NatWest Group plc
Q3 2025 Sellside Roundtable Transcript
10th November 2025
Host: Katie Murray, CFO

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Management Presentation

(Amended in places for legibility and clarity)

Katie Murray Good morning, everybody, and thank you for joining us today. With me today, you can see on the screen, I've got Stuart Nimmo and Andrew Wells, both up in Edinburgh. And then in the room, I have Donal Quaid and also making a first appearance is Carolina Romero Ramirez from the C&I Business as well. So thank you for that. And of course, Claire and Nick from IR.

But before we open up for questions, just a couple of things I wanted just to say from our Q3 results. We're pleased to have reported a strong third quarter performance, delivering a return on tangible equity of 22.3% and 19.5% for the first nine months, as our three businesses delivered broad-based growth. Capital generation was strong in the quarter at 101 basis points, taking the nine-month total to 202 basis points. And we also reported a CET1 ratio of 14.2%. We're pleased that RWA management actions in the quarter more than offset the impact of loan growth and CRD4 inflation, meaning that RWAs were down by £1 billion to £189.1 billion. I do, however, expect a bigger impact from CRD IV in the fourth quarter, meaning that the full-year risk-weighted assets are likely to come in at the upper end of our range of £190 to £195 billion.

A strong performance year to date means that we've raised our full-year guidance for both income and RoTE to around £16.3 billion and greater than 18%, respectively. We have reiterated our guidance on costs and impairments. We've also announced that we'll be updating the market on guidance for 2026 and sharing our new targets for 2028 with our full-year results. So, I appreciate that some of you may have questions on that this morning, and there's been a fair amount of speculation on that, but I wasn't going to be commenting on that particularly today. We'll just have to wait until February, but I dare say some of you may probe a little, which is absolutely fine. But with that, I'm very happy just to move to questions.

Ben CR Morning, Ben Caven-Roberts from Goldman Sachs. Thanks very much for taking the time. First question would just be on commercial and corporate. Effectively within there, how do you see the different pockets of activity? Are there any where growth is accelerating versus decelerating? How is that interacting with expectations looking into the budget? Do you expect that will be effectively a clearing event for corporate sentiment as well, or is it something that's not so much in conversations from a more structural long-term perspective?

And then secondly, conscious of your comments, Katie, on not wanting to give any financial points for 2028, to be fair. But maybe from a qualitative perspective, what are some of the key themes you're most focused on at a management level in terms of, whether that's spending more of your time looking at costs or revenues or effectively some of the structural components that are going into your thinking just over the medium term?

Katie

Happy to do that. Carolina, I'll deal with the second one, I'll talk a little bit about the budget, then I'll come back over to you for sentiment. Okay, so I think we're giving a lot of focus on 2028. We've obviously talked a lot as a collective around the hedge and it kind of smooths out. It's still a tailwind, but not the positive it has been. We're very mindful of that as management. It's something we've looked at. What do we really think growth will be across the balance sheet? Cost of investments is a really strong conversation for us always. And, actually, if you look at the spend we've done this year and what we plan to do next year, what does that mean on the 2028 numbers? So I think for us internally, 2028 has been a very big part of our conversation for most of the year, trying to think, how does that look? Where do we want to be on that trajectory at that point as we then move from there forward? So, I do think it has been a big focus.

And it's interesting, Ben, when we talk about, when you think about is it cost or is it revenue, the reality is it's all of it. Probably the interest in the conversation we have to a lesser extent is around things like impairments just because of the strength we have, how well modelled that is, what we can see coming through the book. But it is really looking at actually what is that balance sheet growth and what does that mean for the income side as we go on from here? And how do we continue to drive costs? We're obviously very much involved in the whole AI trajectory that we have at the moment and what that's delivering and really challenging ourselves. What do we think that that could really mean in the medium and long term? I'm not suggesting I'm going to come out with something, cost is going to be down by X because of Y, target, but it is changing things from within the organisation. And how do we really tackle that? So, it's a big focus.

On the budget, is it going to be a clearing event? My kind of depression on that side is that those are the conversations we were all having at the last budget, it was going to be a clearing event. You know, there's so much that happens internationally at any one time. I'm not sure that an event these days is clearing, with all of these things. What you hope for is stability of policy and the real message is that that's the policy we're going to be running with. Carolina, you're absolutely in the middle of what is happening in the businesses. Do you want to talk a little bit about that?

Carolina Yeah, so I think to your question around where we've seen slowdown, not necessarily. I think there's a sentiment out there, particularly in the lower end of Commercial Mid-Market in business banking around concerns on the implications of the budget, concerns around some of the changes that happened last year in terms of taxes, national insurance, etc, and the implications for their own businesses. But it's interesting because the sentiment is there, but when you look at the growth of the business, when you look at, for example, gross new lending in Business Banking continues to be significantly up year over year. Mid-Market, we've seen great growth in areas where we are focussing around social housing, infrastructure, commercial real estate or residential real estate. So, I don't see the slowdown in that sense.

Katie It's interesting. I've spent a couple of days out with different clients and customers in the last four or five weeks. They're busy and they're active and they're growing their businesses as well. But there's also, “I'm worried about them.” And I say, “Who's them?” And they say, “It’s not us.”… So we do have this disconnect. You've heard us talk about it, that we've got cautious optimism. But also, the ‘them’ is a powerful force. Thanks Carolina.

