NatWest Group plc
Q3 2024 Sell-Side Update Transcript
7th November 2024

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Katie

Good afternoon everybody both here in the room and on the line. Thank you very much for joining us today, it is appreciated. With me today is Claire Kane, who is well-known to all of you, our Director of Investor Relations, Donal Quaid our Group Treasurer, Andrew who is one of our Directors of Finance, and Stuart Nimmo, the Finance Director of our Retail Bank, joining us virtually.

Before we open up for questions, I'll remind you of the key messages from the Q3'24 results. We are pleased with the strong YTD performance - delivering return on tangible equity of 17.0%. This was supported by strong income driven by good customer activity, good cost control along with low impairments. As a result, we increased our full year RoTE guidance to greater than 15%.

We saw another strong quarter of growth across both Net interest income and Non interest income and as a result, we have strengthened our guidance for total income excluding notable items for the full year to be around £14.4 billion.

We reiterated our cost guidance and remain on track for other operating expenses to be broadly stable year-on-year, excluding the increase in bank levies of around £100 million, and costs associated with the Retail Share Offering.

We reiterated our guidance of a full year loan impairment rate below 15 basis points. We had a strong CET1 print as well of 13.9% which is at the upper end of our target range, supported by our strong earnings and RWA management activity.

Finally, we were pleased to receive the PRA's policy statements on Basel 3.1 and we estimate that this will result in RWA inflation of around £8 billion, largely driven by the removal of the SME and Infrastructure support factors. We do continue to expect RWAs of **around £200** billion at end 2025, including this impact from Basel 3.1 on 1st January 2026.

With that, I will very happily go to questions…

Guy

Thank you. One specific one on cost and one big picture one on returns. So, on cost, there was the National Insurance Contributions change in the budget. You know, points to maybe close to sort of 2% increase on start costs, give or take perhaps, I think. Staff costs are basically 50% of your cost base. It's not going to be applicable to all of that. But if we're looking in the realms of close to a 1% increase in your cost base from that change. I don't know how you're thinking about that - potential

offsets. But how we should think about how you can absorb that within your cost plans into future years.

And then the big picture one on ROTE. Looks like you're very well on track to deliver on that rate of 15% for this year. As we look into next year and beyond, I guess, perhaps a bit of a normalisation of impairments. Some cost growth, you know, talking in terms of how you're going to manage that. Just trying to work out what pushes it down given the revenue growth. Because it does look like 15% is a pretty good base as we look into future years. So anything that can sort of undermine that as we look into ‘25 and ‘26.

Katie

Yep, sure, absolutely. So costs, it's going to cost us £60 million a year for NIC. I'll do maths for you. It only comes in April, so it's three quarters of that for next year, so £45 million will be the cost for next year. And then we'll see it go up the following year. Obviously, it's a little bit dependent on the makeup of staff costs and salaries and bonuses and all those kinds of things. And obviously, the absolute bill, but that's what I would model in for next year. I'm not going to convert that into what that means for my 2025 guidance. What I would say, and I think you've heard Paul and I say this a lot, is that we are very focused on cost control.

The other thing that we know will come to us next year as well is around wage inflation. We've started those negotiations with unions now. Again, I'll tell you in February where we conclude those. That's obviously a drag that we know that we have each year that comes into our cost base. We do obviously just try to deliver an absolute cost number. So we have to take the ups and then we have to manage that number back down again to get to those broadly stable for this year. We'll talk in February what our guidance would be into 2025, but we'll be very focused on saying, how do we actually deal with that 45 million next year, rather than seeing it as an automatic increase.

And then in terms of the ROTE. So I can see and recognise the above 13% where we're sitting with guidance or above 15, there's a dissonance in there. It's a timing dissonance. Again, when we get to

February, we'll talk more about that 2026 guidance. We're conscious it's still really quite new, although we are now 10 months into 2024, obviously. When we look at it, we do obviously see the structural hedge. It is a significant tailwind as we go in. We've said over 800 million in 2025 and then improving again into 2026. The cuts will have some impact. Obviously, the base rate cut today, that's very much in line with our expectation. We still have from here a further five cuts to go through.

So we'd end 2025 at 3.5% and then 3% in 2026. How those actually come through and the impact of those, that's probably the headwind that you can see in there, but we give you good modelling around what that would mean, so you can take a view on that. I would agree with you, impairments will normalise a little. One can only imagine. Having got our through the cycle guidance, we show you very clearly what we've done on all of the periods for the last number of years, so you can take a view of that.

And then tangible equity, of course, will continue to grow, which is again a drag because it's the denominator, although we're very pleased to see that growth in tangible equity as that comes through. But all of those things together, we'll update the guidance when we get through. So there are a couple of headwinds, but there's not something that you're not seeing.

