Q1 Results 2021

MEDIA Conference Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
on Thursday 29 April 2021

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 Q1 Results announcement published on Thursday 29 April 2021.

NatWest Group

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

Introduction

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

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Alison Rose, Chief Executive

Thank you. Good morning, everyone and thank you for joining us today. As this is a quarterly update, I'll be relatively brief before we open it up for questions.

NatWest Group delivered a good operating performance in the first quarter of 2021. Reporting an operating profit of £946 million up 82 percent from £519 million at Q1 2020. This includes a modest impairment relief of £102 million driven by the low level of defaults in our book. We continue to take an appropriate and conservative approach to impairments, and we will monitor how the situation evolves as lockdowns are lifted.

There are certainly reasons for optimism as the vaccine programmes progress at pace and restrictions are eased. As I said, our economic assumptions remain unchanged at this point, but we will review them at the half year. But we are seeing the potential for a more rapid recovery.

As a reminder the strategy we set up last year is designed to drive sustainable shareholder returns by serving customers across their lifetime, powering the organisation through innovation and partnerships, simplifying and digitising the business and maximising capital efficiency. And I'm pleased that we have delivered against our financial targets through the quarter.

Net new lending grew £2.2 billion across our Retail and Commercial businesses, excluding Government schemes and this was mainly driven by mortgage growth. We reduced costs by £72 million year-on-year ahead of our targeted reduction rate and we are operating with one of the strongest capital positions of our European peers.

This capital strength gives us the flexibility to navigate the ongoing uncertainty, return capital to our shareholders including the £1.1 billion buyback of Government shares that was announced in March and also consider options for creating shareholder value.

We're also continuing to provide extensive support for our customers, colleagues and communities championing their potential to help them rebuild and thrive. The people and families we have participating in the mortgage guarantee scheme and which will help many customers for whom home ownership has previously been out of reach. And we're providing bespoke assistance through our "Banking My Way" service to make banking easier for customers who need additional support.

For businesses, we announced a £6 billion funding commitment to help unlock the potential identified in our SME Recovery Report, £4 billion of which will be allocated outside of London. This builds on the SME Taskforce we announced last year in conjunction with the Federation of Small Businesses and the British Chamber of Commerce.

For our colleagues and communities, we transformed one of our Edinburgh offices into a mass vaccination centre, accommodating 480 appointment every day at no cost to the NHS. And we also issued a €1 billion affordable housing social bond, the first of its kind by any UK bank and the third issuance under our Green Social and Sustainability Bond Framework.

And last week we were announced as one of the UK's founding members of the Net-Zero Banking Alliance, further demonstrating our ambition to be a leading bank in helping to address climate change.

Turning to customer activity, as I said it's too early to comment on the impact of this month's easing of lockdown restrictions. But credit and debit card activity has already been trending towards more normal levels and gross new mortgage lending and Retail banking was resilient at £9.6 billion up from £8.4 billion in Q4.

With business confidence starting to return, demand for government support and payment holidays is declining, although two new schemes have now been introduced – Pay as you Grow and the Recovery Loan Scheme. And commercial bank lending has been more muted as businesses take a cautious approach during the ongoing uncertainty and continue to be deleverage.

Meanwhile, the acceleration of digital adoption that we saw last years has continued during the quarter. And as we build a relationship bank for digital world, we're evolving to meet the rapidly changing needs of our customers. Sixty-one percent of our retail customers now use only digital means to interact with us, up from 50 percent this time last year. And in Commercial banking, 68 percent of sales are via digital channels.

And we're using video banking across Retail banking for an average of 13,000 interactions a week, up from around 7,000 a week in Q4 2020.

So, to conclude, we delivered a profitable performance in the first quarter as we continue to support our customers in an uncertain economic environment, to make progress against our strategy and to accelerate our digital transformation in response to changing customer needs.

We believe by championing potential and playing a positive role in society, we will build long term value in our bank and drive sustainable returns for our shareholders.

Thank you very much. And very happy to open up to questions.

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Operator
Thank you, Alison. Ladies and Gentlemen, if you would like to ask a question please press the "star" key followed by the digit "1" on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions.

