



NatWest
Group

NatWest Group plc
Q3 2024 Results Call Transcript
25th October 2024

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions, or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our Q3 Results Announcement published on Form 6-K on 25 October 2024.

Management Presentation

Paul:

Good morning and thank you for joining us today. I'll start with a brief introduction before Katie takes you through the financial performance and then we'll open it up for questions.

You will have seen that we are upgrading our full year income and returns guidance this morning as we continue to make good progress on our three strategic priorities; disciplined growth, bank wide simplification, together with active balance sheet and risk management. This progress, together with our ongoing support of customers, is reflected in our performance. So let's turn to the financial headlines for the first nine months of the year...

Healthy levels of customer activity continue on both sides of the balance sheet. Customer lending growth of 8.1 billion to 367 billion was broad based. In Commercial and Institutional, this was driven by both our Large Corporate and Commercial mid-market customers, including lending to the social housing sector. We provided 23.5 billion of Climate and Sustainable Funding and Financing, bringing the total to 85.4 bn since July 2021 - in reach of our 100 billion 2025 target. Our existing mortgage book returned to growth in the third quarter, as volumes and margins improved during the year, making returns more attractive. The acquisition of a 2.3 billion prime residential mortgage portfolio from Metro Bank completed last month, and is included in these numbers. In addition, we grew our share in credit cards from 8.5 to 9.3%.

On the other side of the balance sheet, customer deposits increased by 8.3 billion to 427 billion, with growth across all three of our businesses, and migration to term deposits continuing to slow. In our Private Bank, Assets under Management [and Administration] increased by 5.7 bn to 46.5 billion, including 2.2 bn of net new inflows.

This activity clearly underpins our financial performance. We generated income of 10.8 billion for the first nine months. Costs were 5.7 billion and we remain on track to meet our full year guidance. Together, this resulted in operating profit of 4.7 billion and attributable profit of 3.3 billion. Return on tangible equity was 17%. Our strong capital generation allows us to continue supporting our customers, investing in the business and making distributions to shareholders.

We generated 197 basis points of capital in the first nine months through strong earnings and actively managing our risk weighted assets. Our CET1 ratio of 13.9% includes an accrual for final dividends, in line with our

ordinary payout ratio of around 40%. Strong earnings, together with a lower share count, have increased Tangible Net Asset Value per share to 316 pence. Earnings per Share were 38 pence, up 12% year on year.

You will also be aware that the government has reduced its shareholding from 38% at the start of the year to under [16]%, in line with their stated intention to exit fully by 2025/26. With that, I'll now hand over to Katie.

Katie:

Thank you, Paul. I'll comment on the third quarter using the second as a comparator. Income, excluding all notable items, increased 5.1% to £3.8 billion. Operating expenses were 9.0% lower at £1.8 billion, mainly reflecting lower severance and other staff costs. And there was an impairment charge of 245 million or 25 basis points of loans. Together, this delivered operating profit before tax of 1.7 billion. Profit attributable to ordinary shareholders was 1.2 billion and return on tangible equity was 18.3%. Turning now to income...

Income, excluding notable items, of 3.8 billion, was up 5.1% with growth in both net interest income and non-interest income. Across the three businesses, excluding the benefit of an extra day in the quarter, income grew by 206 million. All 3 businesses delivered higher net interest income.

Balance sheet growth was supported by margin expansion as tailwinds from the product structural hedge and Treasury more than offset the impacts of the first base rate cut. Group Net Interest Margin increased 8 basis points to 218 basis points, with expansion across deposits, funding and other.

Growth in non-interest income was driven by Commercial & Institutional reflecting continued strong lending and payment fees, as well as foreign exchange. The first rate cut was in line with our expectations and we continue to assume rates will fall further in the fourth quarter, reaching 4.75% by the end of the year, with a further 5 cuts in 2025 to 3.5%. Of course, the actual outcome may differ from this assumption. We are pleased with year-to-date income of 10.8 billion, reflecting a strong performance across the balance sheet.

As a result, we now expect 2024 total income, excluding notable items, to be around 14.4 billion, and we are upgrading our 2024 return on tangible equity guidance to greater than 15%. Moving now to lending.

We continue to be disciplined in our approach and to focus on deploying capital where returns are attractive. Lending growth was broad based across

our businesses. Gross loans to customers increased by 8.6 billion, or 2.4%, to 367.2 billion. Taking Retail and Private Banking together. Our Mortgage book returned to growth as expected, with balances up by 3.8 billion, supported by higher gross new lending and the addition of a 2.3 billion mortgage book from Metro Bank at the end of September. We continued to grow our share of unsecured lending and balances increased by 500 million to 16.6 billion, across both credit cards and personal lending.

Within Commercial and Institutional, lending to Mid-Market customers grew by 1.5 billion, driven by increased term lending. There was also strong growth of 3.2 billion in Corporate and Institutions, including demand for supply chain finance and sustainable finance. I'll turn now to deposits.

Deposits increased by 2.2 billion to 427 billion with growth across all three businesses. In Retail Banking there was strong growth in savings driven by instant access products and variable rate ISAs. In Private Banking there was also good demand for instant access savings. In Commercial and Institutional deposits grew across both Commercial Mid-Market and Business Banking customers. Migration from non-interest bearing to interest bearing deposits continued at a slow pace, as expected, and there was no material change in customer behaviour following the first base rate cut.

