



NatWest
Group

NatWest Group plc
Q3 2025 Results Call Transcript
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Hosts: Paul Thwaite, CEO, and Katie Murray, CFO

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Management Presentation

(Amended in places for legibility and clarity)

Paul Thwaite

Good morning and thanks for joining us today. I'll start with a short introduction before I hand over to Katie to take you through the numbers. We have delivered another strong quarter as we continue to execute on our priorities of disciplined growth, bank-wide simplification together with managing our balance sheet and risk well.

Though inflation is above the Bank of England's 2% target, the economy is growing, unemployment is low, wage growth is above the rate of inflation and businesses and households have relatively high levels of savings and liquidity. This is reflected in the levels of customer activity we're seeing across the bank. So let me start with the headlines for the first nine months.

Lending has grown 4.4% since the year end to £388 billion, in line with our annual growth rate of more than 4% over the past 6 years. Growth has been broad-based across our three businesses, and we attracted a further 70,000 new customers in the quarter. Mortgage lending was up by more than £5 billion for the nine months as we broadened our customer proposition with new offers for first-time buyers and family-backed mortgages and issued mortgages to landlords in collaboration with buy-to-let specialists, LandBay.

Unsecured lending grew £2.9 billion or 17.3% and we made good progress integrating our recently acquired Sainsbury's customers. They're now able to view their credit card, link their Nectar card and view their Nectar points from credit card spending via the NatWest app.

In Commercial & Institutional, we delivered lending growth of £7.9 billion or 5.5% across both our large Corporate & Institutional and Commercial Mid-Market businesses in areas such as infrastructure, social housing and sustainable finance. As the number one lender to infrastructure, we are supporting many large-scale programmes up and down the country. And we have delivered £7.6 billion towards our 2030 Group Climate and Transition Finance target of £200 billion announced in July.

Deposits grew 0.8% to £435 billion as we balanced volume with value in a competitive market and as customers managed their savings across cash deposits and investments. And as more customers across the bank chose to invest with us, assets under management and administration

have grown 14.5% to £56 billion. This has contributed to growth in non-interest income along with higher fees from payments, cards and good performance in our currencies and capital markets business.

This customer activity has resulted in a strong financial performance. Income grew to £12.1 billion, 12.5% higher than the first nine months last year. Costs were up 2.5% at £5.9 billion resulting in operating profit of £5.8 billion and attributable profit of £4.1 billion. Our Return on Tangible Equity was 19.5%. Given the strength of our performance, we are revising our full year guidance for income to around £16.3 billion and for returns to greater than 18%.

We continue to make good progress on both simplification and capital management. We have reduced the cost/income ratio by five percentage points to 47.8%. And we generated 202 basis points of capital for the nine months and ended the third quarter with a CET1 ratio of 14.2%. This strong capital generation allows us not just to support customers but to invest in the business and deliver attractive returns to shareholders.

As you know we announced a new share buyback of £750 million at the half year of which 50% has now been carried out and we expect to complete the buyback by our full year results. Earnings per share have grown 32.4% year on year and TNAV per share is up 14.6% at 362 pence. So, a strong performance for the first nine months. I'll hand over to Katie to take you through the numbers for the third quarter.

Katie Murray

Thank you Paul. I'll talk about the third quarter using the second quarter as a comparator. Income excluding all notable items was up 3.9% at 4.2 billion. Total income was up 8.2%, including £166 million of notable income items. Operating expenses were 2.1% lower at £2 billion, due to lower litigation and conduct charges. And the impairment charge was £153 million or 15 basis points of loans. Taken together this delivered operating profit before tax of £2.2 billion for the quarter and profit attributable to ordinary shareholders of £1.6 billion. Our return on tangible equity was 22.3%.

Turning now to income. Overall income, excluding notable items, grew 3.9% to £4.2 billion. Across our three businesses income increased by 2.5% or £101 million. Net interest income grew 3% or £94 million to £3.3 billion. This was driven by further lending growth and margin expansion as tailwinds from the structural hedge and the benefit from

the Sainsbury's portfolios for a full quarter more than offset the impact of the base rate cut in August.

Net interest margin was 9 basis points to 237 mainly due to deposit margin expansion and funding and other Treasury activity. Non-interest income across the three businesses was up 0.8% compared with a strong second quarter. This was due to increased card fees in Retail Banking, higher investment management fees in Private Banking & Wealth Management and a good performance in Currencies and Capital Markets with heightened volatility.

Given continued positive momentum and a clearer line of sight to the year end, we have refined our income guidance and now expect full year total income, excluding notable items, to be around £16.3 billion. We continue to assume one further base rate cut this year with rates reaching 3.75% by the year end. This improved guidance alongside strong Q3 returns means we now expect return on tangible equity for the full year to be greater than 18%.

Moving now to lending where we have delivered another strong quarter of growth. Gross loans to customers across our three businesses increased by £4.4 billion to £388.1 billion with growth well balanced between personal and corporate customers. Across Retail Banking and Private Banking & Wealth Management, mortgage balances grew by £1.7 billion and our stock share remained stable at 12.6%. Unsecured balances increased by a further £100 million, mainly in credit cards. In Commercial & Institutional, gross customer loans excluding government schemes were up by £3 billion. This includes £1.6 billion across our Commercial Mid-Market customers, in particular in Project Finance, Social Housing and Residential Commercial Real Estate. As well as £1.5 billion in Corporate & Institutions, mainly driven by Infrastructure and Funds Lending.