Sheel On the C&I business. Some of your peers are leaning into this business quite heavily. They've previously been very liquid and especially on the lending side, they're leaning into it. Are you seeing any impact on margins for the industry? Are you feeling that through the pricing?

Carolina Yeah. So, if I think about Commercial Mid-Market, where the biggest competition from the incumbent bank is coming, where we have our leading position in the market and we are the biggest in that space, the pressure is there. We haven't seen significant differential between front book and back book margin, but we're definitely making sure that we analyse each situation where we want to compete, whether we need to perhaps give a little bit of margin to be relevant and present in certain situations. I would say for now it's not a concern, but we definitely feel competition is coming.

I would say it's very different on the upper end of the book in CIB, where less so just because of competition, but it's just a result of the market condition where the spreads are tightening. And we see that on the upper end really of our CIB customers. And that's market-wide more than being specifically driven by initiative of certain competitors coming and trying to gain on the deal.

Katie And you can see that in the NIM walk that we obviously had, lending margins, they were plus one basis point. Now that's a negative for mortgages, a bit of a positive for the full quarter of Sainsbury's. And then in reality, not a lot of noise coming from C&I. So, it's not there. But one of the areas that we really have worked on a lot over the last year is to really look at that value of the customer and to understand if they're coming in a bit lower at this stage, how quickly are they converting to be the right value over time in terms of deeper product presentation as well. So, it's certainly a big focus within that business. But when you're sitting at 237 at Group level, and it's obviously been helped by some of the hedge, but you can see in that lending line that there's not really a C&I story within there.

Ben T Thanks for the questions. Now, the first one's on capital and your CET1 ratio target. And I appreciate you made some comments on this already, but it's a question for the board/management at the year end. But what stars need to align for that CET1 ratio target to come down?

Katie There are a few different things that we're looking at. And I would say when you look at the target that we set, we set the last target in 2019, which is six years ago, we've been working with the 13 to 14%. But in there, I think you've seen things like our own ACS stress test, the public ones. Our ICAP test is something that we look at, obviously, very actively internally. We've gone through that process. We've de-risked the business as well. We are looking at what the FPC might say on the 2nd of December. And that could make some of the decisions easier. We don't necessarily think it would be harder necessarily as they come through. So, it's not a complete question of external stars aligning. We're obviously in the process of doing our business plan at the moment. We need to make sure that as we stress that, which we do over November and January to really test that to make sure that doesn't throw anything out, whether it's for business we think we're doing today or thinks we might want to look into in the the longer term.

You're aware that we've been talking a lot to investors, both debt and equity, and not particularly active conversations with the rating agencies, but that's something we might look at. So, I think all of those things as we come through, what we try to really aim for is, obviously, our 50% dividend is very protected. So that's something I wouldn’t look to change. We just changed that last year. I wouldn’t expect any changes on that. But we do try to operate quite a stable in-market buyback in terms of the valuation of that. We look at that as well. I'm not sitting here personally thinking, I need these things to go in that direction. I probably need to make sure there’s not things that are going in a negative direction. It's a conversation the board will have again in December and then ultimately finally in February.

Ben T Second question is on other income. Which is one of your peers has kind of accumulated 7,500 private properties. Is that an area that NatWest might consider going in future in terms of kind of bringing another step up in the other income growth?

Katie No, we're not looking to become a kind of a landlord particularly. And I imagine that other peer may have an insurance company attached to them, so if that’s absolutely the right way, that's not something we would be looking at. However, I would say that other income is an area of a lot of focus. We've seen good growth in that line. I think as a community, we've stopped talking a little bit about the relative weights of, the fact that we're 75/80% NII and 20/25% non-NII. And what's actually more interesting is how do we continue to see that growth? I don't think that our investment line is open to us in the same way from a capital perspective, but actually how you continue to develop the growth in that line. We've been very pleased when we look at our three businesses as what they've done and the performance that we've seen in there. You should imagine that there's a fair amount of pressure being applied to make sure that that can continue. And, you know, as I always say, we've benefited well from volatility. We've been in the right place. Customer activity has really helped us, which is good. You can't guarantee that's the print that you get, the set of circumstances you get in the next year. But there's a lot of focus on to make sure how do we continue to develop that line.

Andy Just one on the hedge. Lloyds basically said that they were no longer assuming any growth in their notional, whereas previously they were. But they didn't change the guidance on the contribution because they felt they had a buffer previously and, secondly, the reinvestment yields are higher hire. My understanding is you were always assuming flat notional in your structural hedge guidance anyway, but clearly that higher reinvestment yield point does apply. So, can you just remind us what your assumptions are around the reinvestment yield?

Katie Yeah. The best place is the slide at the back where we're trying to give you. But if you look at the size, we talk about 172. You can see that our current accounts are a little bit higher. If that was to be sustained, with the 12-month lookback, that might move that number a little bit, but it's not going to move it 172 to 190. It will move it and then ratify where we go.

If you look at it, the average reinvestment yield we've got for 2025 is 3.8. At the beginning of the year, that slide said 3.6. We still think our terminal rate's 3.5, that's been unchanged on there. But we have seen that we've reinvested [at these higher rates] a little bit, which has helped this year, and it will also help in 2026 and also in the later years. But we have them all sitting within slide 20 of the pack, and you can see all the data that's sitting there as well.

