Q1 Results 2024

MEDIA Conference Call
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FORWARD-LOOKING STATEMENTS

NatWest Group

Paul Thwaite, Chief Executive

Katie Murray, Chief Finance Officer

Paul Good morning, everyone, and thank you for joining Katie and me today, for NatWest Group's Quarter 1 results for 2024. I'll start by giving a brief overview of our progress and priorities, before Katie provides some more detail on our financial performance, and we'll then open it up for any questions you may have.

First of all, NatWest Group has delivered a strong set of results for the first quarter, with profits and income and returns ahead of market expectations. We remain focused on the three priorities we set out in February that will help us shape the future of this bank. First, serving customers well, meeting more of their changing needs to deliver disciplined growth across our three customer businesses. Second, becoming simpler, more productive, and easier to deal with. And third, managing costs and capital allocation efficiently.

Of course, the group's performance is grounded in the vital role we play in the UK economy and in the lives of our 19 million customers. As the leading commercial bank and one of the biggest mortgage lenders in the country, we are clear that by delivering for our customers, we'll deliver for our shareholders.

Despite ongoing economic and interest rate uncertainty, there are signs that pressures are easing for retail customers and that business confidence is improving, with inflation continuing to fall and the Bank of England expected to start cutting rates later in the year. People and families are feeling more confident about their financial situation, and for the first time since August 2021, more consumers expect their position to be better in 12 months' time. From a business perspective, our customers remain resilient, and our latest regional PMI survey shows that business activity rose almost universally across the UK in March.

We made positive progress in the first quarter as we focus on the opportunities to drive further growth across our three customer businesses, with lending and deposits both up on quarter 4. It's this customer activity that underpins our strong performance in the quarter. In line with our continued focus on simplification, we are also refocusing our investment spend to make NatWest more efficient and effective, and to make it easier for customers to do business with us, as well as improving engagement and productivity for colleagues.

Let me quickly bring that to life with a couple of examples. We've made it easier for potential mortgage customers to progress their application and get an Agreement in Principle by integrating our APIs into price comparison sites, and we've further personalised our interactions by introducing new alerts for customers who may be at risk from purchase scams to help prevent them falling victim to fraud. These are just small examples in a much broader programme of activity, but ultimately this is all helping to build a NatWest Group that is simpler and more productive, in order to better serve our customers. I'll now hand over to Katie who can take us through the bank's performance in more detail.

Katie Thanks Paul, and good morning everybody. As Paul said, the bank delivered a strong performance in Q1. Our operating profit of 1.3 billion was up on Q4 and ahead of consensus, and our Return on Tangible Equity of 14.2% is an encouraging start to the year. At 205 basis points, Group Net

Interest Margin was up six basis points from the fourth quarter, and broadly stable across our three customer businesses. This was pleasing to see following a reduction over the past three quarters. We continue to expect our underlying cost base to be broadly stable, excluding bank levies, and our CET1 capital ratio has also remained stable at 13.5%. As a result, we have accrued 367 million for future dividends, in line with our 40% payout ratio, as well as completing last year's 500 million on-market buyback programme and starting the 300 million buyback announced in February, which we expect to complete by the end of July. And we retain capacity for directed buyback of shares from the government when the window opens again in May. Supporting our customers and the UK economy is central to our strategy, and overall lending increase for the sixth consecutive year across our three businesses to £361 billion.

We saw a £3.4 billion increase in our Commercial and Institutional businesses, with net lending to UK corporates and institutions continuing to grow as business confidence improves. We're also pleased to see early signs of improving demand in mortgages at the start of the year.

On deposits, they are also up in Q4 at £420 billion, ahead of expectations, with the overall account balance stable, despite annual tax payments.

Migration to higher rate savings accounts remain slow, in line with the trend we saw in Q4. That said, there was still a slight increase and term accounts now represent 17% of our deposit base, as customers search for higher returns, especially in the middle part of last year.

Looking at the macro outlook, our economic assumptions remain unchanged. Of course, there are many different views and the actual trajectory may be different, especially given the considerable macro uncertainty in the UK and overseas.

Despite this, customers remain resilient and impairments are low, with our well diversified prime loan book continuing to perform well.

Our impairment charge of £93 million in Q1 represents just 10 basis points of our total lending, and we continue to guide to a charge for the year below 20 basis points.

