NatWest Group

Annual Results 2024

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FORWARD-LOOKING STATEMENTS

NatWest Group

Paul Thwaite, Chief Executive

Rick Haythornthwaite, Chairperson

Katie Murray, Chief Finance Officer

Paul Good morning and thank you for joining us today. As usual, I'll give a business update. Katie will take you through the numbers and then I'll talk about our ambitions going forward before opening it up for questions. But first, I'm going to hand over to Rick for some opening thoughts.

Rick Thanks, Paul. I'm pleased to be here for my first full year results call as chair of NatWest Group. The strength of NatWest today is very evident from the performance we've announced this morning. We now have a bank that is consistently profitable with a clear and focused business model and crucially we are succeeding for our customers and shareholders. I spent much of this first year getting to know the business and I firmly believe the strengths we have today provide fertile ground for our future growth. The combination of our scale and our deep-rooted relationships across the UK provide us with the insight and data to anticipate, understand and respond to customers' changing needs.

But our ability to capitalise on this opportunity and grow is dependent on us becoming a more integrated and technology-enabled bank with the agility to serve our customers how, when and where they want now and in the future. As Paul will expand on, 2024 has been a positive and productive year for NatWest. But there is more to do and we're optimistic about the opportunities ahead.

Alongside our conversations on strategy, the Board has given considerable time to reflecting on our culture and how we work together to deliver on our ambitions. We've also reviewed our remuneration policy to ensure that reward is appropriately geared towards performance and delivery. In the absence of any major geopolitical and economic disruption, the macroeconomic backdrop is expected to be one with lower inflation than we have seen in recent years, a lower bank rate and a national focus on growth. We're well positioned for this environment, and we've entered 2025 with positive momentum, clear priorities and a focus on succeeding for our customers and shareholders. I'll now hand over to Paul for a more detailed update.

Paul Thanks, Rick. Let me start by saying that 2024 was a really positive year for the bank. A strong financial performance drove upgrades in our income and returns guidance, and we made excellent progress against all three of our strategic priorities, disciplined growth, bank-wide simplification, and active balance sheet and risk management. As a result of our strong capital generation, distributions to shareholders in 2024 totalled £4 billion. We also saw a reduction in the government shareholding from around 38% to less than 7% as of today. This makes it likely that NatWest will return to private ownership sometime in 2025, though naturally any decision rests with the government.

Importantly, the growth we have generated is grounded in the support and services we provide to our customers and the wider UK economy. Around half a million new customers chose to bank with us in 2024 and we serve over 19 million personal and business customers across the UK. Throughout the year, we helped 351,000 mortgage customers to buy or refinance their homes, including over 35,000 first-time buyers. Assets under management and administration increased 20% as we helped customers to invest. And for commercial customers, we grew our lending by 10 billion and welcomed 91,000 new startups to NatWest, underscoring our position as the number one bank for business in the UK.

To accelerate this organic growth, we also acquired £2.3 billion of prime residential mortgages from Metro Bank and will add around a million new retail customer accounts from Sainsbury's Bank when the transaction completes. These acquisitions build on our existing areas of strength and attractive returns in line with our strategic priorities. Our focus on bank-wide simplification is designed to increase efficiency and improve customer experience, and our investments in further digital transformation continues to help us anticipate and respond to customers' changing needs faster and more effectively. In retail banking, around 80% of customers bank with us entirely digitally. For mortgage customers, we've reduced the average time it takes for us to make an offer by 20% during the year. For some eligible customers, that means making an offer within 24 hours.

In our commercial business, more than 80% of customers are digital first, and we are making it faster and easier to access more of the products and services they need, from FX transactions to small business loans. This not only saves our customers time, it also saves time for our colleagues who can then focus on more complex customer needs and solutions. At the same time, we have continued to simplify our operations, for example by reducing our property footprint and exiting our hub in Poland. All of this has enabled us to keep costs broadly stable in 2024, to make additional savings, and to accelerate our strategic transformation.

