



Annual Results 2021

MEDIA Conference Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
on Friday 18 February 2022

FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled “Forward-Looking Statements” in our H1 Results announcement published on Friday 18 February 2022.

NatWest Group

Sir Howard Davies, Chairman

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

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Introduction

Good morning, ladies and gentlemen. Today's conference call will be hosted by Alison Rose, CEO, NatWest Group. Please go ahead, Alison.

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Alison Rose, Chief Executive

Good morning, and thank you for joining Kate, Howard, and myself for our full year results for 2021. NatWest Group delivered a strong performance last year as we returned to profitability and made good progress on our strategic priorities.

Our operating profits of £4.3 billion for the whole group was up from a loss of £351 million in 2020. This included an impairment relief of £1.3 billion as a result of an improvement in the economic outlook and a low level of defaults. We also delivered on income growth and cost reduction as well as announcing £3.8 billion of capital distributions to shareholders through dividends and buybacks, of which around £1.7 billion goes to the UK taxpayer.

Today, with the economy recovering, our business is well positioned for growth, developing closer and deeper relationships with our customers, underpinned by our long-term investment plan and our digital transformation. And the rationale is straight forward. If our customers thrive, so will we.

We're also acutely aware that this remains a challenging period for many people, families, and businesses up and down the country as a result of the pandemic and the rising cost of living, and we're working alongside them to provide the support that they need in helping around a million people growth their savings by at least £100 for the first time, to carrying out more than one million financial health checks and opening almost 80,000 accounts and new businesses in 2021.

But we're also aware that the needs and expectations of our customers are changing rapidly, and we have just entered the second year of our £3 billion investment program focused primarily on technology, digitisation and data. This is delivering real value for our customers and shareholders. For example, 70 percent of last year's new account openings in retail banking we're automated compared to 14 percent in 2019.

Meanwhile, assets under management in our private banking business has grown by more than 17 percent versus 2020, with net new money doubling in 2021.

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As a relationship bank for a digital world, this investment means we can better understand our customers and support them more effectively at key stages throughout their lives, whether it's helping to buy a house, save for the future, or set up and grow a business.

And whilst we continue to provide face-to-face support and expertise through our extensive network of branches and relationship managers, almost 90 percent of retail customers' needs are now being met digitally, compared to around 50 percent two years ago, and we can see the benefits of these investments through the transformation of our customer journey and our improving NPS scores right the way across our business.

We're also responding to our customers' changing needs and expectations by playing a leading role in the transition to net zero. Last October we announced a new target to deliver £100 billion of finance and sustainable funding financing by the end of 2025, and we contributed more than £8 billion towards that target in the second half of the year. And for personal customers we have completed nearly £730 million of green mortgages since their launch in 2020.

By playing such central role throughout the lives of our 19 million customers, by taking action on the issues they care about, and by helping them to thrive as their needs and aspirations change, our bank will also thrive.

More than that, it will make a meaningful contribution to our society, delivering sustainable growth, sustainable returns to our shareholders by living up to our purpose.

Thank you very much, and we're very happy to open the call to questions.

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Operator

Thank you, Alison. Ladies and gentlemen, if you would like to ask a question, please press the star key followed by the digit one on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions.

OK. Your first question comes from the line of William Shaw from Bloomberg. Please ask your question.

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William Shaw, Bloomberg

Hi. Thank you very much. A quick question for Sir Howard. There's been reports suggesting that you may be leaving the group. Can I ask what your plans are and whether there's a timeframe for that and what you're thinking of doing next, please?

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Howard Davies, Chairman

Yes. Reports of my death have been much exaggerated. My term here has gone now for 6.5 years. The final date is July 2024, which is when I hit the nine-year barrier if you like, but there are no plans for me to leave at present.

There is no process underway and so, there is nothing to report I'm afraid. I'm here focused on the job working with Alison, and we'll carry on doing so for the foreseeable future, bearing in mind that in the end I do have a nine-year limit from a corporate governance code. That's it.

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William Shaw, Bloomberg

Thank you very much.

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Howard Davies, Chairman

I guess we've finished everybody off completely.

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Alison Rose, Chief Executive

No more questions.

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Howard Davies, Chairman

No more questions.

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Alison Rose, Chief Executive

Yulas, do you have any other questions?

Howard Davies, Chairman

Could be turned off.

