NatWest Group plc
Q3 2023 Results Call Transcript
27th October 2023

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Management presentation

Operator: Good morning and welcome to the NWG Q3 Results 2023 - Management presentation. Today's presentation will be hosted by CEO Paul Thwaite and CFO Katie Murray. After the presentation, we will open up for questions.

Paul, please go ahead.

Paul Thwaite, CEO: Good morning and thank you for joining us this morning for my first set of results since becoming CEO.

I'm going to start with the financial headlines and my near-term priorities for the business then Katie will run you through the Q3 results in greater detail and after that we'll open it up for questions. Our customers and communities are central to our strategy, so I'd like to begin by putting the financial headlines in the context of recent customer activity.

Slide 3: The business is performing well
During the first nine months of this year, we have:

- lent over 8 billion into the UK economy
- opened over 80,000 new business start-up accounts
- helped 312,000 customers buy or refinance their homes
- and opened over 1 million savings accounts alongside around 800 thousand current accounts.

In addition, we have delivered over 53 billion of Climate and Sustainable Funding and Financing since July 2021.

Turning now to the financial headlines.

We delivered operating profit of £4.9bn for the first nine months, which is up 33% on the prior year, with attributable profit of 3.2 billion.

Income was £10.9bn and costs were £5.6bn

Our cost income ratio was just under 50%, with some benefit from Foreign Exchange gains, and we are on track to meet our cost target of c.£7.6 billion for the year.

Our balance sheet remains strong and our funding is well diversified with £424 billion in deposits, £358 billion of customer loans and a loan to deposit ratio of 83%

We remain committed to a 40% pay-out ratio with capacity for buybacks and have paid or accrued 1.1 billion in dividend payments in the first nine months.

- In addition to the directed buy back of 1.3 billion in May, we have also carried out almost half of the 500 million on market buyback announced in July.
- Taken together, this represents distributions of 2.9 billion, more than 90% of our nine-month attributable profit
- and brings our CET 1 ratio to 13.5%.

Our return on tangible equity was 17.1% and we expect to be at the top end of our 14-16% target range by the year end.

Despite this strong set of results, I recognise that income and Net Interest Margin came in below expectations, reflecting an accelerated change in customer behaviour during the quarter.

Customers are more actively searching for yield and moving balances from non-interest-bearing accounts to lower margin saving and fixed term products. And in a competitive market environment we have taken the decision to compete. Whilst this comes at a cost in the near term, we are balancing income and margin with the long-term value of deepening customer relationships and maintaining a strong funding and liquidity profile.

As a result of changes in customer behaviour relating to both assets and liabilities as well as assumptions on interest rates, we are revising our income and net interest margin guidance for the full year which Katie will cover in more detail.

So let me turn now to my near-term priorities for the business…

Slide 3: Near term priorities

I have been very focused on running the business, ensuring we continue to serve and support our customers and communities. At a time of macroeconomic uncertainty and evolving behaviour, it is essential that we continue to be a strong, stable and trustworthy partner for our 19m customers and communities.

It is important that we are the very best Bank we can be, and I would like to thank all of my colleagues for their continued hard work and dedication.
There is more to be done, as we continue to make it easier for our customers to engage with us, either via our digital channels or our extensive presence across the country

We remain focused on driving and delivering the outcomes we set out earlier this year – simplification, digitisation and using data and technology to better serve our customers. I have already made several decisions to improve efficiency and strengthen our focus on simplification and productivity.

This is very much in line with the agenda I drove in my previous roles here at the Bank. And as I continued to spend time with our businesses during the quarter, it has confirmed my view that there is more value and growth we can deliver.

We are also in the midst of the planning cycle and as you'd expect, I have spent a lot of time with Katie and the team going over the plan, stress testing it and challenging ourselves to look at a range of scenarios.

We have worked hard to absorb the recent inflationary pressures but given the macro-economic environment, it will come as no surprise that we continue to tighten our approach to cost in order to deliver attractive returns and capital generation consistent with our medium-term target of 14-16% RoTE.

An important strength of the Bank in recent years has been the robustness of its balance sheet, which positions us well for both the upside and downside.

Our customers remain resilient, and impairments are low, but I am very alive to the ongoing risks associated with higher rates, inflation, and supply chain shocks. I am also clear that these impacts may still be working their way through the system, so we are closely monitoring a wide range of indicators and testing our balance sheet for a wide range of economic scenarios.

Our strong Common Equity Tier 1 and Liquidity Ratios position us well to navigate the macro environment, changing customer behaviour, and remaining uncertainty on the impact and timing of upcoming regulatory change.

We therefore need to be dynamic and disciplined in the way we manage and allocate our liquidity and capital. We have made good progress over the year to diversify our deposit product offering, better leveraging our data and using a broader range of tools on both sides of the balance sheet. That said, I still see opportunities to be smarter and quicker.

Our recent track record of capital generation is strong and allows us both to invest in the business and provide shareholders with attractive returns.

I fully appreciate that stability and predictability of our capital distributions, together with their timing through the cycle, is central to our value and investment case.

Finally, the recent appointments to my leadership team have settled well and I am pleased with the teams' ability to focus on delivering for our customers and driving the execution of our plan.

We have a strong business and are making good progress, but I am keenly aware that we will be judged on our ability to deliver.

With that, I will hand over now to Katie to go through the results in more detail.

Katie Murray

Thank you, Paul.
I am going to talk about the performance in the third quarter using the second quarter as a comparator on slide 6.

Slide 6 Strong Q3’23 operating performance
Total income of £3.5bn was down 9.4%, as Foreign Currency gains in the second quarter were not repeated in the third.

Income excluding all notable items was also around £3.5 billion, down 1.4%.

Within this, Net interest income was 4.9% lower at £2.7 billion, while Non-interest income grew 12.2% to £829 million.

Operating expenses were stable at £1.9bn

The impairment charge increased to £229 million or 24 basis points of loans, reflecting normalisation and the non-repeat of releases in the second quarter when we updated our economic assumptions.
Taking all of this together, we delivered operating profit before tax of £1.3 billion, and profit attributable to ordinary shareholders of £866 million, which is equal to a return on tangible equity of 14.7% in the quarter.

Slide 7 Mortgage demand moderates, further share gains across the book

We are pleased to have delivered further net lending growth.

This was driven by our corporate customers while net mortgage lending moderated following a strong first half Gross loans to customers across the three businesses increased by £2.0 billion to £358 billion.

Taking Retail Banking together with Private Banking: Mortgage balances grew by £200 million, representing stock share of 12.6%. Gross new mortgage lending was £7.9 billion, representing flow share of around 13%.

Unsecured balances increased by 500 million to £15.5 billion, driven by continuing customer demand and share gains within cards.

In Commercial & Institutional, gross customer loans were up by £1.3 billion.

At the mid to large end, we saw demand for Term Credit Facilities and Private Financing.

At the smaller end, demand remains muted, and customers with surplus liquidity continued to deleverage, including repayment of government scheme lending.

So let me turn now to deposits on slide 8.

Slide 8 Robust deposit funding – balances increase, migration continues

Customer deposits across our three businesses were up in the quarter at £424 billion. Across Retail and Private, deposits grew by £2.1 billion, reflecting market share gains in term deposits.
In Commercial & Institutional, deposits increased by £300 million.

Our stable loan to deposit ratio of 83% allows us to manage our deposit base for value as well as support customers and grow our lending in target markets.

The UK base rate has increased by 25 basis points to 5.25% since we presented our first half results and customers continue to move balances from non-interest bearing to term accounts.