Guy Thank you.

Ben Obvious question, but just on motor finance, so I know you're out of scope for the FCA discretionary commission review…

Katie We are.

Ben …but was there any point in the past that we should think about a material exposure then 20 years ago that could sort of come back if we get a wave of sort of retrospective litigation?

Katie No, so we're not in scope [for the FCA's discretionary commission arrangements review], and that was clearly very deliberate. It's not something that we have either now or in the past. I think the first date, and I'll get it wrong, is exactly what date it was first granted for, was I think 2012, and then they went back to look at claims in 2007. We had a very small amount within there, but again, even if all of them came in the wrong direction, it would not be by any means a material number or impact for us. So it's not something that we are concerned about at this point. We are obviously looking, and there's obviously the discussion of the appeal going on. We'll watch that with interest, and if that comes up with things that we should be mindful of, we'll share that with you at that time. But we're certainly not in scope for the FCA's review.

Perlie Yeah, well, just following on that, I guess it's more like, does that change the way you think about how you grow the business? Because obviously, consumer credit card, etc., is an area you've talked about wanting to grow into. And I guess it's not specifically to do with secret commissions so much, but it's the regulatory approach. Does that change your thinking about growth in this particular area?

Katie Consumer growth is something that's really important for us. Stuart, do you want to talk a little bit about, you'll be closer to some of these conversations internally, but I can give you a strong no. And Stuart will give you some colour.

Stuart When you think about credit cards, it's utilisation of aggregator sites, which, is essentially, the way we think about that is a marketing fee, really. It's a way of being out there. It's a bit like paid for click search, etc.. It's an alternative. It's not changing the way we think about how we run that business.

Perlie And then can I ask one about structural hedge? Just obviously, the budget and Trump and everything, the loan rates have gone up quite a bit. So you've given the 800 million, that we'll make our assumptions on rates, but, given that it's quite a bit higher than the 3% that you had,

can we just apply wherever we think it is, plus the sensitivity you've given, which is about 50 million?

Katie You've got all the important parts to be able to do the maths on it. I think we'd said it was 3.07% we were replacing at. That had gone up very slightly, I think, but not materially, in terms of the actual trading that we've done during the quarter. Clearly, at the moment, what we're renewing now is going to be at a better level. You need to take your own views as to how sustainable and long term you think that might come through. Clearly, anything we've done just recently is at a slightly better swap rate, but that's not going to be meaningful to the outturn.

Perlie If we make the 800 just apply the sensitivity.

Katie Bear in mind the 800 is [based on projections for 2025 vs 2024 as at the date of H1 results]. So, it's the piece that we're rolling on now, and then what we'll be rolling on next year. They will actually start to see that change. The [starting base for the] 800 is based on transactions we've already done to date. James?

James Can I ask two, please? The first is actually on the US election.

Katie Yep.

James So tariffs, possibly 20% on exports. Do you have much exposure there? Presumably you must have some?

Katie We certainly will have some exposure. It also depends where it is in different spaces. If you think we would be funding many of the Scottish whisky distilleries and things like that, but we haven't quantified what that might mean in terms of our numbers or anything at this stage. I think we've got to get from what was said before and what they actually do afterwards in terms of how that comes through.

James So you actually need it to be an implemented policy to put it into the impairment charge?

Katie Yeah, it's not something that I would view as particularly impactful on the impairment charge at this point. Just looking at those sectors is something that we'll obviously go through, but it would have to be a meaningful impact on those businesses, and then those businesses not being able to adapt, potentially then selling goods elsewhere to compensate for that impact. So it's not just as simple as the tariff will mean that the profitability of that has been pulled down.

James Thanks. And then the second is just on the longer-term runway for further efficiency gains. So, you hired Jen Tippin, I think it was back in 2020, was it? And you set up the transformation office and talked about that at that time. How many more projects has that got on the to-do list? I mean, you've been taking out costs reliably every year. What else is there to do?

Katie So we still feel there's a lot left to do, which is both frustrating and just the reality. So I think what you've seen us do obviously to date already is a huge amount of digitisation. There's obviously the GenAI, which we've talked a little bit, and you've heard Paul talk about that in some of the recent conferences and what it does to Cora and how we utilise the impacts of some of those things. You've heard our example about our telephony systems from 20 to 5. There are other examples of things like that that we can continue to deliver within, but across the bank. And we do think that that ongoing simplification, it was obviously done very mindfully as Paul launched his strategy.