Your first question today comes from the line Iain Withers from Reuters. Please go ahead your line is open.

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Iain Withers, Reuters
Hi, good morning. A couple of questions ...

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Alison Rose, Chief Executive
Hi, Iain.

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Iain Withers, Reuters
Hi. On the – on the outlook you have obviously released some of your impairment provision this morning, how do you think the outlook's changed since the full-year? And have you updated your forecast at all? And just on the money laundering case, you flagged this money

that that could resort in substantial costs and potential provisions. Have you considered how significant those provisions might be, and have you found that there are any failings at all and in general terms? Thanks.

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Alison Rose, Chief Executive

Thanks very much. Well look, on the impairments, we have an impairment release of £102 million. As I said, we haven't updated our economic forecast, but £102 million is related to a low level of defaults and actually movement stage migration from stage two back into stage one.

As I said, we do see the potential for a more positive recovery, but we'll update our economics at the half year, so I think that's important. Also, I'd say in the quarter we haven't seen any major losses of single-name losses, so I – we are pleased with that and the underlying defaults remain very low.

On the money laundering, as we mentioned, we're very disappointed with the situation there. Clearly, we take AML very seriously and we invest very significantly in our services. We have over 4,000 people across the organisation. Whose job it is to keep our customers safe and protect against financial crime. At this stage, it would be inappropriate for me to comment any further on the case, as you know.

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Operator

Thank you. Your next question comes from the line of Stefania Spezzati from Bloomberg News. Please go ahead, your line is open.

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Stefania Spezzati, Bloomberg

Hi, good morning.

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Alison Rose, Chief Executive

Good morning.

Stefania Spezzati, Bloomberg

I was wondering if you could – morning. Could you please give an update – do you actually expect to release more provision for the year, like in the next few quarters, and what is your like economic model expecting like for the winter, and do you see another lockdown coming or what's your outlook for the rest of the year? And then I also was wondering if there was any update on – in terms of the working from home policies? Is there any new communication to the staff? Thank you.

Alison Rose, Chief Executive

Thanks very much. We'll look at it, as we said, and you will have seen in our year end, we had a number of economic scenarios. We will – we'll update those at the half year. As I said, we are seeing, as we come out of lockdown, positive signs that the economy could bounce back in the recovery – near bounce back a lot faster, so that's very good.

If you look at – in our results and through our accounts, our post model adjustments that we have in place, they're £878 million. If, Stefania, you looked at our economic scenarios and you weighted our scenarios 100 percent to the upside, that would result in an ECL release of £844 million.

But I think it's very early. We're just coming out of lockdown. The Government's schemes remain in place. I think as they take off, you will get to see what's happening in terms of the real economy, but I think you can see a resilient performance from that perspective in terms of where we are.

On ways of working and the return to work, we obviously are staying close to Government guidelines and we will continue to operate with that. The wellbeing and health of our staff are at the forefront of our consideration. As you know, we kept 95 percent of our branches open right the way through the pandemic, and we have around 10,000 of our colleagues working in offices up and down the country. So, we've remained on the high street most importantly to support our customers.

We haven't set a timeframe for a return to the office at this point. Our number one priority is our staff, and our offices will continue to play an important part of how we bring everyone together, but we will look to work in a new hybrid way of working, and we're constantly consulting with our colleagues on a regular basis to do that.

Operator

Thank you. Your next question comes from the line of Kalyeena Makortoff from the Guardian. Please go ahead, your line is open.

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Kalyeena Makortoff, Guardian

Hi, good morning.

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Alison Rose, Chief Executive

Morning.

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Kalyeena Makortoff, Guardian

First thing, could you give some more detail on what you're seeing in terms of the bounce-back in consumer spending? And secondly, costs are down I think about 4.5 percent year-on-year, but can you provide the quarter-on-quarter figure and give some detail about where they fell and what areas of the bank might face cuts next, especially given digitisation? Does that mean branch closures are on the cards? Thanks.

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Alison Rose, Chief Executive

Thanks Kalyeena. Well, look, on bounce-back loans and the government schemes, we've seen demand for those schemes tapering off. That was a trend we were seeing in the first quarter, and demands for the schemes have tapered off, as you know. We've advanced around £14 billion of lending under the government schemes altogether.