Our final priority is to allocate capital dynamically and maintain strong risk management. This has helped us to drive strong capital generation, which in turn enables us to support our customers, invest in the business, and make distributions to shareholders. With that, I will hand over to Katie to take you through the numbers.

Katie Thank you Paul, and good morning, everyone. As you have heard, NatWest Group delivered a strong performance in 2024. Underlying income of £14.6 billion was up from £14.3 billion in the prior year, and costs were £7.9 billion, in line with guidance. This resulted in an operating profit of £6.2 billion and return on tangible equity of 17.5%, driving double-digit growth in three key metrics. First, earnings per share up 12% at 54p. Secondly, we have announced a final dividend of 15.5p, bringing this total to 21.5p, up 26%. And third, TNAV per share increased 13% to 329p, as a result of strong earnings, together with a lower share count. We also continue to maintain a strong balance sheet, with CET1 capital ratio of 13.6%.

We grew all three of our businesses throughout the course of 2024. Customer deposits increased 2.9% to £431 billion, and customer lending grew 3.5% to £372 billion, our sixth consecutive year of lending growth. In the retail bank, we built our share and credit cards from 8.5% to 9.7%, as we broadened our distribution through new channels. In our private bank, we attracted net inflows of £2.2 billion, contributing to 20% growth in assets under management and administration. In commercial and institutional, we grew non-interest income by 10%, with higher fees from our strong customer propositions in payments, foreign exchange, and debt capital markets.

We also provided £32 billion of climate and sustainable funding and financing to clients, together to bring the total to £93 billion since July 2021, approaching our £100 billion 2025 target. In addition to delivering growth, we have a well-diversified loan book, with a carefully managed exposure to sectors at risk, a personal lending book which is mostly secured, and within that, a prime mortgage book with low loan-to-value ratios. As a result, defaults remain low, and our impairment rate fell to just nine basis points of loans in 2024.

In part, this is a reflection of the economic conditions in the UK. Inflation came down during the course of last year, and rates have started to steadily decline. The housing market has remained resilient, with indicators such as mortgage approvals suggesting activity should remain firm. Low unemployment, robust levels of household savings, and steady business investment can all help to support future economic growth. Against this backdrop in 2025, we expect income in the range of £15.2 to £15.7 billion. Other operating expenses will be around £8 billion, plus around £100 million of one-off inorganic costs, a loan impairment rate below 20 basis points, and a return on tangible equity of 15 to 16%. And with that, I'll hand back to Paul to talk through our longer-term ambitions.

Paul

Thanks very much, Katie. Before we move on to questions, I want to speak briefly about our plans over the next three years. At the time of my appointment, I said that we should not underestimate the strength of our foundations or the opportunity we have to deepen our customer relationships and grow our business. Today, we serve over 19 million customers across our three leading businesses. We are the UK's biggest bank for business, we have a large, highly digitised retail bank, and in Coutts, we have one of the strongest wealth brands in the country. And these businesses are deeply connected into our local communities across all nations and regions of the UK.

During 2024, we have been thinking deeply about our strategy. As you'd expect, this has entailed a considered analysis of data on our customers and competitors, as well as industry and technology trends to give us a detailed understanding of our position and the opportunities. This work has confirmed our view that our three strategic priorities are serving us well, and that we must continue to concentrate on our strengths, whether that's the scale of our customer base, our robust balance sheet, our national and local presence, or our leading market positions, drive our tech transformation to deliver a better customer experience and greater efficiency, and change the way we operate so that we are quicker, simpler, and more agile.

This speaks to the performance culture and customer focus we are fostering in the bank. The strength of our balance sheet and capital generation, together with our tight management of costs, capital, and risk, gives us the capacity to increase investment in order to build an even stronger business in the coming years. First, we will continue to grow with our customers, providing the personalised services and expertise they need to achieve their goals, whether it's buying a home, growing a business, or investing for the future. This means growing our business and customer base with a focus on returns and on growing share in key segments, for example, mortgages, unsecured consumer lending, asset and trade finance, and wealth management. We will also continue to look at inorganic opportunities that create further shareholder value, whether they offer scale or new capabilities.