It was growth, simplification and the active capital management. So we do think there's some more that we can continue to work across. I mean, one of the things that you as a community don't pick up on quite as much probably as the media did, but you can see that that reduction in headcount has been something that was, it was probably more meaningful this quarter, not in any, in that quarter specifically, but it just, it's one and a half thousand people down from the beginning of the year. That's quite, that's a lot, and that's a real result of a lot of the

simplification coming through. And we'd expect to continue to see some of that.

James Thank you.

Sheel Yeah.

Katie Can I just ask for the benefit of those on the phones, if you could always say it's so-and-so from so-and-so. Lovely.

Sheel Sheel Shah from JP Morgan. The deposit environment has stabilised, but what we're seeing across Europe is with rate cuts happening, it's almost reversing. So we're seeing reverse migration back into the customer accounts. How do you think about that in terms of the UK banking landscape, especially as the cuts are starting to come through? That's the first and the second. You mentioned Cora just now. We have another European banking peer who has a very advanced AI platform, and they've almost talked to that being represented by about 300 staff and about one and a half percentage points of efficiency gains. Are you able to quantify how maybe Cora could translate into efficiency gains or anything?

Katie I mean, we can do. I wouldn't – I'll give you the deposit question in a minute. So the way that we've talked about it is that 50% of our call volume gets handled entirely within the system. And you can see that in terms of the headcount that's coming out. So quite a lot of that is coming out of retail. And so that would be part of it, as well as the services piece. So I couldn't say to you, it's x hundred people. When you said that number, my internal thought was, well, that seems quite low. So no, actually, so we haven't quantified it in that way. But if you think of the millions of calls that we get in, the fact that 50% of them are completely contained within that area, that has been very meaningful. And I think it's one of the reasons why we've managed to continue to do the level of simplification. But we would never talk about it in headcount terms, just because that's not the way that we generally discuss things.

And we have Cora, and then we have Archie, who's the internal one, which does a lot of the HR handling. So when you've got simple queries about payslips, or you need your cost just changed or something like that, then you raise those issues internally with Archie, so that's also helped when you look at the HR piece. And we've got another one, the name of which I cannot remember.

Aiden, Aiden. And that's quite embarrassing, because we built Aiden in finance specifically. And so Aiden is how we use the Gen AI of our own information internally in the organisation to really try to accelerate the production of reports and that narrative. So there is a lot going on within that space, as well as then obviously using AI, which is well embedded, but also trying to use Gen AI more. And some of the nice examples where we do that are on things like when you have a call, your own investment banker types, when you have a call with your Coutts private banker, when you summarise that, what will happen is that summary is done completely by AI now. And then it does the next best steps. And that's really helping us in terms of productivity of our staff.

But it also really helps in terms of quality control, so that then you get a full note rather than the note that that particular person may have a preference as to how they write those things. So I do think there are a lot of really exciting things that will continue to come through from how we continue to develop that technology.

Donal Do you want me to go back to deposits?

Katie Yes, thank you Donal.

Donal So we're not expecting any reversal, any material reversal of the migration that we've seen in a rising rate environment. I think probably in Europe, there's different dynamics depending on the country. You look at where deposit mix was in the UK, it was materially higher than in parts of Europe as well. So that maybe is a slightly different dynamic

playing out. But you'll see from the Bank of England data, there has been decent deposit growth year to date. What you're seeing there is a decent amount of that coming through instant access as opposed to further migration into fixed term accounts. But I think our view has always been expect a slow and stabilisation of the mix into fixed term. And I think that's where we would still stick to that today.

Alvaro Okay. Maybe a follow up to this one. The fixed income market is getting a bit rattled by the bond yield being above the swap curves. I'm just trying to think through the implications of that. Your perspective. Could that have any sort of impact on your ability to reduce maybe term offerings? Or maybe you could just help us think through what the implications for you would be if that is sustained over time, if any.

And then the second is slightly more unusual question is on your commercial loans. What business are you underwriting at the moment? Where I'm coming from is it looks like this spread is improving sort of every quarter. Presumably, it's got to do with the roll off of the bounce back schemes and the like versus new business. So I'm just trying to think what sort of spread we could expect maybe further down the line. Is it going to continue to improve?

Katie Yes, I mean, certainly the bounce back loans are rolling off. But they're also, if I look at that total portfolio now, we give you the numbers, but they're not. I mean, Claire and I were debating at what point do we stop telling you the number because they're just getting smaller.

Alvaro It's improving every quarter.

Katie Yeah, no, exactly. I mean, and they repay about half a billion quarter. So there'll be a little bit of that impact within there. If we look at what we're doing just now, we saw a growth in the supply chain finance, as well as in areas like infrastructure and energy transition. And then in that mid-market area, we've had three consecutive quarters of growth within there. And that's been very much term lending, including this social housing space. Donal, do you want to take this?

