NatWest Group

H1 Results 2024

MEDIA Conference Call
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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 Annual Results announcement published on 26th July.

NatWest Group

Paul Thwaite, Chief Executive

Katie Murray, Chief Finance Officer

Operator: Good morning, and welcome to the media call for NatWest Group's half-year financial results. This call is hosted by Group Chief Executive Paul Thwaite and Chief Financial Officer Katie Murray. If you'd 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 star 9 to raise your hand and star 6 to unmute when prompted.

Paul, please go ahead.

Paul: Thanks, Oliver. Good morning, everyone, and thank you for joining us for NatWest Group's half-one results. It's been a busy first half and we've delivered a lot since we last spoke.

Today, we have announced our acquisition of £2.5 billion of prime UK residential mortgages from Metro Bank following our transaction with Sainsbury's last month. We have also grown our customer base organically and seen growth in all three customer businesses. We have taken action to simplify the bank, including the announcement that we will close our hub in Poland.

In addition, our directed buy back of shares in May further reduced the government shareholding, which has almost halved over the last six months, to less than 20%. All good examples of our momentum and progress. This activity underpins our strong financial performance, which is ahead of market expectations.

So let me start with the headlines. We have delivered an operating profit of £3 billion and a return on tangible equity of 16.4%. And we have announced an interim dividend of 6p per share, up 9% on the first half last year. Given the strength of our performance, together with our updated economic forecast, we are upgrading our 2024 guidance, which Katie will talk about later.

And as a result of our continued capital generation, we have announced £1.7 billion of capital distributions to shareholders for this year, through a combination of today's dividend and our directed buy back of government shares in May.

Turning now to our strategic priorities, our first priority is to deliver disciplined growth, and during half one, we have built on our strong foundations to do just that. We have more than 200,000 new customers, customer deposits have increased by £6.1 billion across our three businesses, and we have grown in target areas with a sharp focus on returns.

Lending and commercial banking to our mid-market customers increased by £1.8 billion. Our share of the credit card market grew half a percentage point to almost 9%. And assets under management are up 11% to over £45 billion. We are also providing new services and funding to meet the changing needs and priorities of our customers, including our lending against intellectual property for businesses, as well as our newly-launched Airbnb mortgages.

And we have provided £16 billion of climate and sustainable funding and financing in the first half, bringing our total to £78 billion since July 2021, against our target of £100 billion by the end of next year.

We have today announced that we are acquiring £2.5 billion of prime residential mortgages from Metro Bank, and as a result, we look forward to welcoming around 10,000 customers to NatWest Group. And in June, we announced our transaction with Sainsbury's Bank. On completion, we expect this to add around 1 million customer accounts, with around £2.5 billion of unsecured loans and £2.6 billion of deposits. Both of these acquisitions will add scale at attractive returns in our Retail business.

As well as growing our business, we're also focussed on our second key priority of bank-wide simplification, to increase efficiency and improve customer experience.

We have taken decisive action to ensure the bank is operating more effectively. This includes reviewing our location strategy, resulting in the decision to close our Poland hub, and thus reduce our strategic hubs to just two sites. Streamlining our legacy systems, for instance, moving from 20 telephony systems to just five. And for Commercial customers, onboarding for foreign exchange has been reduced from a week, to less than a day. We're also seeing the benefits from investing in our data and technology capabilities to improve the experience of our customers.

We already use AI at scale to help customers with everyday queries. Our digital assistant, Cora, has handled over 5.9 million customer interactions so far this year. And through the recent launch of Cora Plus, we are using generative AI to provide more personalised and responsive support for our customers. All of this is underpinned by our third priority of managing our capital and costs efficiently.

And we have reduced risk-weighted assets by £4.3 billion so far this year, through a range of actions. As a result of our strategic progress, we are not only delivering a strong performance today, but we are setting ourselves up for future success too. And with that, I'll hand over to Katie for more detail on our financials.

Katie: Thank you, Paul, and good morning, everyone.

As Paul said, we have delivered a strong performance in the first half of the year, with total income of £7 billion, an operating profit of £3 billion, and a return on tangible equity of 16.4%.