Second, we will further advance our plan for bank-wide simplification in order to improve efficiency and productivity and to deliver a better customer experience. By using technology more effectively, we are also creating a working environment that drives agility, simplicity, and speed, all in the service of our customers. Third, the strength of our balance sheet and risk management gives us a competitive edge. We plan to take advantage of this by allocating capital more strategically to maximise returns and more dynamically in changing market environments. As a result, we are targeting a 2027 return on tangible equity of more than 15%. We also intend to increase our dividend payout ratio to around 50% from 2025 onwards. Finally, we plan to maintain a strong balance sheet by operating with a CET1 ratio of 13 to 14%.

This is a significant year for NatWest as we enter a new forward-looking chapter for the bank. It has started with good momentum, and we are optimistic yet realistic about the opportunities and challenges ahead. As Katie has set out, the facts show the conditions for UK growth are there, but we know the challenges and uncertainties faced by some are very real. Consumer and business confidence has dipped in recent months in part due to rising cost pressures. However, we have seen that sentiment varies depending on the individual circumstances and sector our customers operate in.

We firmly believe that both NatWest and the wider sector have a key role to play in supporting growth and the UK economy. Across the bank, we are fully focused on delivery, shaping our future as a vital and trusted partner to our customers and to the UK itself. Because ultimately, if we succeed with our customers, we win together for our colleagues, our communities and our shareholders. Thank you. I will now hand over to the operator for your questions.

Moderator If you would like to ask a question today, you can 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 hand and star six to unmute when prompted. We'll now give a few moments for everyone to indicate if they wish to ask a question. Our first question comes from Anna Wise at PA Media. Anna, if you'd like to unmute and ask your question.

Paul Hi, Anna.

Anna Morning. Thanks for your time this morning. Yeah, I've got a couple of questions, if that's all right. I wanted to ask, firstly, what consumer behaviour is showing? Savings were up last year, current cancelled down. Is this trend continuing and what does spending trend show as well? And same for business actually, how is sentiment particularly post-Budget? And then also, if I can just ask if you've got a more firm date in mind for when you're expecting to reach private ownership now that the stake's dropped below 7%? Thank you.

Paul Thanks, Anna. On consumer behaviour, what I'd say is you can see in the quarter four results that household savings continue to increase. You can see that reflected in the deposit base in both our retail bank and our private bank. So that suggests that, as I say, customers continuing to save. History suggests that over time, as interest rates come down, then expenditure picks up. And what we've seen since, I guess, the second half of 2022 is that customers are putting their savings between both their current accounts and their savings accounts, sometimes fixed term accounts.

On the business side, what I'd say is that businesses are realistic about both the opportunities and the challenges ahead. Really, you see a lot of variance depending upon which sector particular businesses are in. Some sectors are thriving and growing. Other sectors, it's obviously more challenging. Given our role as the biggest bank for business, we get a real insight into how customers are feeling. Larger corporates, I think, are very pragmatic. They're planning for the reality. And what usually happens is that smaller companies take longer to react to the circumstances. But what I would say is we take a big step back. Inflation has definitely come down. We're predicting that interest rates will continue to come down this year. Employment remains strong. The housing market remains strong. So there are some grounds for optimism, but it's against that, I guess, that outlook, which is to some extent uncertain.

On the private ownership point, as I say repeatedly, ultimately, that's a decision for the government. We're delighted with the progress in the sell down from 38% at the start of last year to, as we announced today, less than 7%. Ultimately, though, it's for the Treasury and the government to decide. If you look at the pace of the current sell down, it's not unreasonable to expect that that will finish at some point during the first half of this year. Thanks, Anna.

Anna Thank you.

Moderator Our next question comes from Ben Martin of The Times. Ben, if you'd like to unmute and ask your question.

Ben Good morning. Thanks for your questions. I had a couple. Firstly, you talked about inorganic opportunities. You've been tied to a bid for Santander UK. You've also been tipped as a bidder for Evelyn Partners. Are those things you're looking at? And does returning to private ownership make it easier for you to do large-scale M&A? And secondly, there have been a few references on the call this morning to sort of simplification of the bank and increased use of technology. So should we expect you to close more branches this year? Are you going to be cutting more jobs as you increase your use of technology? And how do you expect that to change? Thank you.

