H1 Results 2022

MEDIA Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
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NatWest Group

Sir Howard Davies, Chairman

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

Sir Howard Davies, Chairman

Good morning, everybody, and thank you for joining Alison, Katie and me for our first half results call.

The NatWest Group has announced a strong performance this morning as the team continue to execute well against our strategy. The bank remains well positioned to deliver for its customers and shareholders despite the ongoing economic uncertainty.

Inflation is at a 40-year high and with continued rises in energy prices in prospect, is projected to hit 11% this autumn. As a result, interest rates look set to increase further. Economic activity has slowed following the rapid post-pandemic growth, but the labour market remains strong and house prices are resilient.

So, we are not yet seeing many of our customers, whether personal or corporate, in financial distress. That could change, but NatWest will use its strong balance sheet and financial performance to help support the people, families and businesses we serve through any challenges they may face.

I will now handover to Alison for an update on the bank's performance in the first half of the year and the specific actions we are taking for our customers and our shareholders, and then later, we'll take your questions.

Alison Rose, Chief Executive

Thank you, Howard, and good morning, everyone.

Today we are reporting a strong performance in the first half of the year. Income is up by more than 16% and our operating profit before tax is 13% higher at £2.8 billion. This reflects continued progress against our strategic priorities.

We're meeting more of our customer needs through increases in our lending and wider growth across the business. This strong performance alongside our robust balance sheet is what enables us to stand alongside customers and colleagues as they face into a challenging economic environment.

Whilst we're not currently seeing any immediate signs of distress, we are acutely aware of the pressures customers face this year with higher inflation, rising interest rates, a steep increase in energy costs and supply chain disruption. And we also know that the most significant challenges are yet to come.

As I say, given the performance of the business and its levels of profitability and capital generation, we are well positioned to provide support to those who are most likely to need it. That is why we have proactively introduced a targeted package of measures in addition to our existing support, which includes contacting almost 3 million customers to offer practical advice and tools to help them with the increased cost of living. Putting in place tailored support for the sectors facing the biggest challenges, including a £1.25 billion lending package for our 40,000 agricultural customers. Freezing fees for SME bank accounts. And launching a £4 million hardship fund delivered through our partner organisations such as Citizens Advice, Money Advice Trust and StepChange.

The strength of our balance sheet also allows us to grow our lending responsibly, continue to transform the bank and deliver sustainable returns to our shareholders. Net lending is up £9.3 billion in the first half of the year, and we are seeing growth across all sectors, including mortgages, current accounts, new business accounts and credit cards.

For example, we opened 310,000 new current accounts in H1 and as we continue to support new businesses, I am pleased to say we opened 49,000 new accounts for start-ups, which takes our share of the start-up banking to 12.4%, up from 10.4% in 2021.

We are in the second year of our three-year £3 billion transformation programme, most of which is being spent on data, digitalisation and technology. And we are already seeing the benefits. 61% of our retail customers now bank entirely digitally with us, and 84% of our commercial customers are digitally active. And as we create a simpler and better banking experience, we are building deeper relationships with our customers at every stage of their lives. Relationships that start earlier, reflect their values and meet their changing needs.

One key area where our customers are increasingly looking to ask for help is reducing their climate impact, as we all look to transition to a low carbon economy. To that end, in retail banking, we have completed £1.4 billion of green mortgages since we launched the product in Q4 2022 up 90% from the end of last year.

This morning we have announced that we intend to pay an interim dividend alongside a special dividend with a share consolidation, which together will deliver around 20p per share for our shareholders, including the UK government. This is a common approach taken by companies looking to return a significant amount of capital whilst maintaining share price stability. And we believe it is the best outcome for the bank and our shareholders as we continue to target a capital ratio of 14% by the end of the year.

To conclude, this is a strong financial performance building on two years of progress. Our strong levels of capital and liquidity mean we are well-placed to help our customers, colleagues and communities navigate this economic uncertainty.

By growing our lending, supporting those who are likely to need it most, and investing to create a simpler and better banking experience, we are delivering for our customers and our shareholders.

Thank you very much. And I'm now happy to open it up to questions.

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Operator

Our first question comes from Lucy White. Lucy wanted to if you could please unmute and ask your question.

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Lucy White, Daily Mail

Hi, everyone. Thanks for the call. I just wondered if you could go into any detail that you're seeing on sort of changing spending habits in the face of the cost of living. You know, you said that you're not seeing any signs of distress, but are you starting to see, you know, people spending less on big ticket items, for example? Any change in kind of levels of debt, that kind of thing?

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Alison Rose, Chief Executive

Yes. Thanks, Lucy. We're not seeing any increase in distress or debt or calls coming in for help and support. What we are seeing at the moment is still in our debit and credit card spending, strong spending still in areas like entertainment, hospitality and travel in particular. We are seeing, obviously, spending on critical items like utilities and fuel up by 20 to 30%.