One of the challenges we get is, why don't you lessen the hedge, which is something we're not looking at doing, and quite frankly, given the benefit, kind of 10 basis points, we're very comfortable with how we manage that product hedge on the 12-month lookback and the five-year reinvestment. But the figures are there and the extra 20bps we've seen on the average reinvestment yield, it has been valuable to us this year and will be as we move forward from here.

Donal So maybe to add in quick, I don't think we've given you any specific guidance on hedge notional beyond ’25. What we've said is we expect it to be relatively stable into year end.

Katie But you can see what's happening in our current accounts. You know what we hedge. So, you may see some movement on it, but it will come through gradually. We don't think it's fundamental in terms of lifting us dramatically up.

Andy Unrelated to that. The HQLA portfolio used to be, if I go back a couple of years, it was very cash-heavy. And you pivoted that quite a lot to securities and continue to do so. Now, I think the cash was the exemption on the leverage ratio, but what's been the rationale there? Do you plan to keep doing that?

Katie Donal, do you want to talk to that?

Donal Yeah, so I suppose it depends how far you do go back, because if you go back beyond COVID – 2018/2019, you would have seen it was a higher percentage of securities than cash. And then what we had was securities became so rich, we sold down into cash. And what you're seeing now is, you know, there's attractive spreads to pick up on asset swap, on gilts and other securities. So really, you're seeing gradual reposition of that from cash into securities. If you look at our disclosures, which you need to remember when you look at the disclosure of securities in the LCR disclosure, that does include net repo reverse repo as well. So, it overstates the actual security component that we're currently running. So that shows roughly about a 50:50 split between cash and securities. I do, over time, probably expect for more of that to move from cash to securities, as long as there's continued opportunity for reinvestment.

Katie Should we go to the phones? I think we've got Perlie on the line.

Perlie Just to bring you back on capital. I think Sarah Breeden in last week's conference said that one of her personal bugbears is how much management buffer that banks are holding. And she would effectively like banks to hold less management buffer and lend to the economy more. I suppose we all have to see what happens at the FPC review in December. But just, I suppose, what are the areas that in your conversations with the regulators that you think might be an area of interest?

And also, I suppose, if I look at your Q3, obviously seasonally high, and there's going to be some RWA inflation coming in Q4, but it's well over 2% above the requirements. So, if we were to reduce the buffer or if the capital requirements come down a little bit, how are you thinking about distribution versus lending? I mean, you're already lending a lot at 4%, but so I suppose there's a long-winded way of saying if you were to find yourself with 1% more capital to play with, does that mean more distribution or can you lend more given you already lend a lot to the economy? How much more can you lend at a decent returns and margin?

Katie Yeah, so let me just talk about that a little bit and then, Donal, I'll come to you about what would be helpful for us to see from the categories. Again, we'd certainly say 14.2 is at a higher level than we would normally be sitting at. At Q3, I don't think that's particularly unusual. We don't make capital distribution announcements at Q3, but certainly, as we look at it, our regulatory minimum that we work to is 11.6. So even there from up to the bottom end, that's 140bps. We also expect the Basel 3.1 to come through, while the impact may be slightly higher than the £8 billion we've talked about because of the growth of the balance sheet, which you'd expect. We also know we're going to get a Pillar 2 benefit coming through at that point as well. And that's why we're having this debate around about capital.

I recognise her comments on we want to make sure that we continue to do more lending. As we think about our capital activities that we do, first of all, we think about first how much we want to invest in the business, how much we want to grow the business by. With the changes that have come through in terms of CRD IV, the changes that are coming through in Basel 3.1, growth is going to consume more capital as we go forward from here. It's going to be at a slightly higher density because of those changes and just as we grow, clearly, it will have a bigger effect. We don't ever view, though, that our lending is restricted at the moment by the amount of capital that we have or our distribution.

I've not been sitting in that position where you're going, I cannot lend because I want to do this distribution. That's just not a conversation that we have. We know that the lending that we do is generally capital generative. There can be a slight time delay in that, but that's not something that's there. So, it's not a question or a debate that we have of, will I distribute or will I lend? Because, actually, when we build our budget and our plans, we work at our lending targets. We then, obviously, build the RWAs. We put some stretch into those RWAs to make sure that we're doing the right management actions and the team will work through them as we go through in the year to get there. But we certainly, we're interested, as all of you are, to see what they say in terms of their capital management activities. But it is important as you think of that walk going forward, all of those dynamics, we work on them all throughout the year to make sure we can get the right balance. But I would say that I could lend more today if there were greater demand without being overly worried about that. Donal, what else would you add?

Donal

Probably three things on Sarah's comments. One is management buffer. I don't think management buffer is the issue here. And actually, you can't win because sometimes we'll get criticised because the management buffers in the UK are lower than you're seeing across the rest of Europe. That comes back to the second element around our capital requirements. And for me, the big outlier is countercyclical buffer running 2% versus 50 basis points or 100 basis points in the rest of Europe. So that is it. That is a quick win, I think, to bring us more in line with European peers. But it would need to be a change in the steady state countercyclical buffer, not just a reduction in the amount of time because we need to consider what steady state is through the cycle as well.