Paul Thanks, Ben. I'll take both of them and I'll take them one by one. In terms of acquisitions, you won't be surprised to hear me say this, because I've been pretty consistent over the last 12 to 18 months. I won't comment on speculation about any business or any counterparty. I've also been very consistent that, I'm very confident that we can grow the business organically. You can see with the momentum in today's results, we're growing our three-customer business as well. We've grown both sides of the balance sheet and we've grown our fees. We're very confident in our ability to continue that momentum. I've also said in respect of acquisitions; it's a very high bar.

Any acquisition needs to be financially compelling for shareholders, but it also needs to be strategically compelling and aligned with the strategy that I set out last February. That was the case with the two acquisitions we made in terms of Metro and Sainsbury's Bank. They fitted both of those criteria. So that's how we think about that topic. In terms of the link to return to private ownership, it doesn't change our strategy. I laid out the strategy clearly last February. It's obvious in today's results that that strategy is working. So that doesn't really play into how we think about the current strategy.

On the second question, simplification, I guess simplification is a much broader topic then. It's really about making the bank better for our customers and better for our colleagues. So I wouldn't purely conflate it with branches, but on the direct question of branches, we still have a branch network of over 400 branches. We are committed to having a branch network. We've supported banking hubs. We're one of the leaders across that initiative. I think we now have over 180 hubs open. I think 180 agreed. We have mobile branches and obviously our customers can access the Post Office as well.

The reality is though that customer behaviour is changing. If you take our retail bank by way of example, 80% of our customers now only engage with the bank on a digital basis. So what you're seeing in the composition of our workforce is a change. Areas like software engineering, data and analytics, cyber, we have more colleagues and employees in those areas and obviously we have less colleagues in some of our contact centres or our branches. So my job is to make sure we've got the workforce that can deliver the capabilities and the products and services that our customers want. So that's what you're likely to see. Thanks, Ben.

Moderator Thank you. Our next question comes from Akila from the Financial Times. Akila, if you'd like to unmute and ask your question.

Akila Hi, thanks for this. Just following up on this question, so aside from branches closing, do you expect to have more, you know, a reduction in headcount due to pressures in, you know, since the budget because of NICs and things like that. And then secondly, there's been talks about reforming cash ISAs and I know building societies have said that it could have knock-on effects on the mortgage markets because it would put pressure on their funding. Do you agree that there could be wider repercussions, you know, if that was changed? And generally, on what the government is doing to promote growth, by speaking to financial regulators, I just wondered if there was one thing that you'd wish to see, what would it be? Thanks.

Paul Okay, Akila, good to hear from you. I think there's three in there. The first one on the subject of jobs and roles, I guess to link back to Ben's question, my focus is making sure we've got the right people in the right areas to reflect the priorities of the bank, but also the priorities of our customers. We are focused on simplification. We want to make the bank simpler for our colleagues. We also want to make it simpler for our customers. We did reduce our headcount during 2024, just over 3%. But as I said, it's a real mix in terms of some areas are growing and some areas are being reduced. So I'm just focused on making sure we've got the right skills.

On the subject of cash ISAs, which is, I guess, one part of a much broader topic. First of all, I'd say, Akila, I very much welcome the wider review of advice and the advice boundary. I think it's crucial that customers have the opportunity to save, to invest, to think about their pension, and they can access good advice at good costs. So I'm very welcome of that review. I'd encourage any review of savings and investments, including ISAs, to be considered as part of that. I think ISAs has proved very successful. I think they are important. They have an important role to play. But I am open to reviewing whether how they currently operate is fit for purpose for today's savings and investment market. So we'll be feeding in our views as part of that review. And as I say, we welcome it. There are different needs for different customers, depending upon their kind of stage of life. And I think it's important that any outcomes in terms of product changes reflect those needs well.