Looking ahead, we retain our existing guidance of income between £13 and £13.5 billion for 2024, as well as a return on tangible equity of around 12%.

We have started the year positively and we are well positioned to deliver throughout this year and beyond, allowing us to support our customers, invest in our business and make attractive returns to the shareholders.
I will now hand back to Paul for his closing remarks before we open for questions.

Paul

Thanks, Katie! To sum up, we are pleased with the early momentum in the business during quarter 1. In addition, since the start of the year, government ownership has come down by around eight percentage points through the government's ongoing trading plan and now stands at less than 29%. As Katie mentioned, we also retain capacity for a directed buyback of government shares.

Returning NatWest Group to private ownership is a shared ambition and one that we believe is in the best interest of the bank and all of our shareholders.

As I said at the full year, I'm ambitious for this business, have clear priorities for the future that will allow us to capitalise on the opportunities for growth. NatWest Group is performing well and delivering for our customers, our shareholders, as well as the wider UK economy. And with that, we'll open it up for questions.

Moderator Thank you, Paul. A reminder that if you would like to ask a question today, you can do this by using the raise hand function on the Zoom app. If you are dialling by phone, you can press *9 to raise your hand and *6 to unmute when prompted. We will now take a pause as we give everyone an opportunity to signal for questions. We will now take our first question from Kalyeena from The Guardian. If you'd like to unmute and go ahead.

Kalyeena Good morning. A couple things. First, could you tell us a bit more about the growth in credit card use and what you think customers are using this for? Is it by people facing cost of living or mortgage pressures? And secondly, I mean, I understand your economic expectations remain unchanged, but given the election that seems to be looming, how do you expect that to affect your risk appetite? Thanks.

Paul Hi, Kalyeena. It's Paul here. So, on the cards point, on the growth, we have seen some encouraging growth in our credit card business in the first quarter of the year. As you'd expect, we spend a lot of time looking at the nature of that spend. And it's very much consistent with what we've seen previously. There's been no fundamental change in the nature of spend. I know, if you rewind six months, there was some industry commentary around spend being diverted to essentials, but we haven't seen that in our credit card book at all. So we're pleased with the growth and we're also pleased with the credit quality there.

On economic assumptions, that's a pretty easy answer. We don't tend to update our economic assumptions at the quarterly period. We'll have a look at that at the half year. We take everything into account when we do that. It's not just the political background, it's the broader economic background as well. So what you can expect to see us at the half year is a normal update, but that will very much be influenced by the conditions at the time. Hopefully that gives you a sense of that. Thanks, Kalyeena.

Kalyeena Thanks.

Moderator Our next question comes from Anna Wise from PA. Anna, if you'd like to unmute and go ahead.

Katie Hey, Anna.

Anna Hi, can you hear me?

Paul Yeah, we can hear you.

Anna Great. Yeah, I was just wondering if it's fair to say that you're seeing a kind of greater degree of confidence among consumers in recent months, and if you could give a bit more detail about how you're seeing this play out in consumer behaviour. And also, I was also wondering if you're seeing any threats at all from the planned merger of Nationwide and Virgin Money and them kind of becoming a bigger player in the savings and mortgage market. Thank you.

Paul Thanks, Anna. On the consumer sentiment point, I think it's fair to say, and we touched on it in our introduction, we do sense, we do have a sense from both our internal surveys and our monitoring of the external surveys that customer sentiment is improving. We think the pressure is easing for retail consumers. There is evidence they're starting to feel a little bit more confident, albeit they're very much continuing to take control of their budgets. That's primarily driven by expectations around reducing inflation and also the likely reduction in the Bank of England base rate. Consumer confidence has risen for the seventh month in a row, so I guess that adds to that general picture.

On the business side, again, confidence is improving. I mentioned our regional PMI survey. Business activity and confidence rose pretty much across every nation and region in the UK, and customers are proving resilience. But also, Anna, I'd say it's important to be balanced. There still are some challenges. Cost of living continues to impact household budgets for those customers who are rolling off mortgages. Obviously, it's likely that they're rolling off to higher mortgage payments. When we look across our book, and it varies by customer, of course, but on average, that's around £250 increase. And in businesses, input costs are still presenting challenges, whether that's energy and fuel prices, or whether that's labour costs. So it is balanced. But generally, in the housing market would be another example, I'd say there is evidence of improving sentiment.