Non-interest bearing balances remained at 32% of the total, and term accounts remained at around 17%. The average rate of interest we pay on our customer deposit funding has remained flat, reflecting the lag effect on passthrough and small changes in mix. Turning now to costs.

We remain on track for other operating expenses to be broadly stable with 2023 at the full year, excluding the increase in bank levies of around £100 million, and costs associated with the Retail Share Offering. Other operating expenses of 1.8 billion for the third quarter were 7.5% lower than the second, mainly as a result of lower severance and other staff costs. You will remember that severance and property exit costs were elevated in the first half, as we accelerated our work on simplification, including our announced exit from Poland. Other operating expenses for the first nine months were up 0.7%, excluding bank levies and retail share offer costs.

As we look ahead to the fourth quarter, other operating expenses are expected to be higher than the same quarter last year as we expect to incur further severance and property costs, as well as a higher Bank Levy charge of around £120 million. Turning now to impairments...

Our diversified prime loan book continues to perform well. We are reporting a net impairment charge of 245 million for the third quarter, or 25 basis

points of loans. This takes the nine-month charge to 293 million, equivalent to 10 basis points. Key drivers of change from the second quarter are the absence of Post Model Adjustment releases, together with a single name charge. Our balance sheet provision for Expected Credit Loss still includes 299 million of PMAs for economic uncertainty, similar to the second quarter. In Retail Banking the third quarter charge of 28 basis points reflects both the absence of a PMA release and unsecured growth. A charge of 31 basis points in Commercial and Institutional includes a single name in stage 3. We still expect a full year loan impairment rate below 15 basis points. Turning now to Capital...

We ended the third quarter with a Common Equity Tier 1 ratio of 13.9%, up 30 basis points. We generated 57 basis points of capital pre-distributions, driven by attributable profit which added 65 basis points. RWAs increased by 0.9 billion to 181.7 billion, consuming 7 basis points of capital. Strong lending growth and the addition of the Metro mortgage portfolio added 3.4 billion of RWAs. This was partly offset by a 1.3 billion reduction, mainly the result of another Significant Risk Transfer transaction. As usual we accrued 40% of attributable profits towards our final ordinary dividend. We were pleased to receive the PRA's policy statements on Basel 3.1 and have spent time digesting this.

We estimate this will result in RWA inflation of around 8 billion on 1st January 2026, largely driven by the removal of the SME and Infrastructure support factors. The outcome of the PRA's Pillar 2 consultation will give us a better understanding of how this RWA inflation will be mitigated, as the PRA intends. We continue to expect RWAs of around 200 billion at end 2025, including the impact of Basel 3.1 on 1st January 2026. And we continue to target a CET1 ratio in the range of 13 to 14%. Turning now to tangible equity per share.

Tangible net asset value per share increased 12 pence to 316 pence. Earnings added 14 pence, and the unwind of the cash flow hedge reserve added a further 5 pence as rates came down in the quarter. This was partially offset by the payment of our interim dividend of 6 pence. TNAV per share has grown 26% over the last two years, supported by a 14% reduction in share count in that time. Finally, turning to the full year guidance.

As I mentioned earlier, we are upgrading our income and returns guidance and for the full year we now expect: income, excluding notable items, to be around 14.4 billion; other operating costs to be broadly stable with 2023, excluding additional bank levies of around 100 million, and Retail Offer costs

of 24 million; a loan impairment rate below 15 basis points; and a Return on Tangible Equity greater than 15%. With that, I'll hand back to Paul.

Paul: Thank you Katie. So to conclude, we're pleased with the continuing momentum in the business. As you've heard, we have upgraded our 2024 income and returns guidance today and we're increasingly confident about the future. As we continue to grow income, control costs and actively manage both our balance sheet and risk, the business remains well positioned to deliver strong shareholder returns. We'll update you on our guidance for 2025 at the full year in February. Many thanks – we'll open it up now for questions.

Moderator We will now take your questions. If you'd like to ask a question today you can do so by using the raise hand function on the Zoom app. If you're dialling in by phone, you can press *9 to raise your hand and *6 to unmute once prompted. Today's call is scheduled for one hour, so we ask that you limit yourselves to two questions each to allow more of you a chance to ask a question. We will pause for a moment to give everyone an opportunity to signal for questions.

We will now take our first question from Guy Stebbings, BNP Paribas Exane. Guy please unmute and go ahead.

Guy The first question was on margins and then the second question on NatWest Markets. So on margin slide 21 we told the deposit spreads were positive again presuming that's the hedge more than compensating for the base rate impact. I was wondering if you could perhaps talk a little bit more about the timing of the base rate cut, sort of timing of the past years to help us think about it in future periods. Or perhaps another way to ask it is looking at slide 23 where the deposit caps were also pretty flat Q on Q. If we're still yet to see sort of the benefit from the August rate cut work through there. And then on the funding and other line, all basis points this quarter feels like quite a hard one to model from the outside so just any help there as to how to think about that into future periods.

And then on NatWest markets another good quarter, capital markets are up like 50 percent and year to date we're you know we're at about billion or so already and that's more than you used to talk about in terms of the contribution from NatWest Markets. So I recognise you sort of report it a bit differently or talk about it a little bit differently than you used to in the past, but how should we think about the contribution there and if that's the base we can we can grow into next year. Thank you.