I'll now turn to deposits. These were broadly stable across our three businesses at £435 billion. Retail Banking deposit balances were down £0.8 billion with growth of £0.6 billion in current accounts, more than offset by lower fixed-term saving balances following large maturities. Private Banking balances reduced by £0.7 billion with flows into investments as customers diversify and manage their savings, as well as tax payments made in July. We saw a small increase in Commercial & Institutional of £0.4 billion with higher balances in both Commercial Mid-Market and Business Banking. Deposit mix across the three businesses was broadly stable.

Turning now to costs. We are pleased with our delivery of savings this year, which allows us to invest and accelerate our programme of bank-wide simplification. Costs grew 1% to £2 billion, including £34 million of our guided one-time integration costs. This brings integration costs for the first nine months to £68 million. We remain on track for other operating expenses to be around £8 billion for the full year, plus around £100 million of one-time integration costs.

This means you should expect expenses to be higher in the fourth quarter, driven by the annual bank levy and the timing of investment spend.

I'd like to turn now to impairments. Our prime loan book is well diversified and continues to perform well. We are reporting a net impairment charge of £153 million for the third quarter, equivalent to 15 basis points of loans on an annualised basis. Our post-model adjustments for economic uncertainty of £233 million are broadly unchanged, and following our usual review, our economic assumptions also remain unchanged. Overall, we are comfortable with our provisions and coverage, and we have no significant concerns about the credit portfolio at this time.

Given the current performance of the book and the 17 basis points of impairments year to date, we continue to expect a loan impairment rate below 20 basis points for the full year.

Turning now to capital. We ended the third quarter with a common equity tier 1 ratio of 14.2%, up 60 basis points on the second. We generated 101 basis points of capital before distributions, taking the nine-month total to 202 basis points.

Strong third quarter earnings added 84 basis points and a reduction in Risk Weighted Assets contributed another 8 basis points. Risk Weighted Assets decreased by £1 billion to 189.1 billion. £0.9 billion of business movements, which broadly reflects our lending growth, and £0.3 billion from CRD IV model inflation, were more than offset by a £2.2 billion reduction as a result of RWA management. This brings our CET1 ratio before distributions to 14.6%. We accrued 50% of attributable profits for the ordinary dividend as usual, equivalent to 42 basis points of capital. We continue to expect RWAs of £190 to £195 billion at the year end, with a greater impact from CRD IV expected in the fourth quarter.

Turning now to guidance for 2025. We now expect income excluding notable items to be around £16.3 billion, and Return on Tangible Equity

to be greater than 18%. Our cost, impairment, and RWA guidance remains unchanged. And with that, I'll hand back to Paul. Thank you.

Paul

Thank you, Katie. So, to conclude, we're pleased to report another very strong quarter of income growth, profits, returns, and capital generation. This has been driven by customer activity across all three of our businesses, leading to strong, broad-based lending growth and robust fee income.

Our continued focus on cost discipline has delivered meaningful operating leverage. And as we actively manage both our balance sheet and risk, the business remains well-positioned to deliver strong shareholder returns. As you've heard, we have upgraded our full-year income and returns guidance today and we'll update you on our guidance for 2026 and share our new targets for 2028 at the full year in February.

Many thanks. We'll now open it up for questions.

Operator

Our first question comes from Benjamin Caven-Roberts of Goldman Sachs.

Benjamin

So two for me, please, first on deposits and second on non-interest income. So, on deposits, could you talk a bit about deposit momentum in the business? And in particular, you mentioned the retail fixed-term outflows over the quarter. Could you talk a bit more about how much of that is reflecting conscious pricing decisions and then looking ahead, the sort of trajectory for deposits going forward?

And then on non-interest income, very strong, even when adjusting out the notable items related to derivatives. Could you talk about momentum in that franchise and what business drivers you're particularly focused on looking ahead? Thanks.

Paul

Thanks, Ben. Good to hear from you. So let's take them one by one.

So on deposits, so big picture is up around £3.5 billion, around a percent year to date. Different stories within the different businesses. We talked at the half year around the ISA season and some of the

confluence of debate around the future of ISAs and how that led, and some of the movements in the swap curves on the back of tariffs and how that led to different pricing. That period is behind us. There's been more normalised pricing since April, May. If you look at our three businesses, I'd say slightly different trends.

I'll finish with retail because there's more to unpack there. On the commercial side, deposits are up. Encouragingly, that's in the Business Bank and Commercial Mid-Market. That's good. Private Bank, cash deposits are down, combination of things. July, we saw some tax payments, but also we see more funds shift from cash deposits into securities and investments, which is a net positive trend.

In Retail, if you look at current account balances, they are up. So operational balances, salary accounts, you can see that the numbers are up there. I think the details are in the disclosures.

Instant Access is flat. Where we've seen some reductions is in fixed term accounts, and that reflects a number of large maturities that we had during the quarter. We're pleased with our retention rates. They're running about 80%, 85%. But as you alluded to, given our LDR at 88%, LCR at 148%, we're finding the right balance between value and volume. So we're being pretty dynamic and we're focussing on where we see funding and customer value. So that's unpacking the deposit story for you. So different stories in different businesses, relatively stable, given our overall funding profile, very focused on managing appropriately for value.