Non-interest bearing balances have reduced from 37% of the total to 35%.

As you can see on the slide, the absolute reduction in non-interest bearing balances, which are the main transaction accounts for our customers, has continued in-line with the second quarter across each of the businesses

Within interest bearing balances we have seen an accelerated change of mix and term accounts are now around 15% of the total, up from 11% at the end of the second quarter.

There were high levels of deposit migration amongst our existing customers, in particular to lower margin term accounts.

We also launched a new fixed rate savings product for retail customers to the entire market at the end of the second quarter - this attracted term balances from customers that are new to the bank, helping to grow our share and contributing to the change in deposit mix.

This launch has enabled us to grow our customer franchise, strengthen our liquidity position and grow income, albeit at tighter margins.

Going forward, we expect the pace of migration to reduce given a slow slowdown in late September and October; and our expectation that UK Base rates will remain at 5.25% through to the second half of 2024;

Turning now to how this impacts our deposit margin on slide 9…

Slide 9 Managing deposits for long term value and liquidity

The top left of the slide shows the average third party customer deposit rate across all three businesses, on both interest-bearing balances and total deposit balances over the last four quarters.

The cost of our total customer deposit base has increased from 0.5% in the fourth quarter last year to 1.8% in the third quarter this year. As a result, interest payable to customers grew from 588 million to £1.9 billion.
The rise in interest payable has outpaced the rise in interest receivable since the second quarter this year which is why Group net interest income has fallen since then.
The average UK base rate in the third quarter was 5.2%, up around 80 basis points on the second. This compares to a 60-basis point increase in the cost of deposits.

Yet our deposit margin fell.

This is because a significant proportion of our deposits are hedged and did not yet benefit from the rise in interest rates.

The bar chart on the right of the slide shows that £195 billion or 45% of our customer deposits form part of the product structural hedge. This has a Weighted Average Life of 2 and a half years, meaning it takes 5 years to fully reprice.

We also hedge our term deposits separately and this income is not included in our structural hedge disclosures. As a result, less than half our deposits are unhedged, and benefit immediately from the increase in SONIA.

As you consider the outlook for our deposit income, you should think about the margins we earn on each of these component parts, how the margin will develop going forward and the balance and mix.

Starting with the product structural hedge.

Given the ongoing reduction in 12-month average eligible balances we expect the size of the hedge to reduce during the fourth quarter and into 2024. However, we expect the reinvestment uplift to offset this balance reduction so that structural hedge income increases year-on-year in 2024 and more meaningfully in 2025.

Turning to hedged term deposits.

This remains a competitive market with tight margins where we are seeing the fastest growth in balances.

Finally, unhedged instant access deposits.

As you know our cumulative passthrough on instant access accounts has been around 50% to date. This means that unhedged margins are currently around 2.5%.
The margin outlook will depend on competition, customer behaviour and of course the UK base rate.

Let me now explain how deposit margins impacted income on slide 10.

Slide 10 Income broadly stable, stronger non-interest income

Income excluding all notable items was 3.5 billion, down 1.4% on the second quarter.

Net interest income was 4.9% lower at 2.7 billion, driven by lower margins and broadly stable average interest earning assets. Bank Net Interest Margin reduced by 19 basis points to 2.94% as a result of:

- lower lending margins which accounted for 12 basis points, driven by mortgages;
- and lower deposit margins, accounting for 14 basis points, reflecting additional interest expense which more than offset the structural hedge reinvestment this quarter.

These two movements were partly offset by a 6 basis point benefit from Funding and Other movement as a result of one-off reallocations from non-interest income which we do not expect to repeat.

Non-interest income, excluding notable items, grew 90 million to £829 million. Corporate activity improved in the quarter resulting in higher lending fees. We are pleased that non-interest income for the first nine months of the year is up 7% on the same period last year.

Turning to the full year, we now expect income excluding notable items of around £14.3 billion and Bank Net Interest Margin greater than 3%.

This guidance is the result of changes in customer behaviour on both the asset and liability side as well as revised assumptions on interest rates.

On liabilities, as I just mentioned, we expect the future pace of migration to slow and non-interest-bearing accounts to represent 34% of the total at the year end with Term at around 17%. This means that we do not expect deposit margin pressure to continue at the same pace into the fourth quarter.

On the asset side, our mortgage customers are refinancing onto rates that are higher but at a tighter margin for us. We expect this headwind to moderate over the coming quarters.

Finally, the interest rate outlook has changed. As you know our income guidance assumed a 50 basis point increase in August to 5.5%. We now expect the UK base rate to remain at 5.25% for the rest of the year.

We expect both lending margin and deposit margin pressures to ease in the the fourth quarter and therefore we do not expect Bank NIM to reduce by a similar 19 basis points as we saw in the third quarter.

Moving on to Costs on slide 11.

Slide 11 On track for ~£7.6bn other operating costs in FY’23

Other operating expenses were £1.8 billion for the third quarter, down £82 million or 4.4% on the second.

This was driven by lower staff costs due to our ongoing exit from Ulster Bank where we have incurred £206 million of direct costs in the first nine months and continue to guide to around £300 million for the full year.

We expect other operating costs of around £7.6 billion for the full year, in line with our guidance. This delivers a cost income ratio of 49.9% for the first 9 months, benefiting from Foreign Exchange gains.

Excluding these, the cost income ratio is 51.4%.

I'd like to turn now to impairments on slide 12.

Slide 12 We now expect our impairment charge for FY'23 to be below 20bps

We booked a net impairment charge of £229 million in the third quarter, equivalent to 24 basis points of loans on an annualised basis. This reflects a normalisation of trends and the absence of releases made in the second quarter when we revised our economic assumptions.

These assumptions remain appropriate and are unchanged.

Our impairment loss rate for the first 9 months is 16 basis points and we now expect to be below our through the cycle range of 20-30 basis points for the full year.

Our balance sheet provision for Expected Credit Loss is broadly stable at £3.6 billion, equivalent to coverage of 94 basis points of loans.

This includes £453 million of Post Model Adjustments for economic uncertainty, which are also broadly stable in the quarter.

We remain comfortable with coverage of the book which continues to perform well.

I'll talk a bit more about the composition and quality of our loan book on slide 13…

Slide 13 Well diversified, high-quality loan book

We have a well-diversified prime loan book.

Over 50% of our Group lending consists of mortgages, where the average Loan to Value is 55% or 69% on new business. 92% of our book is fixed, the majority at 5 years, 5% are trackers and 3% is on a Standard Variable Rate.

Our customers continue to refinance early, to take advantage of lower rates in the 6-month window before roll-off, and we monitor the impact of higher rates on customers closely after they refinance.

We are seeing a return to more normalised levels of arrears in our mortgage book. But these remain a little below 2019 levels and we are not seeing any material increase in requests for forbearance. Our personal unsecured exposure is less than 4% of group lending and is performing in line with expectations.

Our corporate book is well diversified and is performing well. We have seen some sectors rebuild cash buffers over the past quarter and we continue to hold PMAs for those sectors where liquidity pressures may be more acute.

Turning now to look at returns and capital generation on slide 14.

Slide 14 Continued sustainable returns and strong capital generation and distribution

We are pleased to have delivered 14.7% Return on tangible equity this quarter, driving good capital generation.

We ended the quarter with a Common Equity Tier 1 ratio of 13.5%, in line with the second quarter.

