NatWest Group plc
Q3 2026 Sellside Roundtable Transcript
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Host: Katie Murray, CFO

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Management Presentation
(Amended in places for legibility and clarity)

Katie

Good morning everybody and thank you for joining us here today. In the room, or virtually, I've got Andrew Wells, my Director of Finance, Stuart Nimmo, FD of Retail Banking up in Edinburgh this morning, Donal of course is well known too, Claire and of course Nick from our IR team as well.

Our third quarter results demonstrated continued momentum and reinforced our confidence in delivering sustainable growth and returns this year, next year and beyond. We're confident in our income trajectory, expecting sequential growth from here through 2027 and 2028. This together with our continued cost discipline underpins our confidence in our 2028 targets.

Our 2026 guidance remains unchanged with one enhancement. We now expect risk-weighted assets to be around £210 billion as of 1 January 2027. Continued cost control alongside income growth supports strong operating leverage with an improving cost-income ratio each year, reinforcing our position as the most efficient large UK bank.

We delivered sector-leading returns with a return on tangible equity of 20.2% in the first nine months, broad-based growth across our three businesses, income momentum and improved operating leverage. Our earnings power was reflected in our 208 basis points of CET1 capital generation in the first nine months. We remain confident in our growth opportunities and disciplined in deploying capital, supporting organic growth and the acquisition of Evelyn Partners while delivering sustainable returns.

We're excited about the growth opportunity that Evelyn Partners represents for the group. The integration is progressing well and we look forward to providing further insight into Private Banking and Wealth Management at our spotlight on the 25th of November. And with that, I'm very happy to take your questions.

Ben Toms

Morning, thanks for taking my questions. First is on, unsurprisingly, margins next year. So if you don't do average interest earning asset growth that's in line with the loan growth you've seen this year, will you do better than your flattish net interest margin guidance? From a top

down point of view, I guess the point is, we should think about those two things together. If you're weak on one, you're going to do better on the other.

Katie So as we look at growth, we're confident that we will do growth. Clearly, what will happen within NIM, there will be mix issues, which obviously has an impact on NIM as well. Not mix issues, but the mix that will come through in that and that will have an impact on what the NIM might be, which is why we say broadly stable.

So a couple of points up, a couple of points down, you can see what's going on over there. But then I look at the lending margin, I'm pretty comfortable that within that we see something that's pretty stable as we go through. But, you can do the maths as well as I. If you do a different mix, a different volume of that mix, that can have an impact on the NIM as well.

But we're pretty comfortable that we will continue to grow. We've obviously got the growth of greater than 4%. We're very disciplined in how we grow. You can see that in terms of the quality of the book and the low ECL charges we have, particularly compared with some of the other banks.

So we would expect that to go through in a while. We don't guide on NIM though. Jason said, Katie I think you need to stop saying that because you've guided on NIM so heavily, it's a bit of a farce. But, I don't like guiding on NIM is maybe the way I should change the phrase.

It's clearly something we think about, but our absolute north star is RoTE. And that's what we look at to meet. And those are the things that are giving us the confidence in that continuing growth.

Ben And then just on asset quality. There was a bank last week, Vanquis, their shares dropped off a cliff because they're starting to see problems in what is the subprime sector and its customers that are legally bankrupt, essentially was the driver. And they're calling themselves the canary in the coal mine for a wider trend at a sector level. Can you just talk a little bit about how you think about subprime lending and how that might have impacts, how it impacts the broader story?

Katie Yes, for us, we're not a subprime lender, but clearly it's something you look at areas where it might start first. We don't have that in our book, so it's harder for us to see detail, but given that we're a whole service bank, we clearly have some elements of our credit card group that would have more of those kind of characteristics, but that's not characteristic of the book. So I think that's important for us all.

If we look at it, we can see in terms of how well the book continues to perform. So 21 basis points for the nine months, we've guided to below 25. I'm sitting here, it's November 5th. I've got eight weeks to the end of the year. I'm not worrying that I'm going to have any problems around that guidance.

We do talk about the 20 to 30 basis points through the cycle. We haven't talked about that a lot recently, but that's still a trend that we have out there as a view as to how we think of our impairments. We've not moved away from that. So, we pay attention. We've got a good, well-diversified book.

You can see in our numbers, we've got a little bit more that's come through on some of the stage one. That's about good book writing. We've had a little bit in this quarter that's come through on stage three in commercial.

But again, as we look at those, I've probably got the list of names in my secret folder in terms of who they all are, and I'm not seeing regional or sector specific and things like that. We spend a lot of time searching to see how quickly people are going into a resolution with us, and then how quickly they pop back out again in terms of where they're working, what they're doing on their credit cards. So we are aware of it.

I think, it's something with cost of living and things like that. It's still a feature. We still carry obviously our PMA levels. You know that I hang on to them very jealously to make sure that if there is an issue that that helps us as that comes through. But at this point, no, it's not something that we're worried about. We've got a very good book.

And if I look at things like our unsecured, it's less than 5% of our total loans. So it would be wrong to look at their issue and transfer it to us. But clearly, my restructuring team will be looking at their issue and thinking is there something we can then learn.

Perlie Great. So on large corporates then. So I'm not going to bore you with another NIM question. But if I look at the growth in balances in that business since Q325, I think it's about 22% in this period, which is super impressive. But if I look at the revenue for that segment in the data pack, I think it's probably closer to 7%, something like that. Just trying to understand what's the incremental returns on writing corporate loans. Of course, you'll probably tell me that it's a relationship business and there are other lines coming through, but can you just help me understand what's incremental RoTE, if you like, if you look at all of that together?