Donal Yeah, so on the two elements of the first question, one is rising yields and then there's the swap spread element as well. So I think in terms of rising yields, in terms of fixed term pricing, you know, like everything else, it's similar to the mortgage side, and Stuart can jump in here as well. In effect, all this does, it just means you need to reprice probably more actively, both your asset and liability side, then that's fixed rate, just to ensure that margins are maintained. So you've probably seen that play out, both on the asset and liability side, just given the extent of the move our individuals have seen over the last three or four weeks. But I think the other flip side of that, it does also create opportunity from the treasury perspective, for redeployment of a large part of our cash reserves. Which you saw in Q3.

I think, you know, again, you've seen a significant cheapening of asset swap spreads, not just in the UK, but in Europe as well in the last couple of weeks. And again, the likelihood is there gives us opportunity to reduce down from our cash holdings into more longer term security holdings as well as part of our liquid asset portfolio.

Alvaro But for the one year, sort of two year term, is that an alternative yield that you look at when you price deposits?

Donal No, so when we price deposits, we'll always price it off the one year deposit. It would be priced off the one year swap, because you're always looking at the margin and looking to hedge that at the point in time as well. So you're more focused on the margin that you're still, you're earning on your fixed term deposit, as opposed to concerns around significant moves in the rate.

Alvaro You don't see it as a competing…

Donal No, no, no. Because in effect, we don't, I suppose, from our overall liquid asset portfolio, really, our choices are around holding cash or holding securities. As a ring-fenced bank, we don't lend it out to other institutions because we're restricted to do that.

Alvaro I was more thinking, sorry, just to make sure I understand more, if when you price deposits, you will look at what the other banks are doing in terms of being competitive, the yield of other banks, and you might look at the one year, sort of bond.

Donal Yeah, you'll definitely look…

Alvaro Clients might choose to put it in gilts.

Donal You'll often look at what other banks are doing as well, because that will come into some of your, but yeah, I think what you're seeing is most of the banks will also be, their pricing will be driven off swap moves.

Katie I also think the gilt piece, I think, well, there's a lot of interest. It's quite a niche. And certainly, it would be something that would be far more symptomatic of our Coutts customer, rather than our retail bank customer, which is where most of the deposits, I mean, obviously, the Coutts deposits are very important for us, but it's quite niche. I wouldn't be saying I'll price this to stop them going there, because actually, one's pre-tax, one's post-tax. The difference is quite small.

Donal Retail demand is so small.

Katie Yeah, yeah. So, I mean, it's quite a niche product. I mean, Stuart, I don't know if you'd add anything to that.

Stuart No, exactly. As Donal said, we price relative to swaps, and clearly based on funding liquidity needs and reference to competitive rates and position ourself appropriately. So, exactly as Donal described, we don't really pay much attention to the gilt yields, as described, to the retail customers, you know, the stats on how their, how their sort of deposits

are spread by tier, you know, qualifying for that or being able to invest in gilts just off the table for many of them.

Katie I mean, it would be a product that we have in the Coutts range that they'd be able to look at, but again, it's not, it's relatively small.

Ben Ben Toms from RBC. Can I ask one on mortgage volumes?

Katie Yep.

Ben We've had, the housebuilders have come off a little bit, and since the budget swap rates are higher, can you just give us a feel for whether you're less optimistic on mortgage volumes going into next year? I think also the buy to let lenders have talked about it being a bit of a headwind for them as we go into 2025.

Katie Yeah, I'd say we, if we look at where volumes are, if you think now from Q3, at the beginning of Q4, we're writing our Q1 and Q2 volumes a little bit for next year already, so we can see that. We felt quite pleased about how the market has grown. We continue to see that being relatively strong, so I think if I look at ‘25 versus ‘24, I probably view it as a better market than we have had in ‘24. You know, there will be various moves around about it, but I think we're feeling quite positive about it. Are there any questions on the phone? Oh, you're on it. Perfect, thank you. Yes, on you go, Chris.

Chris Hi, it's Chris from Autonomous. Can I ask two, please? Firstly, on deposit mix, I think it's the first quarter in, as long as I can remember, your C&I non-interest-bearing deposits went up. And just in terms of your overall deposit mix and the proportion of non-interest-bearing, is that something when you're speaking to corporates, you expect to sort of stabilise here now that rates have peaked and are rolling over and you're, I mean, I know it's one quarter of growth. I'm not saying we should extrapolate growth for non-interest-bearing deposits, but should

we expect stabilisation in the sort of C&I piece, given that that seems to have moved earlier?