	And then I think the other comment which Katie touched on there is just more buffers usable under stress. That is good in a stress environment for the UK and lend to our customers. It's not very helpful in a BAU environment.
Katie	Thanks, Perlie. James.
James	James Invine from Rothschild & Co Redburn. I've got two, please. The first is on consumer credit and organic loan growth. So, you know, I think usually the mood music is pretty positive and you talk about moving more on to, you know, aggregators and so on. But the actual growth in the book on an organic basis this year has been slower than the past few years. So just wondering where we go from here. And then the second one, I guess, is a follow-up from Andy's question. What is the minimum level of reserves that you think you need to have? So, you know, they're becoming less abundant in the system as a whole. I guess you can always repo them from the Bank of England. So, is it really just a de minimis number?
Katie	Donal, I'll come to you on that in a moment. Stuart, you and I spend a lot of time talking about what's happening in terms of unsecured and where we are on growth. Do you want to talk about that a little bit? And I know you'll talk about growth in balance versus growth in income as well.
Stuart	Yeah, slightly lower growth trajectory this year. If you think about the journey we've been on in cards in particular, we've gone from only offering, we've gone from not being in 0% BT cards at all, to only offering to our own customers, to then expanding into non-banked customers including building a best-in-class aggregator journey to do so. So, that has clearly fuelled the growth trajectory to this point. I expect that book to continue to grow but probably at a slightly slower trajectory given the progress that we have made over recent years. In terms of the income versus balance growth dynamic, what is pleasing on that book is as we continue to grow in absolute terms we also see a mix shift towards interest-bearing balances within the balance sheet,

which is clearly income accretive and margin accretive, so we're very pleased to see that coming through and the rate of our interest-bearing balance growth outstrips our total balance growth within that cards book.

In terms of personal loans there's a number of parts of the market that we don't operate in such as student and auto. We do have high penetration of personal loans into our own customer base but leveraging the journeys that we've built for cards and our credit decisioning capability we're also moving into the non-bank space. There we're currently live on one aggregator and we have plans to go further on that and the nice thing about opening up the waterfront is it actually allows us to get access to a whole range of customers and we set our credit cut-offs and limits at a higher level to manage the risk there but pleased with progress expect a bit more progress to come there.

Katie Donal?

Donal So preferred minimum level reserves, so I would say James it's evolving and I think the requirement will be lower than it was pre-COVID or pre-crisis and the exact reason we said there's Bank of England facilities. Historically we'd set our minimum level reserves based on our own internal liquidity stresses to hold enough cash reserves to withstand the first two weeks or one month of stress. The fact now that we can swap gilts into reserves on a weekly basis probably means that stress requirement is down to about one week, because that's the maximum amount of time that you wouldn't have access to a Bank of England facility. So, I know this figure is out there of the £350 to 500 billion, which is in effect it's just an amalgamation of all the banks putting it at the level they believe the reserves should be. I'd probably expect over time that to reduce down as we all start thinking that we need to hold a lower composition of reserves than we did pre-the SDR.

James Are you happy that it's kind of stigma-free?

Donal Yeah exactly I think that's one element. We wanted to see how that facility evolved. What I would say is it's working exactly how the Bank of

England set it up to work. I think it's completely stigma-free and I think all the banks are actually using in a very efficient and optimal manner on a weekly basis.

Katie We spent quite a lot of time debating the stigma attached to it, because we're obviously very aware that there is a stigma to some facilities. It's something we also took our ALCO through and our board through as well to make sure it was all very well understood.

Donal A great example was the end of October where we saw repo rate spike and if you know it was Canadian year-end but what you saw was once the SDR facility was drawn you saw repo levels come back closer to base rate as well so exactly how it was intended to operate.

James Just to follow up on that, I appreciate that some of the larger banks have better access to these funding facilities but maybe the smaller banks, the ail of lenders, with the repo rates, it gets a little worrying at times when it spikes up that much and there's such a differential. Is there anything to be thinking about for the rest of the banking population?

Donal Well I think from a banking perspective, I think every single bank should put priority on access to their Bank of England facilities so I would be surprised if every single, especially the smaller banks, didn't have operational capability and were testing that on a regular basis. Because that is their key element to actually draw on swap reserves or draw on liquidity in a stress environment.

Katie I'm going to the line and then I'll come back to you Jonathan.

Alberto Alberto Artoni from Intesa Sanpaulo. Just one question on the asset quality outlook. So far the asset quality has been very strong and with the only exception of the broadband sector, could you please provide a little bit more colour if you can on your exposure to that sector, your level of confidence with the current provisions that you currently have and more generally to the asset quality going forward. What do you expect? Thank you very much.

Katie It has continued to be exceptionally strong. Even within the fibre sector. We took some provisions in Q2 against that. We didn't take any more in Q3. You could imagine there's been quite a lot of work and deep dives going on in that sector. We're feeling pretty comfortable in terms of how that's sitting at the moment. We do have a standard programme of deep diving into different sectors and that will move depending on what's happening in the market. We feel comfortable. Our guidance for this year is to be below that 20 basis points. I don't see any reason, she says touching wood, but sitting here on the 10th of November, we don't see any issues within that guidance. We still hold some PMAs which will help us a little bit as we move forward from there. I don't have anything particularly to bring in. One of the things that we do talk about is obviously our through the cycle guidance is 20-30 basis points. In any one year if there were issues, you would see us hitting into that number.