Paul

So Guy on Markets, I wouldn't encourage you to think about that any differently. It's an important part of the Commercial and Institutional franchise. As you know we've done a lot to simplify that business over many years. It's got a strong FX franchise; it's got a strong capital markets franchise and a smaller rates business. Obviously, market conditions this year have been supportive. You can see that the business has traded well through quarter three in respect of the capital markets business. Its performance will be very much dependent on market conditions, but we feel like we've made over the last 18 months, two years, big steps in terms of right sizing that business and aligning it with the opportunity there is in our core commercial base. So that's how you should think about it. Katie deposits?

Katie

Yes sure there was a lot in that that one question Guy, so I'll try to make sure I pick the right things off. So, what I would say in terms of the flatness of that customer rate that we're seeing. It has been impacted by the rate cut but what you've also seen is that we've also had a benefit coming through in terms of the instant access. I said in my prepared comments earlier that we've seen for example within the Private Bank customers having greater preference for that and the problem is when you're playing these kind of margins at this sort of level it wasn't enough to move the piece so you do have a different a couple of different things going on within that line.

In terms of the base rate cuts. You know that we have it in our sensitivity we model the delay within there. The way to think about it is you know obviously there's a statutory 14 days that everybody has. We've found that for our Retail Bank that when you cut the rate it's about a month 'till it hits the customer from when we first start that decision or when the rate cut goes down and we make the decision, to when it actually hits the customer. Commercial is a little bit longer in terms of that time, but you can see them coming through. So, I think you've started to see the impact of it but obviously not the whole quarter of the impact given where it was.

And then your last question around the Funding and other. So that was increased by four basis points as you can see on the slide very much supported by active treasury management. There's a few things within there that I would highlight that have helped that treasury tailwind with an income which you see coming through in the in the NIM walk. So we have had strong deposit growth as I mentioned already. That led to two billion growth in our average interest earning assets [liquid asset buffer]. We've also done some redeployment of a part of the liquid asset buffer from short dated gilts during

Q2 to the whole quarter benefit of those in Q3 and we see most of those gilts are maturing off during Q4. And then we've also benefited a little bit from the spread widening that we've seen in the treasury repo activity and those kind of combine together to show that strength of that Funding and other line. Thanks Guy.

Paul Thanks Katie. Thanks Guy.

Guy Thank you very much.

Moderator Our next question comes from Chris Cant from Autonomous. Chris please unmute and go ahead.

Chris Good morning. Thank you for taking my questions. I had two please. The first was on your revenue guidance for '24 and specifically the implied decline in revenues sequentially into the fourth quarter versus 3Q on a clean basis. I was just wondering if you could unpick your thinking there for us. How much of a sort of normalisation in other income you're expecting within that because obviously it has implications as to how we'll think about 2025.

And the other question I had was in respect of Basel 3.1 and your capital target. So your 13 to 14 range as within it entering to your sort of effective group MDA of 130 to 230 basis points. And that's a bit above your UK peers. So how should we think about how much a pillar 2A reduction would convert into a potential reduction in those target bands in your case. Would we see more or less a full pass through of a pillar 2A reduction given the comparatively high level of headroom you currently allow for. Thank you.

Paul Thank you Chris. Katie...

Katie Sure. Lovely. Thanks very much. So if I look at the Q4 income versus Q3 there is a couple of things I would unpick in there. So in Q3 all three businesses delivered higher income supported by the balance sheet growth and margin expansion. And it's also important to remember there was one extra day in the quarter that gives a benefit in that quarter of about 31 million pounds. Non-interest income was also strong given the Markets activity that Guy was

referring to and also the transaction and lending related fees as well. And also those income tailwinds we saw in Treasury I spoke about a moment ago.

When I do look at Q4 income I do expect it to be lower than Q3. I expect some seasonality in that non-interest income as market activity normalises. The income tailwinds from Treasury are not expected to repeat. And also remember that in our assumptions we've got further base rate cuts which we're expecting in November. I do think it's important before we all overly focus on that Q4 income being lower than Q3 is to remind you that we have upgraded guidance today to around 14.4. And part of that upgrade is also because of the strength that we've seen coming through in our own view of Q4 from when we last spoke in July. And it's been a big contributor to that upgrade of the guidance as well. So although the shape is maybe not what you exactly like it's important to remember that. And that's also why we feel positive as we move forward from here.

In terms of your question on Other income, look I know the Other income line is more frustrating in terms of that Centre income. What I do say is that you should always work to this number being roughly zero since we do seek to allocate this out to the business. In Q3 it was minus 9 million down from 46 million in Q2. What we try to do, so in Q2 when there's income left in the centre we would normally allocate that out. We did a bit of a catch up in Q3. So I do think if you think about that line it is to think about it as zero. And I know that that's a little bit frustrating for you all as well when we have little bits left within there.

If I move on to Basel and 3.1, you know I'm not going to surprise you too much here I suspect Chris by sort of saying you know we're looking at Pillar 2, the guidance is out. We're obviously talking with the regulators and things like that, but at the moment it's really too early to give you a guidance on that. We're comfortable with the 13 to 14 target that we're working with just now and we've always said that we'll look at that in time and we just need to go a bit further on with Pillar 2. So we'll talk, we'll update you as soon as we feel comfortable to and we've got a bit more clarity on how the actual mechanisms will work to achieve the aim that the regulator is seeking. Okay thanks very much Chris.