Earnings delivered an uplift of 49 basis points which was partly offset by RWA growth of £4.1 billion, absorbing 30 basis points. This led to net capital generation of 21 basis points in the quarter and 118 basis points for the first 9 months, excluding non-recurring impacts such as our acquisition of Cushon.

We accrued the equivalent of 20 basis points in the third quarter towards the final dividend, in line with our 40% pay-out ratio.

Looking to the fourth quarter:

- we expect RWAs to increase by around £3 billion as a result of CRD IV model updates which remain subject to further development and final approval by the PRA

- and we expect net RWA growth to be broadly in line with this 3 billion increase, given our current expectations for credit growth and typical market risk seasonality.

We now expect RWAs to be around £200 billion at the end of 2025, including the impact of Basel 3.1 and further CRD IV model development.

At this point, we view around 200 billion as an appropriate basis for planning. But this guidance is clearly subject to final rules on credit and output floors, which will not be published until the middle of 2024, as well as regulatory approval.

We note recent comments from the PRA and its intention to evolve some of the credit risk proposals, and we will seek to mitigate these changes and optimise our balance sheet as much as we can through to 2025.

Earnings have generated 180 basis points of capital in the first 9 months, before RWA growth, and we are comfortable with our ongoing capacity to generate and distribute capital over this period. In December Paul and I will discuss our capital return plans for 2024 with the Board, including both directed and on market buybacks, and we will update you at the full year results in February.

Turning now to our balance sheet strength on slide 14

Slide 15 Strong capital and leverage positions provide confidence and flexibility

Our CET1 ratio of 13.5% was within our target range of 13-14%, which includes a buffer above our minimum requirements.

Our UK leverage ratio of 5.1% was stable on the second quarter and remains well above the Bank of England minimum requirement.

Our Liquidity Coverage Ratio was 145% at the end of the third quarter on a spot basis, and 142% on a 12-month average basis. This is well above our minimum requirement.

Turning to 2023 guidance

Slide 16 Our FY'23 guidance

We now expect:

- income, excluding notable items, to be around 14.3 billion, at a UK base rate of 5.25%

- with Net Interest Margin above 3.0%,

- and group operating costs, excluding litigation and conduct, of around £7.6 billion,

- delivering a cost income ratio below 52%.

We anticipate a loan impairment rate below the range of 20-30 basis points, and together we expect this to lead to a Return on Tangible Equity at the upper end of our 14 to 16% range.

With that I'll hand back to Paul.

Paul Thank you, Katie.

Slide 8 Well positioned for current macro environment

As you can see, we have performed well in the first nine months as our customers continued to adapt in an uncertain economic environment and I remain optimistic about our ability to deliver good performance.

My focus remains on consistently serving our customers' needs whilst continuing to drive the execution of our strategic plan with an emphasis on further digitisation and simplification.

We are able to do this supported by a strong balance sheet which allows us to grow in attractive parts of the market whilst maintaining strong originating discipline.

As we continue to generate capital we are committed to continuing to drive returns and shareholder distributions, with a 40% pay-out ratio for ordinary dividends and with capacity for further buybacks.

I expect to provide you with more detail in February.

Thank you very much - we're happy to open it up for questions now.

Operator: Our first question comes from Raul Sinha from JP Morgan. Please go ahead.

Raul: Hi, good morning, Paul, Katie. A couple of questions to start with, I guess.

The first one, I think you've been reasonably clear on the direction of NIM travel in the second half of the year coming into these results, but I guess the magnitude of some of the moves has surprised most people. So, I guess the question that I wanted you to address is how should we think about the direction of travel in Q4, and if you can give us a little bit more colour around the exit run rate. And related to that, I guess the broader question is that some of the external factors that are impacting your NIM and the industry NIM, such as competition migration, deposit levels in the industry, are all quite difficult to predict and external to you. So, what sort of gives you the confidence around the slightly better outlook for NIM decline next quarter? That's the first one.

The second one, just maybe staying on deposits, you've taken the decision, as you said, Paul, to compete in deposits. And I was just wondering if you might elaborate a little bit around your thinking, just given the very low loans to deposits ratio at NatWest.

What does that really mean in terms of what are you looking to do with your deposits? Are you expecting to grow your deposits on an absolute basis? And how do you look at sort of the returns dynamic within that? Thank you.

Paul: Great. Thanks, Raul. Why don't I take the deposit question, the second question first, then, Katie, you can cover the NIM piece.

So, as you rightly said, Raul, we made a very conscious and deliberate decision around competition and deposits. You can see that we've stabilised the book quarter two, quarter three. That's allowed us to retain deposits and in certain parts of the market, gain some share. As you rightly point out, there's a trade-off there. It has a cost. And the judgment I've made really is balancing that cost versus retaining and acquiring the customer relationships, but also the liquidity value. That's the kind of strategic judgment that we've made. And we stand behind that. We think that's the right move for us. The link to the loan deposit ratio you reference is a good one.

And you're right. Our LDR is different from some of our peers. As you can see from the growth in some of our products on the asset side, we still want to grow part of our asset balance sheet and some of our customer segments there. So, we'll be looking to deploy that where we see good opportunities. We'll be very disciplined around the returns that we want to get for the deployment of that capital on the asset side. But I do see various areas to deploy. So, we're very focused on getting those, I think, is your final part of your question, those dynamics between what we pay for deposits versus then how we pass those pricing on to the asset side. And you can see some of that in the C&I asset book as well. Katie, NIM?

Katie: Sure. Thanks so much, Paul. So, for your guidance for total income ex notable items of around 14.3, you know, we don't give you specific NII guidance. This implies the income for the fourth quarter starts to stabilize relative to the third. Our current view is NIM is greater than 3% for the full year, which means that we would expect that the Q4 reduction is less than the Q3 reduction. When we look at the current view, there's a couple of factors you need to keep in mind. Base rates remaining at 525 until the end of the year. Broadly stable deposit balances through to the end of the year as we've delivered this quarter. And customer behaviour, we do assume a slowdown in deposit migration with NIBBs at 34% and term at 17% at the year end.

I guess for all your second part of your questions, the confidence in that slowdown is very much what we've seen really through the last seven weeks, where you have started to see it slowing down. We do expect there to become short term movements, as you see people and other banks do, kind of special offers at any one time, but we're comfortable with that, with that kind of slowdown. So, we would expect to end sort of 34 and 17. Thanks Raul.

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

Katie: Morning, Aman.

Aman: Morning, Katie. Morning, Paul. Hopefully you can hear me okay.

Could I probe on two things, please? One was around your hedge commentary. So, I'm just wondering if you could tighten up some of the, some of your expectations around the hedge. I think you talked about hedge notional being down in Q4 and into '24.

You've obviously given us some kind of deposit mix expectations into year end, which is actually really helpful. So, thank you very much for that.

So presumably, you've got a pretty decent view on where you expect the kind of hedge in terms of notional to go from here. But I guess also, I mean, it sounded like you're looking for it to be a tailwind into '24 and '25. I mean, I would definitely hope that to be the case, right, given the repricing tailwind. So, can you help us kind of quantify that? Yeah, it should be a material headwind going forward. So, do you see that?

And then the second one was just around your medium-term aspiration. So, I kind of note around the outlook statement, you continue to target medium term road to your 14 to 16, but particularly around the sub 50% cost income ratio and 25.

I guess there's two parts to that. One is, is that a proper reiteration of that medium-term aspiration? So, do you continue to target a sub-50% cost income ratio? And do you remain confident in achieving that in '25? Or should we expect to kind of refresh that update at full year?