You Alberto as you will have done, our performance over time, you can see even to get to the bottom level of that guidance is not something we see in our book particularly at this stage. We're very happy with the performance we see overall on impairments and don't expect that to particularly change in the short term unless we see some much bigger macro things happening in the wider economy which again is not something that any of us are particularly anticipating around unemployment and things like that.

Jonathan Just coming back to the capital question. How are the PRA or how have they been treating the increase in risk-weighted assets coming through on CRD IV so far in terms of Pillar 2A movements? Has it been broadly one for one? Because I'm just thinking from here, we've got another, well already we've had about £2 billion I think in CRD IV, maybe another 3 or 4 in Q4. Then we've got the £8 billion plus on Basel 3.1. You add all those things together, the equity Pillar 2A benefit could be 30 basis points plus. I agree with Donal, I think there's a half decent chance the FPC cuts the neutral rate of the account cyclical buffer by 25 to 50 bps. So, your MDA could end up down as 11%. So, the first question is, is that how the PRA is working this through to Pillar 2A?

And then secondly coming back to Perlie's question. How do you think about the voluntary buffer? You've talked Katie a number of times in the last 6 or 12 months about being happy operating near 13% once everything is done in RWA terms. Is a 2% voluntary buffer the right level for equity holders, debt holders, so on and so forth?

Katie Yeah, so thank you for a very good, well-crafted question. So let me work my way through that. Donal, you can explain as we go through. I think when you look at the PRA they've been very careful to talk about total capital, whereas we generally talk about CET1, so we don't see a kind of one-to-one set off within there, and they have been very careful on that. However, what we have seen is obviously as part of our annual SREP, that's been 17 basis points reduction. I am expecting further reductions once Basel 3.1 comes into play. It's less clear in terms of CRD IV as to how that works its way through, and you can see just by the length of time it has taken for us to finalise some of those models, and you might have heard me say that we might, in the Q3 numbers, see some of that bleed into 2026. I am a little bit frustrated to be making that statement. I don't think materially it will be a big bleed through, but they're not looking at this number comes there and I'll take this off there. But they have talked quite publicly a number of times that in the system, total capital level, they expect it to be neutral. We've not been quite in agreement on that. We do see overall there is a capital lift for us, and I think you would have a similar conversation with different banks as the different things that would be hitting them on that, so we'll see how that comes through.

We've never given guidance about what our view is on the buffer. We've always said we're happy to toggle between 13 and 14 percent. I think what you have seen me talk about more in the last couple of quarters is to say, look, it's something we're clearly looking at, and that's as much a reflection of the evolution of our book, the evolution of stress testing, of ICAPs. I sit in this chair at most risk committee meetings and it's been a conversation I've been having with the risk committee for some years, so the events at the beginning of December are interesting for me and I think that they may be helpful, but we'll see how they evolve. But our guidance has never been of X plus this buffer to get me to 13 to 14. It's been that at that time it was appropriate to run to 13 to 14 and we're clearly having a look at that as well at this stage.

Jonathan Do you think you'll give us a number at full year results?

Katie I would like to be in a position that we talked about the evolution. I wouldn't like to spend my next four quarters hinting that something might happen. We'd like to be in that position, but let's see where we go, and then a guidance when we get to that.

Donal We'd like to, if we got clarity on December 2nd, because there's an assumption that you will get clarity on December 2nd, but you could see some sort of consultation that would extend beyond that as well. But I like your voluntary, I'd probably argue management buffer is not very voluntary, because we would get penalised from a rating agency and investor perspective if we weren't running…but 2% feels high. I think we always said we'd run to the lower end of 13 to 14%, which would get you to the 140 or 150 basis points.

And the other thing I was going to add Jonathan, on CRD IV, we should definitely separate CRD IV and Basel 3.1, because we are getting benefits through Pillar 2A on elements of Basel 3.1: SME, infra, op-risk. CRD IV, we have seen obviously an increase in risk weights since the 1st of January 2022 without any offsetting impact on Pillar 2A.

Jonathan Yeah, that's sort of what I was wondering.

Donal So, yeah, so that is a complete one for one increase in nominal capital, which hence goes back to Katie's view of why it's the right time to review what is the level of CET1, because our nominal capital continues to increase.

Jonathan Can I just ask one other question now briefly? ILTR facilities, I mean, last week, we saw those move at the system level, for good reason, I think up towards £150 billion. Are you using those in any reasonable size? Are you willing to disclose that? And I'm also just wondering how you're thinking about with regard to broader funding, because you're out there with a 4.2% one-year fixed rate bond again, which is 40 basis points, 50 basis points, negative margin. You can repo for six months at the Bank of England at 15. So how is it into playing with your decisions on?

Donal From an ILTR perspective, we're not material or active users, we've supported the ability of the Bank of England who are looking for all banks to use it and draw it. And I probably expect that you're going to see significant increases in level C going to the FSMU in this quarter and over the next, over the next few years, because there is a funding benefit as well that you have through level C.

