Q1 Results 2025

MEDIA Conference Call
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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 Results announcement published on Friday 2nd May 2025.

NatWest Group

Paul Thwaite, Chief Executive

Katie Murray, Chief Finance Officer

OPERATOR Good morning and welcome to the media call for NatWest Group's Q1 2025 Financial Results. This call is hosted by Group Chief Executive Paul Thwaite and Chief Financial Officer Katie Murray. If you'd like to ask a question today, you can do this by using the raise hand function on the Zoom app.

If you are dialling by phone, you can press star 9 to raise your hand and star 6 to unmute when prompted. Paul, please go ahead.

PAUL Good morning everyone and thank you for joining us for NatWest Group's Q1 Results. I'll first say a few words about our strategy and ambitions for the future before Katie takes you through the numbers in more detail, and then we'll open it up for questions. Let me start by saying that we have made a strong start to the year, further demonstrating the positive momentum in our business and reinforcing the confidence we have in our future performance.

As we make progress against our three strategic priorities, we have delivered a return on tangible equity of 18.5% and an operating profit of £1.8 billion for the quarter. This performance is underpinned by the support we provide for more than 19 million customers throughout the UK, whether that is buying a home, setting up or scaling a business or investing their money. Our first priority is disciplined growth and we are focused on growing with our customers as a vital and trusted partner who can meet their changing needs and expectations.

We saw good levels of activity through Quarter 1, with increases in lending, deposits and assets under management. And following yesterday's completion of our transaction with Sainsbury's Bank, we look forward to welcoming our new customers as they move to NatWest. This acquisition will add around a million customer accounts and builds on existing areas of strength at attractive returns in line with our strategic priorities.

For house buyers, we were pleased to see a stronger mortgage market in Quarter 1 and on Monday we launched our first family-backed mortgage product, making it easier for first-time buyers to get on the property ladder. We also continue to grow our lending within our Commercial and Institutional business, cementing our position as the biggest bank for business in the UK. In March, our Accelerator programme marked its 10th anniversary, having helped around 10,000 entrepreneurs to grow and scale their businesses.

In recognition of this milestone, we have raised that ambition with an aim to support a further 10,000 businesses in 2025. And we have recently exceeded our target to provide £100 billion of climate and sustainable funding and financing by the end of this year.

Our second strategic priority is bank-wide simplification, as we improve the experience of banking with us and increase the efficiency with which we operate. Our continued investment in technology ensures we can serve our customers how, when and where they want, understanding their personal requirements and ultimately making their lives easier.

In retail banking, around 80% of our customers bank entirely digitally with us, whilst 83% of our Commercial and Institutional customers are digital-first. And Coutts has recently been recognised as the best UK private bank for digital customer experience and capabilities.

AI is undoubtedly a key enabler of our ambitions and is quietly reinventing how we operate, freeing up our colleagues and helping them to provide an even better service for our customers. To this end, we recently announced that we are the first UK headquartered bank to be working with OpenAI as part of a collaboration that has the potential to accelerate how quickly and widely we can deploy some of the latest developments in gen AI.

Our final strategic priority is a focus on active balance sheet and risk management. This helps to drive the strong capital generation that you can see in our numbers today. As a result, we are able to support our customers, invest in our business and make distributions to our shareholders.

Before I hand over to Katie, I wanted to reflect briefly on the environment that we are operating in. As you'd expect, this is something we are monitoring closely. There is no doubt that global economic uncertainty has increased since the end of the first quarter, and there has been a dip in confidence across both businesses and households. But as ever, it is a mixed picture, and behaviour and sentiment varies depending on circumstances.

Taking a step back, we continue to see some positive economic indicators. Arrears are low, and industry data suggests that UK households and corporate borrowers remain resilient. For larger corporates that are more exposed to global trade, for example, in areas such as manufacturing and automotive, there is certainly some pausing of activity, with many in 'wait and see mode'.

Smaller businesses and consumers tend to be more focused on the domestic agenda, and we haven't yet seen any significant changes in behaviour across these groups in response to recent volatility. We should remember as well the considerable resilience shown by businesses and households through a number of challenges in recent years, from COVID to energy shocks and high inflation.

Against this backdrop, our strong capital position and high levels of liquidity mean we are well positioned to continue providing support where it is needed. And we remain confident in our future performance, allowing us to deliver for shareholders, customers, and ultimately, to help drive growth across the UK.

I'll now pass over to Katie, who can take you through the numbers in more detail.

KATIE

Thanks, Paul, and good morning, everyone. As Paul said, we're pleased with our strong performance in Q1, with income, excluding notable items, increasing by more than 15.8% year on year to £4 billion. This was due to the growth we saw across our three businesses, alongside benefits from our product structural hedge, which more than offset the impact of the recent base rate cut in February.