In line with our guidance, we are on track to keep costs broadly stable on last year, excluding the increase in bank levies and other one-off items. And our CET1 ratio is within our target range at 13.6%. Our well-diversified prime lending book continues to perform well. Impairments are low and asset quality remains high. Across the first half of the year, total impairments of £48 million were the equivalent of just three basis points of total lending. And as you would expect, we have updated our economic assumptions at the half year to reflect the macro-outlook.

We now assume there will just be two cuts to the base rate this year, having previously modelled for five. And we also assume a further five rate cuts next year, taking interest rates to 3.5% by the end of 2025. Of course, the actual outcome may be different.

On inflation, the Bank of England has confirmed that it has now returned to its target of 2%. We continue to assume moderate real GDP growth and that unemployment will remain low, albeit with a small increase from the current level. As a result of increased economic activity, of customer activity, as well as revised economic assumptions, we have upgraded our guidance for 2024.

We now expect total income, excluding notable items, to be around £14 billion this year, up from our previous guidance of £13 to £13.5 billion. We expect our loan impairment rate to be below 15 basis points of total loans, having previously guided to below 20 basis points. And with costs remaining stable, excluding bank levies and other items, we expect to deliver a tangible return on equity of greater than 14%, up from our previous guidance of around 12%.

We are also reaffirming our targets for 2026. It is clear from these numbers that

NatWest Group is performing strongly and that we are delivering on what we set out to achieve. I will now hand back to Paul for his closing remarks.

Paul: Thanks, Katie.

The positive momentum and progress made during the first half reflects the ambition across the Bank to deliver its full potential, and we feel increasingly confident about the outlook. With inflation falling and employment remaining high, consumer confidence continues to rise, as it has for nine of the past ten months, with many households starting to feel more positive about their finances.

We are pleased to see signs of improving mortgage demand, especially in the second quarter. Business confidence is also improving, and our regional growth tracker showed nine out of 12 regions across the UK recorded growth in business activity in June. Excluding government schemes, we have seen positive lending growth to commercial and institutional customers through half one, especially amongst mid-sized businesses.

Of course, the growing optimism is not felt uniformly, and we know there remain challenges for some retail and business customers. We continue to focus on providing the support our customers need to meet their specific circumstances and to help build financial resilience. One area we do now have greater certainty is in our political landscape, following the election of the new government.

We welcome the clear focus on growth and wealth creation as a means to unlocking prosperity across the UK, as well as the Chancellor's recognition that the financial sector will be a crucial partner in achieving its ambitions. NatWest Group is the UK's leading business bank and the country's leading lender to infrastructure, as well as the largest lender to start-ups. Through our scale and our unrivalled regional network, we have a vital role to play in helping to unlock growth across every nation and region of the UK.

Thank you for listening, and I'll now hand back to the operator, Oliver, for your questions.

Operator: Thank you, Paul and Katie. As Paul says, we will now move to questions. As a reminder, you can ask a question by using the Raise Hand function on the Zoom app.

If you are dialling by phone, please press star 9 to raise your hand and star 6 to unmute when prompted. We'll now take a brief pause before our first question.

Our first question comes from Akila at the Financial Times. Akila, please unmute and ask your question.

Akila: Thanks for the presentation. I have two questions. The first one is about what customers are doing with their money.

I thought the trend of them sort of seeking better returns and moving to higher saving rates accounts, I thought that was kind of declining, but are you saying that it's still kind of strong?

And then secondly, I saw that you made some Board changes as well. Can you talk a bit about why that was? I mean, I know Rick isn't here today, and if it was kind of related to what happened last year with Alison Rose. Thanks.

Paul: No problem. Hi, Akila. Good to hear you.

I'll take both of those. On savings and deposits, as you saw in the presentation, we're pleased to see deposits growing in our three businesses. We see that as a very good trend from a customer perspective and a bank perspective.

In terms of term deposits or fixed rate deposits, as we predicted, the migration to term deposits is slow. They stayed stable in the quarter at 17%. And in terms of customer behaviour, what's happening is in our Retail bank, significant majority of customers who roll off fixed term deposit products are rolling on to further on to the next fixed term rate product.

In private banking, that's slightly different. We see a different mix. Some customers are rolling on to fixed term products.