Katie Yes. I'm clearly not going to give you the incremental RoTE on different bits of the books. But as I look at it, when we're looking at the loans, and you're absolutely right, particularly at that mid- and higher-end, it is about the relationship business.

So what I look at, and what we look at formally in the organisation, is we have the single view of the customer. We can say, what is this customer bringing me? That's what the relationship manager reviews.

I look at the exact same data to say, this has come in. And sometimes when you bring a customer in first of all, the income might be a bit lower at that point, but you think, well, I know I'm going to have these four other transactions. We really try to make sure that that comes through. And if it doesn't, then actually the relationship will change.

So you do have to look at it at that end in the relationship space. And as I look at what we're doing, we're bringing in, you can see that there's been growth across the whole book, but most of the growth is coming in at the higher end. So it's going to be slightly lower margin. It's also a little bit lower in terms of capital usage, because it's low risk. So a good RoTE that's coming in.

And when you look at the RoTEs of the business, year to date in C&I, 21.1%. When we've been talking about that business, even four or five years ago, you'd be challenging, like, can you get it to 12, 13%? So obviously part of that's deposits. But we also know deposits in that world is really competitive.

So it's also the strength that's coming through from the RoTEs. And I know what the numbers are across the three businesses, and they are

all contributing to that strength of that RoTE. So overall, we are really comfortable on the build.

Perlie And in terms of the threshold, would you encourage us to think about the medium term threshold as, you know, maybe 18% is a threshold that you use, or is that not really, you can't look at it by product like that?

Katie I mean, you can look at by customer like that. I've talked a lot over the years around, if I look at our cost of equity and our hurdle rates and things like that, you know, that they'll differ across the segment. But we're very focused that we've got guidance this year of around 19%, and then greater than 18 into 2028.

And so we have to look at things that are contributing towards that. And within there, you're all mathematicians, you'll have some curve around about that to make it work. But, you know, it will work on looking at where they are today and also then looking at the lifetime, really tracking that that lifetime really delivers what was promised in the beginning as well.

So, I'm very focused on what's happening in the numbers as of now, and what may happen in the future.

Andy So two things, just firstly, on growth going into next year. C&I loan growth has clearly been very impressive this year, about 10% first nine months. Can you just talk us through puts and takes on that going into next year, what you see in terms of demand trends, etc, etc.

And then the second question. There's a narrative in the market that that very strong loan growth has been funded by you bringing down your HQLA. And now you've reached a lower LCR print, you're not comfortable doing that anymore. And therefore, you're going to be more competitive, more aggressive in competing for deposits. So I'd just like to get your view on that. Would you agree with that question? Would you refute that? What your opinion is?

Katie Always have others talk up your numbers, but we'll definitely give you a view on that. So, as we look at it, we were very open there. We have

run down our excess deposits, in terms of the funding growth. We were very open on that last week and very comfortable. In reality, we don't want to be sitting with excess, we want it all to be working and making sure you're getting the right returns. We're sitting at 137%.

And I had an investor ask me yesterday, obviously, the requirement is 100%. Would you go to that? And I'm like, just to be very clear, absolutely never, we're very comfortable with the level that we have at the moment. And it's to work out how we fund it in different ways.

If I look at the tables of fundings, we know a lot of the deposits at the moment are being raised within ISAs. So we're sitting at 425. If you put that into your best ISA buys, I'm going to appear quite far down on that list. And certainly at different times below other big incumbent banks.

So, we don't view that we're competing aggressively on that. You have from time to time, see us try different products and say, actually, well, if I tried this, what would it do to cannibalise my back book. Is it real deposits, or am I actually just moving something from instant access into fixed, which obviously would be a negative for us, we don't want to do that.

So you see a little bit of experimentation going on, but nothing that I would then say, that's us heavily competing on deposits. The other thing to think about is term, I don't know if you're aware of it, I default to a one year story. But the reality is term is made up from everything from overnight to one month, three month, six months, all the way out to there.

So you see different dynamics going on in different places, and they all have slightly different margins. But when we look at the lending growth, which if I come back to the first part of your question, in terms of the trend, we see a very strong pipeline coming in, we don't take all the lending that we're asked to give, obviously. We're very disciplined in what we take, we look at the returns on that, we look at the relationship within it. So I would say that our supply definitely doesn't meet the demand that we have on us, which is what gives us comfort for growth going forward.

But as we look at it, we then work out where do we want to fund this from, what's the right place? Do I want to go to deposits because I quite like the pricing now. So you'll see us do something more. Do I want to use some of the Bank of England facilities? Do I want to do wholesale? And I think as a bank, because we have got the strength of our deposit

base, we've got those options and levers to use. And if you saw little wholesale funding today, we still have very competitive wholesale funding that we can access. And you've seen us access that a little bit this year, with covered bonds. We'll do a bit more of that as we move forward as well.

But I think I would say, real confidence in the lending journey, looking to work out how we balance it for the right value, the right funding line, and then make sure we're delivering RoTE. And obviously there's conversations around risk density and what are we doing on expenses and how do we make the whole thing come together. So you're managing all of the lines of the P&L to get to the bottom line, which is what we're trying to manage.