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Operator

I apologise. Your next question comes from the line of Iain Withers from Reuters. Please ask your question.

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Iain Withers, Reuters

Hi there. A question about the cost-of-living pressures you're citing this morning? And are you starting to see any effect in the business at all? Maybe calls to your help lines or people asking for help with managing bills? And related to that, do you expect through the year because of inflation you'll see kind of a reduction in demand for lending at all? Thanks.

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Alison Rose, Chief Executive

Thanks, Iain. Well, I mean at the moment we're not seeing any impacts of the cost of living, but we're really acutely aware of the challenges that people are facing. I mean, I actually was listening into some calls last week in one of our contact centres, and people are phoning us and talking about, but we're not seeing any concerns coming through our data of yet.

What we're really focused on is making sure we're putting in practical help for customers because I think if you look at rising inflation, cost of living, these are challenges that for business owners and families it's not something they've faced really in the last 10 to 15 years. So, we're putting practical support in place to make sure we can help people.

Things like our financial health check, of which we did a million of those last year. They really help customers look at where they're spending their money, how they manage their money.

I had an example last week where one of our branches our customers are saving £900 a month just by taking a good look at their finances through the financial health check. And then our relationship managers in businesses are really focused on speaking to business owners about how they're managing their working capital particularly as they ramp up coming out of the pandemic and to manage those fluctuating rates.

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So, no signs of stress at the moment, but we have specialist teams in place who are trained to deal with this and on the ground we would just encourage our customers if they're worried come and talk to us because we can help them plan and manage challenges that people haven't faced for 10 years or so.

Is there any more questions?

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Operator

We'll now move to our next question, and it's from the line of Simon Neville from PA Media. Please ask your question.

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Simon Neville, PA Media

Morning, everyone. Thanks for your time. Howard, good to know you're still with us. I just wanted to ask about the bonus pool. Now obviously Andrew Bailey has come out and told us all that we should all not be asking for excessive pay rises, and it's maybe unfortunate might be the word that we are now in a point where we're talking about lots of banking bonuses.

Now this is the conversation that comes around time and time again. Whenever there's an economic downturn everyone looks at to who to blame, and the bankers are usually the ones who get the blame, but do any of you think that maybe it's time that there was a look at the way remuneration works in the banking system because it seems like this conversation isn't going away and it just sort of appears to breed more animosity?

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Alison Rose

I think on the bonus pool we typically show significant restraint if you compare us across the industry, but it does reflect the strong performance. And if you look at our pool, it is down on the pre-COVID 2019 pool, so it is balanced.

And as you know a large majority of our staff are not on bonuses, including our executive team. So, we try and balance that in terms of recognizing how the market worse and also restraint across compensation and pay.

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Simon Neville, PA Media

OK, and to come through more broadly in the future, as I said, the point around it that keeps coming up again and again. Do you think it works in practice as this does at the moment?

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Alison Rose, Chief Executive

Well, I think it's about balancing these, and a large proportion of our staff and I think we are – we have made those changes. They get awarded bonuses more significantly.

We've changed how people are remunerated in terms of a balanced scorecard in remuneration, but we operate in a competitive market, and we have to pay fairly and competitively for the skills we have, but actually if you compare NatWest Group in terms of its bonus score verses the rest of the industry, I think you can see that we try and balance that in a fair and balanced way.

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Howard Davies, Chairman

And I think from the Board's perspective we take the view rather unusually that given our particular circumstances we should aim to be at the bottom of the league from senior – for senior people. That's not something Alison and Katie necessarily completely welcome, but we are not aiming to be top quartile. We're aiming to be competitive in the range, but we're not aiming for the top of the range.

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Simon Neville, PA Media

OK. Great, thank you. And I just wanted to ask quickly on branches. Are there any other plans for further branch closures? Is there any shift? You talk about digital and the number of people signing up for new accounts automatically online. Are there any plans to accelerate the changes on the high street at all?

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Alison Rose, Chief Executive

Well look, I mean, I think with branches they remain a core part of our service. In fact, last year we invested £20 million in our network, including new sites and improving branches, so they remain an important part of the offering we have along with the sort of 16,000 points of presence.

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But what those digital stats show you is customer behaviour is changing very, very significantly. So, our decisions on branches will always be determined by customer behaviour.