On the second question, which is non-NII. As you alluded to, we're pleased with the quarter, and we're pleased with the year to date. Good momentum in the areas that we've been focussing on. It's quite broad based, actually, when you unpack it. Cards, payments, but obviously good contribution within CNI from our markets business, driven by the strong FX franchise and by the capital markets business.

So we've had a strong quarter three there, probably slightly stronger than we expected when we spoke to you at the half year. We feel as if our focus on those areas, whether it's the markets part of Commercial & Institutional, whether it's our payments business, but also, as you can see in our Wealth business, the fees from assets under management are increasing as well. So it feels like we've got good progress and good momentum on fees and it remains a strategic area of focus for us.

Thanks, Ben.

Operator

Our next question comes from Sheel Shah of JP Morgan.

Sheel

Great. Firstly, on the costs. You've reiterated your cost guidance for the year despite the strong third quarter performance. How should we think about cost growth going forward, given we have CPI going back towards 4%? You're clearly simplifying the bank internally. Do you think a 3% cost growth number is the right level for the bank, or do you think that maybe understates your ability to manage the cost base?

And then secondly, on capital, could you give a steer on the CRD impact that we expect for the fourth quarter? And maybe thinking about the fourth quarter capital level, how are you thinking about operating in that 13% to 14% range? Is there anything preventing you from moving down towards the 13? Or are you managing maybe for M&A or anything else maybe in the horizon that you're thinking about? Because this is clearly the strongest capital print we've had for the last maybe three, four years, or maybe two to three years for the bank overall.

Paul

Thanks, Sheel. Katie, I'll take the cost and then turn it over to you on the capital piece, if that's okay.

Yeah, on cost, Sheel, so as you say, it's a strong year-to-date picture if you look at year-on-year comparisons. And obviously, we have the one-off in terms of the integration costs as well of Sainsbury's. I am pleased with the momentum we're getting on the simplification agenda. I think that's – you can see that starting to bear fruit. It's also, I think most pleasingly, it's a bit of a flywheel because it creates investment capacity to drive further transformation in the business. And it's not only cost out, it's also improving customer experience and colleague experience as well.

So, as you alluded to, we're holding with the current year guidance £8 billion plus the £100 million of integration costs. But we are pleased with the momentum on the simplification agenda. I'm not going to be drawn on '26 costs or future costs. We'll talk to you in February around '26 guidance and new '28 targets. But what I would say thematically is we still have a very significant focus on cost management and we're very high conviction on the simplification agenda. And to help put that in context a little bit for you, to deliver the cost print that we are doing

this year requires us to take more than 4% out of the underlying business so that we can support the investment, the inflation-related changes, be they wages or tech contracts.

So we've got good momentum in taking that, driving that efficiency out, being able to invest, but also delivering good cost control. So that's the ethos going forward. And the levers that we're pulling, those levers can still be pulled moving forward, whether that's continued acceleration of our digitisation, streamlining and modernising the tech estate. Just by way of example, we decommissioned 24 platforms in Retail so far this year, which is great.

You've seen, we've done a lot of work simplifying our operating model, whether it's in our Wealth business, moving some of the support areas from Switzerland to the UK and India, rationalising our European footprint, legal entity footprint. And just some of the good organisational health measures. So it feels as though those levers that we've been pulling can continue to be pulled. And then obviously you lay over that some of the productivity benefits we're seeing from AI and those activities around customer contact, software engineering.

So net-net, I'm not giving you a number for '26, but hopefully giving you a sense of how we're thinking about it and where the momentum is coming from and therefore our confidence in maintaining a good, healthy cost profile going forward. Katie.

Katie

Perfect. So Sheel. I'll just start off talking a bit with CRD IV, then drift into capital as well.

So look, as you look at it, you're absolutely right. In the quarter, limited CRD IV impact. We are expecting the majority of that in Q4, and a little bit of that may even bleed into 2026.

So when you think of our RWAs from here, it's very much about the loan growth, the management actions, as well as that more material impact of CRD IV coming in, in the fourth quarter. And then going forward, you're familiar with Basel 3.1 coming in in 2026. It's always important to remember that comes with a bit of a Pillar 2 reduction as well when it comes through in terms of capital.

But when I think of kind of the RWAs, it's to think of the absolute growth that we're talking about in the book. Importantly, the mix of that growth, but also the risk density that you see once we're past the

CRD IV and the Basel 3.1. And of course, obviously, the continuing strength of our management action programme that we have.

And then if you turn to capital, clearly, a really strong print today. Very, very pleased with the 101 basis points we did in the third quarter, 202 bps for the first nine months. I mean, a great result by any measure.

We've always said that we're happy to operate down to that 13%. We do think about capital generation, and when we think of it in terms of dividends and where we're going to land and things like that. We do debate the next six, 12 months as well, because you've got to think about, we really try to manage a consistent programme of capital return back to the market, but also we're mindful of that RWA inflation that's coming, whether it be from regulatory change or the growth within the book.

So as you consider where we might land and what we might think about is think on those various points. Thanks very much, Sheel.