Paul

Yeah thanks Chris.

Chris Thank you.

Paul The consultation, obviously Chris, is ongoing. Thanks.

Moderator Our next question comes from Benjamin Toms at RBC. Benjamin please unmute and go ahead.

Benjamin Morning both. Thank you for taking my questions. Your cost of risk number has been a bit erratic year to date but given that you still have about 300 million in overlays, is it sensible to assume the rate trends are below through the cycle levels over the next 12 months? That's the first question.

Then secondly the Sainsbury's transactions due to close next year in the first half, can you help us with the potential contribution this might have to the P&L and will there be any day one impacts to impairments that we should think about in our modelling? Thank you.

Paul Okay thanks Ben. I'll say a few words on impairments and cost of risk. So if you look at year to date our cost of risk is 10 basis points so relatively low. The performance of the portfolios remains very strong. Customers have been very resilient. There is a delta between quarter three and quarter two. You'll remember that we had some PMA releases in quarter two both on the Retail and the C&I side. There's no material releases in the quarter three number so that explains some of the differences between quarter two and quarter three. We upgraded our guidance or improved our guidance at the half year around cost of risk of less than 15 basis points. Katie outlined in her pre-prepared words that we confirmed our guidance on that.

We believe we've got a good business mix that's low risk, high quality prime assets and we're very confident in the credit performance of the portfolios. On Sainsbury's you're right the acquisition is planned to close in the second half of the year. We said at the time of the announcement that it's RoTE accretive. It's around two and a half billion of loans and deposits. We haven't given any more detail at this stage, but I emphasise that at the point of announcement we said it's RoTE accretive upon completion. Thanks.

Katie Just one thing Ben on your specific question there, we will recognise an ECL on day one. That's absolutely standard as you know. It'll be a good book charge that we'll bring in at that time as we complete it in H1 next year. Thanks Ben.

Benjamin Thank you.

Moderator Our next question comes from Aman Rakkar from Barclays. Aman, please unmute and go ahead.

Aman Thank you very much. I've got two questions but sorry I have to just ask 0.5 of another one because I'm just getting loads inbound on it. Katie just on this funding and other four basis points positive, I guess not to repeat next quarter. I mean I'm never quite sure if that's a headwind because you know the non-repeat of income to me is a headwind. So should I be shaving off a couple of bps on my NIM as I go into Q4 or is it literally this is not, you know, don't expect plus four in the NIM bridge in Q4. I need to get that one out of the way because I've had about four or five questions on that this morning.

Katie Well why don't I deal with that one very quickly for you. So I would say we're not guiding on NIM as you know, but we don't expect that to repeat but I would think of it more in the way that you're describing it is don't expect another four basis points uplift from it and because we're also not expecting it to reverse. I'm going to go to your real question one.

Aman My real questions. Okay cool. Two hopefully quick ones. On your RWA guide for 25, so thank you very much for the clarification on Basel, there presumably is some other bits and pieces as well though right? CRD4 and other. So is there any colour? I mean ideally if you could tell us a number be great but really helpful and the more pertinent point to that question is, there is an implied loan growth that you're kind of pointing to which is pretty decent and I know you know we've got a couple of billion coming from Sainsbury's but to me it looks like you could comfortably budget for mid-single digit loan growth given the performance in Q3 and I think forward lead indicators are building from here. Presumably you're confident on your loan growth prospects next year. Mid-single digit sounds very achievable. That's a question.

The second question is on the capital. 13.9 is a great print. You have the capacity to participate in a directed buyback if there was one to come in

November and December. My question is how comfortable are you running your CET1 ratio at the bottom end of your target? Indeed would you tolerate it being below 13.0% intra quarter because presumably you're very confident in capital generation. I guess I'm trying to get a sense of to what extent you'd be willing to participate in a DBB and what the kind of range is around that. Thank you very much.

Paul Okay so I'll take the capital one and then...

Katie And I'll do RWAs...

Paul So on capital as you've highlighted it's a very strong print - 13.9%. We're very pleased with the capital generation through the quarter. 57 basis points in the quarter before distributions and obviously around 197 basis points year to date so that's good. As you highlighted given the change in the UK listing rules and obviously the shareholder approval we got at our AGM that does provide another DBB opportunity before the one-year anniversary next May. That as I always say is ultimately a decision for the government on the timing of that in terms of directed buybacks. But, our preference hasn't changed, our preference is DBBs and we remain keen to support the government's exit and participate if indeed that's what they want to do.

In terms of the where we're happy to operate. Katie's talked in the past you know about being happy to toggle within the range but what I wouldn't say is you shouldn't expect us automatically to pay down to 13%. We've got to think about the wider path to our RWA target of 200 billion and obviously as you alluded to some of the capital will be consumed by the growth given the momentum we've got in our three businesses.

Katie Perfect – so on RWAs and loan growth. So let me talk about RWAs a little bit more widely. As you say Aman, there's a number of different things that will come to us on RWAs. CRD4 we obviously have the Operational risk charge that we have in every quarter. One Sainsbury's is coming in and I think one of the things as I look at the walk we've given you for RWAs you know we had book growth of two and a half billion pounds in Q3. We're very pleased to have seen that. What we're pleased about it's really across the broad book and across the whole bank which I think is really a demonstration that the machine is working and our customers are responding to kind of more positive economic scenarios.