And I'm kind of interested in the implied recovery in the revenue performance that, you know, inherently assumes and implies, which I think is quite important. So, you know, if you do believe that, where is that coming from? And, you know, what does it mean for NIM? Kind of, you know, do you expect NIM to recover in coming quarters? Thank you very much.

Paul: Thanks, Aman. Very clear. So let me take the kind of ROTE and the guidance points, and then Katie, you can take us through the hedge. So, from a ROTE perspective, let's do the guidance first for this year. We're still very clear, we'll be at the upper end of the range.

We're also in terms of the outlook, median to target ROTE 14 to 16, that's unchanged. We do expect to operate in that range. So very clear on that.

You also correctly highlighted that the target is 2025 cost income ratio of 50%. Obviously, there's two parts to that. I think you would agree, and I hope you'd agree, we've got a very strong track record on cost reduction, very focused on managing costs.

In my prepared statement, hopefully you heard that given the change in macro, you know, I've been very focused on getting a grip on both the cost outlook and the capital outlook. So really trying to take control on the things that we can control, some of the customer behaviours we can't, obviously the economics we can't, but I'm determined to mitigate some of those external impacts with the actions we take on costs and capital. So that's where the guidance is for the median term. Obviously, it links to the first part of your question, how does the hedge flow through to that, Katie?

Katie: Sure, thanks very much, Paul. So, if we look at the hedge, the notional balance, as you know, at the end of the third quarter, 195 billion pounds down from 202 billion at the end of, the end of June. Based on our expectation for deposit mix at the end of 2023, and our 12-month loopback, we expect the hedge notional to reduce to around 190 billion at the end of 2023. And then a further reduction in 2024, in line with the fall in the average eligible balances. As you know, Aman, a 60th of the hedge matures each month, currently equivalent to around 10 billion pounds per quarter.

The roll-off of the hedge yield is about around 1% in the fourth quarter, falling to an average of 80 basis points in 2024, and then 50 basis points in 2025. We will continue to reinvest them at the prevailing five-year swap rate. I would say that the average that we had in October for reinvestment was around 4.6%. So clearly the difference between roll-off and roll-on rates with increasing yield over time, which was at one and a half percent in Q3, is a benefit. We do expect the higher rate to lead to higher hedge income year on year in 2024, and increasingly so in 2025, as we talked about at the half year. I think one of the key factors within there is obviously the timing of the stabilisation of deposits and in terms of the mix of those deposits. Clearly quicker stabilisation means that the benefit of the hedge will become greater, and it will come to us sooner. Currently, our estimation is that we will start to see stabilisation sort of during Q2 next year.

Aman, hopefully that answers your question. Thanks very much.

Paul: Thanks, Aman.

Operator: Our next question comes from Ed Firth of KBW. Ed, if you'd like to unmute and ask your question.

Katie: Hi, Ed.

Ed: Yeah, thank you very much and morning, everybody. I just have two questions. The first one was about your comments around expectations for deposit pricing to ease, or deposit pressures to ease. Because if I look at market pricing, I mean, spreads on deposits now are almost all-time highs. The only reason it's not coming through in your margin is obviously because of the hedge drag. I mean, if a hedge was repriced at today's price, your margin would be like 450 basis points or something. So, it seems to me in a market where you've got a lot of competitors who don't have these hedges, and you can think of people like Chase or Marcus, etc. I don't understand why you think that they're going to be easing off the pedal in order to help you with your hedge.

It seems to me that if you put in things like TFSME coming through as well, that the pressure is only going to build because my spreads are very, very wide for people who don't have a hedge. So, I guess that's my first question.

And the second question, I was just struck that in terms of risk weighted assets, you highlighted that the increase in this quarter was driven by market-related risk weighted assets. And I'm just wondering, is that like a strategic shift? Because it seems to me, you're making a trade-off there in terms of share buybacks, which look reasonably unlikely now at the year end, against putting capital into market-based activities, which I suspect has not traditionally been where you've been focused. And it's perhaps something that I guess a number of shareholders would be less than keen on. So, I just wondered, is that now an area where you see opportunity? And is that the sort of trade-off that you're thinking in terms of capital allocation? Thanks very much.

Paul: Thanks, Ed. I'll take the second point and be very clear. It doesn't represent any change in strategy around our markets business at all. All that is, is a normalisation in quarter three, given there was some significant reductions in quarter two. So, it's really the comparison point. It has gone up, as Katie rightly said, but it's more a normalisation of where that business was earlier in the year. Absolutely no change.

We see markets as an important part of our C&I franchise, but we're not proposing to allocate materially more capital to it at this stage.

Ed: Would you expect it to go down in Q4? I mean, traditionally, it's quite a low activity, is that correct?

Paul: Correct. Yeah, that would be our expectation.

Ed: Great, thanks.

Katie: Lovely. Thanks very much, Ed. So, I think, first of all, just to clarify, I don't think that competition will ease. We think that the transition into fix will start to ease and stabilise. So, I do expect the deposit market to remain to be highly competitive as we move forward from here. And I think the impact of TFSME, as we've seen with some of our competitors over the summer, will cause people to do very short-term offers to enable them to make repayments on their TFSME. I think we'll continue to see that as we go through. I would probably just quickly remind you that the hedge is there to help smooth out our income over a number of years. It's not there to make short-term gains and losses on the interest rate levels. And I think that's really important to remember.

We did show you on slide 9 that we're paying customers on average 2.7% on interest-bearing deposits and 1.8% on all deposits. I think I would remind you that we're not earning the difference between 1.8% and the average base rate of 5.2% because of how we hedge that and how that all kind of interacts. But as I look forward from here, I think we've taken some very strategic action in this quarter to make sure that we retain and build our deposit base for the long term so that we're able to withstand what I do think will be very competitive next 9 to 12 months as people deal with the repayments and things on their TFSME. But we're comfortable with where we are and that we've got the right product out in the market to deal with that. Thanks, Ed.

Ed: Katie, can I just come back on that?

Katie: Sure.

Ed: As we look at Q4, we can all do the maths about where the Q4 margin will end up, but I guess it's somewhere in the 280, 290 level. But I guess more importantly, what happens next year? Because the question is certainly talking to your peers that they're generally talking about margins going down from there into next year, which is obviously a huge difference to where the market thought early this morning your margin was going to be next year. So, is that analysis correct for you that, that margin we should expect to continue to deteriorate next year because deposit pricing is only getting tougher and not easier? And obviously, the roll off of the hedge is going to take five years.

Katie: Yeah, so I think there's a couple of things going on within there. So, as I look, you know, Ed, I'm not a big fan of forecasting NIM, as you know, there's a lot of moving parts within it. But if you think you kind of lift up a little bit to the income story. So, if I think of 2024 income, full year this year, we've guided you to 14.3, which is implying that 3.4 billion in the fourth quarter. So that is the expectation that NIM will be above 3% for the full year. And I do mean above when I've said above, so I'm not trying to guide you there. So, I think you've kind of clicked on that.

And we do not expect the fall in NIM in the fourth quarter to be as severe as it has been in this third quarter. So, I do expect to see NIM stabilising as we go through 2024. I think there's a couple of things that will impact the timing of that stabilisation. So, I don't think it will be instant. We've talked about the headwinds of deposit migration and mortgages, they do they do moderate over the coming quarters, but they do not end at the end of 2023.

The hedge tailwind, which I talked about already, it does become stronger as we move through 2024. And that will eventually set off, offset the headwinds of that deposit migration and the timing on stabilisation. So, this gives us confidence on the medium-term income. I would urge you not to annualise the fourth quarter for those for those various reasons around the stabilisation.

