NatWest Group

# Q3 Results 2024

**MEDIA Conference Call**
Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
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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 25th Oct.

**NatWest Group**

**Paul Thwaite, Chief Executive**

**Katie Murray, Chief Finance Officer**

**Paul** Good morning, everyone, thank you for joining us today for the NatWest Group's quarter three results. I'll start with a brief introduction before Katie takes you through more detail around our financial performance and then we'll open it up for questions. This strong set of results once again demonstrates that NatWest Group is performing well. It's underpinned by the support we provide to our 19 million customers in every nation and region of the UK. For the first nine months of the year, we've reported an operating profit of £4.7 billion and a return on tangible equity of 17 percent.

And we have today upgraded our full year guidance for both income and return on tangible equity. We're also pleased with the continued reduction of the government stake in the bank, which now sits at under 16 percent having been around 38 percent at the end of last year.

By continuing to make progress against our three strategic priorities, we are delivering disciplined growth, simplifying the bank whilst also managing our capital efficiently. Throughout the quarter we have grown our lending, helping customers to buy or remortgage their homes and grow their businesses, from startups through to the largest multinational institutions. And customers are also choosing to keep more of their money with us with deposits and investments up in each quarter this year.

At the same time, we continue to focus on simplifying our business and using technology to create a better more personalised experience for our customers.

A couple of simple examples from recent months include using Gen AI within our chat bot Cora+ which has made it quicker and easier for customers to find the information they require. This has delivered a 150 percent increase in user satisfaction and halved the number of cases that need our colleagues to intervene. As a result, we now plan to extend these services to reach even more customers.

For business customers we've provided around 30 new self-serve options in our digital channels saving them valuable time on simple tasks as well as freeing up our colleagues to support those who have more complex inquiries. Turning to our final strategic priority we are efficiently managing our capital to invest in our business and deliver attractive returns, and in quarter three we completed our previously announced mortgage acquisition from Metro Bank, which builds on an existing area of strength and complements the organic growth in our mortgage lending.

As the UK's biggest bank for business and one that serves millions of households, NatWest Group plays a key role in driving economic growth across the UK. The economy has undoubtedly performed better than many expected at the start of the year. Inflation has now fallen below target, rates are beginning to come down and unemployment remains low. With customer activity increasing and defaults also remaining low we are seeing continued optimism amongst businesses and consumers, with confidence up compared to last year.

The mortgage market in particular is an area where we've seen improved sentiment and activity. Through the last quarter there has been a further increase in applications we'd expect to be reflected in our quarter four numbers. Businesses are also reporting lower price pressures, and we are seeing demand for finance and lending in our commercial mid-market sector and amongst large corporates and institutions.

Of course, it's important to look at the detail because not all customers are feeling the same and some consumers are continuing to adapt their behaviour. Whilst discretionary debit card spending on smaller items like clothing has risen, we are seeing larger purchases being delayed, with consumers saving at a higher rate than they were pre-pandemic.

For businesses, confidence and activity levels vary depending on where they are based and which sector they operate in, as well as their individual circumstances. Our latest growth tracker paints a largely positive picture but also supports the view that some businesses are waiting for greater clarity around things like the Budget, interest rate decisions and the outcome of the US elections.

Our focus is on providing targeted support where it's most needed, whether building good saving habits or approving SME loans in less than 10 minutes. We have also committed £3.2 billion of lending to social housing projects since the start of the year, as well as £23.5 billion of climate and sustainable funding and financing in reach of our 100 billion 2025 target.

Ultimately, we want to be a trusted partner to our customers and we know that we can only succeed if they do. That is at the heart of our strategy and that is what the team and NatWest are focused on delivering. With that I'll hand over to Katie for more detail on our quarter three numbers.

**Katie**

Thanks Paul and good morning, everyone. Let me start by saying that we are pleased with the numbers we've published today. As Paul mentioned they reflect a consistently strong performance across the business. NatWest Group has generated £10.8 billion of underlying income in the nine months of the year with £3.8 billion of that coming in the third quarter.