We also are pleased to mitigate that with the RWA management. We've done a lot of RWA management this year. We're close to six billion pounds. I wouldn't take that as a run rate necessarily. There's obviously, when you start, you get a natural first sort of push but it is something that we do expect to see as a feature as we go through here. CRD4, you know, we've not quoted numbers on that. Our philosophy always is to tell you things when we are comfortable to do that and we will as that goes through but we're very pleased today to confirm that around 200 billion number reflecting the acquisitions we've done since the start as well and I think the clarity that we've now received on Basel 3.1 is very helpful to us. Thanks very much.

Paul Thanks Aman.

Aman Thank you.

Moderator Thank you. Our next question comes from Alvaro Serrano from Morgan Stanley. Alvaro please unmute and go ahead.

Alvaro Good morning both of you. Can you give some details on the hedge in the quarter. And going forward you've now sort of posted several quarters of deposit growth. Can we start thinking about growth in the hedge next year? And where I'm coming from is obviously your guidance is pretty cautious for Q4 on revenues and it sounds like NII is part of it. What we've seen here in Q3 among UK banks and you in particular is, what component is front loading of growth versus sustainable growth in 2025 as we think about 2025. Any commentary there would be appreciated.

And then a quick one on the provision and the single name provision. Can you reassure us or give us any details on coverage on that single name? Are we going to see more top-ups in coming quarters? Anything you can reassure us on there would be appreciated. Thank you.

Paul Okay thanks Alvaro. Katie I'll let you talk to the hedge but Alvaro just to comment I guess in our view it's not cautious guidance. We're obviously upgrading today both on previous expectations and consensus so that doesn't sound too cautious to me. Katie, hedge?

Katie Sure, I'll do the hedge and I'll pick up that little impairment question at the end as well. So in terms of the hedge, I don't have much more to say than I've already shared with you quite extensively. We've repeated the H1 disclosure in the back of the pack as well, so you don't need to go searching for that but at the moment the product hedge H1, 175 we're expecting that to reduce to 170 by the end of 2024. We do expect to continue to have that moderate increase in the hedge income year on year in 24 and then that tailwind really increasing as the notional stabilises. A stabilisation of deposit supports that expectation, and we do think the hedge income will grow into 2025 and continue to improve into 2026. We talked about 800 million in 2025. And a real confidence in that comes from the mechanistic approach that we continue and the amount of income we've already got locked into both of those years.

When I think of the C&I impairment I think in any quarter where you're recognising impairment, naturally you see a bump up in that quarter. If I look at the C&I impairment charge for the year to date it's five basis points so it really reflects an incredibly strong group book that is performing well and when you compare, I'm sure you will, where we were Q3 and where we are Q2 in terms of their impairment you can see that in Corporate and other, our stage 3 loans have gone up by 148 million in Q3. Our ECL has gone up by 123 million, and our ECL coverage has gone from 37.5 to 40.3. So really, we're well provided for in there and there's a real strength of the book within those provisions and the five basis points for the year is really a historically very low number.

Paul Yes and we wouldn't Alvaro, comment on individual clients but I think it's fair to say we believe that we're very well covered in respect of that particular name. Thanks.

Alvaro Thank you.

Moderator Our next question comes from Jonathan Pierce from Jeffrey's. Jonathan please unmute and go ahead.

Katie Hi Jonathan, good to have you back.

Jonathan

Yes thank you. It's good to be back, having seen the numbers this week and yours today. I've just got a couple of small ones actually in the scheme of things but I'm interested nonetheless in the answers. The customer funding rates across the three divisions in the third quarter are only down about a basis point if you weight by the deposits of the businesses versus Q2 and obviously that's because you hadn't passed on much in the way of the rate cut until later in August on the Retail side and then I think October on the Corporate side. Can you give us a sense as to what the impact of that deposit repricing lag was in Q3? I mean I presume it's going to be a bit bigger in Q4 but I'm just thinking a bit more out into next year when this becomes, you know, possibly at some point a tailwind rather than a headwind. So the deposit repricing lag in Q3.

The second question, obviously last summer I think in Q3 your term deposit base increased by about £20 billion net. So you know a very big set of inflows in those three months and a lot of those I guess matured in the third quarter of this year. I think the default was for those customers to drop into a primary saver account which has got about 200 basis points of margin. So maybe you can tell us what those customers did in the third quarter and whether there's a sort of bit of a temporary benefit in Q3 as well from you know a brief period whilst customers decided what to do with their money and at the same time were earning you 200 basis points of margin. Thanks a lot.

Paul

Okay Katie why don't you take the deposit repricing lag and then I'll talk more generally about the customer deposits.

Katie

Sure perfect, thanks Paul. So, as I look at it in terms of the funding rates you're absolutely right we've seen very little movement in those rates in the quarter. They do vary a bit by franchise it's largely the impact of the lag effects but it also reflects net flows and importantly as you understand the mix of where those flows are going. I'm not quantifying the repricing lag but one of the things I think that you could look at and work it out from is some of our disclosures. You can see on the deposit margin expansion that we've had within the NIM that if I looked at Q2 and I compared that to Q3 it's gone from six basis points to four basis points so that would be a little bit of a proxy I think that could help you in terms of kind of quantifying what that might look like.

Paul

On deposits generally we're very pleased with the growth in all three of our businesses actually and that's three quarters, consecutive quarters for all three businesses so we're pleased with that. You can see as you alluded to that the level of term deposits has stabilised over the last couple of quarters.