Operator

Our next question comes from Aman Rakkar of Barclays. Aman, if you'd like to ask your question.

Aman

I had two questions, please. I guess we're all probably singularly focused on 2026 at this stage. So particularly on income, love to kind of get your take on how we should think about the various drivers from here across, you know, I guess margin developments, clearly loan growth continues to surprise positively, but any colour you can provide on kind of the drivers of fee income from here would be really helpful.

And I guess the second question was around your longer-term targets that hopefully you're going to present to the market in the new year. And to me, it looks like there is the underpinning of pretty decent operating leverage for a number of years here, not least because of the structural hedge tailwind to '28 that you guys flagged. So I guess one for Paul, really, in terms of your view on structural operating leverage in your business on a multi-year view from here, how confident you are in that in terms of some of the levers you might want to pull? And I guess, I'm ultimately interested in the ROTE output. For me, you're doing 18% this year, and there's no reason to think in my mind why you don't accrete quite nicely over above that level as you realise that operating

leverage. Any kind of colour you can give on that basis would be really helpful. Thank you very much.

Paul

Katie, do you want to take '26 and I'll talk about the second part of the question.

Katie

Perfect. That's great. Thanks Aman. Always good to hear your voice. Look, we do continue to expect the income growth that we've seen throughout our guidance period, and we do remain confident in that growth trajectory beyond 2025.

As I look at 2026, there's probably a few things I would guide you to. One, growth, we've talked about this a lot, but we've got a strong multi-year track record of growth across all three of our businesses.

We outpace the wider sector on that. If we look at the breadth of our business, we know that we're well placed to capture demand as it comes through, and we'll continue to deploy capital throughout 2026, and we do expect that growth to continue.

Obviously, there's a mix of growth across both sides of the balance sheet, and that's very much a function of customer and competitor behaviour. The hedge, I think you're all very familiar with the hedge these days. We've talked about it a lot over this last year, but certainly strong growth into 2026, over a billion higher in absolute terms in 2025.

I think that's well understood by all of you. Rate cuts, we do expect one further rate cut in Q1 after our plans still have a rate cut in November, so we get to a terminal rate of 3.5%. And then you will see the averaging impact of the rates we've had this year coming through into 2026. Paul has already spoken on non-interest income and our confidence in that business, very much the strength of the customer franchise, always dependent on customer activity and volatility, but it served us very well this year. If I think of all of those trends together, Aman, they will continue beyond next year as well, obviously, with the exception of rate cuts, as we believe we'll get to that terminal rate in 2026. But I'd agree with you, we feel quite well placed at the moment. Paul.

Paul

Thanks, Katie, and thanks, Aman. And yes, we've announced today that we'll share targets for '28 in February. We've been very explicit on that. We look forward to that session. But as you say, it's obvious we've got good momentum in the business, and that's predicated on strong operating leverage.

If you look at today's numbers, we've got a 5% cost/income ratio improvement, and we've guided to over 9% jaws for the year. So a very strong proof point of the operating leverage that we've got in the current business model and business mix, which we have talked about previously. I'm just very pleased that it's bearing fruit as both the income growth and the simplification agenda comes through.

As I said to Sheel's question, we are high conviction on the simplification agenda. The levers we are pulling are working, and we can see a path to continue to pull those levers, which should further support the operating leverage, to link it to Katie's answer, as we see the top-line growth through the different aspects.

It's our seventh year of growth above 4% on the lending side. That gives us confidence there that we've got customer businesses that will capture demand and have grown above market growth levels over a multi-year track record. So that's what's going to inform our thinking as we go through. But the underlying thesis here is very tight management of costs that creates capacity to invest, growing the customer franchises, strong jaws, generates a lot of capital, over 100 basis points in the quarter, over 200 for the year, and that gives us confidence about the outlook. So hopefully that gives you a sense how we're thinking about it. Obviously we'll talk specific numbers in February. Thanks, Aman.

Operator

Our next question comes from Alvaro Serrano from Morgan Stanley. Alvaro, if you'd like to unmute and ask your question.

Alvaro

Hi, good morning, both of you. Two follow-ups, but I'm interested. NatWest markets continue to do very well, and hold up very well, and I know there's a history there, and I suspect part of the cautious guidance has been on the limited visibility because of the nature of the business. But given it continues to perform pretty steadily, I see consensus has its contribution down in 2026, and there's not a lot of

growth medium term in non-interest income. Given the performance the last few years, can you share your reflections on that business? How much is it being cyclical versus what you changed in the business? And is that right to assume a normalisation down medium term and next year in particular? And second, around loan growth, it continues to do very well in corporate. I'm thinking now it was lumpy to start with in Corporate & Institutional, but it does look like it's much more spread out in Mid-market now. Again, as we think about the next few quarters, how do you see that momentum? Should we think that this level of growth is sustainable?

Paul

Thanks, Alvaro. Katie, do you want to take the C&I markets products question, and I'll take the wider lending?

Katie

Alvaro, it's interesting, obviously, you've been with us for some time, and you've been on that journey in terms of NatWest Markets. And I think the real strategic important thing that has happened from the beginning of last year is actually the merging of C&I into that Commercial & Institutional business so that you have one team really delivering strategically for their customers. We've really seen the benefit of that coming through. We've had very robust non-interest income, there's been higher fee income coming through in payments, and the strong performance from C&I is an important part of that.