On non-interest income, we saw another positive quarter of customer activity, in particular in capital markets and currencies. Costs were down 8.5% on Q4, and we continue to maintain a strong balance sheet with a CET1 ratio of 13.8%. And our return on tangible equity of 18.5% drove capital generation of 49 basis points in the quarter before shareholder distributions.

Looking at lending, growth lending to customers increased by £3.5 billion, or around 1% in the first quarter, and we remain disciplined in our approach, deploying capital to generate attractive returns. We were pleased to see a stronger mortgage market, together with ongoing demand from larger corporates and financial institutions. Across retail and private banking, we saw continued growth in mortgage balances, partly driven by falling rates and customers seeking to get ahead of the change in stamp duty on April 1st.

Unsecured balances increased slightly to £16.9 billion, and our unsecured portfolio will benefit from our Sainsbury's acquisition, which will increase our stock share of credit cards to around 11% on a pro forma basis. Across our Commercial and Institutional business, gross customer lending increased by £1.6 billion, if you exclude government schemes, mainly driven by infrastructure and project finance lending.

Our diversified prime loan book continues to perform well. Asset quality remains strong and arrears remain stable.

The net impairment charge of £189 million for the first quarter is within our guidance at 19 basis points of loans. We have no significant concerns about our credit portfolio, and this charge largely reflects our decision to retain some forward looking adjustments for economic uncertainty. Given the performance of our book, we continue to expect a loan repayment rate below 20 basis points for the full year.

Turning to deposits, these were up £2.1 billion, or half a percent, across our three businesses in Q1, continuing the quarterly trend we saw throughout last year. Meanwhile, assets under management and administration of £48.5 billion included net inflows of £0.8 billion in the quarter, as we help our customers to invest their money.

If we look at our performance overall, despite the heightened uncertainty, we believe that our business is well positioned to continue delivering strong shareholder returns as we grow our income, control costs, and maintain our focus on capital and risk management.

We are more positive about our income and ROTE for 2025, and as a result of our strong performance in Q1, we now expect to come in at the upper end of our guided range.

And with that, I'll now hand back to Paul before we take your questions.

PAUL Thanks, Katie. As you're all aware, this is a significant year for NatWest, particularly as we approach our return to full private ownership, with the government stake now below 2%. Although there is no strategic or operational impact of the government exit, the accelerated sell-down over the last 18 months is testament to the performance of the business and has helped us to attract new global investors who share our ambitions.

This is a sector that matters. Strong economies need strong banks. Across NatWest, our ambition is to succeed with our customers, and we are fully focused on delivery. With positive momentum in our business, we are optimistic about our performance and the opportunities ahead of us. And at a time when there is a clear national intent to deliver growth, a stronger NatWest is able to play an important role, shaping our future as a vital and trusted partner to our customers and to the UK itself.

Thank you for listening, and we'll now hand back to the operator for your questions.

OPERATOR Our first question comes from Akila at the Financial Times. Akila, if you'd like to unmute and ask your question.

AKILA Yeah, thank you. Thanks both for this presentation. And thank you, Paul, for describing the kind of 'wait and see mode' that you're seeing in your commercial bank, because, you know, we're all very interested in that.

On the private bank, I have a few questions. So, I noticed balances were down, AUM was down slightly in the last quarter. And so I wondered if you're seeing, if you're losing any clients because of changes to the non-DOM regime.

And also, if you could give any colour on the severance costs, the higher severance costs in the private bank, that would be great. And particularly, if you think it's fair for us to assume that it's because of digitisation, and if maybe the private bank was kind of behind the retail bank in terms of digitising.
And then just on the commercial bank, if you could give an indication of how exposed you are to businesses that are exporters to the US, that would be really helpful. Thanks.

PAUL That's great. Thanks. Morning, Akila.

Good to hear from you. So let's go with the questions on the private bank first. So the deposit trends you can see are really just the normal seasonality in respect of tax payments. You'll see that, as tax bills become due, customers have been making their payments. Actually, on assets under management, we're encouraged by the performance. Net new money is just under a billion pound. Obviously, you've had volatility in the underlying value of the equity assets. So there's probably two different trends you need to think about from on that perspective. It doesn't talk to any wider commentary on client gains or client exits. So no, nothing unusual on that front. We're pleased with the momentum in the in the private banking business.
In terms of the severance. Obviously, as we go through various changes in the business, they affect different businesses at different times. There's a series of changes in the private bank and the charges obviously flowed through in Quarter one. We're pretty transparent around that. And really, it reflects changing the mix and profile of the private bank, making sure we've got the skills and talents we need. And Emma and her team are working that through. So that's where we are on the private bank.