I think the second part of your question was kind of, what does that mean looking forwards? I think a lot depends on the trajectory of interest rates and whether that as rates come down, whether that's correlated to continued increase in consumer confidence.

On Nationwide and Virgin Money, so I won't comment on any of our peers. What I would say about the mortgage market is it's already a very competitive market. It's a strategically important business for us. We've successfully grown our market share over a number of years, up to around 12.5% of stock. So from that perspective, we feel very confident on how our mortgage business is positioned. More broadly, what I would say is competition is, ultimately, is good for customers and good for clients. It means that all the competitors need to think sharply about their propositions and their products. So in a general sense, that's how I think about these things. Thank you, Anna.

Anna Great, thank you.

Moderator Our next question comes from Akila at the Financial Times. Akila, if you'd like to unmute and go ahead.

Akila I've also got a couple of questions. So my first one is about deposits in your Commercial and Institutional bank, which you've said have reduced. And you talked about active management of our commercial deposits and reduced liquidity in the market. I was just wondering if you could give us a bit more colour and detail on that. And then separately, there was a warning, I think it was this week, yes, this week about PE exposure from the Bank of England. And I was just wondering what you make of it, if you're making any changes as a result.

And then also, I also just wanted to ask about NIM. And if you could kind of just explain in very simple terms, why it's going up overall when it's stable/slightly declining in three businesses. And then last question… …which I can't comment on that. But I know you're talking about buybacks a lot, but not about the retail share sales. So has anything changed? And is the election a factor in terms of when it gets called? You know, in terms of whether or not it goes ahead? Thanks. Sorry, that's a lot of questions.

Paul No problem, Akila. Good to hear from you. Hope you're well. I think there was four questions there. So Katie, I'm going to come to you on the NIM point a little bit later. But let me pick off the first couple.

On deposits, overall, our deposits are up in the quarter, which is encouraging and pleasing. But you're right to point out the majority of that was in our retail business, with deposits sitting on our personal current accounts and savings products. And our growth there has been greater than we anticipated.

The reductions in our Commercial and Institutional business, we're very comfortable with. The nature of corporate and institutional deposits is that they have different amounts of liquidity value. And we need liquidity in different parts of our business. So, we've been happy to let those deposits go, literally because we don't need the funding and liquidity. So, it's a very conscious decision. And I don't think it reflects any broader customer behaviour trends. It's more institutions, both banks and those institutions managing their liquidity. So that's on deposits.

On the second question around private, I guess, private credit and private equity, there has been a fair bit of interest in that wider, I guess, ecosystem, given, I guess, some of the media commentary and also some of the regulatory commentary. That area does play a significant role. Non-banks do play a significant role in the provision of capital to the wider economy. And very broadly, it's important to think that's mortgages, that's consumer lending, it's real estate, it's infrastructure, it's private equity. So it's a very broad term, kind of private credit and private equity.

From our perspective, we do have very long standing relationships with sponsors and non-banks in our Commercial and Institutional business, customers who we've dealt with for the best part of 15 or 20 years. We think it's an area we know and understand very well. We certainly haven't been changing our risk appetite, if that was the inference, over the course of the last six or nine months. Given our, and I'm sure the other large banks' presence in that market, we have been working with the PRA on their thematic review and giving our observations and perspectives. But obviously, we can see what we lend is a much broader kind of non-bank shadow banking sector beyond. So that's what I'd say on private equity and private credit.

And then I'll come back to you, Katie, on NIM, but on the retail share sale, nothing's changed there. You'll have heard me say on many occasions, I've been very consistent. The decisions on that, the timing of it, the mechanics, the structure are very much for the government. What Katie and I and the leadership team are focused on is running the business well. We think we've demonstrated that in the first quarter. If we run the business well, that allows us to both invest in the business, support our customers, but also return capital. And that's why we've talked about our capacity to do the directed buyback and also updated you on our progress on the on-market buyback. So there's no change in that context. It's more us talking about what is directly in our control. And then NIM, Katie.

Katie Perfect. Sure, NIM. Thanks very much, Akila. So if I look at NIM, you're absolutely right. So it's gone up six basis points. I kind of think of that in two kind of buckets. If I think of the kind of the six basis points are notable in the previous quarter, that doesn't repeat. And then in the centre, we've got some funding and other activities that go in there. And that's where things can start to get a bit more complicated. You see us do different hedge accounting kind of transactions. And so things move sometimes from non-interest income into NII. So I think you're absolutely right to focus on what's actually happening in the underlying business.

