Q1 Results 2023

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 Friday 17 February 2023.

NatWest Group

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

NatWest Group – Q1 Results 2023

Operator

Good morning and welcome to NatWest Group Q1 Results 2023 Media Call.

This call will be hosted by CEO Alison Rose and CFO Katie Murray.

If you would like to ask a question today, you can do this by using the raise hand function on the Zoom app. If you are dialling in by phone, you can press Star nine to raise your hand a star six to a mute when prompted.

Alison, please go ahead.

Alison Rose, Chief Executive

Thank you very much. Good morning, everyone. And thank you for joining Katie and I today. Since we last spoke in February, we have seen significant market volatility, but our strong performance in Q1 demonstrates that NatWest Group is well positioned to navigate any challenging environment as a result of our robust balance sheet, high levels of capital and liquidity and disciplined risk management.

More importantly, it means we can continue to grow our lending responsibly and to stand alongside the people, families and businesses we serve. Providing targeted support when necessary whilst delivering sustainable growth as well as sustainable returns for our shareholders, including the UK Government. For the first quarter of 2023, we're reporting an operating profit of £1.8 billion ahead of consensus and an increase of 49% on the same period last year.

We have grown our lending across our three main customer franchises by £5.7 billion since the year end. And our flow share of mortgage lending has increased from 15 to around 17%. Our common equity tier one capital ratio is above our target range, and we continue to make good progress on the path to privatization with the government shareholding. Now standing at just over 41%.

Our disciplined and consistent approach to risk management means that arrears and impairments remain low. We have a well-diversified loan book, across all personal, almost all of our personal lending is secured. We have limited exposure to commercial real estate, and our retail mortgage book has prudent loan to value ratios at an average of 53%. Our funding is also well-diversified, and our liquidity position is robust.

In addition to growing our lending responsibly, the quality of our balance sheet also means that we're able to support people, families and businesses up and down the country as they continue to manage their finances in the face of higher inflation and rising interest rates. Building on our existing support, we carried out around 165,000 free financial health checks in Q1, as well as announcing additional funding for the charities and partners we work with and providing around 60,000 colleagues with a one-off cash payment of £1,000.

Looking to the Future, our purpose led strategy is working and we are delivering on our strategic priorities. By way of example, we opened 19% more youth accounts in Q1 compared with last quarter. We're also the number one UK High Street bank for start-ups with a share of 16.4%. And we have now delivered just over £40 billion of climate and sustainable funding since July '21.

I was also pleased that we were able to issue a social bond that promotes lending to female led enterprises, the first of its kind from any European bank. Over the next three years, we expect to invest around £3.5 billion with a focus on delivering sustainable growth. First by increasing our engagement with customers at every stage in their lives.

Secondly, by supporting customers in their transition to a net zero economy. And third, by embedding our services further in customers digital lives. To conclude, the significant disruption of the last few months has once again demonstrated the importance of managing our balance sheet so that we're able to navigate unexpected market events and times of uncertainty for our customers. This has been a key focus for me and my management team over the last three years.

The progress we've made underpins our purpose led strategy and means we are well positioned to deliver sustainable growth for our customers and the economy, as well as sustainable returns for shareholders.

And with that, I'm very happy to open up the call to any questions.

Operator

Thank you very much.

If you would like to ask a question today, you may do so by using the raise hand function on the zoom app. If you are dialling by phone, you can press star nine to raise your hands and star six to commit. Once prompted, we ask that you limit ourselves to two questions each to allow more of you a chance to ask a question.

We will pause for a moment to give everybody an opportunity to signal. Thank you.

Our first raised hand comes from Ian Withers of Reuters. If you could please unmute to go ahead.

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Iain Withers, Reuters

Hi. Good morning. Morning. Couple of questions on deposits, if that's okay. The first, there's obviously been more outflows this quarter after last quarter as well. Can you talk through what's happening there and if there was any change in March with the volatility there? And then the second one on deposits, actually, with the debate around deposit insurance, would you welcome an extension of that?

And who do you think should pay for it? Thanks.

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Alison Rose, Chief Executive

Thanks Ian. So, look, the market volatility in March no didn't really affect our deposits. I think the situation around banks like SVB and Credit Suisse didn't really resonate with sort of a lot of the UK consumer, so we didn't see any impact on that. What you see with our deposits, you know, we'd always said that seasonality would affect them in Q1.