On the commercial bank, if I can recall, it was specifically about the US your question. Probably best to start first with obviously, we're primarily UK focused. And therefore, it's our core corporate exposure primarily reflects the UK economy. You'll see in some of our disclosures, already or as you go through the materials, about 70% of our corporate businesses in the service sector, and a very small number are directly impacted by US tariff. We estimate, based on the data that we have that customers that exports the US account for a low single digit percentage of our of our overall lending and assets. And typically, as you'd expect, these are kind of large companies trading internationally, tend to be investment grade and highly rated companies. So from that perspective, we feel as if our, our business, and our corporate book is very well positioned to allow us both to support customers, but also to continue to drive shareholder returns. Thanks, Akila.

OPERATOR Our next question comes from Anna Wise of PA. Anna, if you'd like to unmute and ask your question.

ANNA Hello, thank you for doing the call and congratulations on the results today. Yeah, couple of questions. Firstly, your guidance for the year is quite optimistic.

And obviously, we've seen a fair share of economists downgrading their expectations for UK growth. And so I just wondered what's driving that? And potentially, are you seeing more opportunities to grow and grow lending in this climate?

And then secondly, your results covered the first Quarter, but bills have gone up significantly for a lot of households this month, rents are still rising, times are quite tough. So how are people coping with that?

PAUL Yeah, thank you, Anna, I'll take them, Katie.

So on the on, I guess, the performance and the guidance point. So as you referenced, it is a is a strong performance. We've got good positive momentum in the business that is underpinned by good customer activity. You can see that we've grown our lending, we've grown our deposits. My answer to Akila earlier, you know, net new money on assets under management has moved up. So the underlying activity is good, but we're controlling costs tightly. And we're managing the balance sheet well. So I guess it's that combination, which despite some of the wider uncertainty we've seen since, I guess during April, since the quarter close, gives us the confidence that we're well positioned, our business is well positioned to be able to deliver good support to customers, but also strong shareholder returns. So that's how we think about the guidance that we've given today, which is towards the top end of our range.

On the subject of customers and the impacts, as you rightly say, you know, there's been a lot happening during the quarter, both internationally, from a tariff perspective, but also domestically, as you allude to, in terms of changes. The way I'd summarize that is it's a mixed picture, you know, the impact varies depending upon which customer groups, or whether it's retail customers or corporate customers. And some of that's about behavioural changes, some of it's about sentiment changes. It is obvious that sentiment has dipped, we're clear about that. You can see that in the public surveys, sentiment has dipped for both personal customers, and business customers.

But in terms of the behaviour, it again, the impacts vary. For our retail consumers, actually, we haven't seen any material changes in behaviour. That when we look at, for example, credit card/ debit card spend, spending is up actually on discretionary items, household savings remain strong. You'll see from ours and others results that the mortgage market has remained strong. So not too much change yet in behaviour.

On the business side, again, it is mixed, large corporates, obviously, are very mindful of the uncertainty and the impact that has. So some are in 'wait and see mode' and pause. Small businesses, in many respects, are more akin to retail customers, they're focused on the domestic issues that are in play. And we haven't seen any material change in behaviour. But I would flag that you can see that sentiment and confidence has dropped. Thanks, Anna.

OPERATOR Our next question comes from Lawrence White of Reuters. Lawrence, if you'd like to unmute and ask your question.

LAWRENCE Thank you. Morning, Paul. Just a question on M&A, obviously, with the Sainsbury's deal now done, you've got a strong capital build, but a tougher economic outlook, perhaps. Now, where's the kind of dial on your relative thinking around returning excess capital to investors versus any further M&A that would build your capabilities or build your scale? Is there any sense in which you might be more reluctant to embark on deals, given the slightly murkier economic outlook?

PAUL Thanks, Lawrence. And yeah, very pleased to complete on Sainsbury's yesterday. And we look forward to welcoming a million customer accounts across over the course of the year.

Likewise, we're also pleased with the Metro deal that we completed last year. Lawrence, my overall approach hasn't changed probably to what you heard me say in February. First of all, I feel very confident we can deploy capital organically to grow our existing three businesses. And I think we've proven today we can do that given the growth you've seen in quarter one. We will obviously be thoughtful and look across the market from an M&A perspective. But, as many of you have heard me say before, it's a high bar both financially and operationally. It needs to be absolutely compelling from a shareholder perspective.

In terms of buybacks, there's still the potential, given that the government shareholding is just below 2%, for a further directed buyback. If the chance to participate is there, then obviously, we'd be interested in that. But ultimately, it's an invitation that has to come from the government.

We're committed to distributing capital. So we'll look at on market buybacks at the half year along with the Board. So really, no change in position. We're mindful, as we all would be, around the uncertainty. But I think we've got a very clear and consistent view around how the Board and how I allocate capital across the firm. Thanks, Lawrence.