And in the underlying business, we were basically flat. And so there's two things in there that are important. What's happening on your lending? And we can see that the pullback we've had on the mortgage spread within mortgages over the last kind of 18 months to two years is more or less stabilised now. And then also on the deposit trend, what we're seeing is the hedge that we put on is offsetting any drag from any of the deposit costs that we have within that space. So you're kind of getting nice parity within that piece. So overall, it is pleasing to see that number get to a point of stability this quarter. And so I would really encourage you, the way you're thinking about it is absolutely right. Think of it as the business. And then there's a separate piece, which is very kind of central activity. Thanks, Akila.

Paul Thanks, Katie. Thanks, Akila.

Moderator Our next question comes from Patrick at The Times. Patrick, if you'd like to unmute and ask your question.

Patrick Morning, folks.

Paul Morning, Patrick.

Patrick Yeah, just interested, Paul, on your point of it's very much for the government, this retail share offer. But don't you have to make preparations yourselves? If you have potentially millions of new retail shareholders, doesn't that give you, require you to make preparations? And just on the possible share sale, if that were to coincide with the directed buyback, how would that work? Would you pay the price as retail shareholders in that event? Could it coincide? And a third question, I'm still not quite clear on why profits have dropped 28%.

Paul Thank you, Patrick. Let's pick them off one by one. So you're absolutely right. If the government did proceed with a retail share offer, there's obviously a number of key activities that we'd need to be prepared for, whether that's the preparation and issuance of a prospectus, whether it's the potential for a large number of retail shareholders when that transaction completes. And as you'd expect, we are taking the necessary steps and measures to be ready for that. So if, as and when, it was to proceed, we would be ready to fulfil our part and role in that. So I wouldn't want to give the impression we're not doing anything.

In terms of your second question, I'll have to disappoint you there that that's not for me to answer. How any sort of retail offer would interact with a DBB or a wholesale placing, is very much for the government to decide.

And then on your third question, around the year-on-year comparisons, I guess we've had a fair bit of discussion of this over the course of the last couple of days with peers reporting. And I guess it's been a busy week of reporting from that perspective. But it's very much an industry trend, and what was expected by the market. To me, it very much reflects the fact that some of the annualised impacts of the changes in customer behaviour that we saw in 2023, customers moving from instant access accounts to fixed term deposits, especially as the pace of interest rises increased during quarter 2 and quarter 3. It also reflects a very competitive, a very shallow but competitive mortgage market last year. So really what you're seeing is the flow through of those impacts from 23 into quarter 4.

I guess I would finish, Patrick, by saying, notwithstanding that, that was well trailed and well predicted by the market and the results that we've delivered today were ahead of expectations on income, profit and returns. Thanks, Patrick.

Moderator Our next question comes from Michael at The Daily Telegraph. Michael, if you'd like to unmute and go ahead.

Michael Morning, guys. How you doing?

Paul Hi Michael.

Michael Hi there. Just on the first one, just I think the last set of results, we talked about this Travers Smith recommendations, and you said you were in the process of putting them through. I just wondered if you had an update on where those stand at the moment, and also the sort of Treasury's new rules around notice you have to give people if you exit them. I just wondered whether you were in a position now, more confident perhaps, to guarantee that no customers are being exited unfairly for NFC reasons, effectively.

Then just on the second one, Paul, obviously you've been there a couple of months now. I just wondered if we can expect down the line some kind of larger strategic overhaul or some kind of big strategy from yourself. You look at your peers, a number of them have things going on at the moment. I wondered maybe at the half year, if there's anything in the works or anything you can tell us about, what you want to sort of do with the bank going forward. Thanks.

Paul Okay, Michael, I think there's four there. Let me see. So, let me take them in order. On Travers Smith, I said in February that I was committed to implementing all the recommendations of the publicly, of the published recommendations from Travers. We continue with the implementation that a significant number of activities and initiatives have now been delivered. Some future recommendations, from the existing recommendations, some of the work continues and that will roll out over the course of quarter 2 and

3. So, good progress on that and I remain absolutely committed to implementing all the recommendations.

On your second question, I'm pleased to say we've already implemented the extension of notice periods from 60 to 90 days ahead of that, I guess it's draft legislation at the moment, ahead of that being implemented. I was very keen as a bank that we implemented that as quickly as possible. So, that's already in place.