But we're not seeing an erosion of cash balances as a result of that. We have a, the thing to remember, is that we have a predominately secured book. So, when I look at our mortgage book, you know, nine out of ten of our customers won't see an impact on their monthly payments as a result of the change in base rate because they're on fixed mortgages. And we've also helped around by extending our roll off window. So, we are seeing at the moment travel and hospitality increasing, cash balances you know, liquidity on households and businesses remain very strong.

On the business side, clearly, the sort of post-pandemic recovery and ramp up in working capital, as supply chains re-engineered has continued, but we're seeing continued growth in asset financing and invoice financing, a lot of growth in areas such as infrastructure, and I talked a little bit in in the opening on green mortgages, for example. And we've seen strong growth in climate and sustainable funding and financing. We’ve contributed 20 billion now to our 100 billion target.

So, you know, overall, no signs of distress, definitely challenges ahead, which is why we're putting in place these very proactive measures to help people as we move into tougher times.

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Lucy White, Daily Mail
Thank you. Can I just pick up just from one thing you said, you said spending on critical items was up 20 to 30% but there hasn’t been an erosion of cash balances. Do you think that’s because people are seeing higher wages or because they're adapting their spending in other areas?

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Alison Rose, Chief Executive
Well, we're seeing we're seeing people adapt their spending. I mean, we're running now on average around 5,000 financial health checks a week with our customers. And what we're doing in those financial health checks is really help people look at their budgeting, how they're spending their money. And it invariably it helps them save money.

But, you know, as I say, we’re still seeing more going on travel at the moment, more in hospitality, the definite rise of fuel prices, which we know are going to be even more so as we go into Q3 and Q4. We think people are adjusting their disposable income in anticipation of that.

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Lucy White, Daily Mail

Great. Thank you.

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Operator

Thank you very much. Our next question comes from Sid from the FT. Sid, could you please go ahead.

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Siddharth Venkataramakrishnan, FT

Good morning and thanks for the time today. Just, I was asking on the proactive reaching out to customers, I think it's 2.7 million. I don't know if you can give any more details on the kind of things that you're seeing when you reach out to them or I realise this is both business and personal, so I imagine there's some differences between the two.

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Alison Rose, Chief Executive

Yes. I mean what we're doing and we've, we've been very targeted in terms of saying, and it’s both personal and business customers, saying we're really focussed on, you know, where, where we can help them with budgeting tools, how we can help them with supply chain, how to manage fuel prices, how to think about their working capital.

We have experts up and down the country, for example, on the business side, sector specialists who are really focussed on what the dynamics of the sector are. I touched on the agriculture sector, the £1.25 billion support package we've put in place. You know, we've talked to farmers, the National Farmers Union, and we have dedicated agriculture specialists who are working with customers to help them manage and think of different ways that they can plan ahead.

The main thing we’re really trying to do is, although there are no signs of distress and balance sheets are in good shape, we’re not seeing defaults. We don't want people, we know there's a lot of anxiety around cost of living, inflation, higher interest rates, things that households and businesses haven’t dealt with for 10 to 15 years.

So, we're we wanting to get ahead of that and encourage people to come and talk to us so that we can help them with any challenges they may have.

Operator

Thank you very much. Our next question comes from Iain from Reuters. Ian, could you please unmute and go ahead.

Iain Withers, Reuters

Hi, morning. Just a quick one on impairments. Obviously, they’re low, I think you’ve released some this half. I just wondering how sustainable you think that is, given the inflation we're seeing and when that could change, like when the pressure could hit. Thank you.

Alison Rose, Chief Executive

Yeah. Thanks Ian. I mean, the one thing I would say about impairments and the cost of living, what we're seeing is a squeeze on disposable income. We’re not we're not seeing a credit event. We’re seeing a potentially lower growth events as people are having to manage lower disposable income and different challenges.

But Katie, can talk you through impairments in a little bit more detail.

Katie Murray, Chief Finance Officer

Yes, absolutely. So, if you look at impairments, our guidance for this year and next year was that we would be below our through the cycle of 20 to 30 basis points. And then what we've actually done today is we've actually tightened that guidance further for 2022 to say that it will be below ten basis points. So that is an incredibly low-level of impairments and that's what has helped drive that first piece of release that you’ve seen coming through in the half.

I think what's important, in picking up on something that Alison said earlier, within those numbers, there’s also quite a lot of preparation for harder times to come. So, we have within the numbers, there is a judgemental issue, our judgemental provisions that we bring in and what we did there, we've added on some provisions in terms of people we think will struggle with the cost of living or issues with the supply chain. So as things do get harder, we're able to pay for those impairments with what we've got in the balance sheet.

So, that's why we're able to give that kind of improved guidance as we go forward. But the book is performing incredibly well, and people also have built up large deposits to help them deal with it with the book as it goes through.

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Operator
Thank you very much. And our next question comes from August from PA. August, could you please unmute and go ahead?

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August Graham, PA
Hello. Yeah, slightly technical question for me. Sorry, so if you don't know the answer to this, it's fair enough. But I was curious to know if you guys are aware of which customers are on prepayment meters for their energy bills and whether they're being able to build up any kind of buffer at the moment ahead of winter.