Alvaro It's related to the previous two questions, actually. One on loan pricing. On Friday, you just alluded to it now, you said you're going to issue more secure covered bond…

Katie We may do. Obviously, I don't want to give market guidance on debt issuance before Donal gets me into terrible trouble. But we definitely have capacity to do that as you would expect us to.

Alvaro In relation to that, pricing of loans, how do you think about pricing of loans? Because the marginal sort of funding is going to come from markets. And I don't want to sort of talk about spreads. But 50, I don't know, 50, 60 basis points, depending on the instrument. If I think about mortgages, your guidance around mortgage, it's going to 60 basis points. The marginal profitability looks sort of low there.

And if I look at corporates, you're doing 180, which I don't know if you're going to issue senior. But, again, that looks pretty low too. The question is, how do you think about pricing? Do you look at marginal costs of funding, average costs of funding?

And broader than that, when you think about maximising margins versus volumes, do you think there's more value in volumes? How do you think about that sort of value versus volume versus margins and pricing?

Katie I'll start and then Donal jump in as well. As we look at it, we work on average FTP in this bank. So I don't think I'm raising this piece of debt for that piece of lending.

So we work it to the average. I'm not a huge fan of marginal because what you do is you do everything marginally and all of a sudden at the end you discover you're not covering your cost base. So I do look at it in the round.

I would say, as I look to some of our costs, I would expect covered bonds tighter than that. We've issued at around 40 basis points. And with our RWAs growing we have to issue MREL, which is clearly much more expensive. And it's for regulatory reasons, but it has a funding advantage to us as well, which is why the average is the right way. Because otherwise you end up going, I'm issuing the most expensive because I have to, but I'm now going to be writing mortgages. And of course, this all assumes it all happens very sequentially, but actually it's happening all of the time, contemporaneously. So you have to work out how you do that. So I would say that we then feed them into all the averages to work out how we then judge on the margin of the product.

Volume I think is really important. You know, and over the years, we've talked a lot about that volume margin debate. And what you want to see happening is that volume ideally is offsetting any margin pressure. And that's not about going for volume for volume's sake. You've got to always say, well, it's got to be well-disciplined, the right returns and things like that.

But if I take my income and I say, well, I know I'm going to add volume. I know that my lending margin is broadly stable from here. And then I've got benefits of the structural hedge. And I've also got mix coming through. All of those things together will be what dictate the NII line. But I also know that growth will also give us benefit on the non-interest income line, which has been growing very nicely and very steadily. Then there'll be strong cost management of course, as well. So you have to look at all the component parts together.

It's a very dynamic business that we run. So you're not saying this matches to that this week or next week. It's actually, as I look at my six-month, one-year lending, what should I be doing and how should I be raising? And then also, it's really important to look at the market.

So if you were having to issue debt this week, you'd rather be issuing it today than you were on Monday. You're going to get a much tighter

piece. So what the Treasury team worked really hard on doing is we're always on, so that we can issue at any time where we feel that actually we'll get the right spread. Which is why you've seen us often issue very sector-leading spreads on our bonds, because actually we're making sure that we're dynamic in what we deliver on that.

Donal, what have I missed?

Donal I think you've covered off most of it. I think in terms of just the 50, 60 basis points, that's even higher for covered bonds. But as Katie said, there's numerous other levers when we think of wholesale funding, ranging from Bank of England facilities at 15 basis points over base rate, up to covered bonds and senior OpCo.

We don't see senior OpCo as, we still have plenty of secured funding opportunities that we deploy. We've been very low users compared to probably our peers in the market as well. So, we've been focussing on secured and other options, from a marginal perspective. I agree with Katie.

I think the other thing to consider is when we talk about increased wholesale funding, you need to put it into the round that we have also over 400, over 400 billion deposit base that we also intend to grow over the next few years as well. So that blended cost is still very attractive for us from an overall funding perspective.

Katie And the only thing I'd add on to that Donal is that growth comes from across the fund to the deposit base, it's not all just happening in one area. So therefore, you've got very different margins that are happening in different places.

Amit Thanks. Amit Goel from Mediobanca. Thanks. It's actually a very related question. But basically, just on this loan pricing on the back of potentially increased funding costs. I just wanted to just understand, has the group increased the internal funding charge allocated against new business?

Katie Yes.

Amit Yes, okay, so they're pricing off of that. So that should have an impact. And then, secondly, is there any scope for any, within this broader reform package, in terms of regulation, for any easing or softening on any aspects of the LCR ratio, which could also help in terms of excess liquidity that could then be redeployed, rather than resorting to wholesale...

Katie I'll hand that question to Donal in a minute. But the one message I really want you to take away from today is that I'm not worrying about funding and liquidity. We have a lot of levers, we have a lot of capacity, we've got ratios that sit in the right place. That's not restricting our lending. What's restricting the lending is: do I like the return it's giving, is the right risk, and where we are.

So, you've seen great growth. We're having to use more levers than we have historically. That's not a problem. Those levers have always been available to us. We just use them at different speeds. We're very comfortable with where we're sitting, and how we're using the levers. Donal, do you want to add to this?

Donal So in terms of prudential regulation. First of all, we'll still probably wait to see what we get from a capital regulation perspective, first in November. But in terms of LCR, I think there's nothing, no discussions, on the agenda as of yet. I think what would be the key there is what comes out from the US, in terms of potential proposals where, you're probably aware, there's talk of actually getting HQLA benefit on pre-positioning collateral at the Fed.