And what we've seen is that businesses remain very strongly capitalised with lots of cash on their balance sheets. Around 30 to 40 percent of bounce-back loans are sitting in the current accounts of customers who borrowed them.

The demand has been more muted. I would say lots of businesses have managed the lockdown incredibly well and have been very entrepreneurial and are preparing and coming out of the lockdown.

The two new schemes that have been launched, the Pay as you Grow is probably the one that's the most relevant. That offers borrowers under the bounce-back loan the option of extending their borrowing from six years to 10 years or asking for a capital interest repayment for a short period.

That scheme has only just been launched going for about three weeks, we've had around 3,000 applications coming in to that scheme at the moment, around 75 percent of the applicants have asked for their loan to be extended for the 10 years.

But I think it's very early days. We would expect to see more activity on that scheme over the coming months. We've just recently written to 100,000 of our customers who are borrowed under the bounce-back loan, just to remind them that their loans were due.

So, lots of activity. We're obviously focused on providing support. I think the other issue, which is probably worth noting is the majority of our customers both on the consumer side and the business side you asked for capital repayment holidays have in the majority gone back to normal terms. So that – that gives you a sense of that.

On your cost question, we're at 72 million of cost savings, which is around 4.5 percent. And we said that we wouldn't expect that to be linear through the year. It will – it will be bumpy. But obviously we're focused on making sure we drive efficiency out of our business.

What we are seeing is a continued acceleration of digital with customers really using digital as their preferred way of interacting with us. I think I mentioned 61 percent of our retail customers only use digital to interact with us. 68 percent of commercial banking sales go through our digital channels and things like Cora, which is our AI chatbot continues to grow exponentially. And video banking gives you a sense of why – how customers want to interact.

So, we will always be driven by customer behaviour. We will continue to review our footprint. We have 16,000 points of presence, but customer behaviour is changing and accelerating as we go forward.

So hopefully that's covered all your questions, Kayleena. Did I – was there anything else I didn't pick up?

Katie Murray, Chief Finance Officer

No. There's nothing else. I mean if you wanted to – and where the cost are occurring they're really – they are spread across the staff cost lie in premises and equipment and also other admin expenses. So, it's kind of a wholesale just general reduction across all of our – all of our lines. There's no one thought in particular.

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Operator

Thank you. Your next question comes from the line of Holly Williams, the Press Association. Please go ahead, your line is open.

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Holly Williams, Press Association

Good morning, Alison.

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Alison Rose, Chief Executive

Morning.

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Holly Williams, Press Association

Just want to go back to the branches point, if I may. You're saying you're continuing to view your footprint, just really want to double check are you envisioning their might be some more branch cuts this year.

And also just – also on that theme, some of the other banks have been talking about pop-ups and various different ways of looking at branches. I just wondered if you – if these are some of the things you're exploring and if you can give a bit more detail on that?

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Alison Rose, Chief Executive

Yes, sure. Well, look we will continue to sort of review our footprint. And as you know, we have lots of different ways we interact with customers from our branches to our community bankers, to our mobile vans, to our ATMs and obviously with participating in a number of solutions as well through communities to access pilots where we've invested with the post office as well.

On the branch network, as I said, will be driven by customer behaviour. We have communicated last month the closure of 11 branches, in response to changing customer demand. No colleagues were at risk as a result of that and most of those were where branches were in close proximity to other branches.

So, we'll continue to keep it under review. But – but very much driven by the behaviour of customers. I think your point around pop-up branches, we do a lot of that with the different metrics of coverage that we have, we find sort of the mobile vans, the community bankers, the post office and the different ways that we're trying different things with customers is how we'll continue to evolve based on their needs.

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Operator

Thank you. Ladies and gentlemen, as a reminder if you'd like to ask a question please press "star," "1" on your telephone keypad.

Your next question is from Lucy White, The Daily Mail. Please go ahead, your line is open.

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Lucy White, Daily Mail

Hi, morning. I just want to ask a question – hi – on the – on the impairment release as well. So I know yours is perhaps slightly more moderate than some of your other competitors, is that more to do with the fact that you're being a little more conservative, as you mentioned you haven't yet updated your forecast or is that more just to do with the different shape of your bank compared to some of the others.