Of course, as we get towards the end of the year, we have a clearer picture of how we expect the bank to perform over the rest of 2024, and we have today upgraded our income guidance for the full year to around £14.4 billion of income and our ROTI guidance to more than 15 percent. This is a consequence of our performance across the first nine months with continued deposit growth and strong mortgage growth since H1.

We have seen little change in customer behaviour following the first rate cut, and with continued income momentum through Q3, we have greater confidence in our full year performance.

Over the past nine months, defaults across our lending book have remained low and our guidance on impairments is unchanged. As a reminder, at H1 we revised this guidance downwards to below 15 basis points for the year, and we see no reason to change that.

Overall, our well-balanced lending book is performing well and has grown by £8.1 billion in the first nine months.

In Q3 our mortgage book returned to growth as expected and we continue to improve our share of unsecured personal lending. We also saw lending growth to corporates and institutions as well as in the commercial mid-market sector and assets under management in our private bank have increased by £5.7 billion in 2024. On deposits, we saw strong growth in savings across our retail bank with deposits up £8.3 billion across the whole bank so far this year.

We continue to be disciplined on costs and are on track to keep them broadly stable compared to last year, excluding the increase in bank levies and the costs associated with the retail offer.

We also ended the third quarter with a common equity tier one ratio of 13.9%, up 30 basis points on H1. Our strong earnings, together with a lower share count, have increased tangible net asset value per share to 316 pence, up 26% in the last two years. This robust position allows us to continue lending to our customers, investing in our business and delivering attractive returns to our shareholders.

And with that, I will now hand back to Paul to open for questions.

**Paul** Thanks Katie. From our results today, it's clear that we're making good progress against our strategy. We're very pleased with the momentum in the business and we're very positive and confident about the future. By succeeding with our customers, we will succeed for our shareholders and the wider UK economy.

So, let's now open it up for questions, Oliver.

**Operator** Our first question comes from Anna Wise of PA. Anna if you'd like to unmute and ask your question.

**Anna** Right, can you hear me?

**Paul** Yeah, we can Anna.

**Katie** Hi Anna.

**Anna** Hiya, yeah, a couple of questions if that's all right. The first one, would just be great to get a bit more detail on the mortgage lending growth. I mean, is this being driven by first-time buyers or home movers, kind of where's that coming from and do you expect lending to pick up into the new year?

And just secondly as well, I've noticed there's been savings made from a, I think it was a 9% reduction in headcount this quarter versus last year. So, could you talk a bit about where those job productions are coming from? Is it part of kind of wider plans to simplify the bank? Thank you.

**Paul** Thanks Anna. Hopefully my voice holds out here. Let's take mortgage market and mortgage lending first. We're very pleased with the mortgage growth during quarter three. That's a combination of organic lending but also the completion of our acquisition of a Metro mortgage portfolio. What I'd say Anna, to your question, is it's broad-based the growth. It's both first-time buyers and it's re-mortgaging. As mortgage pricing has come down, we've seen increases in activity, both at a overall market level, but also at a NatWest level as well. And based on applications that we've seen during quarter three, we're confident around mortgage volumes as we see out the rest of quarter four but also early into 2025. So, a good pleasing story on mortgages.

In terms of your question around changes in headcount, as you'll probably remember at the start of the year, I talked about our strategic priorities of growth, simplification and active balance sheet management. So, I guess I signposted there that we would be seeing some changes across our businesses. So, what you're seeing there is the reflection of some of those changes as we look to simplify the business both for the benefit of our customers and our colleagues. We are changing the size of our workforce but also the skills in our workforce as well. Wherever we do that, as you'd expect, we try and do the majority of that through voluntary redundancy. We have a good track record there, and we have a very committed approach to successful redeployment in other parts of the firm as well. Thanks Anna.

**Operator** Our next question comes from Akila of the Financial Times. Akila if you'd like to unmute and ask your question.

**Akila** Can you hear me?

**Paul** Yes, I can hear you Akila. Morning.

**Akila** Great, hi. So, I've got a couple questions as well. The first one is about the rise in stage three loans in your commercial bank. So, you've talked about sector clusters that represent a heightened risk. So could you give a bit more colour on what those are and I guess a breakdown of what's happened in terms of those loans.

And then you just talked about job cuts now. I wonder, can we interpret that most of those were in the UK? Just because I know you've also exited in Poland as part of that simplification strategy earlier this year.