Some are choosing to drop into instant access and consider their savings and investment options. But generally, I'd say very positive momentum on the savings side of our balance sheet for our three businesses. On the Board changes, yes there has been an announcement today, as you alluded to, questions on the Board are for Rick.

What I would say though, is the two individuals both have very long tenures and obviously succession planning is an important aspect for any board. Thank you, Akila.

Operator: Our next question comes from Holly Williams at the Press Association. Holly, if you'd like to unmute and ask your question.

Katie: Hi, Holly.

Paul: Hey, Holly.

Can you hear us, Holly?

Operator: Holly, if you'd like to unmute and ask your question.

Holly: Hi, can you hear me now?

Paul: Yeah, we got you, hi.

Holly: Sorry about that. Classic error. Yes, I just wanted to ask about the retail share sale that was planned by the former government.

You've revealed today in the results that you've paid £24 million already for that.

Obviously, it was put on ice because of the election. We get to hear any confirmation from the new government, exactly what their plans are.

I'm just wondering if you can tell us if you've had any discussions with the Treasury and the new Chancellor, and what your thinking is on whether that might be rekindled.

Paul: Thanks, Holly. I'd start by saying I'm really pleased with the momentum in 2024 in terms of the sell-down of the government shareholding. It's nearly halved from 38% in December to below 20% now.

That's been through the ongoing trading plan, but also the directed buyback that we completed earlier this year in May. In terms of the retail offer, obviously decisions around the sale of the government shares are decisions for them, whether both the timing of that, the pricing of that or the mechanics. That's really a matter for the government and the Treasury.

As you alluded to, the reality is that the policy for any sort of share sale is usually set out during fiscal events. Obviously, the new government hasn't had one of them, but we'd expect it to follow the next fiscal event. But what I come back to is a halving of the shares during the last six months is a really positive trajectory, and I've been very consistent, returning the bank into private hands, I believe, is in the best interest of all of our shareholders. Thanks, Holly.

Operator: Our next question comes from Jenny Surane from Bloomberg, if you'd like to unmute and ask your question.

Jenny: Good morning.

Paul: Morning.

Katie: Good morning.

Jenny: I guess I wanted to ask one quick follow-up on the retail share sale. So, in the guidance, I think you guys noted that there was the £24 million in costs. So, is that already spent, or is that dependent on the government actually going forward with that ultimately?

And then I guess a second question, just quickly on mortgage demand. I think you mentioned that you guys continue to see demand strengthened in the second quarter. It would just be great to kind of hear a little bit more from you guys on how that's looking this summer.

Paul: Okay, thanks Jenny. On the retail offer, the costs that we've disclosed today associated with the potential retail offer are spent. You can see that's the £24 million in our accounts.

What I would say is they reflect simply the normal costs you'd expect in preparation for any sort of public offer. So it's in line with that, and that's why we've disclosed it today. But yes, they've already been spent.

On the second topic of the mortgage market and mortgage demand, as I alluded to I guess in my presentation, we've been pleased to see signs of improvement in mortgage demand in half one. We'd expect that to be reflecting higher lending as we return to mortgage growth within half two. There has obviously been an improvement in the market size, which means for us quarter two new lending will be about 20% up on quarter one.

So some encouraging signs in the mortgage market. That's to be expected. Obviously, you can see that the rates on fixed rates have come down during the six months in this year.

We've always said, and Katie herself has said, actually moving from 6% to 5% and 4% was always likely to stimulate demand. So we're encouraged by what we see. Thanks, Jenny.

Operator: As a reminder, you can ask a question by using the Raise Hand function on the Zoom app. If you are dialling by phone, you can press star nine to raise your hand and star six to unmute when prompted.

Our next question comes from Ben Martin from The Times.

Ben: Good morning. I just wanted to ask about impairments. Obviously, the market expects you to take another £161 million charge in the second quarter, but you actually released £45 million.

Can you tell us a little bit more about what's going on? The environment's obviously much easier for your customers. You're obviously seeing defaults coming down. Thank you.

Paul: Thank you. Hi, Ben. Good to hear from you.

Why don't I talk generally about impairments and then Katie, maybe give you a shot on explaining some of the dynamics.

