that at the moment, people are coming off lower rates going on to higher. But as we get into kind of next year, you'll see them; they'll be coming off higher rates going into lower. And then I think that will start to make a little bit of a difference in terms of the customer behavior. But I mean, people what they're trying to do is really logically is to manage their monthly pay packet and to work out they can manage their income and expenses.

Fahed Kunwar: That makes a lot of sense. Thank you. And then just touching on the buy-to-let market, it's not particularly big market for you, but you have been growing from a pretty small base. Given I guess, a wider property market question is, 20% of the market, much, much smaller for you. But how do you see that market evolving and how does your position within that market evolve?

Katie Murray: Yeah. So, we are 8% market share, so we're pretty small in there. We did grow it this year because we realized that we were kind of lower kind of levels and you've seen that kind of happening over the last kind of late 2022 and into 2023 as well. It's a very high quality book. As I look at that kind of balance that we've got it's – an 8% equates to about £20 billion, forgive me. So a quarter of that will

roll off into next year. And then what we'll see is, as I look at those, the majority of them have rental coverage in excess of our requirements. So we're confident that we will be able to roll some of those.

I think what we all read about in the press is also what's kind of happening to the individual landlord and how do they kind of manage it. And kind of the pressure for private properties is still considered to be quite significant. So that's something that we're continuing to manage.

Fahed Kunwar: Okay. You said you withdrew it this year, your buy-to-let product, does that...

Katie Murray: No, no, sorry. We probably became more active in the last year and we've continued to be in it. We're – no, absolutely not. We're 8% comfortable with where we are. We'll continue to kind of be active. But we're very much at the small end. So we don't have the kind of big multi professional kind of lenders on there.

Fahed Kunwar: Okay. So it's not like the unsecured in the mortgage market, you want to stay kind of at your market share and get to the stock market share. You're happy at 8% for the buy-to-let market.

Katie Murray: No, look, we'd be happy with a little bit of growth as well. It's all about kind of where the value is and how we continue to grow that. And I think just on your mortgage and credit cards, we're not yet at our natural – what you might deem our natural market share. We do think we've got nice growth. I mean mortgages are at 12.6%; our share of current accounts is kind of round about 16%. You can decide whether one is a good property for another, but we are happy to continue to grow in those markets. But we spend a lot of time making sure that we're managing for value as well as the volume side.

Fahed Kunwar: Got it. That makes a lot of sense. And just kind of, if I wrap up on loan growth and net interest margin. Inferring from what you've said is a little bit of loan growth, the margin deposit mix should start to stabilize in the second half of next year. Should we start to see kind of loan growth? Is that a – do we think loan growth on a sustainable view is the right way to think about the business? Sorry, Nil growth, pardon me.

Katie Murray: So, I mean, I guess one leads to the other in theory, as long as your margins are acceptable.

Fahed Kunwar: Yes.

Katie Murray: So look, I think once you get to that stabilization and you see the structural hedge kind of start to come in, logically, if we stabilize, if rates stay tolerably in line with where our assumptions are, they might go a bit faster down than we are maybe expecting. So that would have a little bit of an impact. You should expect to see that. I mean, that's what the math would certainly take you to.

And we do think there will be some loan growth. We just obviously, I think let's get into next year in terms of what numbers we talk about.

Fahed Kunwar: Okay. That's very positive. Thank you very much. And then the other part of your revenue line, obviously non-interest income was actually pretty good in the third quarter. Maybe focusing on C&I, given the changes in the business with NatWest Markets coming down, how should we think about this revenue line? Is it really all about UK GDP and economic activity? Are there market share gains in this line? How do we think about the C&I, non-interest income?

Katie Murray: So I do think the UK GDP and kind of inflation numbers have a natural impact on this number because things are often a percentage of payments and as you see more activity, you kind of see a bigger percentage of that. So that's a big – customer activity drives it a lot. I think with C&I, we were comfortable with the kind of progress that they're seeing.

When we created that function of C&I it was very much perfecting that NatWest Markets restructuring was behind it. What we wanted to do was to make sure that for our customers that we were giving a really important integrated service delivery so that when they were talking to us as commercial customers, they were getting the right thing from FX and capital markets and rates as well as their transactional and kind of lending businesses. And we've been very pleased with how that is working and think that still has kind of good opportunity for us as we move on from here.

