Q1 Results 2022

MEDIA Conference Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
on Friday 29 April 2022

FORWARD-LOOKING STATEMENTS

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NatWest Group

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

Alison Rose, Chief Executive

Good morning everyone and thank you for joining us today. As usual, I'm going to start with a brief strategic update before we open up to questions. Since we last spoke just over two months ago, the world has changed considerably. Our thoughts are with everyone affected by the invasion of Ukraine, and we are doing everything we can to support them.

Last week, I visited our operations in Poland and heard first-hand how our colleagues are helping Ukrainian refugees with food, medicine and accommodation, as well as other essential services. And the bank has been very keen to support the Ukrainian people in a number of other ways. More than £9 million has so far been donated by our customers and colleagues to the Disasters Emergency Committee's Ukraine Humanitarian Appeal including £2.5 million of match funding by the bank.

And I'd like to take this opportunity to thank everyone who has donated for their incredible generosity. We have also taken measures to assist Ukrainian refugees, including helping them to open bank accounts safely and setting aside part of our Edinburgh headquarters as a welcome hub for those seeking refuge. In addition to the humanitarian cost, the invasion of Ukraine has led to greater geopolitical and macroeconomic uncertainty, adding to the inflationary pressures impacting households in the UK.

We are not seeing any significant signs of financial distress in our book at this stage. We are, however, very aware of the challenges and concerns the cost of living crisis is causing for many of our customers up and down the country. Therefore, in line with our approach throughout the pandemic, we are focused on providing the practical help and support that people, families and businesses need to thrive. This includes delivering more financial health checks to help customers understand their personal finances better and to help them plan.

And providing a dedicated SME ecosystem with access to specialist advice throughout the UK. We are also working alongside charity partners such as Citizens Advice and GamCare to support those who are most in need, as well as helping young people develop greater financial confidence through initiatives such as our Dream Bigger programme and our partnership with Marcus Rashford. It is this focus on building deeper relationships with our customers, combined with two years of execution against our strategy that means NatWest Group is well placed to deliver sustainable growth and sustainable returns in the years to come.

The bank's strong performance in Q1 is a further demonstration of the progress we're making. With profit before tax for the go forward group of £1.3 billion, up 36% on the first quarter last year. We are delivering on all of our financial targets. Income is up significantly on last year. Costs are down and our capital position remains strong, even after the £1.2 billion directed buyback announced in March, which brought government ownership to around 48%.

Whilst reducing the government shareholding below 50% had little impact on our governance or operations, it's an important symbolic moment for our bank and a marker of how far we have come in transforming our business. This work remains ongoing. We're in the middle of a £3 billion investment programme, most of which is being spent on data and digital to help deliver a simpler and better banking experience for our customers.

As a result, we're acquiring new customers, with almost 80% of retail accounts now opened digitally, and we're seeing a significant improvement in our customer satisfaction scores. Building deeper relationships with our customers also means reflecting their values and meeting their changing needs. And a key area of focus is helping them transition to a low carbon economy. We have set a target of raising £100 billion in sustainable funding and financing by 2025 and have achieved 13.6 billion of that target to date.

Looking at the year ahead, it's clear there are challenges facing the UK economy, but also many opportunities. And against that backdrop, living up to our purpose is not only the right thing to do, it also has a strong commercial imperative. Helping us to build long term value, drive growth and deliver sustainable returns for our shareholders. With that, I'm very happy to open it to questions, and myself and Katie are here to answer them.

Thank you very much.

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Operator

Our first question comes from Iain Withers from Reuters. Iain if you could please unmute and go ahead.

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Iain Withers, Reuters

Hi morning, just the first one on the cost of living pressures on customers. Just wondering since February, if there's been any changes to how customers are reacting to that and whether more are asking you for help, at all.

And the other one, it would be great, if you could just talk through the reduction in capital and whether that's a concern for the bank at all. I know it's partly regulatory changes and the directed buyback, but I think there's a £300 million FX loss as well, if you could explain that. Thanks.