And then thirdly, I also have a question on personal guarantees on loans to SMEs. I'm just hearing a lot of talk about that practice, and whether or not it's good for growth, and whether it prevents SMEs from taking risk. And so yeah, I guess I just wonder what your stance is on this and if you would welcome or not a crackdown on this practice. Thanks.

**Paul** Thanks Akila. So, we will, let's try and go through them one by one. So, on the first question around impairments. So, where I'd start there is customers are proving very resilient. Our credit books and our asset portfolios continue to perform very well. You can see year to date, our cost of risk is around 10 basis points. That's obviously historically very, very low. At the half year, we improved our guidance around cost of risk to less than 15 basis points. As you heard Katie say in her talk, we've reconfirmed that guidance today.

So overall, impairments and customer defaults are running very low. If you look at the comparison to quarter two, it's worth bearing in mind that we did have some significant releases in quarter two. So, you need to net them off to see the underlying trend. What you can see there in our retail business is, the levels of defaults are very consistent and no significant deterioration at all.

On the commercial and institutional side, the same applies in terms, we did have some releases in quarter two. What we have highlighted, and you tend to get this in a corporate and institutional bank, usually when you see impairments, they tend to be a small number but can be larger in size. So, what you can see today in our results is, a small number of larger impairments. But what I would do is we put that in the broader context, you can see the underlying level of impairments remains very low. So that's impairments.

In terms of the second question around geography, the reality is that the simplification initiatives are across the whole of the organisation, include all of our geographies. You're right, that we announced the closure of our international hub in Poland in the second quarter of this year. So, it's reasonable to expect that some of the reductions would fall across our different geographies.

And then on your third question of personal guarantees, I recognise as you allude to, there has been some commentary recently around this. There was a review initiated a while back by the FCA. We've been very happy to engage with that. I guess as the biggest bank for business, we believe we have a very good view on where personal guarantees are relevant and are not relevant. There are occasions where they are relevant because they allow businesses to borrow more. We think our practices are very strong in that place. And we've been very positively engaged in any review that the regulator or the industry does. Thanks, Akila.

**Operator** Our next question comes from Ben Martin of The Times. Ben, if you'd like to unmute and ask your question.

**Ben** Hello, can you hear me?

**Paul** Yeah Ben, how you doing?

**Katie** Hi, Ben.

**Ben** Yeah, thanks. Just going back to the impairments. This is £109 million impairment in the Commercial Institutional Bank. Aren't you a lender to Thames Water? And is that what's driven the much bigger than expected impairment this quarter? And can you tell us a little bit more about the Budget? Are you worried about there being higher taxes on banks at the Budget specifically? And what's your thoughts on the rumoured increase in employer National Insurance contributions? Thank you.

**Paul** Thanks, Ben. I'll take those two. On impairments, Ben, you'll expect me to say this, but I'll never comment on individual customers or clients. But what I would say about impairments is, I think it's very important to put it in context of our cost of risk is 10 basis points for the year to date, which is historically very low. And we've reconfirmed our guidance today at less than 15 basis points, again, which is well ahead of what you'd expect to be normal run rates.

On the Budget, there's been lots of speculation over the last weeks, arguably months. I'm sure there'll be a lot more speculation over the course of the next four or five days. I'm not going to add to that speculation. I don't think it's particularly useful or insightful. What I want to, you know, from my perspective, you know, what I'd like to see is a Budget that supports the unlocking of growth and investments across all the nations, all the regions of the UK. I think that's obviously what the business community would like to see. Businesses looking for a policy environment and a regulatory environment that supports that investment, to support long term planning and certainty.

So, from my perspective, that's what I'm hoping to see. We don't have long to wait now. I guess we'll all find out next week what measures are included and included. It probably doesn't help for me to opine on the individual measures. What I would say is some of the topics that are being spoken about, whether that's housing, infrastructure, green transition, they're areas which, given our foothold in those markets, NatWest feels very able to help, I guess, the wider drive towards UK growth. So, anything in that regard will be welcomed and NatWest is ready to play its part. Thanks, Ben.