Fahed Kunwar: Okay. So again, like that should really be a growth line looking forward.

Katie Murray: I mean, it should be a growth line. The challenge is 7% up on last year, so great kind of numbers. I think they've had a really good kind of performance sort of year. The challenge always is 25% of the total number. And so therefore, while you kind of see it growing incrementally, there's a lot of transactions you have to do to kind of really have it making a big difference. But it's something we're very focused on. We put a lot of our investment and effort into that line. So we do think it's something that we continue to see a positive for the bank.

Fahed Kunwar: Okay. That makes sense. And I guess the other question I had here was so net interest income has had a massive shot in the arm over the last few years, obviously with rates going up. Your non-interest income line and the level of capital you generate kind of go hand in hand. The fintechs valuations have come down. Any kind of plans around improving the mix or any inorganic growth to benefit that non-interest income line?

Katie Murray: Yeah, look, I think there's a couple of things. One of the most important things that as a bank we can do is to make sure that we're as well connected to our customers possible so that they are as invested with us in terms of the product offering they take. And I think with the creation of C&I, what we've seen is far more kind of integrated activity on things like FX and the capital markets piece

where you've got more activity going with our customer base rather than external that will continue and that will kind of help deliver within that line.

I think we've also seen more activity going on in our wealth space in the kind of AUM. In fact, we all know how challenged AUM has been for different businesses as well as we move forward. But we're comfortable with the pricing we've got, we've got the right kind of technology, we just need to make sure it gets into the hands of the customers in the right space.

And then things that you've seen us doing like the Cushon acquisition that we did. So, workplace based provision, we did it after we had done a very nice trial to make sure it really was something that delivered. It leads to our kind of AUM analysis and how you'd kind of build on that, but also greater integration with our customer base.

And I think that's where on that non-interest income line that's really important is how well you're integrated with your customers and that you are where they are as they kind of do their banking activities. And that I think is what will bring us the positives.

Fahed Kunwar: That makes a lot of sense. And if I just kind of wrap up on income in total, it sounds like we're looking at growth here. Like when you look at your business and all your customer segments and your product segments, where do you see the most opportunity into the growth on a step-by-step basis?

Katie Murray: So I think what I've said consistently for a few quarters is growth, yes, in the medium-term. I do think 2024 will be interesting and a bit challenging as we kind of get to that point of stabilization. But as we kind of look at it, I think on deposit side we've kind of held our market share, but the shape has been quite different as you've seen more move into term. Very comfortable on the growth that we'd expect to see across the product classes within retail. And then within the C&I space, it is around as the economy grows, you'll see growth in lending on that side. So we do think that there is a nice strong narrative of growth within the core and we just need to make sure that we continue to deliver that.

Fahed Kunwar: Yeah, of course, that makes sense. Feels like the multiples reflected the 2024 weakness. I guess the question is kind of going ahead.

Katie Murray: Exactly. There is – but even just if you get that stabilization of deposits, even if rates come down a little bit, the hedge is rolling off at 80 basis points in 2024 and 50 basis points in 2025. That's a pretty strong kicker as you kind of come through. And we know that as a business that we – when mortgage rates are areas that we find attractive, we know that we can deliver growth well and we're very open to delivering that growth.

Fahed Kunwar: That makes a lot of sense. Maybe I'll just jump onto costs now. Obviously wage inflation in the UK has remained, I'm sure you well know, persistently pretty high. If I look at kind of consensus and you don't need to comment on this at all,

but like most of the banks are looking at 2% to 3% growth next year in the cost base. How do we kind of, I guess, balance those two numbers given where obviously UK wage inflation could decelerate in 2024? But how do we think about keeping a lid in that cost growth given what's happening in the wages in the UK?

Katie Murray:

I mean, do you know, for us it's just fundamental. It's been part of our own DNA forever in terms of making sure that you really manage that cost base. And if you look at our costs, 50% of them are salaries. And so therefore, whatever you agree, okay, you can divide it by two in terms of the annual run rate. But it's really important and we're in the process of kind of salary negotiations for next year and we'll talk more about in February where they've kind of landed. But it's a growth item. So therefore you've got to work out how do you absorb that growth, whether it be in that line or whether it be in terms of what you're doing with your other kind of expenses that you have around tech and property and things like that.