And it's really around the strategy that we've got of bringing more of the bank to more of our customers. And a result of that, we saw the strong demand for FX management, and then really strong risk management as well against the backdrop of the volatile markets that were there. So really making sure that we were in place for our customers when they needed us in terms of the general market activity.

So I would say it is very much the outcome of that strategy of bringing that NatWest activity into the C&I franchise, making sure that we're there to deliver and meet the customer activity as we go forward. And we would expect that to continue from here. Volatility is a big part, of course. It's hard to call where that will land. Customer activity is critical. But we really do see that as a really strong basis going forward.

I'd just remind you, as I often do on these calls, when you're looking at non-interest income, it's always good to look at the three businesses.

You do get a little bit of noise in the centre, that will reduce a little bit as we go forward. But overall we're very pleased with the income outlook, and that's what's enabled us to upgrade our guidance for this year. And you've heard me talk around the confidence we have as we go into 2026 as well. Thanks, Alvaro. Paul?

Paul

Thanks, Katie. Alvaro, I sensed your question on lending was specifically around the Commercial & Institutional business. It's worth framing, our lending growth and our lending opportunity more broadly before that. I'd say we've got a decent multi-year track record now of growing the three businesses. That's seven years at above 4%. This year, it's currently running up £16 billion. It's up 4.4%. So, it's quite broad-based, the growth. If you drop down into the commercial franchise, it's a good spot. The quarter three prints and the growth of around £3 billion is split between the large corporates and the mid-market. It's pleasing to see the momentum in the Commercial Mid-Market. You'll have heard me say before, it's a helpful proxy on the wider UK environment. When you look at where the growth is coming from in the mid-market, you can see it in social housing, you can see it in certain parts of real estate, you can see it in parts of infrastructure.

So again, it's quite broad-based. So, lending as a total quantum, yes, strong, but the constituent businesses it's coming from is encouraging as well. Infrastructure is a big part of that. And what I'd say is I feel as if our commercial business is very well positioned to some of those bigger structural trends that we're seeing. Whether it is infrastructure, whether it's project finance, whether it's the social housing agenda. The combination of the structural trends and the policy trends support those areas we have deep specialisms in and have had for quite a few years. So yes, encouraging as you say. Thanks, Alvaro.

Operator

Our next question comes from Chris Cant of Autonomous. Chris, if you'd like to unmute and ask your question.

Chris

Just on loan growth, Paul, I think it's been an area where, if I look at consensus, consensus have got 3% or less loan growth in the next couple of years. It's been something that as a management team, you've typically been reluctant to give an expectation on beyond saying

you have a track record of growing quicker than the market. But as you think out to the next planning period, how are you thinking about that in absolute terms?

I presume you have a view on how much growth you think the market is likely to see, and you want to exceed that. Should we be thinking about 4% as reasonable expectation, or in excess of 4% as a reasonable expectation, assuming no macro volatility or blow up?

And then on the returns target, please. So again, it's an area where you're a little bit different from your domestic peers that the last two return targets you've given, have been a little bit more of a through the cycle expectation where you would expect to hit them regardless of what was happening to rates and the macro environment. Now that things have settled down from a customer behavioural perspective, in particular on the deposit front, are you going to be giving us a different flavour of return expectation when you're looking out to 2028? So, will you be guiding on where you think the business will be in 2028 with your base case assumption rather than a floor underpinning across a far broader range of potentially more downside scenarios around customer behaviour and macro activity and so on?

Paul

Great, Thank you, Chris. So I'll take the second one quickly. Obviously, we'll see you in February and talk about it. Some of the topics you allude to are what we're thinking about as we go into February and we share '28 numbers. But obviously we will lay out what assumptions we've made around those targets at that time. But it's a very active debate, as you rightly allude to. On the lending side, I think you characterise the position very well and very consistently with how we see it. We're very confident in the track record that we've had. Our ability to grow above market has been proven year on year. It does vary by business and market conditions as well. But that's what gives us confidence in terms of the outlook for the lending position. I'm not going to declare new targets or new deltas relative to market growth on the call. I've given quite enough colour about our historic track record and how we're thinking about the business going forward to hopefully give you a sense of confidence and optimism we have around the lending profile. Thanks, Chris.

Operator

Our next question comes from Jonathan Pierce of Jefferies.

Jonathan

I've got two questions. One is on the equity tier 1 target moving forward. Is that something you'll potentially give us a bit more of an update on in February? Or are we going to have to wait until the back end of the year once Basel 3.1 is pretty much nailed down? I ask, of course, because the MDA is 11.6. I guess it drops 30 bps, something like that, on Basel 3.1, and it feels like the scope to probably operate towards the lower end of your current range rather than the middle or the upper end of it. The second question is a bit more detailed, I'm afraid, around deferred tax assets.

In the nine months to date, the DTA deduction from capital has fallen by £250 million, and it was £100 million in the last quarter alone. So it's not an insignificant amount of capital build that's now coming from that DTA. So I just wondered if we should expect that sort of run rate to continue until the stock has run out a few years forward?

I guess we should, because RBS plc is now generating good profit and so on and so forth. And just a supplementary on that. The last three years, you've bought back around £300 million pound a year of unrecognised DTA back onto the balance sheet. Are we going to see the same again in the fourth quarter of this year, Katie?