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Alison Rose, Chief Executive

Thanks Iain. Well, on cost of living, we're not seeing any signs of distress coming through our customers. And, as you would expect, we're looking at all of the indicators that we would normally expect to see. So, there isn't an increase, for example, in calls coming in to our financial health and support teams. There are no additional requests for forbearance, and credit card limits and overdraft limits remain below 2019 levels.

So, we're looking at all of the different indicators to see if there are signs of distress. And we're not seeing that from a credit perspective. What we are very focussed on is trying to get ahead of it with customers, so things like our financial health check which helps people look at their finances and plan. We've been very proactive with our business customers, and we've been putting lots of support out there, thinking about how to deal with energy inflation, supply chain disruption, very dedicated support for those highly affected sectors so that we can help business owners and plan ahead. But there's no direct signs. I think on your capital question, our CET1 at 15.2% is very strong and it is where we expected it to be. The reduction in capital at the beginning of the year in terms of the regulatory changes, we've built into our forecasts and obviously we had talked about doing the directed buyback, but that was in the government hands to launch that. So, we've got very strong capital position, very capital generative and continue to be so. So, we're very, very happy. Katie, do you want to pick up that specific point.

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Katie Murray, Chief Finance Officer

I think the FX point that you're probably thinking of is, we did a little bit of an AT1 transaction re-arranging some debt earlier in the year and that cost about £254 million. So had a very small impact on capital, about 14 Bps in terms of that. But Alison is absolutely right.

Regulatory changes hit us at the beginning of the year, where we'll trade very much in line with expectations. And then the main movement is the directed buyback to take us down to 15.2, but a very strong base to be sitting in.

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Iain Withers, Reuters

Thanks.

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Operator

Thank you very much. Our next question comes from William Shaw of Bloomberg. William, could you please unmute and go ahead.

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William Shaw, Bloomberg

Given rising house prices coupled with a squeeze on incomes, how do you see the mortgage market play out from here, please?

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Alison Rose, Chief Executive

What you can see from our results is a strong performance in mortgages and lending. We've had lending growth of £6.6 billion, of which £2.8 billion is mortgages. The mortgage market continues to be competitive. And obviously there's been significant movement in the swap curves. But we're seeing strong demand from our customers and that's a positive.

I think as you look forward in terms of outlook, we continue to see strong demand coming through and we'll support our customers on that. It remains a very attractive asset for us and good returns. So, I think continuing to drive growth. Katie, anything you want to add on the mortgage market?

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Katie Murray, Chief Finance Officer

No, no. As we look at it, we still see it as a very attractive market. There's good volume and growth to come. And I think we were very pleased with the volume growth that we got in Q1 as we went through; stronger than it had been in Q4. So very comfortable with that.

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William Shaw, Bloomberg

Is there a risk that people are going to start getting priced out? Too many people can't get onto the ladder because housing prices are so high, and the market could take a bit of a hit.

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Alison Rose, Chief Executive

One of the things we work really hard on with our customers, and it's something that we've been doing for the last few years, is really helping customers plan and particularly first-time buyers building deposits, helping to build savings. You know things like know your credit score in our app that customers can use.

I think over seven million downloads in the first quarter so we're really starting people to help plan and get on the ladder. And we focus very much particularly on building financial capability as well and affordability and the knowledge to help people do that. So, I think what we try and do is make sure that we can inform, help and support our customers for the aspirations they have and get in early as people build up their capabilities, if they want to get onto the housing market.

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Operator

Thank you very much. Our next question comes from Kalyeena Makortoff of The Guardian. Please unmute and go ahead.

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Kalyeena Makortoff, The Guardian

Hi. Good morning. You mentioned the partnership and the referrals to Citizens Advice. I'm just wondering how bad it is for them when they are referred. Can you give a bit more detail about the kind of circumstances they're facing and when that happens? I know you said that you're not getting requests for forbearance or anything near what you saw maybe at the beginning of the pandemic.