And then the final question, if I can remember it correctly, was just around growth and regulation. That's right. So first of all, I agree entirely that the government's priority should be economic growth. I'm very encouraged that they see the financial services sector and banks playing an important part from that. You may have heard me say before that good economies need good banks, and good banks need good economies. So we've engaged with the relevant consultations and given our views on where we think there are opportunities from a policy perspective to support growth. Very supportive of the ideas around planning, energy, infrastructure, removing duplication and regulation where we can see that and making sure that we support the country and its growth agenda. Thanks, Akila.

Moderator Our next question comes from Sinead Cruise of Reuters. Sinead, if you'd like to unmute and ask your question.

Sinead Good morning, everybody. Sorry, just an expansion on the acquisitions line of questioning this morning. Could you give us a sense of potentially what kind of capital headroom you have to go after inorganic dealmaking, please?

Paul Hi, Sinead. A couple of ways to answer that question. I'm not going to speculate at all on any business. I've been consistent over the last 12 or 18 months. It's a very important principle for me. I don't think anybody should comment on other businesses. You can see where our capital position is today. We've announced that to the market. We finished the year at 13.6%, but we don't run it with the mindset of acquisitions. We get the balance right between investing in our business, supporting our customers and returning capital to distributions to shareholders. You can see through our £4 billion of distributions last year and the increase in the dividend by 26%, we're doing that successfully. Thank you, Sinead.

Moderator Thank you. Our next question comes from Kalyeena of The Guardian. Kalyeena, if you'd like to unmute and ask your question.

Paul Hi, Kalyeena. We can't hear you.

Kalyeena Sorry. Can you hear me now?

Paul Yeah, we've got you. Hi.

Kalyeena Following up on our previous question on the government's views on regulation, are you 100% confident that consumer protections will not be eroded by this government drive to boost growth by stripping back post-financial crisis reforms? And secondly…

Paul Kalyeena, we've lost you. Sorry.

Moderator Apologies. We seem to have lost Kalyeena for a moment, but maybe you can answer her first question.

Paul Kalyeena, we didn't hear your second question. I'll take your first one. And then if you can hear us, obviously, feel free to throw the second one at us. So on the topic of regulation, I have a very clear view on this. High quality regulation is incredibly important to the country. I think it can be a source of competitive strength. And one that I've said publicly before is what we must protect. Obviously, it's important to get the balance right between risk and protection. We want a stable and predictable regime. That's what investors want. Competitiveness is important. So we do have to look internationally and make sure it's proportionate and there is a level playing field. So I think any reviews that happen, I think it will be crucial that we get the balance right. Everybody wants consumers to be protected appropriately. And if you can hear us, then go ahead with your second question.

Kalyeena Thank you. Sorry, bad connection. The second question was, I appreciate that NatWest is not involved in motor finance, but can you tell us how the wider commission scandal is affecting a potentially investor interest in NatWest shares? Thanks.

Paul Because we haven't been involved in the review, Kalyeena, it isn't a conversation that comes up often in my discussions with investors. I guess for that very reason. The broader context, though, is that investors want consistency, and they want confidence in the environment in which they're going to invest. So, things that challenge that view of consistency or unexpected events would obviously be an investor's mind. But it's not something that's raised often with me just because of that, I guess, because NatWest isn't involved in the issue. Thanks, Kalyeena.

Moderator Our next question comes from Calum Muirhead of the Daily Mail. Calum, if you'd like to unmute and ask your question.

Calum Morning, guys. Yeah, I just had just two queries. One, just in your outlook, you talk about the sort of challenges ahead in 2025. And I just wondered whether you could give a little bit more detail about what those are. And just going back on the sort of the government agenda, I know that you've sort of said you're kind of broadly supportive of what they're doing. But I guess I'm curious whether you think Labour are kind of doing enough to boost economic growth and whether there's anything that you think they could be doing better or moving more quickly on.