Katie I think if we then look at the funding that we're having on a point in time rate that we might be operating on the fixed term, there's a few different things going on there. It can be related to the size of the rollover, our view around actually, obviously, these are one-year positions that people are taking. So, actually, the value of that to us on liquidity value, and it's an aspect of the funding stack that we have. And so we look at that well, if I think if you look at it standalone, you think, well, that feels the wrong price to be doing on that. But if you look it as part of the funding stack then actually, we're quite comfortable with it. And it's a relatively small part of that stack for a small portion of time. I mean, Stuart, you're obviously very actively involved in the pricing decisions we have on there. Do you want to give a little bit of colour about how we think about some of those pricing decisions as we look at the total funding stack?

Stuart Yeah, look, I think you've summed it up extremely well, Katie. It is a small aspect of the book overall, but it is an important aspect, particularly when you look at where personal sector deposit flows have been focused this year. As you've said, we price more competitively in order to protect and retain roll offs, in the context of market competition. I would say that main bank peers remain priced at or around or above that level in certain brands under the Group position. So the market does remain competitive.

But when we sat here after Q2 results, we were clear that our book is shaped to greater roll offs in the second half of the year. And we would price to retain those, which we did in Q3. We were very happy with our retention levels, but clearly, our savings balances dropped a bit in retail as a result of not retaining 100%. And Jonathan, you know, the pricing we've got out at the moment reflects that book shape.

Katie And then we've got John Cronin as well.

John Thanks for taking my questions. And just a couple. One on the 2028 targets in the early new year, just curious as to what kind of level of detail you expect to impart around the growth strategy, or the strategy more broadly at that point. I mean, will we get a lot of flesh in terms of what you're thinking to get out to that point and potentially beyond?

And then secondly, just a quick one on mortgage spreads. Look, I know you said there's a little bit of pressure around the 3Q. Broadly, in the circa 70bps territory, has anything changed lately? Thanks.

Katie So just on the target, so it's clearly something we're working through at the moment in terms of looking to see what is the right balance of that. So I'm not going to give you any real particular flavour today. But I would invite all of you, if there's anything you think, oh I wish they would just give us that, stop dancing around that, Aman I've heard you on loan growth, so you don't you don't need to feed that message in. But if there is anything you think actually, it's really helpful that this bank does that or whatever. I mean, it's something where we're actively working on deciding to pitch to say, well, actually, what's the right cut that we that we might have. We probably recognise it's more than just a RoTE number that you'd like to see. So very happy to get feedback and just please share that with Claire, and we'll take any thoughts that you might have on advisement.

In terms of mortgage spreads at the moment. You can see the rates. You don't obviously have exact insight into where we might have hedged, but you'll have a decent view. So they are under a bit of pressure. The book at the moment is around that 70 basis points, but we are writing new business below that. And I think what's been really important for us is that expansion of, that waterfront that we've had, in terms of making sure that we're accessing more parts of that mortgage, whether it be buy to let or first time buyer. Obviously, retention is really important. I spent a bit of my weekend this weekend reviewing the slides that we're pulling together for the spotlight that we've got on the 25th. There is a decent section of that spotlight is looking at mortgages and where we're where we're heading on that. So, I think, a little bit of advertising for that is to make sure you spend, make sure that you do dial in and or pick us up on the catch up afterwards, as we look at that.

Mortgages are always competitive, which is the question of how high the temperature is at any one time on the competition within there. At the moment, the book is around 70, we're writing a bit below that, but still comfortable on a cost of equity basis. And obviously, when you look at the business overall, and you look at the RoTE for that business, its return on tangible equity was 24.7%. So clearly still a very strong book overall that we're sitting within in the retail business.

Aman Yeah, can I just check, I think you mentioned Basel 4 impact was going to be above the £8 billion…

Katie It's more just that, I've given you that £8 billion number for a while, and our book is growing a little bit. So, I will give you a new number when it's time to give you a new number. But just to think of, actually, don't forget that, as the book grows, you may see a number that's a little bit bigger than that.

Aman It doesn't sound like there's any meaningful overlap between CRD IV and Basel, because I would have thought that if the risk weights were higher that, Basel might be lower.

Katie It's not what we're expecting. I wouldn't run away with that comment. But just to be a little bit mindful of it. And it's something obviously to be worked through in the plan. I like to think if those numbers change meaningfully, we've got a good history of telling you, think of this number, and that's as we do the work in February, we might see a small update on that number at that stage, but it's something the team are working through at the moment. But, as I was talking to them, I was like, actually, don't forget this book is growing.

Aman The other question was just, I guess, when we're, again, we're just thinking about the revised, the update you're going to give us in a year. I'm just thinking about investment. I think historically, you've talked about the current investment run rate being kind of the max capacity that NatWest can absorb.

Katie Sensibly. You can always spend money.

Aman But what's your kind of updated take on that? Do you think, I mean, the organisation is bigger?

Katie So for me, my updated take is probably, the restriction on the company is never a pound sign. You know, and if anything, I think that one of the things that we've seen really come from Scott is really move and change that, I hate this phrase, because it sounds terrible, but the producer versus non-producer. So, who are the people who are in the box doing the coding? And who are the people who are watching the people doing the coding? We've done a massive shift, over the last little while of making sure there's far more people doing the actual work and less, and really being able to track the projects. If I look at what we do on Java and Python, 30 to 40% of that coding is now done at the first stage using AI. And that's a huge change. That's changed the speed that we have to market, changed the amount of coding that we can do.It comes at a different price point. So, we'll talk about what number we landed on, when we get later, but that, you see is when some years were one, 1.1, 1.2. But that kind of range, to give them 1.5 is not, that's not the sensible thing, but to actually say, how are you really using AI? How are you really having that producer, non producer.