Are you prepared to offer similar support as to what was offered during the start of COVID? If we do see any of those issues crop up? Thanks.

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Alison Rose, Chief Executive

Thanks, Kalyeena. So we’re very focussed on helping our customers. There is, I think, a lot of concern around cost of living and the challenges that presents. And for a lot of families and business owners, they haven't had to operate in a rising inflation, rising interest rate environment - it’s something that hasn't been a feature. So, what we're trying to do is be really proactive and get ahead of that to make sure that people can come and talk to us about it.

We would always, always encourage our customers to make sure they talk to us if they're worried about things rather than waiting until it is a problem. So that's why things like our financial health check are so helpful. I was looking just last weekend at some of the financial health checks that we've done. And invariably we're helping customers save money because it gets them to look at their whole balance sheet and plan for some of these issues that come through.

And then, as we did in the pandemic, we really are there to be proactive and help. We've been already writing to lots of customers on the business side. I think almost 50,000 small business owners got advice directly from us pointing them to how you manage rising energy prices, how you manage supply chain, what are the different policies and help we can give to them.

So we're really trying to get ahead of that and it's simple things as well, like we have in our mobile app a feature that helps people now predict their credit score or which cash machines they can go to, where they won't be charged fees. That saved almost half a million pounds for customers last year. So, it's things like that where we were getting ahead and then we partner with groups like Citizens Advice and GamCare, where, if people do need that extra help, we can refer them and connect them as well.

But as I said, at the moment, we're not seeing any signs of that. We have very dedicated and experienced professionals in our financial health and support team who are there to really help customers. And we're not seeing any increase in calls. But what we're trying to get to do is get ahead of it so that if people are anxious and worried, we can give them tips and help and support to do that.

And of course, with the strong capital position we have, with dedicated relationship managers up and down the country, with experienced professionals we're here to help our customers, and that's what we're really keen to make sure we do.

Operator

Thank you very much. As a reminder, if you'd like to ask a question, you can do this by raising a hand. If you are in the Zoom app or by pressing *9, if you've dialled on a telephone. Our next question comes from Ben Martin of The Times.

Ben Martin, The Times

Just a quick question on defaults. Obviously, you said that they stayed low during the first quarter. But I saw there's a line in the announcement today that you do expect them to increase as the year progresses because of inflationary pressures. Can you just tell us a little bit more about how much you expect defaults to increase and, what you expect to see for the rest of the year. Thank you.

Alison Rose, Chief Executive

Thanks Ben. Defaults remain very low. As I've said, we're not seeing any signs of distress in our book. And when we look at the risk diversification on our book, it's a very strongly secured and well risk diversified book. What we are very acutely aware of, though, is the challenges and concerns that a lot of our customers have around the impacts of inflation, the disruption to supply chain, the increase in energy costs.

We're not changing our guidance in terms of our impairment outlook, which we continue to support, but it's really about proactively getting ahead of it and knowing that a lot of our customers are concerned about it. And so that's why we're taking this proactive approach. As I said, we're not seeing signs of distress at the moment, but we know, for example, the next round of energy costs will be coming through later in the year.

That's going to affect people's balance sheets. On our mortgage side, the majority of our mortgages are fixed. So for those customers, they're not facing pressures in the short term, but it's important we get ahead of it and we are helping customers through this period.

Ben Martin, The Times

Can you give any sort of more specific guidance on defaults? So how you expect them to increase for the rest of year?

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Katie Murray, Chief Finance Officer

If we look at the guidance that we've had, what we talk about is... through the cycle. So not in any one year, but over a whole credit cycle of three, five seven years - you can have a think about what your view of the cycle is. Then we talk about the number of basis points of losses we'd expect to have in that time.

And we talk a number about 20 to 30 Bps. I'm sorry, it gets a bit complicated but what I would say here is that for 2022 and 2023 we expect to be below that level. So, although we do expect to see defaults creep up, its going to be below those traditional peak levels. And what we've done with the little bit extra that we held back, is we've got our balance sheet in a very good state of preparation for that.