On your point around automatically defaulting into instant access that actually isn't correct. Customers had a choice at origination around which account they'd go into. But more interestingly and more importantly is a high proportion of customers are renewing into fixed term accounts. Obviously, the pricing of those accounts has changed given we're a year on but a significant majority are renewing.

We've done an awful lot of work over the course of the last 12 or 18 months in terms of developing our savings product range, our customer journey is making it much easier for customers to understand that the products are available. I'm really pleased those investments are paying off. We've also invested considerably in our savings analytics which has given us great insight into customer behaviours. So I think we're seeing the benefit of that both in terms of overall growth in deposits but also surfacing offers to customers and allowing them to renew if they want to. Hopefully that gives you a sense of it. Thanks Jonathan.

Jonathan Yes thank you very much.

Moderator Thank you Jonathan. Our next question comes from Benjamin Caven-Roberts from Goldman Sachs. Benjamin, please go ahead.

Benjamin Yes good morning both and thank you for taking my questions. Just one on the macro front. So looking ahead to the budget on the 30th of October and what is the key outcome that you're monitoring as a management team and are there any particular areas which give you either cause for confidence or cause for concern? And then just one follow-up on non-interest income. So overall that was notably stronger than expected in the quarter and grew obviously 5% year-on-year. In looking beyond the NatWest Markets element is there anything within that which you would not consider underlying growth and how should we think about sort of run rating that forward?

Paul Thanks Ben. Good to hear from you. I'll take the first one, Katie. So on the budget you won't be surprised Ben I'm not going to get drawn on individual measures. I think there's enough speculation and it will continue to be over the course of the next four or five days. In terms of what I'd like to see and what we'd like to see at NatWest from the budget, I think we'd like to see a budget that helps support growth and investment in all the regions and all the countries of the UK. So we'd like to see a pro-growth budget. Obviously that needs to strike a balance between stability in the public finances but also

supporting and driving investment. So we're monitoring all the measures that would contribute to that at a macro level.

Obviously there's a broad range of individual measures that will affect different parts of our client base, whether that's our wealth client base, whether that's our retail customer base, whether that's our businesses looking to invest. So we have I guess a set of data points and a set of metrics at a more micro level as well. So we're prepared for that but I guess we'll all find out next Wednesday exactly which measures the budget will contain or not. Katie.

Katie

Sure, perfect. Thanks very much Paul. So look as I look at non-interest income we are pleased with our performance in non-interest income. We increased by 7.1% over the last nine months which I think is a very strong print. For the quarter across our three businesses that was up by 3.8% compared to Q2. That was driven by payment services, lending and finance fees, currencies, income and market and also the AUM fees. As I look forward from this you know Ben that we don't guide on non-interest income specifically, we give you total income guidance. There is obviously some seasonality that we see that comes through more in Q4 but has different reactions obviously when you get to Q1.

That capital markets activity has slowed down a little bit in the run-up to the budget and US election. Markets activity does normally reduce a little bit in December so we'll see how that flows through. You know and obviously within Retail some of the things like FX related spend is just less within the outside of the summer months. But over the medium term we are confident in our investment initiatives for non-interest income that they can deliver growth for us. Some of the areas that we're working on is investment fees as we grow our AUM stack. You saw some really strong growth in that this last quarter. Our payment services offerings and areas of our Markets businesses such as FX where we perform really very well. Obviously there's other things around customer confidence and GDP growth as well as the markets environment being conducive for C&I. So there are a few things to think about as you take that non-interest forward. Thanks very much Ben.

Paul

Thanks Ben. I think it's another example of our focus and our investments - we're now starting to see the benefits as we get into delivering the strategy that I talked to earlier in the year. Thanks Ben.

Benjamin Thank you very much.

Moderator Our next question comes from Robert Noble of Deutsche Bank. Robert please unmute and go ahead.

Robert Morning thanks for taking my questions. Just as I said that the point you made on short term gilts maturing in Q4. What impact does that actually have? Presumably the gilts are at lower yield than cash at the moment. So all else equal, doesn't that improve income? And secondly can you just walk us through the economics on the credit card product? So how much of the lending is balance transfer? What rate do you book it in at? And how do the returns work against 100% risk weight on the assets there? Thanks.

Katie So if I look at the treasury tailwind first of all. So just to be really clear on what I said. What we did in Q2 was that we moved some of our liquid asset buffer from cash into short dated gilts. And we're seeing them maturing in Q4. So what you had there was the benefit of a whole quarter in Q3. And obviously some of them have already matured. We'll continue to look at that as we move forward in that, but we're comfortable that has given us a real benefit. We do look at it on a spread basis as we do some swapping out as well.

In terms of the credit card growth, as we see them coming on, obviously a large portion of the growth of the initial part is done by the six month transfer. So that's the 0% led. So at the moment obviously your income is kind of delayed for those six months, we reflect that in the EIR and things like that. And then as they mature, we have assumptions of how many we retain, and then obviously you can start to see with the improvement that we're seeing in the returns within that area that we're getting the benefit of that.

It is interesting, we've also just launched our travel card, which has been launched now. That's not zero percent balance transfer and it's working quite well. We're pleased with it. So obviously it's generating income as you go through. I think what Paul and I are pleased about with the credit card book is it's really maturing very well in terms of from where we started to the share it has of market today up to 9%. The addition of Sainsbury's when it comes on in next year will be important to really build that growth, and we do see this as an important contributor as we move forward from here.