I think if the US was to come out with that proposal, and it was implemented, I think other regulators would have to take a very, very close look at that, because that would bring a material liquidity benefit to US entities. But we need to see those proposals.

Amit Is there any significant definitional differences between what the UK do on the LCR versus other jurisdictions as well?

Donal There is, yeah. And that's probably reflected, if you look at US banks, you'll see they run to a lower LCR ratio. So it's not a like-for-like comparison as well. So, we could ask some US investors, would you expect to run an LCR closer to 110% or otherwise, and see in the US that the answer to that is no, because the framework is slightly different.

John Hi, John Cronin, Seapoint Insights. Thanks for taking my question.

Look, it's just a follow up again on this whole loans to deposits question. Sorry, Katie, I wasn't clear earlier, were you talking about when you were engaged with an investor that they were asking you if you would go to a 100% LDR?

Katie LCR.

John So just trying to understand the, I don't want to call it a constraint, like you clearly have flexibility, you're at 90% loans to deposits ratio. I suppose two questions would be, one is the loans to deposits ratio in and of itself and I know it's interlinked with the LCR, but, how far would you be willing to push that in a quest for margin expansion?

And then separately, on the LCR. What is the lower bound, really, in terms of where you'd be willing to be comfortable? You know, obviously, 100% is the regulatory de minimus, but, you've been clear that you're not going to go right down to that level.

Katie So I'll just quickly talk to the LDR at a point, but Donal obviously manages the LCR formula on a daily basis. If you do look at the LDR, we're not sitting with a specific number in terms of what number I would work to. You can see many banks work at levels much higher than we do. And, in fact, across our bank, obviously, the way we're able to pool funds and things, you can see different bits of the bank work at different levels as well. So we don't have a number that we're trying to get to on the LDR as we move forward. And in terms of the LCR?

Donal Yeah, it's very dictated by your business mix, obviously, LDR. You'll see investment banks that run a very, very low LDR because the liquidity value of the deposits they bring is a lot lower. So, in itself, it's a good comparative metric, but you need to consider that those different business mixes, as Katie says, it's not a constraint that we're managing to.

And in terms of LCR. What I've historically said, 130% is what I would regard as probably an optimised LCR. That can change as well, depending on how a mix changes and how the composition of your liability can change, but that feels to me as kind of an optimised level.

Chris Hello, it's Chris Cant from Autonomous. Thanks for taking questions.

You mentioned central bank repo. I asked you about this earlier in the year in the context of deposit competition from some of the smaller names. How much are you happy to tap that? Because the pricing is obviously quite attractive relative to CDs or other sources of wholesale funding. How do you think about caps on usage going forwards? And how do you think about this in terms of meeting the LCR requirement?

So I would think where we end up at a system level is ultimately banks sort of meet their LCR requirement through these facilities. And then you're funding the marginal balance sheet with your deposits and wholesale funding, other sources of wholesale funding. But I don't know how you think about this.

Katie Yeah, obviously there's different facilities and some of them have LCR benefits, some of them don't.

Chris Yeah, but you've got a lot of mortgages you can pledge.

Katie Yeah, I know, exactly, exactly. So, Donal, do you want to as I know it's something that you and I have talked about.

Donal Yeah, so Chris, you're talking about LCR level C, right, in effect. So if you look at… probably one thing I'll say is that it's an evolving landscape.

The Bank of England is actively encouraging banks to use those facilities in terms of BAU. You know, historically, you could argue, there was some stigma attached to drawing on them in a different environment to the one that we're in. I think that has now kind of disappeared.

If you look at total drawings, it's 19 billion. We have drawn it, but we're a very small amount of that outstanding 19 billion. I'd probably agree with you. I'd probably expect drawings of level C to materially increase over the next few years. It is attractive when you look at the cost for, you know, 15 basis points over base. That will also increase as the drawings increase. I think the bank have said, probably expect between 20 and 40 basis points as that scales.

But the likelihood is, all reserves in the system are going to be drawn through Bank of England facilities, and that will be through STR and ILTR over time.

Guy Hi there. Thanks for taking the question. Sorry I can't be there in person. I'll refrain from asking another one on wholesale funding and liquidity. So maybe switch tack to capital.

You talked before about being comfortable running fractionally below 13% of the year end pro forma for the RWA levels on the 1st of January and pro forma for a buyback. I was just wondering if you could help us quantify that tolerance to go below 13% at all. I mean, given where regulatory requirements sit now and potentially even supportive updates to come for the Bank of England in a few weeks time, there should be some reasonable capacity, I would say.

I appreciate it's a matter for Board in due course, but if you're able to give your thinking around it at the moment, that would be really helpful.

Katie So, obviously we're pleased with the capital management actions we've done and where we've managed our lending this year, that we're in a position to do a buyback at the end of the year, which is great. The amount of the buyback is something we'll talk about to the Board in December and again in February. And we know there's a lot of moving parts that are coming through.

I've given you guidance of around 210, that includes Basel, CRD4, the numbers that come through on that. We've always said our target's around 13, so that could be 12.9 or 13, 13.1. Is how we think about it. There are obviously some changes that will come through with the PRA.

We've been working with them, as many of you have been, over the last number of months and shared our views about how to reduce some of those overlaps for domestic exposures. And I think when that comes through, we will take stock of where that's landing and it will be something that we consider as part of our year-end. The reality is, of course, the PRA, before you get excited, don't generally make an announcement and then it's enacted as of that moment. So I would expect we will go into consultation and then we'll come back on it.