Paul

Okay, thanks, Jonathan. So Katie, why don't you lead us on the CET1? And then we'll get into some of the detail.

Katie

No, that's all right. It's one of my preferred specialist subjects, so I'll make you wait for the answer on that one just for a little bit longer. But on CET1, there's a lot of things going on at the moment, Jonathan, with CET1, as you're very much aware. Obviously, the Bank of England is looking at their review of capital requirements. So we're looking forward to the FPC's update on that assessment. It's due to come out on December 2nd. And so we'll see what comes through with that. Our approach on capital has always been to review it as part of our annual ICAP process and the risk appetite review that we do, as well as working with the PRA on their annual stress test.

And you're familiar with the numbers. We can see that our capital position has really improved over the last couple of years as we've de-risked the business. We've also added a significant amount of capital

into the business as a result of the RWA inflation that we've had. I think importantly, as part of the SREP process that we had this year that just came out in Q3, our Pillar 2A there was reduced by 17 basis points, which took our statutory minimum requirements at 11.6. I do expect that number to reduce further once Basel 3.1 is implemented on the 1st of January 2027. We've got a pretty good line of sight in that. So therefore, when you look at it, you can see that we've got strong buffers relative to that lower bound of 13% of our current target. I'm not committing today as to the date or what we might do on any change of our 13 to 14% target, but we are actively thinking about the appropriate capital targets and capital buffers that we have required for our business on a more medium to longer term.

If you go to the deferred tax aspect of it, I think there's a couple of things to remember within there. The treatment within capital is slightly different than the treatment within accounting. You can see changes coming through at different times. It's differences of recognition versus utilisation of those assets. We have just over £800 million of DTA assets remaining. We have written back about £1.2 billion since 2023. We don't have a significant amount more to recognise.

Interestingly, with deferred tax assets, you've got to really look at where they're sitting in terms of the legal entity structure as well. And the ability to use them is very much constrained by that legal entity structure. We do think, however, that our utilisation in Q4 would be around in line with Q3.

And then for 2026 onwards, we do expect a slightly lower utilisation, probably around £100 to £150 million per year. So continued support to capital generation, but at a slightly different level given that we've used a lot of the losses up there or given where other historic losses are sitting and your ability to access them. And Jonathan, happy to have a longer chat on DTA offline as well with you if that's something that would be helpful.

Operator Our next question comes from Guy Stebbings of BNP Paribas Exane.

Guy So it's just around NII and the NIM bridge in Q3, then I had one very short supplementary. So the hedge build was, I think, broadly as expected. But the better performance in terms of the NIM bridge, I

think, came from funding and other and then, to a lesser extent the asset margins, which were up fractionally. So firstly, on the funding and other, I think that includes some hedge accounting and reallocations between NII and OOI. Perhaps you could just clarify exactly what's going on there. And to be clear, if it's correct to think that we shouldn't expect any sort of sequential benefits from there, but nor it reverses, that's the right way to think about it?

And then on the asset margins, do you think we should expect to see further growth in there? Or was that really just a function of Sainsbury's coming in fully and then perhaps need to be mindful of some minor mortgage spread churn as we look forward? And then just a very quick point of clarification. On RWAs, I recognise the guidance hasn't changed. You flagged the business growth in CRD IV model changes. But just interested if we're coming into Q4 in a slightly better position than you originally thought and whether that means we might be more towards the lower end of that range for the four-year guide.

Katie

Thanks very much. So, first of all, funding and other up three basis points, two bps related to Treasury, and that's not going to repeat. This bucket is always interesting in the walk. It's got a number of different moving parts within it. And really it's the reflection of the management of a £700 billion balance sheet that we need to consider in any given quarter. You do get the odd basis point that comes out. This quarter, we did implement a hedge accounting solution for some of that FX swap activity that we've talked about over the last number of quarters. It's a one-off two bps benefit in NIM.

We don't expect it to repeat, nor do we expect it to reverse. Going forward, you should see less volatility in the NIM from that activity quarter on quarter, which will be a lower drag to NII, a lower benefit to non-interest income, but, really importantly, the same economic benefit overall as we go through.

If I look at the asset margin, up one basis point, it's a very kind of small movement. And you're absolutely right, Guy, it is benefiting from a whole quarter of Sainsbury's. I'm not expecting particular expansion in that line. It's very much dependent in one quarter on the mix and what you might see happening within there at any time. If I spend a little moment on the mortgage margins that we have within there, you're absolutely right. If you think of where our mortgage margins are versus,

the NIM overall, that's clearly something that you do see as a bit of a negative. We've always talked that the book's around 70 basis points.

We do see at the moment that we're writing a little below that. That's very much a symptom of the really intense competition that we're seeing on mortgages. That will be a feature of the NIM as we go through from here. The market does move around in terms of where that is, but certainly at the moment, there's a little bit of pressure within that space.

In terms of RWAs, I would think of that as timing as much as anything else. I wouldn't say it's going to be particularly having an impact. In the next quarter, I have talked about more material CRD IV impacts coming through. There'll be a little bit of loan growth of course. We've continued to work on our RWA management programme as well. But I wouldn't look at that and go, actually, that's going to pull them down. It really is just timing. Thanks, Guy. Hopefully, that answered it all.