We saw tax payments obviously coming out. Obviously, we continue our strategic withdrawal from Ulster. So that was a planned reduction and a little bit more increased competition. But a loan to deposit ratio, 83%, very robust and strong, but that no issues from the markets. In terms of deposit insurance, I know that's a debate that that may happen.

I think from our perspective, when I look at our customer base, 75% of our retail deposits are covered by insurance. You know, 85% of our accounts have less than £5,000 in. So, I think you know, that plus a very well-capitalized and resilient balance sheet means we're a safe place for our customers. You know, we'll obviously engage in in that debate if it's felt useful and be part of that.

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Iain Withers, Reuters

Thanks.

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Operator

Thank you. Our next question comes from Sid of the Financial Times. Sid, if you could please unmute and ask your question.

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Siddharth, Financial Times

Brilliant, Thanks. Thanks very much. Appreciate it. So, a couple of questions. One, just on guidance, it's sort of unchanged. Just curious given we got for 25 what you've made as opposed to the 4% predicted in in the reports, kind of if you can talk through if that's thinking. And then the other point was just on NIM, which I know you've sort of NIM consensus and that was, I think, reflected mortgage margins.

I'm just curious on when you expect to see that, if you see that expects that becoming less compressed later in the year?

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Alison Rose, Chief Executive

Thanks Sid. Thanks for joining. Look, our guidance is unchanged. We've got pretty robust guidance out there in terms of our performance. Obviously very, very strong Q1. We haven't on NIM, we haven't missed guidance. We don't guide it quarterly. So, it's where we expect it to be. I think clearly with the guidance that we've given to the market very strong performance.

There are still headwinds in the economy. Inflation whilst it's coming down is a little bit coming down a little bit more slowly. Interest rates looks like we're getting to the top that maybe one more rate increase. We obviously benefit from rising interest rates. You can see we've got strong volume growth as we're lending into the economy.

But I think at this point, you know, it's early in the year Q1. Our guidance remains pretty robust. 14 to 16% return on tangible equity is pretty strong. And we expect to be at the upper end of that range. I think we are you know; we're really pleased to see more positive sentiment coming through our recent PMI research in terms of business confidence showed improvements there.

And you can see £5.7 billion of lending very balanced across our business shows. We're putting capital into the economy. So, I think there are a number of macro moves. We're feeling very confident about the outlook. It's early in the year, so we'll continue to move forward on that basis.

Operator
Thank you. Our next question comes from Kalyeena of The Guardian. Could you please unmute and go ahead.

Kalyeena Makortoff, The Guardian
And good morning. Thanks for taking questions. In terms of terminating your CBI membership, I have I have two questions. First off, did you previously have any suspicions over a toxic culture at the lobby group? And second, what would it take for NatWest to feel comfortable re-joining? Thanks.

Alison Rose, Chief Executive

Thanks, Kalyeena. No, clearly, we didn't have any suspicions or any reported incidents. I mean, clearly the news that has come out has been, you know, extremely disappointing and of great concern. And we have, as you know, withdrawn our membership from the CBI. I think it's really important that business has a strong voice, and I think it's important that there is a strong voice, but it represents the values of business and what business stands for.

So, I think that that's what we would be looking for. But at this stage, we've withdrawn our membership. We're very disappointed with the reports that have come out clearly, and that's unacceptable behaviour, which is why we've withdrawn our membership.

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Operator

Thank you. If you would like to ask a question still, you may do so by using the right-hand function on the Zoom app. If you are dialling in by phone, you can press star nine to raise your hand and star six to a unmute when it's prompted. Our next question comes from John-Paul of The Daily Mail. Could you please go ahead.

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John-Paul Ford Rojas, Daily Mail

Hello. Good morning. Thanks for taking the time to speak to us. On this, going back, following on from the CBI and that they're trying to, clearly the new director general is trying to change things talking about change of name, is there any chance that you might consider re-joining if this if appeals are made to you, if it's clear that the organization has changed?

Is this or do you feel that it's finished, as some people have said? And the second question is, going back to customer deposits, £11.1 billion, quite a large fall in customer deposits. You talked about the seasonal. I wonder if it's still quite large, larger than normal and whether it shows that you haven't benefited from that benefited from the flights and quality that, say, Barclays saw?

Or is it a reflection of their cost-of-living crisis with people drawing down their savings?