So generally, asset quality remains really high, Ben. As you'd expect, we've got a very well diversified prime lending book, it's performing well. Our half one impairments are low. Really, that's driven by a very low level of arrears in our key portfolios, whether that's mortgages, whether it's unsecured lending, whether it's business lending.

So underlying, the credit quality is really good. Customers have proven themselves to be very resilient, whether that's on the personal side or on the business side.

Katie, do you want to add about the numbers?

Katie: Yeah, no, sure, absolutely. So, I mean, a couple of things going on in terms of that release.

The first, obviously, we've updated our economic scenario and they're noticeably better, not just on rates, but if you look at something like HPI growth, which is important for the mortgage book, our previous base case was a down of 5% and now it's an up of 3%. So that's a bit of a delta that will have worked its way through the numbers as well. And we also have these PMAs, which are kind of overlays that go on top of the models.

And again, we've reviewed them this quarter as we do every quarter and we felt it was appropriate to release some of those numbers as well, all just reflecting the strength of the performance of the underlying customers. And, you know, pleased to see that kind of coming through. Thanks, Ben.

Paul: Thanks, Ben.

Operator: Thank you. Our next question comes from Kalyeena from The Guardian. Kalyeena, if you'd like to unmute and go ahead to ask your question.

Kalyeena: Hi, good morning. I was wondering if you could give a bit more colour on pressures or relief you might feel on that interest income in the second half of the year, and whether you expect any Labour government policies to impact your earnings potential overall. And given that you announced those Sainsbury's and Metro Bank acquisitions in almost six weeks, do you expect that we may hear about more acquisitions before the end of the year? Thanks.

Paul: Thanks, Kalyeena. Good to hear from you.

Katie, I'll come back to you on the NII question, if that's okay. Why don't I maybe take them in reverse order?

Kalyeena, very pleased to announce the deals for both the mortgage portfolio for Metro today and the Sainsbury's transaction. They both add scale to our retail business but are very attractive returns.

I think I've been very consistent from an M&A perspective. We will consider opportunities as they arise, but I've also been very consistent in that I see a lot of potential to grow our core three customer businesses. I see potential for organic growth as well as inorganic growth.

But I'll be very clear-eyed, and we as a management team will be very clear-eyed about any M&A. It needs to be compelling from a shareholder value perspective and it needs to be strategic. So we'll take a very disciplined approach to anything and we'll also always consider the alternative uses for the capital.

So yes, pleased to get these two transactions done. We're remaining very disciplined and focused on growing the core business as well as considering opportunities. Katie, NII.

Katie: Thanks. Hi, morning Kalyeena. So as we look at the income guidance, we've taken you from a £7 billion income in the first half of the year, so a really strong start, and raised our guidance for the year up to £14 billion.

There's a few things that are happening within there, but what's really important is it's really been driven a lot by customer activity on both sides of our balance sheet as well of course, the absence of rate cuts. So, as you look from here to the year end, to think about, we're assuming two rate cuts now, that will obviously impact the way that we do pass through to our customer base. And then I think the thing that we're all thinking about is how will customers behave and what actions might they personally take as rates kind of start to fall as well.

There's always a bit of seasonality in our markets business as well as we go into the second half. Pleasingly, we've also got the mortgage book, which is kind of stabilised in terms of it's the margin that we charge on that. So overall, very comfortable with that income guidance of around £14 billion, building on the strong start, reflecting our customer activity in the first half of the year. Thanks, Kalyeena.

Paul: Great, thanks Katie. Thanks, Kalyeena.

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

Paul: Thanks Oliver. Thank you everybody for joining us today.

So just to wrap up, it's a strong performance. We've seen growth in customer activity across all three of our business. We're delivering returns for shareholders with our interim dividend up 9% on last year's. And we've made really good progress against the strategic priorities I set out earlier in the year.

Of course, this performance is grounded in the vital role we play in the UK economy and the lives of our 19 million customers. Because fundamentally, if we succeed for our customers, we'll succeed for our shareholders and the wider economy. So, thank you.

Please let the Press Team know if you've got any further questions. Hope you enjoy the rest of your day and the weekend when it comes. Thank you.

Operator: That concludes today's presentation. Thank you for your participation.
You may now disconnect.

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