Operator

Our next question comes from Robert Noble at Deutsche Bank.

Rob

I'd like to ask one on liquidity, please. There's been a continued rotation in your liquidity from cash into government bonds that seems to pick up, right? So what's the spread pickup you're getting off that? And hypothetically, could you move all cash into gilts? Or what's the regulatory restriction that caps you out from doing that? And then just on the term deposit outflows in the quarter, should we expect the same next quarter, given that one year and two years ago, rates looked equally as high? Is there a similar maturity issue in Q4?

Paul

Thanks, Rob. On deposits, we did have some particularly large maturities in the third quarter. And you're right, if you think back two years ago, when we had the kind of backup in rates, they're related to that. It's not that we don't have maturities in Q4, but they're not of the same size or margin price point as what we had in Q3. Our retention rates are actually quite good. We're just being very dynamic in where we see value in retention and where we don't. So that's how to think about that. Katie?

Katie On liquidity, there's a couple of things going on in that liquidity ratio. One, we've recognised the TFSME repayment that we're about to do, given the way that's moved through, so don't forget that piece. That'll be happening in the few weeks. But you're absolutely right. If I look at the swap we've made into gilts, it really was a question to get some of that pickup. It's about 50 basis points in the five-to-seven-year level. So very pleased to have done that. We wouldn't move the entire piece of our liquidity portfolio into gilts. That would be not quite putting all your money on black, but we do have some restrictions around where we have to hold and the restriction is a function of that leverage ratio as well to make sure that's the right balance. I would say at the moment, the portfolio split is around 50-50. So there's plenty of opportunity to do a little bit more of manoeuvring into gilts if we think that that's attractive as well. But certainly, just as you would expect us to be, being quite dynamic in the management of that portfolio. Thanks very much, Rob.

Operator Our next question comes from Benjamin Toms of RBC.

Ben First one is just to help my structural hedge model, if that's all right. Your guidance this year for structural hedge maturity is £35 billion. Should we be making the same assumption for next year? I'm just conscious that you added to the hedge in '21 and 2022. So I'm not sure whether that should mean there's a pickup in maturities or whether you're just feathering at the front end, which means maturities should be pretty consistent as we go through the years. And then secondly, on other income, you purchased Cushon in 2023 to provide workplace pension solutions. Can you just give us your latest strategic thoughts on that part of the business, what you think you do well and what you think you lack?

Katie So in terms of the maturity, the way that we look at it, it's £172 billion at the moment. It's obviously a function of current account and NIBBS growth. We're pleased to see the growth in that. You'll recall that we do a lookback of 12 months as we work out how much we're going to reinvest. We also do some work during the year on the behavioural life in terms of what's happening with our actual current account holders. But actually what I would guide you to at the moment is think of it

really as £35 billion a year. If we see particularly strong growth on those current accounts, it might change in the future years. But for your model, I would stick to the £35 billion number. It's very even because we've been so mechanistic, so I wouldn't deviate from there. Paul do you want to...

Paul

Yeah, I'll take workplace pensions. So Ben, Cushon is a good business. It's got a strong proposition, very strong technology. It's proven attractive to our Commercial Mid-Market customers. Obviously there's legal and market dynamics that make it important for a lot of those clients to be able to offer workplace pensions to their employees and colleagues. And it's proven very attractive. Going forward, it's an important part of the proposition that we can provide or facilitate that service. There has also been a series of reg changes in the last couple of years around master trusts, which certainly lend themselves to master trusts having significant scale. So net-net, it's a good business. It's an important proposition to be able to offer to our commercial clients, but there have been some regulatory changes as well. So that's how we're thinking about that workplace pensions area. Thanks, Ben.

Operator

Thank you very much. Our next question is from Ed Firth of KBW.

Ed

I guess I had two related questions. The first one is, if I look at your returns in Q3, even if you take out the one-off, over 20%. And even if you normalise the hedge and capital is quite strong, So you're easily getting into the mid-20s or high-20s. And so I'm just trying to think, how do you think about that in terms of what is an appropriate level of return? Because we can talk about operating leverage and lower capital requirements going forward, etc, which would push that up even more. And I'm thinking of that in the context of a bank tax potentially in November because it feels like it would be quite a tough discussion between you and the government about appropriate levels of return. So I guess that would be my first question. At what level do you think, we make enough now and actually we should be focussing on growing from here and fixing the returns?

Then the second one is sort of related to that. We're all thinking now about, I know it's two years away, but what happens when the hedge

runs out? And if you are at peak returns, what do you do next is the question? Because there was various discussions earlier in the year about potentially you buying things, but you obviously stepped away from that. I'm just thinking, is that what we should think about going forward? Because relative to your own returns, I think it's going to be tough to find anything that makes an equivalent level.

Paul

Thanks, Ed. Good to hear from you. A number of those points intersect with each other. First thing I'd say is, as you well know, it's taken a long time for a number of banks to return their cost of capital. So in some ways, it's healthy that we're having that discussion. If you look at it through another lens, notwithstanding that, UK banks are still valued very differently to many other parts of the world for what could arguably be said to be similar businesses, similar business models and mixes, and in certain extents, very similar regulatory regimes.

