Annual Results 2022

MEDIA Conference Call

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250 Bishopsgate London EC2M 4AA
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FORWARD-LOOKING STATEMENTS

NatWest Group

Sir Howard Davies, Chairman

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

Operator
Good morning, and welcome to NatWest Group Annual Results 2022 Media Call.

This call will be hosted by Chairman Howard Davies, CEO Alison Rose and CFO Katie Murray. If you'd like to ask a question today, you may do so by using the Raise Hand function on the Zoom App. If you're dialling in by phone, you can press star nine to raise your hand, and star six to unmute once prompted.

Howard, please go ahead.

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Howard Davies, Chairman
Good morning everyone, and thank you for joining Alison, Katie and me for our full year 2022 results presentation. Against a difficult and uncertain backdrop with at times turbulent financial markets, the group delivered a strong financial performance in 2022. We achieved continued growth in our lending, and made further progress against our strategy. Our strong financial performance, continued capital generation, and robust balance sheet, in spite of economic uncertainties, mean that we look forward with confidence and we will be able to stand alongside customers, colleagues and communities providing practical, proactive support.

Our financial strength allows us to continue lending, while investing to create a simpler and better banking experience for our customers, and delivering on our purpose, about which Alison will say more shortly. An important development in 2022 was that the UK government shareholding fell below 50% for the first time since the financial crisis. Their stake is now well below 44% as they have continued to sell shares into the market.

While the majority stake in itself had no material effect on the way the bank operates, the government did not and does not interfere in our commercial decisions. It was an important milestone, underlining the progress we've made in recent years. The outlook for this year remains challenging, with a decline in economic activity expected and a further tightening of real incomes, which will inevitably affect spending and borrowing.

But despite that, I'm confident the bank's strategy will ensure we can continue to support all of our stakeholders, and to deliver sustainable growth and returns in the years to come. With that, I'll hand over to Alison, who'll take you through our results and our future priorities in a bit more detail.

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Alison Rose

Thank you, Howard. Good morning everyone, and thank you again for joining us today. I'll briefly take you through the bank's performance for 2022 and our priorities going forward, and then we will open up for questions.

You can see the strength and resilience of our business in the results we are announcing today, as well as the considerable progress that has been made against our strategy. In a difficult macroeconomic environment, our strong customer franchise, disciplined risk management and robust balance sheet mean we are well-positioned to support our customers, and our continued delivery on our strategic priorities means we are well-positioned to build long-term value and deliver sustainable growth and returns.

In 2022, we have reported an operating profit before tax of £5.1 billion, and a return on tangible equity of 12.3%. Income was up around 30%, costs were down nearly 3%, and we retain a strong capital position. We also paid and accrued a total of £5.1 billion of capital distributions to shareholders across the year, including 2.6 billion to the UK government.

Against an uncertain economic outlook, our purpose-led strategy has never been more relevant. We are not yet seeing signs of significant stress amongst our customers, but we recognize that many people and businesses are struggling right now and that many more are worried about what the future holds.

The strength of our balance sheet and the quality of our loan book allows us to continue lending responsibly, supporting our customers and the economy, whilst also helping our customers more broadly to navigate the challenges they are facing, and targeting the support where it is needed most. Lending across our three franchises grew by 6.7% year on year, including £45 billion of gross new mortgage lending.

We also provided over £20 billion of Climate and Sustainable Funding and Financing in 2022. Across our total mortgage book, we have an average loan-to-value of 53%, with 92% of customers on fixed-rate mortgages, and we have very little unsecured personal lending.

We remain focused on providing proactive support to the customers and communities that we serve, as well as helping to build saving habits and financial resilience.

We do this through our free financial health checks and proactive communications on managing the cost of living, as well as through the 6% rate we pay on our Digital Regular Saver, and tools such as Round Ups and our benefits calculator.

For businesses, we have put in place targeted support for the sectors facing the most significant challenges, and we have frozen fees for SMEs, whilst also providing cashback for Business credit card spending on fuel and EV charging. And we have also delivered almost £10 million of hardship funding through charities, as well as supporting our colleagues with targeted pay rises and an additional one-off payment to help with the cost of living. I am pleased to report that we have also made substantial progress on our strategic priorities delivering organic growth, maintaining tight-cost discipline, and continuing to invest for the future in our digital transformation.

Three years ago, I set out an ambition to support our customers at every stage of their lives, by deepening relationships and better serving their needs, whether it's opening a first bank account, buying a house, setting up a business, or saving for retirement. And our purpose-led strategy is working, and our priorities remain the same. But as we respond to new and emerging trends, and to ensure that we support the needs of our customers now and into the future, we plan to amplify three areas in order to drive targeted growth.