Ed: Okay, that's very helpful.

Operator: Next, we'll be going to Alvaro Serrano of Morgan Stanley. Alvaro, if you'd like to unmute and ask your question.

Paul & Katie: Morning Alvaro.

Operator: Alvaro, if you'd like to unmute and go ahead and ask your question.

Alvaro: Sorry, I'm here, just struggling with technology. Sorry, to ask more questions about deposits and NIM.

You've given a very precise number for the end of the year on the 17 or 34%, which is, given there’s two months ago, and the turmoil we've seen the last three months, I think it's very good. But and I know you've said that the last few weeks give you a bit of confidence that things have slowed down and become more predictable. But maybe I don't know if you can share any more precise numbers around the last sort of, what you've seen in October that could help us gain conviction on that number.

And also, relate to that deposit balance is the absolute number, you've gained market share. I know you've explained why you've decided to gain market share and balances are up. But would you be willing to let those balances slip a bit to protect the margin? What's the overall balance of deposit outlook you think for Q4, and as we think about '24? Thank you.

Katie: Yeah, sure Alvaro. Well, let me let me pick those apart. So first of all, I think, as I look at why the kind of conviction, I think there's a few different industry comparatives we look at what we know is that the US is generally a little bit ahead of us. So, we've had to look at where they are. We've also looked within our own book. And what we saw in our own book is that Private moved faster than Retail.

And what I've seen very consistently over the last number of weeks is that kind of level of stabilisation. Clearly, they're much smaller numbers and far fewer people. But that kind of that, that stabilisation is, is clear, when we've looked and we'll see the September data, I guess will, will come out as well, what we're expecting as well after the kind of peak of July, the slightly slower August, and then in our own numbers, what we saw coming into September within the Retail world, that kind of level of stabilisation. Now, that doesn't mean that it's, there's not going to be movements in there, there definitely will be movements as we move in, as we move into that piece, but I'm comfortable as we kind of see, what we've seen in our data, what we've seen elsewhere, logically, that stabilisation would kind of start to come through.

If I then kind of look at your deposit numbers, Paul, do you want to jump in on that one?

Paul: Yeah, Alvaro I think important to clarify one point, the share gains have been on the term side rather than the overall stock side. So that's what we referred to there. So, you've seen an increase in market share overall, you'll see it from the Bank of England data, our share has kind of remained relatively flat, I would say, that that's the way to think about it. So, it's not that we're taking outsized market share gains. In terms of how we're thinking about that, moving forward, my view is we're comfortable with our current position. In terms of would we compete more, we'll do that very much through a value lens and do the trade-off between the value from the P&L value from the deposit and the margin impact versus retaining the relationships and the liquidity value that that gives us. So that's how we think about it. Thanks, Alvaro.

Alvaro: Thank you.

Operator: Our next question will come from Guy Stebbings of BNP Paribas Exane. If you'd like to go ahead, Guy, and ask your question.

Guy: So, the first question was back to the medium-term ROTE guidance. I'm just trying to understand why you're not changing that guidance at this stage. On the face of it, you're now expecting quite a meaningfully lower net interest income performance than previously, and in very round numbers, we could be talking close to a billion lower, and your expectations for risk-weighted assets and by association, required tangible equities is also higher. So, just trying to gauge where are the positive offsets that help to mean that you still can deliver a 14 to 16% range, or that's still sort of the same range as previously.

I mean, it does sound like perhaps some incremental work on cost, but presumably not enough to fully offset some of those headwinds. So, I'm just trying to understand, is there an element of timing here as well? And really medium-term ROTE guidance is something that's really for discussion at the full year, especially given the challenges in judging exactly how deposits evolve.

And then just a quick follow-up on the 2025 RWA guidance. Could you elaborate on what assumptions you're making there in terms of how the PRA may tweak the final rules? I mean, some of the commentary recently sounds constructive on the face of it. So, I'm just interested in any colour you're giving and how you think those rules land. Thank you.

Paul: Good. Thanks, Guy. I want to say a little bit on the ROTE piece, and then, Katie, maybe you can talk about some of the building blocks.

So, it's crystal clear that ROTE is the North Star. We know how important that is for capital generation and distribution capacity. You're right. We do believe the medium-term perspective, we're not changing the 14 to 16. We expect to operate in that range, the stress on the medium term. We know, as you allude to, it's difficult to be precise because there's a number of moving parts. But I do think there's a number of building blocks. We want to be helpful there and help you with some of those building blocks. So, Katie, do you want to talk a little bit about how we're thinking about it?

Katie: Yeah, sure. Absolutely. So, I've already talked quite a lengthy about income. So I won't repeat that, other than to say that I do urge you not to annualise the Q4 number. If we look at costs, fill your guidance for the year, 7.6 billion. We're comfortable we're going to hit that. I'd remind you that that includes 300 million for Ulster direct costs, which we do expect to reduce materially in 2024. We do recognise that we've got headwinds of higher inflation, and we're working hard to ensure that our investment programme delivers savings to help mitigate this, as you've seen us do, Guy, for many years now.

Impairments, clearly, we're better on impairments than expected to date. We know we're talking about being below 20 basis points in 2023. We've then, as you know, got through the cycle guidance of 20 to 30 basis points. I think when we meet in February, we'll give some views as to where we think we're heading for 2024. But I would remind you that we've got half a billion of PMAs on the balance sheet, and our cautious approach to the release of these. So that also gives you a little bit of protection as you go through. If you then look at the capital piece, we will continue to operate within a range of 13 to 14% CET1. And you've seen this year our comfort to toggle up and down within that range. So, I'd expect that to continue, while we do expect the RWA to trend higher through to 2025.

I think the other thing you've got to also bear in mind is that we've demonstrated a very strong commitment to distributing excess capital as and when it becomes available. And that's also an important point when you think of that kind of average denominator number as you do your calculations.

And Guy, you also asked a little bit on the RWA assumptions as we go into next year, where the changes might be. So, what we've guided you to is, you know, including the CRD4 changes, and the Basel 3.1, my kind of best planning assumption at the moment would be to encourage you to use that 200 billion. What we've been talking about, and we've been quite vocal about is the kind of the business factor in terms of the small lending, and then also what treatments they're using on some of the infrastructure lending. And we were heartened by the comments that we heard from the PRA over this last week. And I think we'll wait and see what comes through. As you know, we're getting some of the rules in January, and then we're getting credit and output floors only coming through in July. So, what I've tried to do today is to give you a kind of a good estimate, the thinking of those factors to kind of help you with your modelling.

We do think at the end of this year, when we talk about that 3 billion uplift, that I would add, add that on just to where we've ended the this year, 182. Paul's already talked about the fact that we do expect market risk and timing just to come back in. So that's the kind of, that gets you to kind of 185 sort of number by the end of this year.

And Guy, I'll leave you to have a think about how you might want to roll in those differences over the two years that follow. I'd probably be pretty linear about it myself, but you'll take, you'll take your own views as to how best to do that.

Guy: Okay, that's very helpful. Thank you.

Katie and Paul: Thanks, Guy.

Operator: We're going to retry with Joseph Dickerson of Jefferies, if you'd like to unmute and ask your question.