We've also done a lot of work over the last couple of years of bringing people that we would have…managed service workers, which is another code name for when you ship in a bunch of Deloitte or Accenture type people is to do less of that. Or for people that are on long term contracts, bring them into our system. So they're on our payroll, and then you're managing them in the right way, which means your headcount is not going to be falling at the same speed that you might like, but actually, you're not paying someone else's profit margin. So I think all of all of that is a real balance to make sure you get the right spend. And I would say it's interesting on competition. I also hear at board, it's not the pound number that restricts your change, it's how well you're managing and driving and using AI in that in that process. And we've seen massive change in that over the last, last year to 18 months, which Scott's really been driving very aggressively.

Aman So I guess what I'm trying to work out is the outlook for the business is kind of naturally, automatically very good. Particularly if you carry on doing what you're doing but realise the benefits of the structural hedge repricing the balance sheet. So, it's just trying to get a sense of, you know, what's coming in the new year is a real step change in the kind of things as a management team that you're looking to do versus continuing to execute in the existing direction of travel and just realise the benefits.

Katie So I think it's important. We've not called the new year a strategic update. You know, it's just we're going to share with you our '26, '28 targets. You know, we're thinking a little bit about what the speed of that might be in '28 because we do, we recognise that. But it's not, I don't think you should be anticipating that it's a big strategic update and there's a whole hurrah, we're now going to do this. We're conscious that the strategy is working, that we're delivering well. We mustn't be complacent. We mustn't get carried away. But it is to actually say, right, what does it look like, kind of three years from now in terms of delivery that we can continue to continue to deliver?

Amit Just a follow up, just on investment. Just because we had the presentation from your peer last week on the whole digital AI space as well. So, I mean, I guess they were making a point about the value of the data that they have and how they can utilise that based on the investment they've done and they can enhance customer journey, cross-sell more of their product suite and also do that in a more targeted basis. So when the customer needs or may be thinking about it such that they get more kind of effectiveness or penetration. So, I'm just kind of curious, how do you benchmark yourselves in that regard? Like, how do you think whether or not you're spending the right amount versus what the peer group are doing, whether you want to be a leader or want to be in line? You know, do you think a market share could shift materially in the coming years as a result of different investments, different players are making? And, like, does that feed into this thinking about the targets or how does that feed into the targets.

Katie It definitely does. And I think for us as we look at it, I mean, you've heard me talk for the last two or three years around someone like Zack that we brought into the bank. So, you know, Zack came from EA Games. If you're one of our customers, you would get random marketing messages from us as to this, that or the other and very little penetration in terms of actually they click through and things like that. So one of the things we've been on the last little while is actually to say, how do we use our data to really target the customers that you want to target? And I think we've seen a lot of that activity.

I think one of the best ways that we talk about it is actually things like the way that we've grown our unsecured lending book in terms of the credit cards and also the growth we've seen in personal loans. We're actually targeting our customer base. So I think what I would say is that much more you heard of didn't feel different or new from us. And you'd expect me to say that because we've been on that journey. I also don't want to say and steal too many lines from things we're going to talk about on the 25th as well. But for me, it's just a continuation of that journey. And I would also really encourage you to try to get away from a pound number in terms of that spend. It is about the way that you mine your data, how well your data is organised, how well you then make sure that you have the right click through.

One of the best examples I think that we've really had within our business is Rooster in the last couple of years. So, we're the only big incumbent bank that's got that pocket money product. So, in terms of as we can roll that out to our customer base, what we see is that actually where you have people where their children are actively using Rooster, their parents are more engaged, your product penetration is better within that customer base just because their interaction with us is that much stronger. And it's about how you then use that data and the insight that you've got. So I would agree as a bank, we will all naturally get very good, high quality data. But it's then about how do you then convert it into the right insights that you have for customers. And we can see what's happened for all of us on our know your credit score. We can see we just launched Pots in our Ulster bank, they'll be going live elsewhere.

We know what's happening in terms of the quality of the NPS we have on mobile apps as they just deliver a much greater service. So very comfortable and obviously watch with interest and absolutely not dismissive at all about a number of things that Lloyds are saying, but, you know, recognise that as activities that are going on within our own bank as well. And I think they did a good a good presentation last week and they should be they should be applauded for that sort of thing. But it's just how do we continue to move that forward? We've seen it delivering market share growth already. And I think that will be something that we'll continue to see in one of the growth aspects as we move forward from here. Stuart, I'm sorry, I should probably have handed that question to you a little bit as well. Is there anything you would add without forerunning all that you're going to talk about in a couple of weeks?

Stuart

No, I think you've covered it very well. I think, as you've described, we do a very good job in personalising our communications and that carries over to, you know, personalised price points, et cetera, and offers to customers. I think in the future, our ambition is to have much more personalised communication around the entire customer relationship, which I think can really deepen and strengthen and that will translate, we believe, to balance sheet growth and ultimately income growth over time.