But it's something that we'll definitely do to consider it. So still very comfortable around that 13 per cent. And if you view a kind of 12.9-ish handle, we all know what around 13 means is where we'd be. Hopefully that's helpful.

Sheel I've got two questions, two follow-ups, if you can help please. First, just going back to the average cost of funding increasing, if there is that sort of margin compression that's coming through there, do you feel you're having to work harder maybe on the fee side, maybe on the expenses side to keep that RoE, that marginal RoTE at that same level? That's the first.

And then second, just going back to the first question around AIEAs, your broadly flat NIM guidance assumes some level of AIEAs. Would you be able to share that? Clearly lending will be the bigger driver of that number.

Katie Yeah, sure, it's X point Y. So let me be more helpful than that to you, Sheel. So, as we look at it, our average cost of funding has moved up a little bit. And I would say that we push and drive the business on the fee side a lot. You see us working in that area very dynamically. It's one of the reasons that we also bought Evelyn in terms of to try to increase the percentage of that piece.

But certainly when you're looking and you're a relationship manager, of which we have a thousand spread across the country, which is why we have such strength and confidence in our loan growth. We're going to

be talking to them and challenging them on actually what's happening both on their NII and also their non-interest income, to make sure that what should be pulling through is pulling through.

And that growth of non-II is through things like the development and investment we make in things like Bankline, where we know that if we just make it easier, we're embedded in your systems that you naturally will do more FX with us. You'll just naturally do other transactions with us because actually it's so simple for you to do. And that's why that piece is all connected.

If I think on expenses. Sheel I would be disappointed if there was anyone in this organisation that didn't say that Katie drove me on expenses all the time. At this time of year, we're driving really hard because, interestingly, not so much on the 2026, but on the 2027 and the 2028. You say, this is what we're really expecting to see come through from you. And this is the areas that you committed to a year ago or two years ago and what's coming through. So we do continue to drive on that to make sure that overall we're getting the right RoE for the group coming in.

If I think then in terms of the AIEAs, I would probably come back to the conversation that we had when we were together last Friday. So it's to say we know that this year we've had the benefit of the growth that's come through. It has been funded by running down some of the deposits. So that's meant that our growth that we've seen this year was about 3% versus the 8% loan growth. That was a positive differential in terms of NIM for 2026. But if I look at the strength of the balance sheet growth and the consistent delivery that we've got of this, combined with the stable NIM, I would say that that combination will drive the good NII growth across the business next year. And that's why we have the comfort.

But obviously, given that those two factors are so well connected, I'm probably not going to give you one because implicitly I'll be giving you the other. I would expect them to be connected there.

We're very comfortable with our CAL target, which obviously covers lending, deposits and AUMA of greater than 4%. It's something that we've traditionally delivered over the last eight years, through thick and thin, in terms of different economic cycles.

Aman Hello, it's Aman from Barclays. I'm going to ask two questions that reflect a lot of the feedback that I'm getting in from investors.

I guess the first thing is, you talked very explicitly around NIM last week, and subsequently talked about the volume dynamic. And your share price reacted quite violently to that comment. So can I just check that what we were trying to do?

I understand that consensus NIM expectations were too high. But it felt like we underplayed the benefit volumes. So I'm curious why we didn't talk about NII in the aggregate and why we didn't talk about the offset from better volumes in NIM. Because honestly, I think the rudimentary maths that we were all running on Friday was that the NIM impact was a pretty material one in terms of estimates, but it was tempered by a better volume. And I think the share price would have reacted differently if it was framed that way.

And then I guess the second one is, again, sorry, this relentless focus on the marginal NIM of the growth. So could you just help me? What is a typical NIM on Corporate Banking? And, I know the Commercial Mid Market looks like it's essentially rebounding. I don't know how much to make of that. But is that conducive to that Corporate front book NIM? So if you could, lift the lid on what the asset margin is on that.

And sorry, just to round it out, then just on the funding side. If the FTP is not the marginal cost of funding, aren't we potentially making exactly the mistake that the market feared that the funding tailwind from structural hedges and, a benign back book of deposits is being deployed to compete to mark margins down? Are we kind of realising the fear in the market that we're pursuing growth at the expense of margins, not just for NatWest, but actually for the system more broadly?

Katie Yeah, sure, so if I go back to Friday. Paul and I both read the transcript, as you can imagine, quite closely on the weekend to see what did we actually say. And it's the truism of what you say and what we hear can often be two different things. So I think if we go back to what we talked about, I'm pretty happy to say that I talked quite a lot about volume. I would say we were then quite drowned on NIM.

What I would say if I was being critical of all of you in the room. I tried to tell you in June and you chose not to listen as a collective. So unfortunately, that meant that I was left with the challenge of, I need to

actually get you to really listen this time by saying more or less exactly the same thing. I talked about flatter and now got to broadly stable to catch your attention. But you've listened and you clearly understood. So for that, I'm grateful. It can make an uncomfortable day for us all, but these things come from time to time.

Look, we continue to outperform your expectations on growth. We do feel that you've got a better understanding of it that does impact the NIM as we go forward.

In terms of asset margins, I'm not going to give you additional disclosures. As you know, I'm not a big fan of that. I can't imagine if we started to then go one basis point moving on this class and that class, we would actually end up in terms of being able to get a real clear picture of what we're doing.