And with – and I look at our customers today, in retail banking 90 percent of customers' needs are met digitally, which is a very significant change, and 60 percent of our customers only interact with us digitally. So that is behaviour that is changing.

And things like video banking, which is something we've introduced across our network, two years ago we would be doing 100 calls a week. We're now doing anywhere from 13,000 a week, and they're much more convenient for customers because they can talk to mortgage advisors or bankers at a time and place that's convenient for them without travelling to branches.

So, our branch network is very important. It's a very important part of how we look after our customers along with the 16,000 points of presence, but we will continue to evolve it based on our customer behaviour and their choices, which have changed and continue to change rapidly.

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Simon Neville, PA Media

Great. And the last thing and I'll let someone else have a go. I just wanted to ask how COVID loan repayments are going, whether there's any update you can give on that, whether you're seeing an increase in payments or anything you can say on that side of things?

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Alison Rose, Chief Executive

Yes. Of course. I mean, on the COVID loans, I mean, one of the things I would say is when you look at how businesses have performed during COVID, it is really extraordinary how resilient and entrepreneurial UK business owners have been and managed to cope with the last few years of the pandemic and shutdowns.

When we look at the bounce back loans that we've provided, which we provided to our customers, what we're seeing in terms of the data today around 7 percent of those have been paid down in full and 90 percent of them are paying on or ahead of schedule. And then for the CBILS loans, which is a slightly larger one, that's running at around 98 percent being paid on or ahead of schedule.

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So, what we can see is businesses are trading and paying back well ahead of where we expect them to be.

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Simon Neville, PA Media

And have you got any visibility on how much of those loans may have been fraudulent or are never going to be replaced?

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Alison Rose, Chief Executive

I mean, I think very low levels of fraud. As you know, when we – when we set up, put the support measures in place, which as everyone will recall was at a very rapid pace to support businesses, we made the decision to just support our own customers to make sure we could get support to them very quickly. So, I think the fact that you're seeing 90 percent paying back on or ahead of schedule gives you a sense of how well (they've been performing).

Yulas, any more questions?

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Operator

Yes. Our next question comes from Joanna Partridge from The Guardian. Please ask your question.

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Joanna Partridge, The Guardian

Hello, everyone. Thanks for your time this morning. I just wanted to ask something else about the cost of living actually. You mentioned calls into your helpline. Are you guys seeing an elevated number of calls? Would you say it's predominantly from customers or from businesses?

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Alison Rose, Chief Executive

No, we're not getting elevated calls at all. We're not seeing any signs of distress on our book. We're seeing really good customer resilience to date. Strong employment numbers, low levels

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of defaults. We're not seeing a rise in the number of customers needed specialist help at this time.

So, we're not seeing calls come in. But what we are very mindful of is the challenges that may be coming and challenges which customers haven't faced before. But we're not seeing elevated levels or calls into our specialist teams for help.

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Joanna Partridge, The Guardian

And from your point of view how would you mark that if that shifts at some point? Would it be very specific requests for help rather than just inquiries about their finances?

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Alison Rose, Chief Executive

No we track – we track all of this and so what we're trying to do is be very proactive about it in terms of helping our customers. The financial health check is a great way of talking to customers at the moment.

Customers are worried about rising bills and the increased cost of living and dealing with things they haven't dealt with before. So, it's more on the proactive where we're working with customers to see how we can help them.

Reaching out directly to businesses to see how we can help them plan and deal with particularly rising interest rates, fluctuating exchange rates. The normal course of things we would do as relationship managers up and down the country supporting businesses. We obviously track very closely through our specialist teams. The type of calls that come in, the type of support, levels of defaults, people asking for support.

And we're not seeing any deterioration in that at the moment. And obviously when you look at families, balance sheets, there's a lot of cash sitting in people's accounts where they save money during a pandemic in some cases. So, it's a very robust position but we want to stay ahead of that and make sure we support our customers.

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Joanna Partridge, The Guardian

Thank you.

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Operator

And your next question comes from the line Sid Ven from Financial Times. Please ask your question.

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Sid Ven, Financial Times

Good morning, hi. Sorry slightly shorten name to get on the line. I want to ask about mortgages and sort of your outlook for the next year. Because I know we've also got sort of continuing demand seemingly even as high as house prices are really reaching the highest levels in decades I think from (I understand).