And obviously we make big investments in this company. So therefore, you also see depreciation probably increasing as things go live and they kind of start to come from the balance sheet into the income statement. But it is cost management, people, process and technology. That's the levers you've got to pull. You must pull all of them, all of the time in the right way for your business and make sure that you're ready to make sure you're investing in the areas that will really drive real value for the shareholder.

Fahed Kunwar:

That makes sense. The returns are already very, very high for the business. Do you think about the business in the terms of jaws or do you just think about total returns at the group level?

Katie Murray:

So, I mean, look, our absolute North Star that we think about is our ROTE in terms of that 14% to 16%. I've said a number of times I'm very happy to do things that are income positive and ROTE positive, but are NIM negative. For example, that they can still make really good – they will make really good returns for us. Mortgages is the very best example. We're trying to write NIM above 3%, yet mortgages, we talk about 80 basis points. So it means kind of every mortgage you write is kind of NIM negative for the group, but really positive for income and ROTE. So we need to kind of bear that in mind as you look at those kind of numbers. So I think that's kind of where we move forward on and then we kind of try to kind of work our way around that piece.

We do look at jaws, and jaws are important. I think jaws are important on a multi-quarter basis because if something that happens in one quarter, next quarter it will be the bank levy. They can kind of skew that a little bit. But it is important. I mean, it's natural if income's doing that and cost is doing this, you know you're heading in the right direction. If that's not the shape you're getting, you've got a different problem.

Fahed Kunwar: Of course, that makes a lot of sense. Given where all the UK domestic banks valuations are, it feels like loan losses are a dominant concern, even though you're seeing very, very little. I mean, I guess the inevitable question is in the last kind of like month, any signs of stress anywhere in the book as you see it?

Katie Murray: No. So this morning or yesterday when you're listening to this live, I spent the morning in our risk committee and we went through some detail. We're just not seeing those signs of stress. So the book is performing well. The customers were well stressed at the time of taking on loans, so when they get to the point of renewal, sorry, you already know that you stress them at kind of higher levels of rates as well, in terms of when they're seeing that kind of natural movement. So overall, the book is performing well. But if I had, I also really accepted that's fine Katie so why do you sit with 450 plus post model adjustments on your balance sheets?

I think, like you, we can see the book is going well, but we can also see the pressure that's in the economy. And actually, at some point it feels that you must consume some of that. But we haven't particularly to date, where it's 16 basis points year-to-date for cost of risk, that's against the kind of [below] 20-basis point to 30-basis point through the cycle guidance. So, clearly sitting here almost at the end of November, we're pretty comfortable where we're going to land this year and our eyes are very much onto next year.

Fahed Kunwar: If I just take that point, the point you made, at some point we'll feel the pressure but it doesn't feel like that is happening at the moment. I guess the delta is unemployment and that, again doesn't seem to be rising. I mean, do you think we can kind of move through this rate cycle potentially up and down over the next couple without seeing any serious...

Katie Murray: I mean, I guess that's a big headline grabbing answer to kind of give, isn't it? But if I look at it clearly because I'm sitting there with this PMA on the balance sheet, that no, ultimately I don't think that. I do think there are losses to kind of come. What I would say is it has exceeded everyone's expectations, the fact that they have not come in yet. And I do think your point is around unemployment is fundamental to that as to why it's so low. And if I look at our unemployment forecast, my fellow other banks where the Bank of England is, none of us are predicting a really high level of unemployment as our base case. And I think, well that's the case, then that's what gives you protection on your impairments.

Fahed Kunwar: And when we think of risk weighted asset inflation, it's a similar thing, right, where we haven't seen any risk weighted asset inflation this time or even in COVID. Again, is unemployment the factor there that we need to see actual losses come through before?

Katie Murray: You do, and what I would say is you've seen overall, absolutely agree but you've not seen any where we have had some losses coming through in retail which has kind of reverted more. We've seen a little bit of procyclicality come through there but really minimal kind of levels. But, so I think for me you need to start to

see those impairments and then you see the procyclicality of risk weighted assets kind of diminishes as you move on from there. And I would say again, we've been positively and pleased as to how little has come through to-date.