But you know a lot of things about our margins. The mortgage loan book has got 60 bps margin. If you look across the cost of funding, you can see it's coming through on C&I, which I do accept is heavily aggregated across different books. You know that the margin at the very bottom end of business banking, allbeit £3bn of lending, it's important. You know that that's going to be a high margin book.

The mid market, we do see it coming. It's strong and it's good on its back book front book behaviour is pretty much in line. And we were pleased to see the growth of that. We do also see there's quite a lot of competition in that space. But we also think that we're the real structural winner there, just given the investment we've made in it on a multi-decade range. Then you go to the larger end, which again, we all know is lower margin.

When we look at it, you'll see there's just a big range, whether it's overdrafts or securitisations that you're doing. So getting by sector just leads us to get by product and overall, we're broadly stable, within the number. And I think you should take some comfort on that.

I'm also comfortable with how we do the funding piece because as we do funding, the team will look at what's their average FTP. They'll also look at the lifetime value, look at the value in years. So, when you look at these transactions, you assess them on many different lenses, across several KPIs, to make sure that they're hanging together. So I'm not worried about that. I do think what you are seeing is the competitiveness in some of the market is funded by the fact we are still

making good returns and we will make good returns to the structural hedge throughout 27, 28, 29 and 30.

And clearly, what we're trying to do is to manage all of them together around our over 18% RoTE in the medium term to make sure that we're delivering to all of you sector leader profitability. So you're pulling many different angles at one time.

And Donal, obviously you run the FTP for us, what would you add that would you give that might help bring some comfort?

Donal

We know exactly what our marginal cost of funding is. We know exactly what our marginal cost of lending is. As Katie said, we manage the business on a return on tangible equity, which is our key north star.

I think what you also need to consider when you think around marginal lending, one third of the book turns on an annual basis. So it's not just the incremental lending growth that you're seeing, because there is a blended element that you need to consider across assets and liabilities to drive that RoTE.

Alberto

Thank you very much for taking my questions. Alberto Artoni from Intesa San Paolo. Sorry, I just wanted to go back and running a bit the math on NII and focus a bit on 2028 as well, if that's possible. Apologies in advance for coming back on this topic, but for me, it's very, very crucial.

My understanding is that, my calculation is that on 2027, based on your guidance, it means that most of the positive contribution, marginal contribution of the structural hedge will be eaten by the competition. And then, of course, then we have the positive effect of growth, of volume growth, that will be a key, very important part of the equation.

Going forward, is that true? And if so, how can we look at 2028 where the marginal contribution from the structural hedge will be meaningfully lower than what it is expected to be in 2027? And so that would mechanically, in my view, if the headwinds on margins remains broadly the same in British pounds, millions, that it means, mechanically, according to my calculation, maybe I've got something wrong, please, please, highlight that to me, if that's the case, that in 2028, NIM would actually go down. So is this, is my way of reasoning

flawed somehow? Or is this a reasonable assumption to make going forward?

And another thing, sorry, again, on deposits, just wanted to understand if the competition that we're seeing on term deposits is mostly driven by the digital challenger banks being very aggressive, or perhaps also the fact that also the big incumbents like yourself and your most direct competitors are investing in cross-selling and wealth management. And clearly one way to grow in that area is to attract the clients with perhaps ISA accounts and then try to start cross-sell, like Italian banks did in the past with great success. So which of the two is the most relevant?

Katie Sure. So if I just think on the income side. I think I'd probably be a bit repetitious, Alberto, which won't be terribly helpful to you. But look, I have said that we remain very confident on 2028. I expect to see income continue to grow as we move forward for years. I'm not going to go into income in any more detail than to repeat that we are expecting growth in our income line each year throughout our plan. And I've also said that I expect margins to be broadly stable.

So I can't say that any more. I could do maths that will get you to a different answer than that. But that's my answer.

And where I'm sitting today with the economics that I have today in terms of where they are, so that's 4% base rate coming through later this morning. And then the swap curve moderating to 4%. If anything, that's an area that you haven't challenged me on.

Will we see that moderation in 2027? We could probably debate that a little bit. And we'll obviously be redoing our economics as we go into the year end as well. But based on what I have today, that's where we are. We do have a strong hedge tailwind that goes from 2027 all the way through to 2030.

We've had higher investment rates in 2026. At the beginning of the year, I was talking to you about 3.6%. We're investing at around 4.2%. That's a meaningful difference when you look at the volume and size of our hedge. And, importantly, the duration of the hedge.

We haven't extended duration. So that means that we have far more of our hedge reinvesting at these higher rates. So by just really sticking with our philosophy of where we are, we can see the real benefit of

that, not just in our hedge, but also what it does in the impact it has on TNAV in terms of volatility. So I'm very comfortable on that.

So all of those things together do give us comfort on our income growth in the outer years. And I really encourage you to take my comfort seriously and take some comfort from that comfort, if that makes sense.

If I look at the deposit competition, there's lots of things going on. It's very interesting. I was actually at lunch earlier this week talking to somebody who'd been the chair of one of our current big competitors on fixed-term ISAs. And she said, we realised they didn't have a product. And I said, I wish you'd never come to that moment of realisation. So there's huge activity going on with investment houses, whether that be the platforms in terms of fixed-term ISAs. We think that they view them as a marketing cost as much as anything else. So I bring the customer in on the fixed-term ISAs, then I extend the relationship within there.

So it's less really about the challenger banks. Yes, they're definitely there. But it's also platforms that are part of that competition, which is why also for us, Evelyn is a very attractive transaction. Because that's also another route that we bring people in.