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Alison Rose, Chief Executive

Great. Thanks. Well, look on the CBI, I think we'll see how it goes and see how it develops. I think the CBI are obviously seeking to address the issues we've withdrawn our membership and we'll see how it develops. Look on deposits. You can see we have a very robust balance sheet, very well diversified and lots of liquidity.

So, our loan to deposit ratio of 83% is, is, is very strong. What we what we've seen in, in the quarter is higher tax payments coming through and a significant increase in in tax. Obviously, we've been exiting from Ulster, so that's been a planned reduction. We have seen customers behaving really rationally around their financial affairs, which is good.

So, we've seen some pay down of more expensive debt. People may be looking to prepay mortgages a little bit as well. I think that's due to financial management of free financial health checks that we offer to people really do help people think about the budget on that side. And then there's a little bit more competition as well for deposits, which we're very comfortable we're competing effectively for and have all the right product.

So Q1 is always a period where there's a lot of seasonality, but overall, we're comfortable. We're not seeing anything idiosyncratic in in that behaviour. So very comfortable with the position.

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Operator

Thank you. Our next question comes from Michael Hunter of the Evening Standard. Please go ahead.

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Michael Hunter, Evening Standard

Hello. Good morning. And again, thank you for your time. Quick question from us about branch closures, please. Where are we with the program of branch closures now, do you think?

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Alison Rose, Chief Executive

Yeah. Morning, Michael, and thanks for joining. So on branches. I've been I've been very clear branches are and continue to be a very important way that people bank with us. It's one of only a number of ways. We now have over 16,000 points of presence and increasingly our customers are moving digitally online. We will always look at branch usage and what it offers to our customers and how regularly they use them.

And it will be determined by customer behave here in terms of where we are, you know, our network remains very important. We're very focused on vulnerable customers and the services that they have. So, we've announced some closures. We have just over 600 and 650 branches. They'll continue to evolve based on customer behaviour.

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Michael Hunter, Evening Standard

Thank you. You're not looking at anything in particular right at the moment?

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Alison Rose, Chief Executive

No. We made some announcements earlier, earlier this year on some branch closures. I mean, we have a very we have a very deep consultation process that we run where we consult with people before we make closures on branches. And so those branch numbers have been announced, which we did earlier this year.

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Michael Hunter, Evening Standard

Okay. Thank you.

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Operator

Thank you. Our next question comes from Kalyeena of The Guardian. Please do go ahead.

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Kalyeena Makortoff, The Guardian

Hi. Thanks again. I just I know you said there isn't a lot of sort of read through for the UK customer in terms of what happened last month. But I'm just wondering if you could sort of just talk us through how you handled all of the volatility and the concern around that sort of mini banking crisis.

You know, how worried were you? What kind of contingency plans did you have in place? A bit of colour. That would be great. Thanks.

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Alison Rose, Chief Executive

Yeah, sure. Of course, Kalyeena. Well, look, I mean, I think what you saw was quite idiosyncratic issues that that were coming through in terms of that SVB was, you know, a quite a concentrated bank, you know, very focused in in the US the regional bank issue for us in any of those incidents, we, we make sure that we're watching very closely what's happening.

We look at any read across that may happen to the market. What you saw with all of those incidents actually, that the banking market was operating in a very rational way. If you look at how banks trade with each other and lending with each other, there was no idiosyncratic behaviour. We obviously look across at our exposures, which is something that we do as part of our normal risk management.

We have, you know, very minimal exposure to those banks and limited exposure to US regional bank. So, we do the usual review, but the banking market operated in a very rational way. We didn't see banks pulling lending. You know, the markets were operating very sensibly from our perspective. You know, I've always been very clear, you know, we need to have a very strong balance sheet, an all-weather balance sheet positioned very well, strong liquidity and strong capital, which we which we have.

We didn't see any bleed across into all customers, but we obviously monitor that very closely. But the markets operated very sensibly. And we would, as you would expect, be monitoring that very closely.

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Kalyeena Makortoff, The Guardian

And did you ever seriously consider a potential takeover of SVB UK?

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Alison Rose, Chief Executive

No. I mean, clearly, we have a market leading position in small businesses and start-ups 16.4% market share. It wasn't something that we felt would add anything strategically to us.

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Kalyeena Makortoff, The Guardian

Okay. Thank you.

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Operator

Thank you. Our next question comes from John-Paul of The Daily Mail. John-Paul, please go ahead.