Firstly, by accelerating our personalized engagement with customers at every stage of their lives. Secondly, by building on our position as the leading provider of renewable financing in the UK. And third, by further embedding our services in their digital lives. We believe our strategy will continue to create sustainable shareholder value, and we aim to deliver a return on tangible equity of 14 to 16% in the medium term, whilst also maintaining our dividend payout ratio of 40%, and investing 3.5 billion over the next 3 years in both simplification and growth.

This continued investment in the business will contribute towards a targeted cost income ratio of 52% this year and less than 50% over the medium term.

So in summary, NatWest Group delivered a strong performance in 2022 with pre-tax profit of £5.1 billion. We also made considerable progress against our strategic priorities whilst

maintaining a well-balanced loan book. Our robust balance sheet, high-quality deposit base and responsible lending, along with our continued capital generation, allows us to proactively support those who need it, whilst helping others to get ahead of the challenges to come.
This financial strength also allows us to meet the changing needs of our customers by investing in our business, as well as distributing significant capital to our shareholders, including the UK government. By building long-term relevance, trust and value through our purpose-led strategy, we will deliver sustainable returns and ultimately support economic growth and recovery across the UK. Thank you, and I'm now happy to open it up to questions.

Operator

Ladies and gentlemen, 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 in by phone, you can press Star Nine to raise your hand, and Star Six to unmute once prompted. I will pause for a moment to give everyone an opportunity to signal for questions.

Our first question comes from Siddharth. Could you please unmute and ask your question?

Siddharth, Financial Times

Thanks very much. Good morning, everyone. I was going to ask just on credit losses, I know it's quite benign at the moment, but I don't know if there's any details (you) can give on any areas where you see any signs that things might be starting to tighten up.

Alison Rose, Chief Executive

Thanks Sid. I mean, I think on impairments, one thing I would say is we know that there is really considerable anxiety and concern across our customer base, business and consumer, with the squeeze on disposable income and the macroeconomic outlook. On impairments, when I look, for example, at arrears in our mortgage book or what we would call heightened monitoring in our business book, those levels are still below pre-COVID levels, so it remains very benign from that perspective. But I think we know it's tough out there, so a lot of the support we've put in place has been very proactive. I think for households on lower income, often they may not have savings with us, or are very unlikely to have savings with us, and usually don't have debt with us, that's where we're seeing real hardship, what we describe as people in budget deficit and that's where we've put the hardship fund in place, and working with charity partners. And then in businesses, we put 1.25 billion targeted support into the agricultural sector, we've frozen SME fees to help give people a bit of certainty so very low impairments but high levels of concern which is why we're trying to be very proactive.

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Operator

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

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Iain Withers, Reuters

Morning, the first one is just on the guidance that share price is down quite a bit this morning. And it looks like analysts are focusing on the guidance, which is maybe a bit weaker than people thought on returns, on equity and also on cost. Can you just talk through why you weren't able to see better guidance on that, is it because we might have hit peak Bank of England rates?

And the second one's on bonuses. Do you think it's appropriate that the bonus pool and Exec pay has gone up, given the cost of living crisis and also the tax payer ownership? Thanks.

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Alison Rose, Chief Executive

Thanks very much. Well, look, I think on guidance and share price, you know, I don't manage the share price on the day. I think what you've seen is a very strong performance from the bank, we've delivered a strong performance for 2022. We're targeting 14 to 16% return on tangible equity, I think that's a very strong performance, good continuing discipline on costs, we've given guidance on our cost income ratios as we go forward. So, you know, the strategy is delivering this very strong performance that we're outlining. We've been clear about the economic scenarios that we base that guidance on. Clearly, there is still uncertainty ahead. But I think from our perspective, our balance sheet is well positioned and protected from the downside, largely secured, very robust, and we're well positioned for growth in terms of recovery, so we're comfortable with delivering a strong performance and outcome.

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Howard Davies, Chairman

Yeah, on pay, I think the bonus pool has gone up somewhat from a particularly low level. As far as the senior pay is concerned, the comparisons year by year are always complicated, but our policy is clear. We want to deliver a competitive package to our senior people, which is what shareholders want, it is not market-leading and if you look across the market you will see that's the case.

Last year we changed our policy to be more like others with an element of bonus, which we had not had, and 93% of our shareholders supported that policy change when we put it to the AGM last year. The result is that in 2022, both Alison and Katie received a bonus for the first time and of course they were also receiving some long-term incentives from earlier years.

So total pay in 2022 versus 21 is not the appropriate comparison. For 2022, basic pay of both Alison and Katie is up 3%, which is half what has been paid to colleagues in the bank overall. And the total for Katie is up to four and a half million from 4 million. So it's approximately a 12% increase, and that should be compared against the fact that profits are up by about a third.