**Operator** Our next question comes from Marion Dakers of Bloomberg. Marion, if you'd like to unmute and ask your question.

**Marion** Hi, morning all. A couple of questions. The first one on deposit margin expansion. I just wondered how we should read that phrase. Is that a feature of less competition for deposits, meaning you can keep a bit more or is this just a feature of interest rates? Yeah, it'd be good to get a bit of colour around that.

And second question, I'm going to have another go at the Budget. Keir Starmer's talked a lot about deregulating to spur growth. Is that the impression that you get from him? Talking to him at investment summits leading up to the speech. Thanks.

**Paul** Thank you. So on deposit margin, so we're very pleased with the growth in our three businesses, the growth in deposits in our three businesses. That's three quarters on the run where we've seen growth in deposits. So we're very pleased in that overall. You rightly point out that there has been some margin expansion this year. That's in our disclosures. The reality is that's not to do with customer pricing in that respect. It's the effect of what is, I guess, well known as the structural hedge. So that's coming through and supporting our margins. We put the structural hedge in place to smooth our earnings over multiple years. So that's what's driving that.

It's not a reflection on the competitive environment per se. A couple of words on that I would say is the deposit market remains very competitive. We haven't seen much change in customer behaviour since the first rate reduction. The majority of providers have responded very rationally, I think, to that rate reduction. But it's still a very competitive market and we're very, I guess, alive and agile to changes in our competitors. So that's on the deposits.

On the Budget piece and, I guess, a Budget as it as related to regulation. The first thing I'd say is, from my perspective, having high quality regulation is incredibly important. I genuinely believe that's one of the UK's competitive strengths. It's obviously very important that regulation is balanced and that we avoid any unintended consequences. And it's also important that it provides a level playing field given, obviously, we operate, not just across the UK, but we compete with European banks and US banks. It's very clear that the regulators have a secondary objective to ensure they consider competitiveness and growth. At the speeches last week, the PRA and the FCA spoke about that and the work they're doing to make sure they get the balance right.

So, from, I guess, from a bank's perspective and a business perspective, what we want to see is clarity. We want to see certainty and we want to see consistency, and we'll work with the government and regulators and our peers, because it's a sector issue, to achieve this. So, we hear the sentiment. I think it's clearly understood by both government and regulators, but it's all about having the right type of environment for regulation. Thanks.

**Operator** Our next question comes from Kalyeena of The Guardian. Kalyeena, if you'd like to unmute and ask your question.

**Kalyeena** Hi, good morning. Budget again, I mean, are you at all concerned about the government's plans to change the fiscal rules to borrow more infrastructure investment? I guess, particularly about the risk that this potentially causes a spike in mortgage rates.

And secondly, in August, Texas put NatWest on a blacklist of firms that were accused of boycotting energy companies. I'm wondering whether you had any engagement with any Texas officials on the issue and what your view is of this growing ESG backlash? Thanks.

**Paul** Thank you, Kalyeena. Good to hear from you. So, on Budget, so I guess, as I said earlier, I'm not really going to speculate on what might be in and what might be out. As well as the speculation around the Budget, there's obviously a lot of speculation around the fiscal rules. And based on yesterday's announcements, it's obvious that we're going to see more detail into next week. More broadly, what I'd say about fiscal rules is, obviously, the government will set the framework within which it makes its tax and spending decisions. We have had many different fiscal frameworks in recent years.

So to us, it's not a surprise that it's being looked at. In terms of the market reaction, the market will take into account really what's trying to be achieved by any change. So, what does that mean for spending? What does it mean for investment? What does it mean for tax? Rather than the specific rules per se. So, we need to see what the changes are before we can make a judgment. But obviously, the intention and the objective there should be to get the balance right. So, there's confidence in the public finances, but also the ability to invest is created. So that's what I'd say around, I guess, that's as far as I'd go on the fiscal rules.

On the second question, what I'd say is that if you look at our level of exposure to oil and gas, it's very low and has come down considerably over the course of the last four or five years. So more generally, we're very committed to supporting customers and clients in every sector with their climate transition. You'll know I'm involved in the National Wealth Fund. I want to catalyse public and private capital to help with that transition. We have de minimis exposure to Texas. So nothing else to say on that. Thank you.