Paul Thanks, Calum. Good to hear from you. On the outlook, if you link back to what I said in my introduction, what I would say is we're realistic about both the opportunities and the challenges that are out there. There's lots of data releases. Obviously, we saw one this week, which was arguably slightly more positive than anticipated. What I see when I speak with customers and when I spend time with customers, the customers are proving to be incredibly resilient. There is good levels of activity in our customer base, whether that's mortgages on the housing side, whether that's businesses investing for the future. And some of the fundamentals, which I touched on earlier, are in a reasonable place. Inflation has obviously come down.

We expect rates to come down by a further three cuts this year following the one last week. Housing market is still resilient. Mortgage volumes are good. So from that perspective, there are some grounds for optimism. But when you speak to some customers, challenges are obviously very real. There is uncertainty. Some are facing increased cost pressures. So really, you have to get in. It's hard to generalize, Calum. You have to get into the detail. It varies depending on customer circumstances. It varies depending upon the sector that businesses are in. So that's how I would describe the general context.

On the government's agenda, I guess I'm not going to comment on individual policies. I applaud the growth agenda as a bank and as a sector. I think we have a role to play in that. We can support investment. We can support growth. We're leaning in to the Industrial Strategy with our thoughts and ideas. And we would expect some of those suggestions to be reflected in that. And we're very focussed on that. But in the meantime, I have to make sure we're supporting our customers. Thanks, Calum.

Moderator Our next question comes from Michael Bow of The Telegraph. Michael, if you'd like to unmute and ask your question.

Michael Hi, morning, everyone. Thanks for the time. Morning. Just a couple from in and a last one to round off. I just wanted to ask you how much you think ringfencing is a barrier to economic growth in the country? And then the second one, you said that confidence had dipped a bit in Q4 because of cost pressures. How much do you attribute that to fiscal changes by the government and the Budget? And what's the current state of play? And just to cover off the story from last night, I think the leader of Reform spoke to Sky and he said he was planning or exploring some criminal action alongside civil action against the bank. How much of that is a reputational or financial risk? Thank you.

Paul Thanks, Michael. So first one on ringfencing. The introduction of ringfencing served a critical purpose at the time. Obviously, regulation has moved on considerably since then, for example, by the resolution regime. We were very supportive of the recent changes that are going through legislation in terms of the change to ringfencing. But I've also said before, I think there are opportunities for further amendments post those changes, really to ensure that banks can support their customers in a good way as they would wish. Nobody wants to jeopardise the safety and security of the system. But I do think there are further changes or opportunities around ring fencing when we look out over the next couple of years.

On the question of confidence, sentiment certainly dropped in quarter four, whether that was consumer and household sentiment or whether it was business sentiment. As I alluded to earlier, I do think there are some grounds for optimism based on what we've talked about around falling rates, falling inflation, a strong housing market, pick up in business investment. I think we'll learn a lot more over the course of the next six months. But I think customers, I describe them as very pragmatic. They're incredibly, certainly business customers, incredibly resilient. They respond to circumstances. And in my conversations with customers, they're working out how to manage their business through the current environment. On the third question around last night's story, I'm sure you'll understand, Michael, it wouldn't be appropriate for me to comment on any individual customer or client. So I won't. And I'll leave it at that.

Moderator Thank you. Our next question comes from Marion Dakers of Bloomberg. Marion, if you'd like to unmute and ask your question.

Marion Morning all. Thanks for your time. I had another cost-related question. The statement talks a bit about automation, and that includes artificial intelligence. I wondered if you could talk about how many roles might be replaced by AI at NatWest, or whether you're more in the experimenting stage with that technology. Thanks.

Paul Thanks Marion, and thanks for the question. So first of all, I do think there are significant opportunities around both AI and GenAI. Sometimes it's forgotten that banks have been using AI for quite a few years in areas such as fraud and financial crime. Just to bring it to life, 19% of all the models we use in the bank already use AI. So you can see that it's already, I guess, quite consistently used within the bank. In terms of the link to jobs, the way we see it is it primarily see AI as complementing the workforce. We want to put the tools and the capabilities in the hands of our colleagues so that they can deliver better for each other, but also deliver better for our customers. And we're doing a lot to educate our colleagues on AI, how to use the tools safely, and how to use them for the benefit of our customers. Thanks.

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