Katie I'll do that one first, and I'll come back for your second question. So, I think the challenge there within the C&I piece is that you also have some lumpy flows that come through that can change it. So, what I would say is I'm not uncomfortable with how they're sitting, but I wouldn't probably, you're absolutely right, not to read too much into that one quarter of growth. I mean, we do, obviously do annual exercises around behavioural life of these deposits, and we look at whether we want to change hedge shapes because of that and things like that. There's nothing particularly in there that would be interesting to share with you on that point. So, I probably wouldn't, I think, don't read too much into it.

We're comfortable with the balances, we're comfortable with what we put in, but they do have lumpy movements that come through as well. I don't think, no we don't. So one of the ways that is interesting to look at it is what's happening, and it's not possible to see because it's a little bit of work, what's happening in the Ringfence Bank versus what's happening in NatWest Markets. So I mean, obviously you can get the NatWest Markets accounts and do a bit of pulling apart of actually what's happening in the core commercial customer rather than what's happening necessarily with some of those that are service, whether they be European based or something that's more in the NatWest Markets side of that. But I think sometimes some of those movements there, they are often the result of lumpiness that is coming through.

Chris I'm not asking whether we should expect growth. It's more coming back to some of the stuff we were discussing 18 months ago. Where do you see long term non-interest bearing deposits stabilising in the mix…

Katie Yeah so it's interesting. So for me, we've been at sort of 17% for quite a few quarters, which is actually, I find it a little bit annoying in a way, because when I come and tell you it's now gone to 18% because it's just moved on a rounding, you'll all get excited and that'll be a sign of something different. So I do think there'll still be a bit of movement, but

I'm not, I don't think it's going to go from like 17 to 25 or 30. And I think you could see quarters where maybe it goes to 18, then it goes back to 17 and things like that. So I feel that we've more or less stabilised, but there's still, because people, money supply is still increasing and people are saving, you will see a little bit of a movement in there. But sort of the three quarters of it, it keeps rounding to 17. But it's rounding to 17.

I think for me, what I find much more interesting is what's the absolute levels we've got in the customer deposits, as well as obviously the split as to where they're sitting. I mean, that is important. And that, I guess, is where we've seen that growth across the book of sort of 2.2 billion in this quarter. That is more interesting. And then you get a little bit of noise on percentages.

Donal I'd probably add to that. The seasonal effects will have an impact on that as well. Because I think if you look at C&I and NIBBS, they're actually, they're probably flatlining since Q1, but we all then know in terms of the seasonal effects you get in early January as well in terms of outflow. So it's hard to look at it on a quarter by quarter basis. But there does tend to be a trend towards the stabilisation of NIBBS balances in general.

Chris Great. And then the other was on mortgage pricing. Just keen to get your sense of where your back book spreads are versus front book at this point. I'm assuming we're at parity.

Katie We're basically at parity. We talk about around 70 basis points. I would think the front book and back book is around that level.

Chris Okay. And your back book in that context includes the small SVR book you have.

Katie Includes everything. Yeah. Anything else?

Alvaro Just on, you touched on this in Q3, in the Q3 call, but if the Pillar 2As were going to come down, will we see that already before year end?

Katie No, I think what we're, no, so what they're working towards on the Pillar 2A is, what we've discussed with the regulators is I've said, I'd like to talk about it at year end. So can you please be far enough along that I can say something that we can all be happy with? And they're very aware that all the banks are in the same position. So we're also doing quiz work and submissions things, which are only going in in the first quarter of next year. So what they are working towards is that by the end of next year, that we, all of our Pillar 2As are in the point there that they can be adjusted. So that as Basel 3.1 hits, Pillar 2 updates hit at that same point. So you have equality in that moment. So they're working out how they deal with that.

And bear in mind that Pillar 2 is normally, we normally hear about it in September based on the December balance sheet. So they're trying to do an extra exercise next year so that we can get to a point of all clarity. They're very aware that we'd all like to make some comments if there was anything meaningful to say in February.

Alvaro **Y**ou would wait until then, February 26?

Katie No, no, this February, this February. We would like to be able to, I'm not sure what we're going to say, but we'd like to be able to say more than we've said. So they are very mindful of that.

Donal But in effect, that will be our view of what we expect the Pillar 2 offset to be later on in ‘25.

Katie Because that will only come later on. The actual offset will only come in time for Basel 3.1 to be implemented.

Ben Just one other question on capital. While we're on capital, just when thinking more holistically about the path for capital optimisation, particularly of the RWA stack, which segments of the book do you see relatively greater and lesser efficiency or optimisation potential on a sort of medium-term view?

Katie So I think that as we look at the book, we would be looking across the whole book in terms of how we deal with that. I'd say, I think fairly good things like they, either whether it's credit insurance or an SRT or some deconsolidation of some bits of the book. So we've done some transactions. We've done so little of that to date that actually you can, I think we can continue to look across the book. So I'm not particularly focused on that line. I mean, I am, but not, but not overly at all in terms of one area. So I would expect that to continue to manage through.