So we think this is a totally appropriate level of remuneration for our senior people. The board thought about it very carefully and we think it's totally appropriate and the comparisons from payments in-year in 22 versus 21 are not appropriate because of the way the new policy operates.

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Ian Withers, Reuters

Okay. Thank you.

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Operator

Thank you. Our next question comes from Marion from Bloomberg. If you could please unmute and go ahead.

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Marion Dankers, Bloomberg

Yeah, morning all. Thanks for taking my question. I wanted to ask on Scottish independence and whether the bank is doing any work just given recent political events up there, whether there's any change from, well, the last decade when we had the last referendum and how you're sort of positioning yourselves for that, thanks.

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Alison Rose, Chief Executive

Scottish independence is a matter for the Scottish people in Scotland and as you know, we have significant business in Scotland. We support one in three businesses, one in five people and one in seven households. And so it's a significant part of our business and we're not making any plans. It's very much (a decision) for the Scottish people.

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Operator

Thank you very much. If you would like to ask a question, you can do this by using the Raise Hand function, or by pressing Star Nine to raise your hand and Star Six to unmute once prompted. Our next question comes from Ben of the Times. Ben, could you please unmute and go ahead.

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Ben Martin, The Times

Good morning. Do you think the government might do a big share sale soon, or you might do a directed buy back from them? Thank you.

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Alison Rose, Chief Executive

Ben, it's for the government to decide that. They'll make a decision, obviously, in terms of directed buyback, the window for that doesn't open until March, but it's very much in the government's hands. Clearly, they've been reducing their stake over time. Our strong results are what I'm focused on.

Operator

Thank you. Our next question comes from Simon of The Telegraph. Simon, could you please go ahead.

Simon Foy, The Telegraph

Just a quick one for me on Basel 3.1. And obviously there's a consultation out at the moment to be seek a more robust implementation of that rulebook than the EU. I'm just wondering, are you concerned that this approach could put the UK at somewhat of a competitive disadvantage to other markets?

Katie Murray, Chief Financial Officer

Yeah. Thanks very much, Simon. Good morning. So we have Basel 3.1, we've obviously spent quite a lot of time looking at it in the last couple of weeks. And some of the guidance that we've given today is that when you look at the consultation document as it's drafted at the moment, along with the potential impacts of poor cyclicality into onto our capital levels, we do see that it has the potential to lift the RWAs up by 5 to 10%.

So, clearly, things that require you to carry more capital have an impact on things like ROTE, and that's all been fully considered as part of our guidance. But, they are looking to bring in a robust implementation of it, and I think we'll see how it progresses as we progress through consultation, which we're working with them actively.

Simon Foy, The Telegraph

Okay. Thank you.

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Operator

Once again, if you would like to ask a question, you can use the Raise Hand function on the Zoom app. Or if you're dialling in by phone, you can press Star Nine to raise your hand and Star Six to umute once prompted. We'll pause for just a moment, signal for any other questions.

Thank you. Ben from the Times, if you'd like to unmute and go ahead.

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Ben Martin, The Times

Thanks for the extra question. Howard, just on the point you were making about pay, you said that you couldn't compare Executive pay this year with last year, but we haven't got anything else to compare it to. Why is it not appropriate to compare a total package this year with the total package last year, just because last year didn't include the bonus? Thank you.

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Howard Davies, Chairman

The question is, what comparison you're making between pay in the year and pay for the pay, ok? Pay for 2021 was about 4 million for Alison. Pay for 2022 was about 4.5 million. So it is an increase, it's an increase of about 12%. The pay in the year for 2022 included bonus for this year, which was not involved in the previous pay policy. The previous pay policy was more based on long-term incentive plan, some of which paid out in later years. So now we've got a pay policy and more of which pays out in the year to which it's relevant, if you like. And that's why last year, in 2022, you had a bonus related to 2022, which you didn't have in 2021. So the appropriate comparison is what her total compensation is for that year, the 2022 year, the total compensation is about four and a half million. For 2021, it was about 4 million. That's the appropriate comparison. If you're comparing what was paid IN the year, you're comparing apples and pears because some of it was paid IN the year, which wasn't paid IN the year in the previous year.

I know it's a bit complicated, but that's the way it is.

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Operator

Thank you very much. We have no further questions, I'd like to hand back for any closing comments.

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Alison Rose, Chief Executive

Thanks very much, Will. Thanks, everyone, for joining. Look, I think NatWest has delivered a strong performance, continued progress on strategy in uncertain environments. Our balance sheet is robust, diverse and well balanced, which means we can support our customers in the economy. We know some businesses and families are struggling, so we're being very targeted to make sure we're getting to support where people need it.

We're well positioned for growth. We're well protected against the down-side and we're well positioned to deliver sustainable returns. So thank you very much for your time.

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Howard Davies, Chairman

Thank you.

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Operator

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

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