And then going back to money laundering issue as well, are you confident at the moment that that is an isolated incident?

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Alison Rose, Chief Executive

Just on – just on the impairments, we haven't updated our economics at this point, we'll do it at the half-year. Some of our competitors will have updated their economics, so – and there is a difference. So, I would say when you look at that impairment release, it is showing the low level of results, and the migration from stage two to stage one.

As you know our book is very well diversified and has a good risk profile, 94 percent of retail banking loans are secured. Our average LTV in our mortgage book is around 56 percent and over 98 percent of our book is in stage one and stage two. So, we're very low in unsecured, as you can see from that.

So, we're comfortable with the risk diversification of our book, and it really, I think, is the difference between us not updating our economics at this point. But I think that 102 net impairment release reflects real change and improvements in the underlying performance.

I think on the money laundering side, I really have no other comment than the one I've made. We take it incredibly seriously, we're very disciplined to that position and we invest very significantly in financial crime and money laundering, we recognise how important it is to keep our customers and community safe, but beyond that, no other comment.

Thanks for the question, Lucy.

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Operator

Thank you. Your next question comes from the line of Scott Wright, the Herald. Please go ahead, your line is open.

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Scott Wright, Herald

Thank you. Good morning, Alison. You'll no doubt be aware there's an election in Scotland next week. In the event that there is a victory, majority for the SNP and they do secure another referendum in Scottish independence. What would be your strategy for the bank's head office at that point? Would you be considering a move of it?

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Alison Rose, Chief Executive

Yes, thank for the question. As you know we are neutral on the issue of Scottish independence, it's something for the Scottish people to decide. We have been very clear, and it's recognised by senior nationalists that in the event that there was independence in

Scotland. Our balance sheet would be too big for an independent Scottish economy, and so we would move our registered headquarters in the event of independence to London. That doesn't change anything in terms of our business mix, our customers, and our colleagues.

As you know we're one of the largest private sector employees in Scotland. We support one in three businesses – one in five people, one in seven homebuyers. So, it really is just the size of our balance sheet at that point, which we've been very clear in public about and with senior nationalists knowledge. But the issue of Scottish independence is one for the Scottish people.

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Operator
Thank you. We will now take our last question. And the question comes from Terry Murden from Daily Business. Please go ahead, your line is open.

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Terry Murden, Daily Business
Good morning – Alison. You've largely answered my question. But just to elaborate a little bit, it's about the digital shift. I just wonder whether those figures are growing more quickly, or slower than expected in terms of the transition to digital banking, and whether they imply any change at all to your branch closure policy?

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Alison Rose, Chief Executive
Yes, I mean – I would say that what we've seen in terms of the digital move is an acceleration through the pandemic as underlying trends that were already happening. So those trends are accelerating, and customer behaviour has changed. Some of that has been obviously circumstantial when there was the full lockdown, we had to find different means to help our customers, and so we worked pretty hard.

So, a good example of that would be the Companion Card that we launched which was really for people who were stuck at home and had carers and need help. But those underlying trends and moves to digital have been happening, they just accelerated. We have seen more of a drop in the use of cash, down 20 to 30 percent. Now some of that may come back as we come out of lockdown, but the shift to digital has absolutely accelerated.

In terms of what it means for our branch footprint, it really is – we've extended many, many different ways in which our customers can interact with us. And I think video banking is a great example of that shift. January last year it was maybe 100 video banking calls a week, on average we're now around 13,000, and the feedback we get from customers on that is that's how they're choosing to interact with us. It means that they can talk to their mortgage advisor, their banker – they can have a financial health check digitally. They can do all of those things from where they are rather than having to travel, and so it's more convenient.

So, I think it's an acceleration of trends that were already there, and then preferences of customers changing.

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Operator
Thank you. Thank you, Alison. I will now hand the call back to you for any closing comments.

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Alison Rose, Chief Executive
Right, well thank you very much, everyone, for joining. Always nice to have the opportunity to chat to you and look forward to catching up again soon. Thank you very much.

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

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