Donal And one second part of that question is actually where you can re-deploy that capital at a higher return as well. So that probably would be one thing to think about.

Jason Jason from UBS. I was going to do it, sorry. We had some questions about press reports on a rather large pension re-insurance transaction that may have taken place.

Katie Yeah, two transactions, but yeah.

Jason Are you disconnected from that from a capital standpoint, given the arrangement with the trustees? Does it matter?

Katie I mean, it matters because I worry a lot about our pension scheme, just because it's important to me. And as a pensioner has come and talked to me about it quite a lot, but I mean, it's done by the pension scheme, where we have representatives on that on their trustee board. Donal, would be very familiar with the transactions as they were being constructed, but it is done by them. We're very supportive of what they have done and we're actually very pleased that they've managed to do

this 11 billion already. It takes a huge amount of the de-risk off their book. So therefore, ultimately, that's good for us as well. But it is very much done and delivered by the trustees.

Donal No read across to capital.

Jason Doesn't impact your capital funds.

Katie No. And somebody asked, does that mean we'd get our 365 million back sooner? Clearly, when we did that transaction, these transactions, this was already something we had in our plans. And had worked through with them. So we're all going, I think they've done well in terms of what they've delivered to date. But it's very much in line with what we've been talking about as we were doing that structure around the 500 million that we insert.

Jason Well, it's big compared to the market. It's a lot of deals to have gotten done. And then secondly, this may not be at all relevant, but we've been asked. The reforms around non-ring-fenced bank and ring-fenced bank limits, extra 10 billion. Does that cause Donal any concerns?

Katie It causes Donal some private frustrations that we basically are handing UK deposit money into US investment banks. But that's OK. I mean, when those limits go, there'll be two lots of 10 billion, which potentially will move off the UK balance sheets onto other balance sheets, where we know at the moment they're managing it very closely. But we're not overly worried about it.

Jason So a path to a new equilibrium, and then we don't worry about it.

Katie We find it deeply frustrating. We can't use it to fund our own investment bank and, you know, to drive UK business. But that's different. That's a different campaign.

Perlie It's Perlie from the Bank of America. So now that we're talking about UK business, so obviously Q3 had very strong growth in commercial, just wondering what you're seeing on the front, especially after the budget sort of dust settles a little bit. Like, just why are you seeing that and obviously...

Katie I think we, Perlie, is that the budget dust will take some time to settle, you know, if I look at how it flows through. And the reality is if I look at UK business, they were waiting for the budget to arrive and then they can adapt. So, I think for me, I'm actually just pleased that it's out and that it's live, and then businesses will move forward from there. Some of them, obviously, we've obviously hear agriculture, they're more frustrated by some of the rules and different things of that. So I think it's important, but for me, it doesn't fundamentally say, oh, that means lending is going to stop or anything like that. I just actually think it was just like, we need to get it out.

I think it was the right thing that the Chancellor waited. This is a rule about 10 week wait for the OBR before you have to do your budget. So I think it's very, and the Conservatives didn't generally do that. So I think it's great that she did it, but it did mean we all had to wait an awful lot longer in terms of getting it out. But we're not seeing particular changes on lending or things.

Perlie **…**no specific change in sentiment from the business…

Katie I mean it's like two days old or a week old. So, I think for me, we're very pleased that it's out. That's taken ambiguity away. People can now plan. So I mean, I would be more positive rather than less positive. I mean, Stuart, I don't know if there's anything from the mortgage side that we can see in the short time since then that's causing a particular change or anything.

Stuart No, not since last Wednesday's budget. No, I guess it's already been mentioned that the stamp duty land tax, the surcharge on second properties, I think HMRC's own analysis is that that will likely result in some shift of transactions from second purchase buy-to-let over into other parts of the residential market, but overall will still be within the expected mortgage market. I guess the other thing it probably does is it just increases a little bit of professionalisation of the buy-to-let sector. It's given the tax burden again there, but not seen anything since last Wednesday technically no.

Katie Thank you. Hi, Robin.

Robin Good afternoon. Hi.

Katie Nice to see you!

Robin Good. How are you? I've got two questions, one of which I suspect you're going to tell me to go away on, but it's Thursday night, so I'll chance my arm. 2027 structural hedge. I don't know if you've got any views in the room, whether or not you’ve got any view on the yields or maturing swaps in 2027. I'm just conscious that everybody's going to be rolling forward their models quite soon into 2027.

Katie So my view that we’re very mechanistic, so if you took the average yield from 2022, you'd get to something that was approximately in the right ballpark for 2027.