**Operator** Our next question comes from John Paul of the Daily Mirror. No, sorry, Daily Mail. John Paul, if you'd like to go ahead.

**Paul** A Freudian slip, John Paul. There we are.

**John Paul** Morning. Can you hear me?

**Paul** Yeah, I can.

**John Paul** Morning, Paul. A couple of things. I just wondered whether you personally agree with the Prime Minister's opinion that anyone who owns shares can't be considered to be a "working person". And obviously, that has implications for taxes, the Budget next week, and doesn't necessarily square, do you think, with the intention to boost investment and savings?

Second thing is on your comments earlier in this call that some businesses were pausing, hesitating for the Budget and for other things, but specifically because I wanted to get a bit on colour about why they're holding off on making decisions before the Budget. Is it because of things like capital gains, tax, National Insurance? What are they saying to you about why they are pausing any decisions in relation to the Budget?

**Paul** Thanks, John Paul. On the first one, I'm not going to get drawn on what may or may not be the Prime Minister's opinion. From what I'd say generally is, and repeat my thoughts around the Budget, I think the intentions around driving growth investments are good. I want to see a Budget that helps unlock that growth and investment, and I want to make sure that Budget does it across all the nations and the regions of the UK. When I talk to customers, that's what businesses want. They want clarity and they want certainty around that.

In terms of the specific around your second question, in speaking to customers, if you take a big step back, the economy has performed better over the course of the last 10-12 months than many predicted. You can see from our performance that customers are active, they're borrowing, businesses are borrowing, individuals are borrowing for mortgages, they're saving and investing. And sentiment has improved, but it has dipped a little bit in the last couple of months due to uncertainty.

What I'd say, John Paul, is that uncertainty is not just around the UK Budget, it relates to the US elections, it relates to some of the geopolitical tensions as well. So, depending upon the customer, the reasons can vary. I think what everybody is looking for is, I guess, to get beyond those events, to get beyond the UK Budget, get beyond the US election. That should give a degree of certainty and confidence and then businesses can make their investment choices. Thanks, John Paul.

**Operator** Our final question today comes from Michael from The Daily Telegraph. Michael, if you'd like to unmute and ask your question.

**Katie** Hey, Michael.

**Michael** Hello. Morning, guys. Can you hear me okay?

**Paul** We can, yeah.

**Michael** Brilliant. Just a couple of quick ones. Just on the UK, the government sell down. They didn't go for the retail offer. Do you feel like that was a missed opportunity to generate more interest in NatWest from consumer retail investors? And do you have any preference for how the government now proceeds with its sell-down over the next few months?

Then the second one, just a quick one on Metro, obviously. Is that the deals that we can expect you to do in future? Do you have any more information about what kind of M&A strategy you might pursue in future? That's it. Thanks.

**Paul** Thanks, Michael. I'll take the second one first. On Metro, so we're pleased to announce that, but also complete it at the end of the quarter, so it's a way of adding scale to a business, in this case, mortgages, that we're keen to grow and have a successful track record in growing. In terms of M&A, as I've said before, I want to grow the business organically. You can see that we're doing that across our three businesses, but I'm also open to growing the business inorganically if we can add scale or capability to the key areas. I have two very important tests. One is they have to be compelling from a shareholder perspective, and they have to be strategically congruent.

You'll have to remind me about the first question. Oh, it is the share sale down. That's right. In terms of the share sell down, I'm very pleased with the pace and the momentum that we're seeing in the reduction of the sell down. 38% at the start of the year, less than 16% now. The trading plan is working really well. It can only work well if there's very good demand for shares on the other side. That's testament to the performance of the bank. In terms of, I don't have a view or a preference, but it's entirely up to the government in terms of how they want to dispose of the remaining shareholding. Our job and my job is to make sure we're running the bank really well and that gives the government options. As I said, I think I said it earlier in the call, I continue to believe that returning the bank to full private ownership is in the interest of all our stakeholders. We're preparing ourselves for whatever it is that the government wants to do. Thanks, Michael.

**Paul** Thank you all. Appreciate the questions. You can follow up with the teams as required. They're ready to talk to you. Thanks for joining and have a good weekend when it comes. Thank you.

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