What we are really focused on is building that primary customer relationship. And fixed-term ISAs have been a real feature of that within the retail bank. But it's also across different areas of the bank. We're the largest bank for British startups. We've invested in our accelerator hubs.

When you look at that smaller end of the book, it's very deposit rich, so therefore very valuable to us as well. With what we've done with Evelyn becoming the UK’s leading of Private Bank and Wealth Manager, that will also help on the deposit stage. And it's even interesting, the Rooster Money piece, that obviously that brings in your Junior ISA piece.

We know that that leads into your youth proposition. And we know that ultimately, that will lead into people, in decades and years to come, that will be like us, that will also be valuable. So we're investing in all different aspects of our proposition to make sure that we're there for customers as they grow and as they develop.

But the competition, I definitely wouldn't put it at the challenger banks specifically. And we know, and we've heard other banking CFOs talk

about, that it is competitive. The UK is always a competitive market. You just have to make sure that you're continuing to evolve in the right space across your entire customer proposition, which is what we've worked very hard to do.

Seamus Two questions, please. Can you just talk to me about the decision matrix around the willingness to lock into hedge earnings in 27 and then the decision you would make coming into 28 to lock in the higher curve at 480, or whatever it is now, on the swap rate? Because obviously, we won't get the higher swap rate coming through in 27. I just want to understand how early you decide to lock in, if you decide to lock in on the 28 number on the hedge, please.

And second question, so I'm just looking at your cost structure over the last four to five years. And obviously, when we think about the value of the hedge within NatWest, then costs are obviously something that are going to be very important.

But when you look at the structure, like other admin expenses, like admin expenses have actually come down quite a lot over the last several years and staff costs have gone up, not because staff numbers have gone up, actually, it's just because we have wage inflation coming through in the UK. And when I look into next year, so I'm just trying to think about what you can control on the cost side. And really, you can't really control the wage inflation, basically, we're going to get if inflation prints at four next year, we're going to get, you know, reasonable nominal growth in your wages. So really, it comes down to staff numbers, which have been relatively static over the last four to five years. So we're getting the leverage, but we're not getting a reduced number of staff numbers.

And so the question is, I was talking to one of your peers, one of your very large peers, and they were telling us that something like 70 to 80% of the staff at their bank is involved in back office and admin functions. And on the basis that the banks have spent five to 10 years, optimising the front end in terms of the branch networks, etc, etc. I'm just trying to understand. I know, it's related to the opportunity, really, at the back end in terms of where we could think about, I know, you're not going to probably give us staff numbers or anything like that, but just the scale of the opportunity at the back end in NatWest or what's involved in

terms of that, in terms of staff numbers. And I guess that's probably the one item that you can't control over the next several years. Thank you.

Katie Yeah, sure. Donal, do you want to kick off on the hedge? Because we're very comfortable with the approach. I'll let you give a bit more colour as to why we're comfortable.

Donal So, Seamus, what I'd say is that there's no separate active decision that's taken to lock in the income. It's just the output of the mechanics that we do. If you think 20% of the hedge rolls every year.

So, as I look forward into 27, by the end of this year, 80% of the hedge will have rolled. And actually, that corresponds to about 90% of the income locked in because we've already received those swaps. So, in effect, just 20% is left to roll next year.

So, that is purely, it's just the maths and the mechanics of the approach that we take.

Katie Perfect. Thanks, Donal.

So, in terms of costs. We've seen good progression on costs. If I look at the staff cost numbers, and if you look into the IMS, you can see there, I give you, it's on page 11 and 12, but I give you the segmental split out of where our staff are across Retail, PBWM, Commercial and Central Items & Other. Now, broadly, you can assume if you're attached to a franchise, you're front office, and if you're in Central & Other, you're back office.

It doesn't work perfectly, because we've just moved fraud closer to the front office, so they've got a bit more back office products with you in Retail, but it's a good guide. So, what you can see, there's 59,000 staff, we were down 1,000 in the quarter. There's a couple of small disposals in that. So, that number is not as good as the headline would suggest, but still, about half of that would be real movement.

And about half of that is sitting in the Central Items & Other. So, that would be what you'd use as a proxy of back office, accepting that the other numbers would have some back office element, but that gives you a view on it.

So you're absolutely right. If you look at inflation, you're under more pressure on wages. So, obviously, what you're trying to do is to make your systems and processes more efficient so that you can then take the benefit of that, make sure you're bringing in the benefits of AI.

If I look at some of the benefits we've had there, if I look at things like our complaints team. 31,000 hours have been saved on complaints because of the use of AI. When I start to work that number of people, it starts to become a little more meaningful in terms of their credit decisioning.

So, a lot of the investment that you find at the moment is going on, is going into that back office space to help facilitate the front. Obviously, I'm not going to make any statements today around our staff numbers, we always talk to our staff before we make any external targets on that, but it is an area that has been changing.

I think one of the other things, Seamus, that you can't see in these numbers, but it's something that Andrew and I spent a huge amount of time working on, is this is our published numbers of staff that are on the payroll. But then what you find is that every bank has got lots of people that work for them that are coming through what we call managed service workers. So, that's the the supply from AWS and Accenture and things like that.

So, where I'm paying a bill, so it appears in a different line, I'm basically paying the bill for staff. One of the things that Scott did a couple of years ago, and has done a lot over the last couple of years, is to really look to say, actually, I don't want to be paying bills for staff to other people. I want to pay people directly because then I'm not paying a management charge and all these other profits for other people.