Donal With some paying reduction obviously.

Katie Yeah, exactly.

Donal We can take that one away. It's part of what we look ahead to a full year 2025.

Katie I wouldn't even go as far as that commitment. Sorry. Some enthusiasm there Donal. But so no, you're right. It’s Thursday night, I'm not quite there. Maybe if it had been Friday, we'd have got there by now. And your second question?

Robin And the second question, the deposit market for 2025. Just wondering how you're feeling about growth in 2025 and moving parts, whether there's an internal view as to how fast the deposit market might grow next year. We tend to focus a lot on the lending side, but I'm just conscious that the deposit side is actually quite profitable now as well.

Donal Well, I think if you look at deposit growth over the last couple of years, Bank of England data, it's been running at 2 to 3 percent. So, I don't think we'd have any rationale of why that would be different in 2025.

Robin Okay, great. Thank you.

Sheel Just touching on the investment bank question that was asked earlier. The market is quite supportive of rates volatility and potentially increased revenues from the markets business going forward. Are you supportive of that on your end? Would you put more capital into the business given that the environment's quite favourable?

Katie I think when we look at the investment bank, it's important to think a little bit about what more it does and how it performs. So we do think there'll be quite a lot of capital markets activity. Now we think a lot more we're waiting for the budget. So we are probably expecting quite a busy November in terms of that capital issuance side of things. And that obviously takes capital, but it's relatively short term in its nature. We wouldn't be looking to expand things like our rates franchise particularly. So we wouldn't be looking to add extra capital on that side of thing.

We do, when we look at lending, we do often do lending that can be whether it's on that book or in the core bank book in terms of how best to book it. But it's not, we have this 23 to 25 billion corridor. We're not looking to expand that number. We do push the C&I franchise a lot on the RWA management actions. And actually, what you can see is as you look at theirs, and this is too simplistic, but you see their lending's gone up, but they've actually held their RWAs more or less flat. So really making sure that you're getting the right efficiency. Now they have other things in there around, you know, what the level of market volatility and things like that and all different RWAs for lots of different reasons. But we'd be very pleased with how they've managed to grow that book. And also that they do get the benefit of the RWA management actions, more so that you would see in certainly retail or the private bank.

James Can I ask one more?

Katie Yeah, why not? We'll make it the last. And I said, anyway, so I sort of drag it all out of you. But yes, I'd love you to ask me a question about the DBB and are [some of] your consensus numbers too high? So just if that was one that you wanted me to ask. So the answer to that question would be yes. So anyway, your question.

James It was a different topic and it was on the current account openings. So how much of your retail NIBBS have been supported by new accounts over the past year? So you had quite a few quarters of really strong switcher numbers in the Q2 data that's just been released. It does seem to have come off a bit. So is this relative to the past 12 months going to be a bit of a headwind now for you? I see Stuart reaching for his mute button.

Stuart Yeah, I think that's a good question. In 2023, we were in the switcher market for quite a long time. I think from memory, we were in from the beginning of the year deep into Q3. I guess if you think about what personal sector deposits were doing and what our balance sheet was doing against that backdrop was, it was more systemically under pressure and clearly new customer acquisition brings with it a deposit

level, etc. This year, I think the way we've behaved in the switcher market is more typical. So we ran a campaign, a limited campaign at the beginning of the year and did very well, which was great. We weren't in the market in Q2. We're back in the market now as our one or two others we're in a net positive position on that for the year as a whole, which we're pleased with. But I would say what we're doing this year is much more typical than what you saw and will have seen in the data over the last 18 to 24 months, for example.

Katie And Stuart, it would be fair to say that that switcher isn't something that's particularly changing the NIBBS level, you know, in and as they do it.

Stuart No, if you look at our results, it's not a significant driver.

Katie Perfect, thank you. I think we've got a question from Ed, but he's struggling with very strange lighting, so I'm not entirely sure where he is. I can see more or less the top of his head, but yes, oh, he's gone again.

Ed No, I'm in a pub car park, so I apologise.

Katie I thought you might be in the middle of a car park or something, sorry!

Ed No, they insisted that I put my camera on or I'm not allowed to ask a question.

Katie We all know what you look like, so you'll be OK.

Ed I had two questions and again, because I'm in a car park, they might have been asked, so apologies in advance. But the first one was about motor finance. I know you're not involved, etc. So in one sense, we can ignore it. But there has been quite a shift, particularly in terms of the

FCA's attitude and seemingly sort of standing back from the sector. So could you give us an idea, within your franchise, I assume you've got attacks from the claims management companies as well? But I wondered if you could just tell us what are the key areas where they're attacking you today? Can we get some idea of that? That's one question.