On your third question, for the avoidance of doubt, we don't exit anybody for their legally held political beliefs or values. So, from that perspective, nothing's changed. So, the same commitment that I gave back in February.

And then on your much broader fourth question, what I would say is, as part of our February announcements, I laid out some very clear priorities for the business. I talked about both the ambition I had for the business, but also the confidence I have within the core of our business across our three customer franchises. And that's what myself and the leadership team are focused on. I'm not trailing any sort of strategic review at the mid-year, of which I think was one of your questions. I'm very confident in the foundations we have. I believe we've got significant opportunities to grow those three core businesses, combining that with, I guess, a forensic approach around capital and cost, while simplifying the bank for our colleagues and customers, I think is a good path forward. Thanks, Michael.

Moderator Our next question comes from John Paul of The Daily Mail. John Paul, if you'd like to unmute and go ahead.

Katie Morning, John Paul.

Paul Morning.

John Paul Good morning. In the results, the figures show that, on mortgage lending, total new mortgage lending in first quarter was £5.2 billion, down from £9.9 billion in the same quarter a year ago. I just wondered if that's, as you've described it, an industry trend, or whether in some cases, you are losing share elsewhere. And whether, indeed, there's a potential that you might be more keen to try to grow that market share, grow that mortgage lending, over the coming months when perhaps the margins aren't quite so tight, that the mortgage lending isn't necessarily that attractive to you at the moment when the margins are being squeezed.

Secondly, on the forthcoming "Tell Sid" style public share sale, I just wondered, Paul, if you remember "Tell Sid", what your memories of it are, and are you excited to be part of a revival of shareholder capitalism and relieved to have the Treasury off your back? Your chairman said the other day that it was a sorry tale that the bank had been involved in, in that sense.

Paul Okay. Thanks, John Paul. Let me, I'll come back to mortgages, but on the subject of the retail offer, I've been very consistent that my view is that return to private ownership is absolutely the best path forward. I think it's good for all of our shareholders. I do vaguely, to be candid with you, I do vaguely remember "Tell Sid", but I should admit I was pretty young, I think, when that happened. But more seriously, and more importantly, I think the retail share offer, should it happen, is an important opportunity because it further reduces the shareholding. I've been very encouraged by the reduction in shareholding of 8% in the first quarter of the year, we're now below 29%. And as I referenced in my answer to, I think it was Patrick's question, we're taking the necessary preparatory steps to ensure should it go ahead, we're ready for that. That's on the retail offer.

On mortgages, I guess there's a couple of questions within your broader mortgage question. The first one I'd say is that mortgage is and will remain a strategically important business and product for us. It's a business that we've grown successfully, over a number of years. We've significantly increased our market share stock to around 12.6 - 12.7%. And we will continue to look at that business as an opportunity for income and returns growth, both in the short and the medium term.

In terms of your, I guess, more granular question on year-on-year comparisons, what you can see in quarter 1 is the completion, is in effect, mortgage completions that reflect applications in quarter 3 and quarter 4. There's a couple of things going on. One is the, as you alluded to, the market was much, much smaller, as we went through last year, as demand for mortgages reduced. So that's one factor that has impacted that number. But the other important factor is that because the market was relatively thin, the price competition was very high. And from that, we took a conscious decision at that point, to not compete across all segments during the latter part of quarter 3, and quarter 4. We wanted to ensure that we could get the right returns from the capital that we were deploying.

What I would say is application volumes in quarter 1 of this year, both at the market level, but also at NatWest level, we're very pleased with the increases that we're seeing. I think at a system level, those increases around 25%. And, given the margins available in the mortgage market, as your question alluded to, we're happy to write volume at that margin when the price and returns are right. Thanks, John Paul.

Moderator Thank you for all your questions today. I'm now going to hand back to Paul for any closing comments.

Paul Okay, thank you everybody for your questions this morning. Katie and I appreciate it. As I said at the outset, we’ve delivered a strong set of results in quarter 1. We’re pleased at the momentum in the business and remain laser focussed on the priorities we set out in February. If you do have any other questions, please don’t hesitate to contact the media team. But I wish you all a very good weekend. Thank you.

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