And that's why our FTE number has been relatively stable. Because I've been moving people off managed service contracts into the core and being employees within the organisation. But you have seen, if you go quarter to quarter, a steady trickle down, it can get a bit messed up. Obviously, Evelyn brought in 2,400 staff, we've lost some with Mentor and Cushon in this last quarter if they've gone off. But we're comfortable that that's a number that's continuing to deliver.

And so when I look at the costs from here, we do still see opportunity that we can continue to be really driving our costs. We've obviously got a target in 2028 to be below 45% cost to income ratio. That's both income and a cost line.

And one of the things I'm always really keen to give you is here's an absolute all in cost target that's got all my restructuring, everything, all amortisation. We don't strip anything out, that we're trying to manage to year on year. And again, that's something we'll talk about in February.

And that's really important to have that number. Certainly in terms of driving the organisation, we're there. But having that cost:income and that absolute cost number is something that's there. So we continue to see everything, continual pressure on that cost line.

Jonathan Hello. Jonathan Pierce from Jefferies. Can I move away from the funding side? Just looking at the lending net interest income. I think your lending margin disclosure ignores anything that's going on on the funding side. That's obviously within the funding and other components of the bridge, which is really useful. Six basis points drop in the third quarter. Two of that's the EIR. We can infer from the release that another two-ish is from mortgages, which is coming towards an end now.

Katie A lot of rounding there but you're in the right ballpark.

Jonathan There's two basis points for everything else, which I think when you work through the maths suggests the absolute amount of net interest income on the non-mortgage piece is still going up. So the growth isn't being fully offset, if you like.

Katie I would agree with that analysis.

Jonathan Okay. So that's right. And then you mentioned earlier, you would expect that lending margin to be pretty stable moving forwards. Because I know the market's understandably fixated at the moment with funding costs, but there is also this concern that on the asset side, maybe the churn in the back book to the front book, and then the new stuff that's coming on net, the front book is actually leaving income pretty flat.

But it sounds like from what you're saying, excluding the marginal funding costs, the lending NII is still going up. Maybe not as quickly as the loans, but going up.

Katie I think you have a good understanding of what I'm trying to get across. Thank you very much, Jonathan. Any other questions?

Alvaro Just following from that question, because you alluded to Corporate and Institutional, I think you talked about in the high end a bit more price pressure. Presumably, it is a lower margin business account. But if I look at the last, I think, five, six quarters, it's been very steadily, 180 basis points, give or take. And you're growing at the high end. So could you maybe give us a bit of colour as to what's going on with the type of lending? Why is it 180? And should we extrapolate that 180 to the one we just discussed?

Katie So I would stick with broadly stable as your guiding light. And we've given you where we are on the mortgage piece. And I would say it's always competitive in that space.

I'm sorry if I've given the impression that it's more so now, or there's more pressure. But there's always competition. Mix effect, in terms of what's coming on, will be the driver of how that moves.

You know, when we look at our diversified loan book, where we've got strong lending coming in, you're trying to manage it. Where do I want to make sure I'm growing? So I'm not overly growing in one area. I've got that strong diversification. So you do see that mix coming through.

But I think I would just keep lifting up to broadly stable, confident overall on income growth. And there'll be slight movements round about the piece. And we'll continue to share that with you as it happens.

Andy When we were talking about messaging. I guess, historically, your messaging has been quite similar to your peers, which is that we're seeing margin expansion and volume growth. That’s pretty robust.

Your messaging now is obviously quite diverging from your peers, in that they're also talking about product margin compression, but saying the structural hedge will more than offset that, and they still see margin expansion next year. So when you think about the communication, the narrative, I guess. How do you justify the decision you've made, prioritise volumes over margins, to the extent that you have? And when you're thinking about the incremental benefit to the return profile, versus how the market's obviously perceiving that margin divergence?

Katie

Yeah, so I'll leave you to work out how my messaging differs from peers, I think. But I would say, we have the most transparent disclosure of any bank. We have the cleanest definition of NIM, of any bank that we have.

So what you get is very much what you see. So I just completely disagree with some of that. And then, in terms of where we are, I give you more than anybody else does, and will continue to do so.

And as I know things, I will share them with you as quickly as is practical and is sensible. The thing that we are prioritising consistently is returns. And it's not NIM.

And the return is made up of the volume of business that we write, the margin at which we write it, and any other non-interest fees we have. What we do on our impairments, what our cost of risk is, what we do on costs. Really importantly, what we do on taxes, and what happens in that line, which is a line that you don't always look at quite as much and there can be some chunky movements in that for others, we're pretty clean these days, which is good. And all of these things together, along with the management of the denominator, is what we're really focussing on across the business.

And then we seek to share with you as transparently as we can, and to have numbers that are all-in NIM, all-in costs, and not hide anything in any other lines of the P&L.

We do really appreciate the questions. Some of your questions got pretty long. Alvaro, if I could have given you an award on Friday, I think I would have done. It's like you've covered my entire Q&A in one question. But I do really appreciate it.

We get huge benefit from what you see in our external disclosures and how you correlate things together. And we're grateful for that. Thank you for the support.

We look forward to seeing you all at the PBWM Spotlight on the 25th November. So thank you for your time. Thank you for coming over. Great to see you all. And we'll see you all real soon.