Joseph: Hi, I just had a question just on the, on the RWA guide as well. Is the 200 billion pre or post mitigation firstly, and then secondly, I think you'd been guiding more, in prior quarters, towards the lower end of the 5 percent to 10 percent inflation range. So, I'm just wondering what's changed to get you to the higher end of that, given, if anything, it seems like some of the commentary from the PRA is a little bit more friendly on the RWA front. And I think, you know, if I look at where, our estimates are and where I think consensus is, I think we're about 10 billion. You know, that number is coming about 10 billion higher, which is fairly material in CET1 terms. So, I'm just trying to get to the bottom of the moving parts here, if you don't mind.

Katie: Yeah, no, sure. I'm happy to spend a bit time on it. So always post mitigation in terms of the numbers that we work with. I mean, we clearly put a lot of emphasis into the business about managing our capital and making sure that we get the very best return. We've talked a lot in the past about our, pleasing kind of results around the lower kind of risk weighted assets density. So that mitigation is something that we really try to build into the DNA of the organisation. You know, Joe, I probably correct you a little bit in the past, I've been very careful not to guide you to the bottom or the top end. I'm sorry, if you if you've taken away that I haven't completely managed that on the 5 to 10%.

But I think one of the things that really has probably changed, pleased with the, the positivity we've heard from the PRA, I do think and you've heard other banks talk about it in terms of that CRD4 pressure, that is seeing a kind of increase in the underlying models as we're going through our first pieces in relation to mortgages as it is for others. And we'll continue to kind of work through that. But at this point today, it does feel the 200 billion feels the right number to kind of be thinking about by the time you get to end 2025. And historically, I've always been, I think quite good at kind of, when I know more, I'll share it with you. And as this, as the rules develop, we'll continue to make sure that we maintain that transparency with you in terms of the developments in the numbers.

Paul: Well, I would add Joe, as you can be sure that we're going to have a very tight and disciplined approach to managing capital given that regulatory backdrop. So, it's a big focus for me, because to me, it's one of the obvious operational levers we can influence. So big focus over the course of the next two years. Thank you.

Operator: Our next question comes from Benjamin Toms of RBC. Benjamin, if you'd like to unmute and ask your question.

Benjamin: Morning, both and thank you for taking my questions.
Paul, you note that you've been very focused on costs since you started your role. I mean, consensus has costs for 2024 at about 7.6 billion. Are you comfortable with that number without the bank having to take any additional material restructuring costs, which would have implications for capital? And then secondly, your mortgage stock was resilient in the quarter. In half one, NatWest issued a much higher proportion of peers of greater than 90% mortgage flow. Can you comment on that dynamic? And has that trend continued into Q3? Thank you.

Paul: Thanks, Ben. I'll take the cost piece. So, we're not guiding on ‘24. You're right, we've confirmed 7.6, or Katie confirmed earlier in the question 7.6 in terms of ‘23. You're right, you know, both along balance sheet management, capital management and cost have been a focus for me and the team over the course of the last couple of months. What I would say is, you know, we've I think we've got a very good track record in terms of taking cost out of the business. I think we've done that in a way that hasn't been detrimental to either the customer experience or to revenue. So, we are taking a very tight approach. I'll talk more in February in terms of in-year guidance for 24. But I'm not signalling any big restructuring charge or anything like that in this call.

Katie: Thanks, Paul. So, in terms of the mortgages, a couple of things I would say, you're absolutely right. What we've seen is we saw higher flow in the first half of the year, and we've been moderating during this quarter to deal with kind of movements in pricing to make sure that we're really always managing the book for value and not just for volume. So, the 16% falling down to the 13% in flow, I think for me was important to see in this quarter, given where some of the pressures on swap curves have been.
I would say as you look at that above 90% mortgage flow, there's a technical thing behind there. We haven't changed our approach. There's a bit of indexing impact happening in our reports. So, as you see the kind of highest pricing fall, then you actually see more things being kind of moved up above the line.

But I would say, Ben, as you look at our new business, our LTV of our new business is 69% overall. So, I wouldn't read too much into what's a relatively small part of our portfolio that's been indexed up into that, greater than 90%. Thanks very much, Ben.

Operator: Our next question comes from Adam Terelak of Mediobanca. If you'd like to unmute and ask your question.

Adam: Morning, thank you for the questions. I've got a bit of a technical one on the hedge. Clearly, you're talking about 10 billion of maturities and the hedge is down, what, 7 billion in the quarter. I mean, that means that your hedge reinvestment each quarter is pretty minimal. If you then add that you've got further mix shift to come, and a 12 month look back period, it feels like a good 18 months or so, or a good few quarters until we can really talk about the hedge volume stabilising and that tailwind coming through.

I mean, is that the right way of thinking about it from a pure hedge standpoint? And is that why you sound a little bit more confident on the longer-term story rather than the 2024 story?

And then secondly, just feeding that into the NIM conversation, you said to avoid annualising Q4 or annualising exit rates, but it sounds like with mix shift, we're going down before going up. So why are we confident that the acceleration in NIM in the back half of next year can take us back above that 4Q annualised figure? Thank you.

Katie: Perfect. So, a few things within there that I'll try to help you with, Adam. So, I guess as I look at the hedge volume stability, you're absolutely right. We do the hedge on a 12-month rollback. And then what we need to see is that mix stabilising within our deposit base. What I've said already on the calls, we are expecting that stabilisation to come. You're absolutely right. I think it's a couple of quarters away before we kind of get there. So, it's probably kind of a post Q2 thing before we really get that kind of stabilisation.

Then at that point, what's happening is kicking off about £10 billion a quarter. We'll be investing that at rates that are significantly above the roll-off. The roll-off next year is 80 basis points. I think I said earlier that our average reinvestment was 4.6%. So, there's a natural delta. I'll let you take your own views as to where you think that five-year rate might be by the time we get to that piece. So, you'll get some benefit in the earlier quarters because there is some reinvestment, and then that will continue to grow as you go into the second half of the year. And then what you then see is you've then got stabilisation. Then I get into 2025, my 12-month loopback is clearly more stable again. And so therefore, I'm now reinvesting at a rate that is going to far exceed the 50 basis point roll-off rate that I've got into 2025.

So, I mean, when we spoke in Q2, I think I talked there that there was more confidence in the recovery of income into 2025. That still remains the case because exactly of that point, if you need the deposit kind of stabilisation to come through in terms of the blend, we've demonstrated the quantum very well now for kind of two quarters. And then overall, the book will start to yield better. So, at the moment, we're yielding about 1.5%. I would expect that to continue to see improvements in that as I go into 2024 because of the benefit of those different kind of factors. Hope that works for you, Adam.

Adam: Yeah, very clear.

Katie: Lovely. Thanks a lot.

Adam: And sorry, on the NIM profile into 1H and beyond?

Katie: Well, I mean, I guess my answer probably is very similar. So, we've talked about that as we go into Q4 this year, you shouldn't expect to see the level of fall that we've seen in Q3. What we have said is that we expect NIM to be above 3% for the year. So therefore, your kind of exit rate is going to be lower than where we are now. But don't take it down as steeply as we fell in this quarter. You're then going to have the dynamics of a stabilising mortgage book. And we talked about the mortgage book getting to kind of around about kind of 80 basis points. We're sitting at 86 basis points just now. I think there'll still be movement around that 80 basis points piece, but that will stabilise. We'd said that that stabilisation would happen towards the end of this year, early next year. And then I've already talked a lot about deposit stabilisation. So, I won't see any more on that piece. But I certainly see the step down as less. And then I'm talking a bit of a narrative stabilisation of coming. So, I wouldn't run away with the NIM.

Adam: OK, great. Thank you.