Paul And we've consistently maintained a very high quality credit book, so it's very much a prime book. We haven't needed to change our risk appetite in terms of our ability to grow that. A lot of the growth comes from our existing

customers and providing great credit card facilities to existing banking customers. Thanks, Rob.

Robert Thank you.

Moderator Our next question comes from Andrew Coombs at Citi. Andrew, please unmute and go ahead.

Andrew Good morning. If I could just tick off, I think the one line item we haven't addressed yet, which is Operating Expenses. You obviously haven't changed your full year guidance, but the Q3 is coming somewhat better than consensus expectations. I appreciate that Q3 is always usually a lower seasonal Operating Expenses charge, given where the levy gets booked and given when severance usually gets booked, but it does look like there is an underlying headcount reduction in the quarter, notably in the Retail bank. You talk about some lower severance, lower property exit costs. So just anything you can say in terms of trajectory on the Op Ex base, not only into Q4, but into 2025 as well, given some of the steps you've been taking?

Katie Yes absolutely. So I think, and you'll have heard me in my comments, is when you think about Q4, we do expect our costs to be higher in Q4 than they were in the fourth quarter of 2023. So I would compare them there, I think, as you're doing, Andrew. I think it's important to take a step back and think about what we're trying to do on costs. What we're working really hard in terms of simplification, is to make sure that we can create capacity within the costs, so that we can deliver on our full year guidance, but still do the structuring and simplification changes that we want to make. We're not looking to add additional costs on top.

So very clear that we all deliver on our full year guidance of broadly flat. And then some of the changes that you'll see coming through in terms of severance and property and things in the fourth quarter are all built into that guidance so that we can make a head start on the 2025 numbers. I'm not going to give you guidance today on what we're going to do on 2025. But I think what's really important is, you know, this is something that Paul and I are incredibly focused on. And we do see that it's really important that we make sure we create capacity within our cost base to be able to enable the investment that we want to do within the business. Thanks very much, Andrew.

Moderator Our next question comes from Amit Goel of Mediobanca. Amit, please unmute and go ahead.

Amit Hi, thank you. So I have maybe one main kind of follow up question. Just coming back actually on the RWA progression, and thank you for the guidance on the inflation of the eight billion. So I guess that gives you about 10 billion, you know, factoring in Sainsbury's and so forth. Just curious how much RWA management you think you could achieve, whether that kind of steps up or whether a lot of RWA management is done. So just thinking about that in terms of your capacity for incremental loan growth. And then also what you're thinking about the pacing as we get rate cuts. Are you expecting it to step up later or is it fairly even as we move forward? Thank you.

Paul Thanks, Amit. So on capital management and RWA. So it's clearly one of our key strategic priorities to work the balance sheet harder. You can see the progress that we've made this year, the capital management actions that have happened in quarter two and quarter three. We will have a systemic approach to that. So we will be driving more capital management activity. We don't guide on the exact amounts. But I guess if your question was is it done? The answer is no. You know, we believe there's more opportunity around capital management activity. If you look at our relative position compared to our peers, that would suggest we do have the ability to drive more good capital efficient activity. We'll continue to do that. As you know, the way these transactions work is, I wouldn't read forward from a particular quarter that that's going to be the output for the next quarter. But we definitely have potential to drive capital management harder and we will do over the course of the plan. Katie, on rate cuts.

Katie So rate cuts, we've got five for next year. The first one is in line with the first MPC meeting in February. And they're all spread throughout the year at the various meetings that come up, and at some we're not assuming any, but we do assume that they start early in the February meeting. Thanks, Amit.

Paul Thanks, Amit.

Moderator Our next question comes from Ed Firth of KBW. Ed, please unmute and go ahead.

Ed

Thanks so much for taking the questions. I had actually one, but just one sort of supplementary. There's been a few questions on the impact of the rate cut. But just to be absolutely clear, in your sensitivity, I think you said it was about 160 million for a 25 basis point cut. That's an annualised number. So I guess 40 for a quarter. Just to be clear, that is broadly what you saw in Q3? Should we assume that? Maybe a little bit more because of the delay on the deposits, but orders of magnitude, your sensitivity is playing out as expected? I guess that's a question rather than a statement. That's my first question.

And then the second question is slightly more left field. Looking at your balance sheet, you still got about 15% of your assets now sitting with the Bank of England, even after quite a lot of QT has gone on. Am I right in thinking that as we roll that forward, you would expect that to come down as the Bank of England continues with its tightening, firstly? And secondly, if we do see that come down, how should we expect that to impact the P&L? I mean, is that like a headwind or a tailwind for the margin? And what sort of spreads? Yeah, how do you actually manage that as a revenue pot? Thanks very much.

Katie

Thanks. I'll take the first one, first of all. So in terms of that sensitivity, we've repeated it at the back of the slides on slide 26. So you're absolutely right. So it's 167, 42 on the structural hedge, and 125 on the managed margin. Obviously, you're right, that's what happens on day one, we've got assumptions of 60% pass through, we've got, you know, there's then the lag effect. So in theory, 40 a quarter, but actually, the rate cut only came in August. So you're halfway through the quarter, but everything's there for you to be able to do that as we go through. Look, if I look at it, cash balances will come down. What we will see is allocation back into securities from cash, you saw us do a little bit of that as we took the opportunity in Q2. The income impacts will be driven by the market dynamics and by credit spreads as well. Thanks very much, Ed.