Fahed Kunwar: Got it, that makes sense. I mean, given there's been a little bit of stress in retail and I think about your book kind of resi, SME, mid-market corporate lending, unsecured lending. Where are you in the risk committee you had this morning. Where is most of the focus? Is it in the unsecured and SME market as one would expect?

Katie Murray: No, SMEs are really, I mean, they're really strong. If you look at the SME, you also have to look at the amount of cash that they're holding versus their lending. I mean, it's more of a deposit book some days than it is a lending sort of thing. So therefore they are incredibly strong. Look, we kind of go across the whole piece. Unsecured is the first kind of canary that you often see struggling. We're just not seeing that kind of struggling there. And obviously, although CRE for us is now less than 4% of our book, historically it was much bigger and it's an area that we would naturally spend more time talking about.

Fahed Kunwar: Got it. That makes a lot of sense. Okay, so as things stand, all pretty benign, basically; very interesting. And then if I think about kind of capital and I'll talk about distribution as well, obviously the risk weighted asset guidance kind of took people a little bit by surprise. What really drove that uplift? And has it changed the way you think about the economics of any particular business line given that...

Katie Murray: Yes. No, it's been – we know it was quite open at the time. What we are seeing is kind of as we're finalizing our CRD4 models that they're coming on a little bit more than we expect them to, and we talked about mortgages at Q3. And so as you look at that, that means that they have a slightly higher hurdle that they need to cross to make sure that they're covering their cost of capital and hasn't changed fundamentally the way we think of that that business because we know it's a very strong business for us. I mean, the cost to deliver is quite low, ex kind of capital charge. But we are kind of seeing that coming through and look, I always hate changing guidance, I think, as any of you would know. But what we were seeing is as we were kind of seeing that CRD coming through, as well as the statements that we made on Basel that actually our end 2025 guidance fell a little bit lighter than it should. So rather than just giving you one piece of the pie, we wanted to try to give you the whole picture at once.

Fahed Kunwar: And in terms of this general regulatory noise, it's been around the UK banks got it, ever since the post GFC level. Like how do you – is it starting to dissipate? Are we starting to get to kind of steady state where these risk related start to moderate?

Katie Murray: I think we need. For me, what I want to see is to get through CRD4 and get through Basel 3.1. I'm really conscious that Basel 3.1 we're not even going to get some of the guidance until the middle of next year, so that still has to go

through. And then there's also, as you know, been a lot of talk about, well, there'll be offsets that will come through naturally on Pillar 2, again that consultation paper is not out yet. So I do think we've got a little bit of time to go till we kind of digest all of these different things.

Fahed Kunwar: That makes a lot of sense. And then thinking about distribution in that context, obviously you've been paying down pretty consistently to the 14%. I mean, given the uncertainties around CRD4 and Basel 3.1; in a medium term do you hold it more for buffer? Like once these things are cleared up, can you start to pay down potentially 13-14%?

Katie Murray: We operate between 13% and 14% and you have seen us if there's been something like a DBB, the number comes down lower because that generally consumes about 70 basis points of capital. Now that we're in our capital range, we'll toggle up and down depending on what's happening on where we see the RWA piece come through. We've distributed 91% of our generated profit this year already. That's a huge distribution out to our shareholders and it's very important that we continue – that we continue to do that. So I think as I look at it, there will be a period of digestion as you have some of those RWAs go up, but our fundamental of capital distribution hasn't changed and as I say, however, we're really comfortable to move between that 13% to 14%.

Fahed Kunwar: Got it. That makes sense. I mean, there's quite a few international investors probably will be on the line tomorrow. A lot of the questions I get is the 40% or high-30s government ownership; it hasn't seemed to impact the distribution in the slightest, historically. Is there anything there that you see that could mean the distribution capacity or program changes? Or is there any changing in tone or music from your larger shareholder?

Katie Murray: I mean that we the Board sets a distribution narrative. We've been very clear 40% dividend payout ratio, availability to participate in directed buybacks and then excess has been delivered by on market buybacks, subject of course to any interesting M&A that might be there. You've seen us do your sort of cushion, but they've always been quite small and kind of activities that we've done to date, so no change and it's something that's very firmly decided by the Board.