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Alison Rose, Chief Executive

Yes, thanks, Sid. I mean look mortgages we've had a very strong performance in mortgages and we're continuing to see demand. Obviously, there was a big surge in demand as the result of the (inaudible) which has tapered off now.

But, for example, our Q4 performance is very strong. So, we're continuing to see mortgages as a good area of growth, still good demand from our customers and making sure that we continue to be competitive in supporting them.

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Sid Ven, Financial Times

Sorry, do you see that continuing for 2022?

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Alison Rose, Chief Executive

Sorry, say that – your line cut out a little bit, didn't get, sorry.

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Sid Ven, Financial Times

Sorry, I was just saying do you seeing that strong growth continuing throughout 2022?

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Alison Rose, Chief Executive

Yes. Yes, we do. We expect to see continued growth. I mean obviously the mortgage market continues to remain competitive but absolutely we continue to see strong growth going into 2022.

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Sid Ven, Financial Times

Thank you.

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Alison Rose, Chief Executive

Thank you.

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Operator

Your next questions comes from the line of Lucy White from Daily Mail. Please ask you question.

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Lucy White, Daily Mail

Hi, morning. Wondered whether I could ask on – again on the cost of living. I mean obviously you say it's not effecting customers too much so far but from April we're going to see tax hikes and so on especially looking at national insurance hikes. I mean what's your take on these kind of increased taxes? Do you see them affecting your customers particularly badly? And do you think it's the right thing to do from economic standpoint as well?

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Alison Rose, Chief Executive

Thanks, Lucy. Well, look I'm not going to get into predicting or commenting on things like tax rises. But one thing we're really aware of is the challenges are to come for a lot of customers which is why we're really keen to make sure we're thinking ahead and our priority is to support our customers in that.

I mean the financial health checks, we did over a million of them last year. They're really helpful ways of talking to customers about their finances in their entirety and the example I

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sort of mentioned earlier around saving one customer £900 a month is really looking at how their financing is well spread paying far too high interest rates on different loans. In one case 100 percent APR on a loan they had taken out elsewhere.

So, we can help customers deals with it and be proactive in supporting them. And that's where our network of really being a relationship bank is so helpful because we have people on the ground up and down the country in regional economies really understanding what's happening locally.

Relationship managers working with businesses who are specialist in different sectors so they can understand the dynamics of is you're running a manufacturing business or a food business or a clothing business and really working with them to help manage those additional pressures that are coming.

And for a lot of business owners and families they haven't had to deal with this environment for a long time. So dedicated support is there if they have trouble, but more importantly dedicated help and support is there to talk about the concerns that they have.

So, we're really focused on looking across family balance sheets as a whole. Businesses to help them deal them with different ways of coping with how they can finance the different challenges.

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Lucy White, Daily Mail

OK, thanks.

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Operator

Your next question comes from the line of Ben Martin from The Times. Please ask your question. Excuse me it looks like Ben Martin has just cancelled his request. We will move to our next – Ben Martin is back in the queue. Just one second. OK, Ben Martin, your line is now open.

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Alison Rose

Hi, Ben.

Ben Martin, The Times

It won't be long before – hello, it looks like it won't be long before the government stake falls below 50 percent, and it will no longer controlled by the tax payer.

When do you think that might happen and how do you feel about it? And then I have two other questions. Just on branch closures, can you rule out any further branch closures this year? And how do you think interest rate rises will benefit the bank?

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Alison Rose, Chief Executive

OK, government stake is very much for the government in terms of their deficient around as and when they will sell down their stake. Obviously, we have sufficient capital and strong capital bases in terms of if they do, do that to participate in direct to buybacks.

They've gone down, sort of in my terms, in 64 percent to just under 61 percent, and they stated very clearly they want to return us back into a normal shareholder structure, which I would like to do as well. So, my job and the job of myself and Howard and the rest of the team is to make sure we continue to build a valuable bank and as the money of government goes down, we will support that.

And practically it will make no difference, claiming it's a good step forward and part of our plan to return the bank to a normal shareholding structure.

On branch closures, as I said, we will be dictated by our customer behaviour. We're seeing very significant changes in behaviour with more people going online, using video banking, digital, so we're also mindful of those customers.

You don't want to do that as well, so there's a lot of support that we put in place there as well. So we will continue to evolve our point of presence based on customer behaviour.