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Alison Rose, Chief Executive
So, August, we won't, we won't know whether people are on a prepayments. What we can see through our data with our customers. We know those customers in sort of decile or lowest income. We can see, you know, we have customers, we can see where they're on universal credit, for example, and we can see where their spending flows are.

So, we know, for example, you know, our customers on the lowest income levels are spending more than 10% of their monthly income on energy. So, we do look at it in a very detailed way and we use our data to do that.

That's why we're able to really think about the proactive support, and the targeted support for customers. So, we can see some of that. And certainly, from an income perspective and payment flows and percentage of their income in terms of where it's going.

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August Graham, PA
Just to clarify, that's 10% their spending now during the summer months as well.

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Alison Rose, Chief Executive
Yeah, they're spending around on the lowest income. And this is why we're really making sure we’re being proactive for some of those customers. They may have, for example, current accounts with us, but they won't have lending with us.

So, they may not be borrowers, but that that's why we’re putting money into, for example, the £4 million into the hardship funds with our partners so that we can outreach to those customers as well.

We then have very big, dedicated teams in our financial health and support who work with our customers who have borrowing if they need help in terms of helping support them.

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August Graham, PA
Okay. Thank you.

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Operator
Thank you very much. Our next question comes from a Kalyeena from The Guardian. Kalyeena, could you please unmute and go ahead.

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Kalyeena Makortoff, The Guardian
Hi. Good morning. Two questions. First of which, you obviously announced the dividend today. But I also saw bonus expenses also increase in the first half of the year. Do you think those are both justified, given that you said the most significant challenges are yet to come?

And secondly, it was reported yesterday that Spain is aiming to tax banks on profits that they've made on net interest and fees to clients. Seems to be part of their efforts to offset the cost-of-living crisis. Do you think you're immune to a similar windfall tax on banks in the UK?

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Alison Rose, Chief Executive
Thanks, Kalyeena. Well, I mean, I think one thing to remember is UK banks already pay two taxes effectively. We obviously have the bank levy. So, there is already a levy or tax structure on banking.

I mean, in terms of our dividends, I mean, we have our normal bonus accrual that we run through. But what we've really focussed on is making sure that we're putting support where it's needed. Obviously, we've announced a dividend which is distribution to shareholders of the £3.3 billion that we've announced for the first half, £2.2 billion of that is obviously going to the HMT and the government. We're putting support into our colleagues with exceptional pay increases, and then the targeted support for our customers. We would look at bonuses in the round in the usual course at the end of the year.

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Operator
Thank you very much. As a reminder, everybody, if you'd like to ask a question, you can do this by raising a hand on the zoom app or by pressing star on your keypad.

Our next question comes from Ben Martin from The Times. Ben, could you please unmute. Thank you.

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Ben Martin, The Times
Thank you. Can you hear me?

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Alison Rose, Chief Executive
Yes. Morning, Ben.

Ben Martin, The Times
Can I just say on the dividend and the profits? What would you say to the man on the street that's looking it? I think the ordinary dividend and the special dividend is a £2.1 billion cash return to shareholders. Obviously, profits are up. What would you say to the man on the street is feeling very squeezed and looking at this and thinking, why isn't NatWest keeping hold of that cash to help support us through tougher times later this year?

Alison Rose, Chief Executive
So, Ben, obviously we have a well-diversified business with a strong bank balance sheet and strong capital generation. We have an incredibly strong Core Tier one ratio, 14.4%. And we've always targeted to get to around 14% by the end of the year.

We are supporting, you know, the man on the street and businesses very clearly. And we have £9 billion of lending in the first half, which we are lending responsibly, making sure that we're putting capital into the economy to support businesses and families as they grow and continue to support them, doing that in a very responsible way. And that is, you know, from the 49,000 start-ups that we've opened at the beginning of this year, to the green mortgages and to mortgage growth, as well as personal loans across the piece. So, it's broadly spread. It's really important you have a strong, secure bank to help our customers through that. And then there is the dedicated support we're putting in for those customers most in need where we're proactively reaching out to them.

So, you know, I've always said we need to balance across the returns and help for our customers, our shareholders, our communities and our colleagues. And that's what we're doing. Of course, that dividend, two thirds of it is going to the UK Government and comes to the taxpayer.

Operator
Thank you, Ben. We have no further questions at this time, so Alison, I like to turn the call back to you for any closing comments.

Alison Rose, Chief Executive
Well, thank you very much, everyone, for joining and your questions, I guess, to conclude. We're reporting a strong performance today and we're making good progress on all our strategic priorities in an uncertain economic environment.

Importantly, our strong capital generation, our robust balance sheet, really does enable us to continue to support our customers, as well as invest for growth in the future. And what we are very keen to make sure we do is we stand alongside our customers, families, households and businesses with proactive support, with ensuring capital and credit is still flowing into the economy to manage through challenging times ahead.

But a good performance from the bank, continued strong delivery and continuing to return value and capital to our customers.

Thanks for joining.

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