I'm going to slightly disappoint you and give you a politician's answer about what's the right levels of returns. The key way we think about it is, from a management team perspective and a board perspective, is we need to get the balance right between supporting customers and deploying our capital to do that, and helping them grow and hopefully helping the UK, between investing in the business. It's a very competitive sector, not just the large incumbents, but there's a very broad range of competitors. It's crucial that we invest in the business, and primarily that relates to technology and people. And we need to make the right returns and present what hopefully everybody believes is an attractive investment case. So the debate we have is about the balance between those three items.

It's a spot RoTE for the quarter. As you say, it has some one-offs in, but fair challenge, year to date, it's 19.5%. If you take off the one-offs, it's high 18%. We're working very hard on all the lines, not just the structural hedge. We're trying to grow lending growth. We're driving costs out of the business. We're working the balance sheet an awful lot harder. So we think those returns are the fruits of our activity. And I think as a board, we have to debate, let's get the balance right between making sure we've got a really attractive and sustainable business in the long term, and we're investing in it. We're doing what we need to do in terms of supporting customers and delivering returns. So that's how we think about it. I know I haven't shared a number there because I don't think that's appropriate way to do it.

On M&A, or where does that lead, which is a very connected question, the strategy is working. I laid it out two years ago. The organic plan is obviously proving successful. We're growing all three of our businesses. We're driving a lot of simplification. I think we've got a good runway to go. We've managed to do that without changing our risk profile. That hasn't been a constraint on our growth. We've continued to grow, so that's great. So organic plan looks good. If opportunities come to accelerate that plan, then we'll look at them. You'll have heard probably five times my quote about the financial high bar, but that remains true. It has to be. If we're going to deploy capital on something that we think can accelerate the plan, it has to be compelling from a shareholder perspective, and that's how we look at things. Otherwise, I think it's a hard case for me to make to investors. So we will look, but we'll be cold eyed. When the organic plan is performing so well, the counterfactual can be arguably more challenging. But I think I have a responsibility to do that in terms of the alternative uses of the capital. I've expanded a little bit there. Hopefully, that's given you a sense of just how as management we think about those topics.

Operator

Thank you. We are now approaching 10 a.m. So we'll take our last question from Andrew Coombs from Citi.

Andy

I guess two follow ups really. Just firstly, on that point about capital return versus inorganic versus organic loan growth. I mean, you yourself have said there's a very high bar for inorganic given the returns you're already producing. And obviously, now you're trading well above tangible book. The buybacks are also slightly less accretive than they would have once been. When you're thinking about the dividend payout, the 50 percent policy, any reason why that couldn't be higher going forward? What are the pros and cons of shifting that dividend payout ratio? And then second question, just on the structural hedge, you're still at two and a half year average duration. Your peers are all now at three and a half, partly due to what they see to be the behavioural life of the deposit base. I'm sure partly due to technical reasons as well. But perhaps you could elaborate on the maturity profile of the hedge and why you don't see the need to increase it here.

Paul

Great. Thanks, Andrew. I'll take the first, you take the second Katie. Obviously we've increased the ordinary dividend from 40 percent to 50 percent. We're in the first year of that. In parallel, we also said we'll look at surplus capital at the half year and the full year, as you would expect us to with the board. We're very keen to have a consistent approach to surplus capital distribution. So we're not actively reviewing the ordinary at the moment. But over time, obviously, it's a responsible thing for the board to do. Katie, on the average life of the hedge.

Katie

Yes, absolute. So it's interesting, as we look at the hedge, it's important to remember the hedge has got two portions within it. There's the equity hedge and also the product hedge. So you're absolutely right. The product hedge is two and a half. The total hedge is closer to three. I think it's important as you look at the assumptions on this is, the mechanistic model that we've had has played out very well for us. For me, I think you'd only increase your duration if you felt the duration of your eligible deposits had increased based on behavioural assumptions. I think given what we're seeing in terms of movement that we have, and not just on the current accounts, that wouldn't actually necessarily be something that I'd say that we've seen in our books. I'm not doing that.

And I think it's also really important. We've always been very clear with the hedge, it isn't there for us to express a view on where rates are sitting. Others sometimes have taken different views on that, and you need to talk to them on that. For me, if you were to try to extend at this point, the absolute pickup you'd be getting wouldn't be logical for the difference you would be making in it. And we don't necessarily see within our underlying numbers that we're seeing those changes in behavioural life that would also support that duration and extension of that. Overall, product hedge two and a half years, total hedge closer to three. Very comfortable with the performance. Obviously, it served us well for many, many years. And as we look at that increase in income this next year, into 2026, greater than the billion and continuing to grow as we go out to 2027, 2028 as well. So very, very happy with how it's performing. Thanks very much.

Paul

Thank you, everybody, for your questions. We appreciate both your time and the insightful questions on the call. To wrap things up, we're very pleased with the performance in Q3 and the continuing

momentum we've got in our three businesses. We've upgraded our income and returns guidance. We continue to see opportunities as I think we've conveyed today to continue to take market share and grow those businesses. We look forward to catching up with you at a couple of things. We've got the retail banking spotlight on November 25th. And also, as I said earlier, we'll update you on our guidance for 2026 and share our new targets for 2028 at the full year in February. So wish you all a good weekend.