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John-Paul Ford Rojas, Daily Mail

Hello again. Thanks for having a second bite at. I just wanted to ask about a little bit about the outlook. Barclays said yesterday we're not out of the woods yet and wondered if you share that opinion and I'd also just going to go back on the deposits. The statement mentions that it's down a bit, down to lower household liquidity.

So, it does sound like people have got a bit less money. That's what that means, doesn't it? And that's something that's affecting your customers.

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Alison Rose, Chief Executive

Yeah. So just in just in terms of outlook, you know, I think clearly the macroeconomic environment remains challenging. You've got higher interest rates and inflation still remains high coming down. But that coming down slowly and that that clearly causes challenges for disposable income and different households, particularly the lower decile income houses, which is why we've been very specific on targeting our support and supporting charity partners.

What you can see, however, across our customer base and our balance sheet, and we are seeing very low levels of distress and impairment, we are being very proactive, almost 20 million outreaches to our customers, targeted support. Our financial health checks really do help, but we're seeing very little signs of stress. But we're aware that those macroeconomic challenges, you know, do put anxiety in two households, we're not seeing distress on our book.

There are, you know, signs to be positive. You know, I wouldn't overegg them, but I think PMI data and business confidence improving. That's good. You can see that we've deployed £5.7 billion of lending into the economy. That's been done in a really responsible way. We made the decision last year during that market disruption in the mortgages to stay in the market when lots of our competitors pulled out.

That was a that was a proactive decision to support our customers, which is really important. So, I think there are there are signs of improving confidence. The ABR is obviously forecasting that inflation will drop as we go into the second half of the year. I think if that happens, I think that will be very positive. So, it's tough.

But there are but there are signs of positivity there is what I would say. On your second question on deposits and system liquidity. Yes, what we are seeing is people are using their balances in their cash balances that they've built up. I remember there was a big buffer built up during COVID. So, deposits are at higher levels than pre-COVID.

People starting to use those deposits in particularly some of the more affluent households to make decisions about their budgets. So we have seen sort of pay down of debt. We are seeing businesses start to use the cash to pay and some of that will be the impacts of inflation causing some of that. So you are seeing a bit of liquidity coming out of the system as those trends happen.

Proactive decisions by customers as well as some of those seasonal trends I talked about.

John-Paul Ford Rojas, Daily Mail

Thank you.

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Operator

Thank you. Our next question comes from Sid from The Financial Times said, please do go ahead.

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Siddharth, Financial Times

Thanks very much. And sorry to have another bite at the apple as John-Paul said, just interest on hybrid working and some reporting is that Lloyds is now saying it will staff have to be in at least two days a week in hybrid roles and just curious from your perspective, if you would, do you think about any changes to hybrid working and sort of in the longer term what hybrid working means for you?

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Alison Rose, Chief Executive

Yeah, thanks Sid. Well look, we have we have hybrid working across NatWest, I think one of one of the positives that came out of the terrible pandemic that we had was it did show us there are different ways of working and different ways that people can manage their work lives. And that's a real positive. So our hybrid working is in place.

We call it freedom in a framework, and we have is very designed around different jobs and different roles, works really positively for our colleagues, but also most importantly, it works really positively in terms of our productivity as well, in terms of and we design those roles around supporting our customers. So we have hybrid. I think it will continue to continue to evolve, but it's working very well, and I think it's important some of those learnings that came out of the pandemic of different ways of working, we continue to have, even for some of our colleagues who work remotely, we do we do come together for collaboration and have time together in the office.

And we find that benefit of being together hugely positive, but also the flexibility that it offers of different ways of working is a positive. So we will continue to evolve that and work with our colleagues.

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Operator

Thank you very much. We have no further questions. Our hand back to you for any final comments.

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Alison Rose, Chief Executive

Great. Thank you very much. Well look, appreciate your time joining us on the call. I think a very strong performance in the first quarter from NatWest, we're very, very pleased with the Q1 performance, strong market positions. Our strategy is continuing to deliver a disciplined risk management of the book means that we're well positioned to support and grow and pleased to see the 5.7 billion of responsible lending into the economy, as well as good performance on income and ROTE and an all-weather balance sheet positioned well both for any downside but also for any upside.

So and it means that we can drive good and sustainable returns and attractive capital distributions as well. So strong Q1 and we continue to work closely with our customers. We navigate the time ahead. Thanks again for your time. Much appreciated. Thanks very much.

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Operator

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

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