Fahed Kunwar: That makes a lot of sense. And in terms of kind of thinking about the business going forward, obviously, Paul's come in as the CEO now; how do you kind of see the strategy over the next three years and kind of where are the areas that I guess you're most concerned about and the areas kind of you're most excited about for the business? Getting away from the 2024 noise, but kind of looking out to 2025, 2026?

Katie Murray: I think as we look at the strategy, I think it's really important age to remember the strategy we've got today is delivering 17.1% return on tangible equity so far this year. A medium-term guidance of 14% to 16%, running the bank at 13% to 14% CET1, so what we're doing is working in terms of what is kind of delivering.

And I think we can get lost sometimes when we get lost in NIMs and income lines and things.

But what I think is just really important for us is that strategy has always been about knowing our customers, working with our customers to make sure that they can thrive on what they are doing and really being where they are and where they are trying to deliver. I don't think we'll see any particular change in that. What's just important is that we're really focusing on the core of the bank that delivers brilliantly for our customers day-in, day-out. And we know that's what will ultimately help us continue to deliver the kind of returns that you've seen of late.

Fahed Kunwar: And I guess once the rate environment if it normalizes when it normalizes, what it normalizes to? How much threshold is there that 14% to 16% to stomach, I guess rate declines, it hasn't really moved up that much as rates have gone up. Do you see that as a steady stay or what could damage that on the downside because it feels like the market is saying it doesn't believe that number?

Katie Murray: No. And I look at it, I think we probably all got a bit more sophisticated this year. If I look last year, it was all about was rates go up, banks just automatically increase. So, therefore, as they come down, they'll automatically fall. I think we've seen that transition kind of going through how our deposits are shaped. I think we've understood more about what's happening on the competitiveness of lending dynamics. So, I do think it is too simple to go well as rates come down. Watch your tolerance because it will depend what happens on deposits.

It depends what happens on how we're having to fund. That's why I'm really comfortable about things like term deposits now because I know there'll be long term funding sources, which means I won't have to go to wholesale to kind of help manage the whole piece. Which is why for us, it is about how do we make sure we manage that kind of ROTE North Star and deal with the different things as they come towards us.

Fahed Kunwar: That makes a lot of sense. And where do you see the kind of biggest pricing power and moat of your business like, is it still that SME business where, because on the mortgage side of things I think the biggest worry is around commoditization competition, but where do you see the best like, the moat of your business to protect that ROTE?

Katie Murray: So, I think our retail business is really important. So, I mean, if you look at that business, traditionally it earns over 20% ROTE. So I would never although we don't seek to lead on price, we do know that actually, if you do the right thing there and you run the business well, you're going to get the right kind of level of returns. We're the biggest banking to business – banks business in the country. Different bits of the pricing varies across the whole kind of shape of different customers depending on what kind of risk you are there.

But given how embedded we are nationally with that kind of really broad customer base, we're comfortable that we can continue to deliver there. And if you look at the kind of returns that we're making on those assets, you can see that we've continued to pull them up throughout the last number of periods.

Fahed Kunwar: That's great. Forgive me, I think if I think about the final question I have, which is on the markets, really, when you look at your share price, clearly there's a lot of disbelief in the numbers and it's difficult to know, a lot of it's been through the UK. What do you think, I mean, what you need to do to get that value start coming through in the share price? How do you see it?

Katie Murray: Yeah. So, it is about consistent delivery and I think that it's really important that executives like Paul and I don't spend our whole time ruminating on the share price. What we need to do is to deliver on the commitments that we've made and not to seek to change those commitments, which I think can hurt you, as we all kind of saw recently. In the share price, if I look back earlier in the year, we were sitting very nicely, tangible book value. So that macro overlay is really important in terms of how the impact comes on the share price. I think what we do around consistent delivery, the continuing kind of buyback of shares, which has reduced our share count by 25% over the last number of years, that's been very valuable for our ongoing shareholders and just make sure that we do the right things to manage and drive the business.

Fahed Kunwar: Magic that was fantastic, Katie, and thank you everyone for listening as well. Like I said, if there's anything you wanted further clarification on, obviously I'm available and Claire and the Investor Relations team from NatWest are also available. But yeah, thanks again, Katie, and thanks, everyone for listening.

Katie Murray: Thanks very much. Good luck and hope you all have be a great day. Thanks a lot. Bye-bye.

Fahed Kunwar: Yes, thank you. Bye.