Katie

We've talked a lot over the last year or so as well about the significant investment we're making in Bankline and that's about making that system really simple for the customers to use. And I'm absolutely convinced it will also be helpful in terms of the income line as well as the cost line. And ultimately, then, how do we use that system, our AI generation? I spent time with the relationship managers and they're saying it's just changing the way that we work because it speeds up the quality of our note taking. It speeds up the quality of our right next best step and things like that. So you'll just see more and more of that come through. And whether that's greater market share or a greater defence of what you have or actually just an improvement in the income line, we'll see across all of those different lines, I think, as we move forward.

Amit Do you need to have a broader product suite to be able to capture a higher proportion of the customer's financial needs and journey?

Katie I'd say we're pretty happy with our product suite. You've seen us expand it in retail. I think there's still a bit more we can do on some of the deposit sides, but it's kind of at the edges now. There's obviously some places that we don't play at the moment in terms of crypto assets, for example. I think that's something that's an interesting debate. We're obviously very involved in things like tokenised deposits - GBTD. We're very involved in that space and very involved in a lot of the activity that's going on there. So that might be some of the product suite evolution that we will see as there becomes more demand for that

I sat with a customer the other day who does a lot of imports, a Japanese restaurant, and actually talking to her was really illuminating for me because she said, this is exactly how I run my business and the activity that I do. And actually, the quicker you can move into some of those spaces, the safer for us, which was great in terms of actually talking to someone as a smaller business, but one that works very actively in terms of international import and actually just seeing the appetite there was very interesting.

I'm going to go back to the screen. Gary?

Gary Thanks for taking my question. It is a general one, really, around sort of growth and demand. So we’ve seen the sort of regulatory environment. And if you believe the sort of articles in the press the other day around taxation seem to be sort of moving in favour of the industry at the moment. I'm guessing there's a sort of a quid pro quo to that in that, you know, you're not getting a free ride here. This is all about the government, the regulator, etc. wanting to see more growth from the industry, including yourselves. And I know you have been growing. But I guess therefore, first of all, is that the correct read? And is that the sort of feedback that you're getting that they're encouraging you to grow more? And then if that is the case, what are the areas in which you feel most confident that you can grow because the demands there and what are the areas that maybe need to see pricing tweaked in order to create that demand?

Katie Yeah, so if I look at growth for us, particularly on the lending side, we're in our seventh continuous year of growth, coming through on that and a 4% CAGR is what you see versus industry of 2%. So very comfortable that we see growth throughout there. If I think about in terms of the results, we're very broad based. There's no one area I would say do this and we'll grow particularly largely in that space. But I think what's most important is policy stability. You know, we have seen, as Carolina was talking about earlier, businesses reabsorbed and dealt with a lot of the NI impacts. That's come out in different ways. But it's just like, whatever you're going to do is make sure that you do it and then there's stability.

And I'm not particularly worried on pricing. You know, we'll adapt pricing to competition. I don't feel that actually if we priced X business differently, then all of a sudden, a huge pop through growth coming through. We do spend a lot of time playing volume versus margin dynamics. That's something we think about a lot as it comes through. But I do think it is around actually how do you just make sure that you have stability? We're very willing and able to grow in many different areas. You know, once demand comes through. And we spend a lot of time working across the corporate and commercial world to make sure that we can see that. Unfortunately, there's no easy light that piece of torch paper and I'll see demand pop in that space. It really is about policy stability. That's the most important thing.

Gary So it's not a case that you're sort of potentially pushing on a piece of string in terms of trying to grow, you can change pricing, but the demand just isn't there.

Katie So I would say that we have seen demand because that's why we've seen growth on our lending book. But we would like to see it at a slightly higher level. And that's the piece that's there is how do you convert that? And actually confidence numbers are good and better than they have been. We've definitely, people are kind of going…budgets in, what, three weeks' time now? Let's wait to see what comes through on that on the corporate & commercial side. I would say that if I look at mortgages, the demand continues to be strong. There will be a little bit of budget noise that will come through. Stuart, do you want to talk a little bit about what you're seeing in terms of customer sentiment? We've already obviously heard from Carolina about the C&I business.

Stuart Yeah absolutely, so the mortgage market was healthy in Q3 and that has continued into Q4. As you've just noted, you might have expected to see a little bit of a dip around, with the budget uncertainty and announcements on the 26th. But we haven't really seen that. The rolling average five-week application numbers across the, you know, across the market are running at about seven and a half billion, which is fairly healthy. And then, as described earlier, we do continue to see demand on the unsecured side and quite a lot of competition, particularly I would say, credit cards has been particularly competitive this year.

But yeah, anecdotally, via the branch and contact centres, etc, we're hearing a little bit of customer uncertainty. And clearly, the more you rise up to the Premier and beyond space and Retail into Wealth, you'll see different customer positioning around budget uncertainty. But at the mass level, you know, anecdotal, feedback around, concern, etc, but not seeing that feed through to our key lending markets.

Katie Well, I would just say thank you very much for your time. Thanks for the support, as always. And then, please do continue chatting with the IR department. I know we've got various roundtables and things coming up or a fireside chat type things coming up over the next couple of weeks as well, which we look forward to and enjoy. Well, I always find probably four to five of the hardest weeks of the year to get through that push through as we finalise lots of different things. But thank you for the support and have a great week.