And then, your third question was on the interest rate rises. In terms of interest rate rises, clearly we will benefit from those rises as they come through and you'll see our guidance today in terms of our outlook going forward. And so you will continue to see benefits from that, given the share (inaudible).

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Ben Martin, The Times

Just on branches, can you – it sounds like that you can't rule out further closures this year?

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Alison Rose, Chief Executive

No, we will always look at our branches and see if – how they're evolving. And we do a very detailed consultation if branches are not being used or don't offer service. But when we do that, we look at, you know, our points of presence, 16,000 points of presence, to make sure that customers are supported.

We're also one of the biggest providers of cash processing in the UK, almost 30 percent market share, so we're very mindful of making sure we support the whole infrastructure so it will reshape based on how it works. And obviously we have our program of mobile vans, community bankers that we have in place in different services that we support, so it will evolve based on our customer need.

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Operator

As a reminder, if you wish to ask a question, please press "star", and "1" on your telephone keypad. Your next question comes from the line of Scott Wright from The Herald.

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Scott Wright, The Herald

Good morning everyone. I was just wondering if you could make any comment in the general outlook for business confidence in Scotland? We saw (inaudible) this weekend suggesting business confidence, and north of the border there's (inaudible) in the UK.

Given the many challenges that you commented on this morning, is there any chance of businesses being less confident from your perspective? Is that reflected in investment decisions and update for business loans, for example?

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Alison Rose, Chief Executive

Yes, I mean, we definitely see business confidence improve since the Omicron guidance has changed and, obviously, not having a full lockdown for businesses in entirety has been very helpful and we are seeing business confidence improve.

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What we are very aware of is that there was a lot of financing that was put in place to help businesses through the pandemic, almost 25 percent increase in leverage particularly in small businesses through things like the bounceback loans and the (inaudible). Demand for new loans is quite needed because there's quite a lot of liquidity in the system already and sitting on businesses balance sheet.

But we are seeing an increase in demand for things like working capital, system (inaudible) (invoice) financing, you see utilization go up in something like 25 percent to 35 percent. So we are seeing businesses ramping up their working capital. We're definitely seeing improvement in confidence. And it will be variable, depending on different sectors given their experience.

And on the whole, we're seeing confidence improve, demand, particularly at the small end, still needs it but that's because there's lots of lending and liquidity that's been put in place to (shore the business is up to the code).

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Scott Wright, The Herald

That's good. Thank you.

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Operator

Final question comes from the line of William Shaw from Bloomberg. Please ask your question.

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William Shaw, Bloomberg

Hi, thanks for having me. Just another quick question about the bonuses. Was there any pressure from the Prudential Regulation Authority to bring the size of the bonuses down at all, please?

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Alison Rose, Chief Executive

No. They wouldn't comment on our bonus for that commercial decision for the Board in terms of – and the management in terms of where we set the bonus for – based on very strict guidelines that we operate with in terms of performance criteria.

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Howard Davies, Chairman

Yes, but in the Prudential, the PRA is interested in financial stability and if you look at the total bonus pool of £300 million compared to capital and our (inaudible) capital immunity is not a material question, as far as they're concerned.

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William Shaw, Bloomberg

Great. So they didn't get – they did engage with this issue?

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Howard Davies, Chairman

No.

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Alison Rose, Chief Executive

No.

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William Shaw, Bloomberg

Great. Thank you very much.

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Operator

We will take one more question, and it's from the line of Terry Murden from Daily Business. Please ask your question.

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Terry Murden, Daily Business

Good morning. Just a quick one. I noticed in your notes that you restate your position on Scottish independence. I just wonder if you could say whether or not any of this has changed or whether you're making any further preparations for that potential outcome?

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Alison Rose, Chief Executive

Not at all. Scottish independence is something for the Scottish people to decide on. There's no change in our plan.

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Terry Murden, Daily Business

OK, thank you very much.

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Operator

There are no further questions at this time. I would now like to hand the call back to Alison for any closing comments.

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Alison Rose, Chief Executive

Great. Thank you very much everyone for joining.

Hopefully you've seen today a very strong set of results from the bank and also a very strong focus on our customers as we support them going forward with the challenges that they may face, but thank you very much for your time today, appreciate you joining us.

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Operator

Ladies and gentleman, that will conclude today's call. Thank you for your participation. You may now disconnect.

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