Katie: Lovely. Thanks. Thanks, Adam.

Operator: Our next question comes from Jonathan Pierce of Numis. Jonathan, if you'd like to unmute and ask your question.

Jonathan: Hello. Hi, how are you doing? I've got a couple of questions, please. The first on the NIM bridge in Q3 is the lending margin that I'm struggling with a bit, down 12 basis points. You said that was largely mortgages. That's about a 400 million annualised hit to revenue in the quarter. Now, I think there's no more than 15 to 20 billion of refinancings or churn every quarter. So, it implies a huge delta between what's come off and what's gone back on in spread terms. Is that right? Were we sort of 200 basis points of step down in mortgage margin on the churn in Q3? So that's the first question.

The second question, just sort of standing back and thinking about deposit income as a whole, as I think it's slide 9 shows about 340 basis points of margin at the moment if you want to look at it as what you're paying the customers versus base rate. It's probably 320 basis points spot at the end of September, I suppose. But then the product hedge that I prefer to think about, this is 195 billion pound position that's costing you a floating leg of five and a quarter and only receiving one and a half. So that's knocking about 170 basis points clean off what you're earning on the deposit, such that you're back at about 150 basis points. That's the margin you're earning on deposits going through the

P&L. Is your confidence, forgetting about hedge income and notionals and all the rest of it, is your confidence around deposit income over time that the 150 that you're earning net of the cost of the hedge at the moment is more likely to go up in this sort of rate environment than it is sideways or down? Is that a way of thinking about it? Thanks.

Katie: Jonathan, you've obviously spent a lot of time with Claire as well. So, I mean, as ever, you've got it exactly right. So look, definitely you'd see that 150 go up. I mean, it's just the mechanics of reinvestment. I'm rolling off numbers that are falling. So, I'm going from a roll-off of about one, rolling off next year at 80, rolling off the next year at 50. So I mean, it's exactly the right question. So look, I do expect to see that improve as we go into next year.

I think on the mortgages, look, there's a lot of puts and takes going on there. There's a lot going on. There's not as much as you suggest. It's not just as simple as what we're writing on the front curve.

Because as you see at any one moment within the banks, you've got different customer behaviour going on. So, we've got people who are paying more at the time of their refinancing. We've probably got a bit more refinancing going on rather than new mortgage. You're familiar with the fact that the new mortgage market is smaller. And then also you have people who used to pay more in advance of their new rate coming up. And they're not doing that so much now. They're waiting till it ends. So, there's a few different things going on within there. I do think that the mortgage headwind will be smaller going forward. But I would say that we're paying a lot of attention at the moment to that kind of customer behaviour and how they behave at the moment of refinance, and in the months leading up to it as well.

Jonathan: That is helpful. But if I can just press on that a little bit more, because it is a huge delta, quarter on quarter. It's almost as much as the deposit movement.

If you keep writing at the front end at 80 basis points, the book is pretty flat actually in Q3, the mortgage book. If you keep writing at 80 basis points and the stuff that's coming off next year is, I don't know, 90, 100 basis points, where does the math go wrong if we just take 10, 20 basis points on the quarterly churn?

Katie: So, I think a couple of things there. So, we definitely seek to write the book at around 80 basis points over time. What I would say, and we've said a few times that we're probably under a little bit of pressure at the moment because of the movement in the speed of the swap curve and some of the competition in the market. But that's a timing issue. I do think the same way to continue to think of the book and our aspirations is around that 80 basis points. The book itself this quarter is repriced from 102 down to 86. And then what we had said was that we'd expect it to more or less fully reprice by the end of this year.

So I actually think your roll-off number is a little bit high, but we would expect to see that moving to around 80 basis points. And I'm sure in Q2 and Q1 next year, you'll be saying, Katie, why is it a bit lower? Why is it a bit higher? But we're getting into a much tighter corridor of where those numbers are because of the real high value margin pieces will have substantially rolled off by the end of this year. There are some mortgage income disclosures for the retail bank. I think you'll find in the financial supplement, they'll be able to help you with some of the bits and pieces that are going on as well. So, I'd point you to them as well. And obviously, John, I'm happy to talk more later. Thanks very much.

Jonathan: Thanks a lot. That's good. Thank you.

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

Chris: Good morning. Thanks for taking my questions, both.
I wanted to just clarify something you said, Paul, first around restructuring charges. Maybe I wasn't listening carefully enough, but it seemed a little bit ambiguous as to what you were trying to convey to us there with regards restructuring charges.

Paul: Let me, Chris, no ambiguity. The question was, would there be a restructuring or the potential for restructuring charge? And I said no. So, apologies if it wasn't as clear as that.

Chris: And just to confirm as well, in terms of the sort of medium-term ROTW expectation and the sub 50% cost income ratio for 2025, that you see as deliverable without sort of ramping, obviously, you always have restructuring charges within your kind of, normal cost run rate every year. But there's no expectation for that sort of spike up dramatically to deliver that 50% into 2025?

Paul: That's correct. The way I think about it is, and we've talked in the past about investing 3.5 billion over three years. A lot of that is going towards driving simplification, digitization, productivity. So, we're very much, when I think about where can we pull the cost lever in the organization, it's that in existing investment pot that I'm thinking about. I've also been spending a lot of time on making sure the shape of that investment pot is focused on that cost out simplification agenda. So that's how you should think about it rather than additional charges beyond the existing investment plan.

Katie: Thanks, Paul. I might just add a little bit more to help you a little bit on the ROTE point, Chris. And it's almost this quarter is actually a really good quarter to think about, the kind of the ROTE piece. So what you've got is kind of stable and gently growing lending, relatively stable and gently growing kind of deposits. So that kind of gives you some comfort on the quality and the stability of the balance sheet. In this quarter, we delivered 14.7% ROTE. That was after a kind of a one-off charge in terms of a property charge, which actually was a drag in the quarter of 1.99%. You can see that in the notable items. So that would put you above some kind of 16% level.

The way that I look at it, we've talked a lot about NIM and incomes, I'm not going to say any more on that. But actually, it's a very nice quarter when you look at a kind of, the normalized cost number, quite a normalized impairment level. There's a bit of conduct charge within there as well. We've also had a bit of an increase in kind of the RWAs. So, I almost think as you look at this quarter, it's quite a nice kind of blueprint for what you could see going forward. I wouldn't read too much into that and tell you I'm giving you the exact shape as you go forward but I do think that 14.7% ROTE is a good way to think of us as we go forward as well. Hopefully, that's helpful.

Chris: That is helpful. And it actually was the other question I wanted to ask. I mean, consciously, you're not going to give us the NIM number. It is clearly very possible for people to take the greater than 3% NIM guide and, as you put it, run away with the NIM into 2024. If I sort of come at this slightly differently, you've talked about the medium term 14 to 16% ROTE. Are you expecting to be in that range for 2024 as well?