Ed

But sorry, is that just in sort of conceptually, is that a positive contribution to your margin at the moment? Do you make a good spread on that?

Katie

I mean, yes, absolutely. And that's what you saw in those treasury tailwinds coming through in this quarter is that additional four basis points coming through in Funding and others. So and what, you know, Donal, our treasurer does is he looks very much to try to make sure that we're managing that liquid

asset buffer in the right way, so that we're within the rules we set, which are very strict, but then we do a little bit of margin maximisation.

Ed Okay, thanks.

Paul Thanks, Ed.

Moderator Our next question comes from James Invine of Redburn Atlantic. James, please unmute and go ahead.

James Hi, Katie. Hi. Good morning, Paul. I just had a question on loan growth. I mean, generally, you sound pretty positive on it. But one area in particular that's been growing really well is that Corporate and Institutions line. So up very strongly in the quarter. I think this is a year ago as well. It's a double-digit percentage increase. Is that kind of growth sustainable? I mean, you really think, this kind of momentum can continue? Thanks.

Paul Okay, thanks, James. So as you say, the lending growth we've shown this quarter and year to date has been encouragingly broad based, actually, you can see that the mortgage portfolio growing in quarter three, you can see the cards business. But as you rightly point out, the Commercial and Institutional franchise has been growing well. I'm particularly pleased, actually, that the mid market business has grown for three quarters on the run, because to me, that's the barometer of the UK economy. You know, that's the mid-market customers all around the UK. So, to see that growing three quarters in a run is, is very encouraging.

And I think testament to some of the development work we've done around the product and the lending journeys. On the very large Corporate and Institutional. The nature of that business, as you know, is it can be a little lumpy, it depends on big transactions. The growth was particularly strong in quarter three, it might not be so strong in quarter four, given the growth that we've seen in quarter three. But what I would say more broadly is, if you think about the lending demand there, it's for things like the energy transition, it's for infrastructure, whether that's physical or digital infrastructure, it's supporting our large corporate clients. So you would expect through the cycle, assuming a healthy economy, demand in that in that segment to remain

robust. And we're very well placed to take advantage of it, given the expertise we have in some of those specialist areas I mentioned. Thanks, James.

James Okay, perfect. Thank you.

Moderator We'll now take our final question from Jason Napier from UBS. Jason, please unmute and go ahead.

Jason Good morning, well done on a on a very good set of results that will build the right trend there. And I think we've probably handled most of the P&L line items so far. Just one area I wanted to probe if I could. The question on C&I growth and the budget next week, there's a lot of talk about quite a lot of investment going into things like infrastructure, a place where banks have a strong heritage. I wonder whether there are two things you could talk about. One, does private credit change any of that sort of competitive dynamics, the share of the debt growth that the banking sector can sort of own? And then secondly, things have changed on that front. There are probably 15 or 20 banks that have now got linkups with private credit funds they've put in place to originate the distributed infrastructure. Is that the right sort of plan to have? Is that part of the SRT future for NatWest? Thanks.

Paul Thanks, Jason. I think I got most of that. For your benefit, the line was a bit distorted. I think that I'll answer what I thought the questions were. And you can come back and tell me. I mean, one was around just a general view on private credit. And then I think you're alluding to, the series of announcements there's been on private credit partnerships. So I'll try and cover those two points. But do let me know if that wasn't it.

I think generally, obviously, there's been a lot of coverage around, the private credit market, given the increasing role that non-banks are playing, whether that's capital to real economy, residential mortgage, resi loans, corporate loans, be that real estate or infrastructure. So there's no doubt it's an important asset class. I think for large incumbent banks, like ourselves, it's important to remember that we've been engaging with, with these customers for an extensive period of time. Many of them are customers in themselves, all the participants that you'd know are customers. Some of those have been customers actually for over 20 years and both for financing, but also for risk management. So from our perspective, it's not really a new area. We think in terms of the business we do, we're very comfortable. We understand the risk

and the returns profile. We've also been very considered in the past around the partnerships that we do have.

So we do have and have had for quite a long time, almost 10 years, actually, some distribution partners in terms of the private credit space to support our commercial lending business. The lending business, but also, as I think you alluded to in your second question, to support our RWA and risk management activities. So yes, we've got a number of partnerships in that space. It helps us from the lending front, helps us on the risk management space. There's obvious benefits for us. It allows us to originate and distribute, improves our balance sheet velocity for the partners. It's very attractive because obviously they can access the distribution that our bankers and relationship managers have across the whole of the UK. So it's multiple benefits. We've participated and had partners for a while. My personal view, it's an asset class that's only going to expand over the course of the medium term given the historic change in regulations, but also the funds that are flowing into those private credit funds. So I hope, Jason, because it was quite difficult to hear you, I hope that was the sense of it.

Jason Sorry, that's perfect. Thank you.

Moderator I'd now like to hand back to Paul to close the session.

Paul Ok, thanks Matt. Thanks everybody, thanks for joining. Thanks for being very diligent around two questions each. We appreciate that.

I hope you have a good Friday, and I hope you enjoy your weekend when it comes. Good to speak to you. Thank you.

Katie Thanks.