So that from a balance sheet perspective, we feel comfortable that it's not going to be a particular hit because we do expect to be below historic levels. Obviously for the customer they face a different challenge and that's why we've got all the good things in place that Alison's already talked about.

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Operator

Thank you very much. Our next question comes from Simon Neville of PA. Simon, could you please unmute and go ahead.

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Simon Neville, PA

Morning everyone. Just a few from me. Alison, I take your point around cost of living and you're not seeing anything coming through just yet. Any distress just yet. But I assume it's fair to say that you expect that to change in the not-too-distant future.

I just wanted to talk around inflation more broadly. I think a year ago, when inflation started creeping up, we were all told this was going to be short term and it would reverse and there's nothing to see here, and that's clearly not been the case. I just wondered whether you have any thoughts on how long you expect this high inflationary period to last.

And on interest rates, I just wondered whether you had any thoughts on whether you expect the Bank of England to raise interest rates as high as perhaps previously predicted, or whether you think the recent economic indicators suggesting things are cooling a bit might lead them to reconsider?

Alison Rose, Chief Executive

Thanks, Simon. Obviously, I'll leave it to the Bank of England to comment on what they're going to do on interest rates. On inflation, I think probably I said in Q4 or Q3 last year that we had some concerns that some of the inflation was actually a permanent adjustment that was going to be coming through.

The Bank of England have been very measured in the interest rate rises that they've been putting through. But we’ve been talking to our customers since Q3 last year around inflationary pressures, supply chain disruption and those issues and how to maybe plan their business and deal with it.

Inflation is quite high and obviously the terrible situation in Ukraine, and the impact of that, is causing additional pressures in terms of macroeconomic and geopolitical pressures. That's exacerbating some of the supply chain issues and therefore the inflationary pressure, which I think is the new element coming into this year. And that's what we're really mindful about.

I think on the stress point for customers, as I said, for a lot of families and a lot of businesses, they've never really had to operate for a long time - probably the last ten years - in an inflationary environment or a rising rate environment. So, it is a degree of anxiety. We have during the pandemic seen a build-up of cash balances and people saving more and building more of a buffer.

But it's really a concern and helping businesses think about how they can manage their working capital, how they can manage disrupted supply chains - which I think is something that's happening globally - and the different ways that they can think about that is what we're focused on. There is a lot of liquidity sitting on corporate balance sheets and business balance sheets that has built up over the last few years.

So that is helpful in providing a buffer and there's lots of liquidity there. So it's helping people manage through this macroeconomic environment and really helping families deal with the challenges of inflation and different stresses and peaks caused by some of the geopolitical pressures that are happening.

Simon Neville, PA

And in terms of support - is there any update on bank branches at all - any plans for more closures this year, or has that programme been put on hold for now?

No. We will always keep our branch network under review. It's very much driven by customer behaviour and those trends that we've seen in terms of acceleration of digital that were happening before the pandemic - and have continued - are really the change in behaviour that we're seeing. So we will always keep our branches, but it's just one aspect of our points of presence.

We have over 16,000 points of presence, whether it's community bankers as well as branches. So we'll keep that under review based on customer behaviour. I think over the course of last year we invested another 20 million in our branch network. We upgraded a further 90 branches. But customer behaviour is changing and we will continue to follow customer behaviour.

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Simon Neville, PA Media

OK. Thank you.

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Operator

There are no further questions at this time, so I'd like to have the call back to Alison for any closing comments.

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Alison Rose, Chief Executive

Thank you very much. Well, thank you everyone for joining. Obviously with our results today, we have a very strong performance from the bank, with a strong capital base and a strong performance; delivering on our targets but importantly well placed to support our customers through the uncertainty that they're facing with practical support and help.

We're not seeing any signs of distress, but we are very keen to make sure, as we did during the pandemic, that we are there to help support our customers during periods of uncertainty. But thank you very much everyone for joining today.

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