And then the other question is on the hedge, we can all get super excited by rolling off the hedge and 170 billion or whatever times by 3% and we get high 20s returns. But I assume that as it rolls in your planning, the expectation, I guess, is that at some point you'll share some of that upside with customers. And I just wondered if you could give us some idea within your internal planning, how much of that split do you expect to take?

Katie Yeah, so a couple of things. So first of all, your first one, we're not being particularly attacked by claims management companies. We're not seeing an uptick in complaints or certainly coming in from that direction. And I think, because we really just are not in scope for motor finance and they very much follow what the topic is. And because we're not in that topic, it's not something that we're there for. In terms of the, I've completely forgotten the second one.

Ed Just about the hedge in terms of…

Katie The hedge, yes, sorry, thank you very much. So I guess that's not really how we think about it as we look at the hedge. We don't think, well, this is our income line and this is how we share it with our customers. I think what we do with the customers is we obviously look and we price the products based on customer behaviour and also based on the competitor behaviour. You know that we are trying to manage our mortgages to around 70 basis points. We think that gives the right return for the shareholder as well as the right pricing on a customer level if I look at something like mortgages. But it's not a question of actually that we do this separation of this much for this person and this much for that person. It's very much customer and competitor led in terms of that pricing.

Ed So on the savings side, I mean, I guess it's the saving side where you're making a lot of money at the moment. I mean, if the competitor environment stays broadly as it is, we should, in terms of our modelling, just bank the hedge as it rolls.

Katie Yes, in theory. What we've given you to help you is this idea that we pass through an average of 60% for each cut. And I think that sensitivity is a good one for you to continue to use.

Ed Okay, thanks.

Katie Lovely, super, thanks. Amit.

Amit Hi, thank you. So yeah, just maybe more of a follow up. I appreciate the commentary just on the motor finance piece. I'm just curious, I just wanted to just double check whether there are any other retail financing products that the group provides where there are commission's paid to intermediaries, brokers, which are not fully disclosed to clients. Or if there are, you know, just any other products to that extent. And, also just curious, you know, for example, within the broader consumer finance piece. If we are having a number of players pulling out or slowing down, etc., whether you see that as creating some opportunity on an obviously fully informed consent and disclosed basis for the group.

Katie Yeah, so I think in terms of the disclosure piece, I mean, obviously we are looking at the ruling that's come out, we'll be watching what happens in terms of the, if any appeal that happens and what look across we need to do on that. But it's not, I won't probably get too drawn on that just now, but in terms of obviously what we're doing today, all of our products have just gone through the whole customer duty reviews and things like that. Any questions we need to make because of those sorts of things we're done at that time. So it's not something I view as particularly high at this moment.

There's always opportunities when your competitors are distracted by things, you know, so I think it's something that we continue to look at and whether we have those opportunities. We are very clear where we believe that we can grow, you know, in terms of that credit card and mortgages space. And we'll continue to make sure that we're very active in that. And if there are things thatcome up, whether it be something through as a result of acquisition or as a result of competitors being distracted, we'll try to make sure that we do take advantage of that. But it's not something Amit that I would point to specifically at the moment.

Amit Got it, thank you.

Katie Lovely, thanks very much.

Ben Yeah, one final question and I apologise those on the line I didn't say my name before, but thank you. And one just more holistic question now with the Trump victory, I mean, there are, I suppose, some market questions around whether Europe, the UK might reconsider some of the Basel timeline. Is that something you've been hearing or thinking about? Do you think there's a sort of realistic possibility to a shift in the timeline?

Katie So it's interesting, it's a conversation I was literally having about an hour before we came into this meeting. So, look, I think the regulators have been quite clear and they've also left themselves a little bit of a window that if the US were to do something completely unexpected, that they would have to reflect upon that. So, I think that we will continue to work with the regulator and then continue to focus on that. But they've definitely left themselves some window of opportunity within there, but we're certainly not planning on that as our working assumption. And we still very much know the [8 billion] and around the 200 billion. But it is a conversation that is something they are very aware of and conversations that we've also had with them.

Just if the US was going to completely pull out, it obviously brings you in the whole questioning of actually, can you do global rule setting? You know, if you have the US off the page and other regulators would react to that.

Claire That's it.

Katie That’s it, lovely. Well, I just as ever say thank you for your time. I know that we've got various salesforce meetings coming up. Some of you over the next quarter and different investor meetings as well. So we'll touch that with some of you then. And then we'll look forward to talking again in February when we get to do it all again. So thank you very much. And we'll make sure we send you our invitations to the Christmas drinks. Trying to get there before Anna does. OK, thanks very much, everybody. Take care.