Katie:	And I think let's talk more about that as we get into February. But I do think those comments that I just made around this quarter, I think they're quite helpful when you look at all the different line shapes and some of the RWA growth, and Chris, I dare say we'll chew on the fat on that a little bit more when we meet in February.
Chris:	Okay, thank you.
Operator:	We're going to go to Andrew Coombs of Citibank. Andrew, if you'd like to unmute and go ahead and ask your question.
Andrew:	Morning. If I could just have a couple of follow-ups, please. Just firstly, on the Structural Hedge Notional and the 12-month lookback, you talked about 2024 decline in line, I think, with the balances. But if I look at that 12-month lookback component, if I look at the PCAs, they're down 20 billion year-to-date. Your PCAs and savings are down 30 billion. Your guidance on the Structural Hedge Notional is for a 19 billion decline over the course of the year to get to that 190. So, is there an element of catch-up in the first half of '24 relative to those deposit balances? Just to fully understand that 12-month lookback point. So, that's the first question. And then the second question, just coming back to the lending margin, and thank you for the point about being fully repriced by year-end. I also appreciate that you've moved away from giving quarterly completion spreads and instead talked about this 80 bps over time. But just given the magnitude of the move down driven by lending margin, and that comes despite growth in higher margin areas like unsecured and commercial, just trying to understand exactly where your front book completion spreads are today, because they must be well below that 80 basis points that you're talking about. And I know the swap has been volatile, but it does look like you're running well below that at the moment.
Katie:	Yeah. So, Andrew, I guess I'm not going to be drawn on it. We have talked about the book repricing. It's definitely under some pressure just now. I won't be called on the exact number. And as you know, it's something that moves not quite week to week, but in terms of pricing, there's a lot of activity. It is, I think, one of the most competitive mortgage markets we've been for some time at the moment, except it's always competitive.

In terms of the 2024 decline, I mean, we're very mechanistic about how we do this. We look at the previous 12 months of the eligible balances. We've given you a lot of disclosure over this year. You can see in the FiinSupp [Financial Supplement] in terms of what's been exactly happening in current accounts and into term accounts.

We've also given you disclosure today around those term accounts and our look forward for them. We do expect the number to decline into next year. We will see some stabilisation, we think, and we've talked about that a lot on the call today. And so that will then start as you then move forward and have the 12-month lookback at the end of Q3 and the end of Q4 and into 2025, that you start to see that stabilisation of the hedge. And then you'll see the reinvestment of the kind of 10 billion at its full level. And that will come through in the later part of the year.

We do, I think, consider the margin on other deposit categories and how they kind of work out compared to where our hedge balances are. And obviously those term balances, I think that will help you a little bit as well. Thanks, Andrew.

Operator: We are going to come back to Robin Down of HSBC. Robin, if you'd like to unmute and ask your question.

Robin: Just one quick numbers question, and one kind of slightly more conceptual question. Did I hear you earlier say that the mortgage book had dropped to 86 basis points?

Katie: Yes.

Robin: In Q3. OK. And that's from what, 102?

Katie: Yep. And that's been a very consistent pattern on each of the quarters, gosh, I'd say even for the last six or seven quarters. It's just been gently repricing around about 15-ish basis points each quarter.

Robin: Okay. And then the second question, kind of conceptual one, and I'm not really sure whether you're going to be able to answer this, but the assumption we all make is that when the structural hedge benefits come through, that they're retained by the bank and retained for shareholders and not passed back to customers through kind of higher deposit rates. Just what gives you confidence that that's, because the track history of UK banking in the last 30 years is that when these benefits come through, they tend to get passed on to the customers.

What gives you confidence that you're going to be able to retain that for shareholders?

Katie: So, look, I mean, I think I'm probably not going to be able to give you a perfect answer, but I guess if I look at that structural hedge just now, it's yielding one and a half percent. If I look at what we're paying to customers in different accounts, they vary across all of the accounts, whether it's the fixed term where the customer is yielding 5.25%, clearly I'm hedging that in the background. So, it's not necessarily costing me all of that, or to the term accounts where we've passed through about half, 50% of the rates, and obviously we don't pay on the deposit account. So, I think it's very hard to say as that structural hedge number goes up, then automatically it will go back.

I think what's really important is that we balance all of the stakeholders and that we make sure that we do the right level of pass-through to our customers. And what you can see as you look at that graph on slide 8, there's been a real ramp up in that pass-through during this year. I mean, in terms of kind of interest payments, it's 4.1 billion this, the first nine months of this year, that compares to about [365] last year. So there's been huge, huge pass-throughs kind of going through. So I would find it very difficult to tie, this is what happened to the hedge and that was your pass-through. We are clearly managing the whole balance sheet, making sure that we've got stability and gentle growth on our lending side, and the same on our deposit side. And we're just kind of trying to make sure we have balance and deliver for all of the stakeholders. I hope that helps a little, Robin.

Robin: Yeah, no, thanks, Katie.

Operator: Our final question comes from Fahed Kunwar of Redburn Atlantic. Fahed, if you'd like to unmute and ask your question.

Katie: Hey, Fahed.

Fahed: Hi, Katie. Hi, Paul. Thanks for taking the questions. Just a couple of questions. Firstly, on the ‘24 costs, I know you're not going to be drawn into it, but obviously the report today about kind of, what was the phrase, serious failings regarding the dealing of the debanking issues. Are you confident that isn't going to result in more kind of controls and compliance-related costs to improve those processes? Or do you think what you've done to date is enough to kind of abate, or kind of make regulators happy with where you are at the moment, given the findings in that report? And I asked the question because I think the '24 costs are only up 1% or 2% in consensus. So, there's big wage inflation. There's that potential cost line coming through. And again, it gets to the cost income point that a lot of people have been raising.

And then my second question was just on that 80 basis point, and the fact that the front book is probably a lot lower than that right now. I mean, listening to other banks, my understanding is a mixed issue, that new business spreads are higher, remortgaging spreads are lower, and a lot more remortgaging is happening right now. So, is that a fair understanding of why the front book is lower than 80 bps right now?

And if it is, why do you think that mix is going to adjust, you know, away from remortgaging, back to new business purchasing, given the kind of environment right now, which is quite difficult? Thank you.

Paul: Thanks Fahed. I'll take the systems, cost and controls and maybe Katie, the mortgages. So, the simple answer Fahed is a number of the processes, systems and controls referenced in today's report, we've already implemented changes. There are additional changes to policies and procedures that we will put in place as a consequence of fully accepting the recommendations. But I would say that, as you know, we already spend a significant amount on risk and compliance. And we'd expect that to be within our normal budget and cost plans.

Katie: If I look to mortgages point, I mean, you can see at the moment that mortgage pricing is very competitive just now, you can observe that when you look at all the kind of the best buy tables and where we are. And then you compare that to, obviously the various funding rates from different sources of fundings. So, we are pricing below that level, we do expect this number, I mean, it moves around a lot. That's why we talk about over time, this is what we aim to do. I mean, one of the, I think the last time I kind of talked about it in Q1 2022, we were below that, and then you've seen us kind of come up and down. So, I think it's something that that's our kind of gold star that we try to manage to, and there will be movements around the time.

What we have seen is that we have now substantially repriced out the higher margin and work with numbers, which is why we're now seeing us for the book kind of revering, coming down to 86 this quarter, and we expect a little bit of further fall in the next couple of quarters.

Fahed:	Thanks, Katie. Can I just clarify, so it's not a remortgage, new business thing for you, which is general competition?
Katie:	I mean, there's a bit of that. I think it's much more general competition that kind of flows through. And, you know, this market is very interesting. If I look at it quarter to quarter, it moves enormously in terms of the volumes. So, it is a market that does change over time. So, I guess for me, that's what gives me confidence on it is that it will change again in the next six, seven months. And we'll see that as it flows through.
Fahed:	Great. Thank you both.
Katie:	Lovely. Thanks a lot.
Operator:	Thank you. I would now like to hand back to Paul for any closing comments.
Paul:	Okay, thank you, everybody. We appreciate you joining and your questions. And we look forward to seeing most of you, if not all of you over the next few weeks. Thanks.