OPERATOR Thank you. Our next question comes from William Shaw of Bloomberg. William, if you'd like to unmute and ask your question.

WILLIAM Thank you very much. Yeah. So the money put aside to cover bad loans is about double what it was a year ago. What's the thinking about that? And what's the worst case scenario for what could happen with customers?

And secondly, Venkat at Barclays spoke earlier in the week in favour of the current ring fencing regime. Is the regime something which you're still opposed to, Paul?

PAUL Thanks, Will. Well, good to hear from you. So remind me, impairments and then ring fencing.

Okay, on impairments, I'm pleased to say our asset quality remains strong. We haven't seen any deterioration in our portfolios. The charge, as you alluded to, for this year was 19 basis points in terms of cost of risk. That's below our guidance that we shared in in February of 20 basis points. And we've reconfirmed today that we're holding to that guidance. We're not changing it.

You're right that it's higher than quarter four last year. But it's worth bearing in mind there was a release in our quarter four numbers, which obviously made that look slightly better. But it's actually lower than quarter three last year.

So what I would say is that, asset quality is strong, arrears remain low and stable, we don't have any significant concerns. You'll also be aware that we have post model adjustments in there for economic uncertainty. We chose not to release anything this quarter. So we feel we're well placed from that perspective. So yeah, no significant change in behaviour. But as you would expect, we're very vigilant and alert as circumstances pan out during the year. The other thing I should say is we're ready and able and very keen to support our customers should any of them need that.

On ring fencing. I've consistently said that, first of all, high quality regulation is a key competitive strength of the UK. And from my perspective, it's very important that we protect that. That being said, the regulatory architecture is rightly very different, and has evolved differently since the financial crisis. And it's continued to evolve, whether that's the recovery and resolution regime, whether that's the introduction of Consumer Duty.

So, I welcome the changes in specific reference to ring fencing that were introduced in February. But I do personally believe the scope for further progress and for reform. A couple of reasons around that.

From a financial stability perspective, the Sheoch review was very clear. It concluded that the recovery and resolution planning regime is potentially a more effective driver and protector of stability. And obviously, that came after ring fencing. So I think that's one reason.

And secondly, as many of my peers have said, ring fencing does put costs and friction into the system. That impacts banks, but it also impacts our ability to serve our customers. It adds cost, it adds complexity to doing business – and that includes for SMEs and mid-market companies. It can distort decisions and pricing because you have trapped liquidity. So net net, it may limit the ability to support the wider growth agenda.

It's also, I think, worth reminding ourselves that we are the only jurisdiction in the world to have a regime like that. So net net, what I think, Will, is I think it's timely and appropriate to review it. I think it's incumbent on all of us to make sure that the Prudential framework maximises the banks and sectors ability to support UK business and promote growth. So that's my position on that very clear and very consistent. Thanks, Will.

WILLIAM: Great, thank you very much.

OPERATOR: Our next question comes from John-Paul of the Daily Mail. John-Paul, if you'd like to unmute and ask your question.

JOHN-PAUL: Oh, hello. Very good morning. Thanks for taking my question.

PAUL: Good to see you.

JOHN-PAUL: Yeah hi. You mentioned in your earlier remarks, a pause in activity, I think, in the manufacturing, automotive sectors. I wonder if you could give a bit more colour.

Are we talking about pauses, for example, in investment, in hiring, perhaps in deal making, or what kind of activity is being paused, particularly in relation to, I guess, exporters. PMI figures yesterday showed the biggest drop in demand for UK exports in manufacturing since the pandemic. So I'm wondering what particular signs of distress you're seeing among those clients?

A couple of other things, please, if I may also. On cyber attacks, we've seen a spate of cyber attacks, particularly against M&S. Are you increasingly vigilant, particularly in the face of all that kind of activity about cyber attacks?

And on the Supreme Court ruling on gender, Barclays said it had banned transgender women from using female toilets. Are you doing something similar at NatWest?

PAUL Okay, thank you. So we have three. John-Paul, thank you. Let me take them one by one.

So on, I guess, large corporate deal activity. So, what I'd say there is, I was using, I guess, some sectors as examples, what we see in our large corporate base, and obviously, we have really good line of sight, given the size of our corporate bank is, the reality is, certainly for those exporting or trade, who are heavily dependent on international trade, the uncertainty means that they're taking stock, you know, they're waiting and see how that manifests, I think, primarily around investment decisions. And also, I guess, any thoughts they might have been having around corporate finance activity. So that's how it's manifesting. I would still say, though, it's early days. And I think we'll know a lot more over the course of the next 60 or 90 days. And I was using those two sectors as examples.

On cyber, you won't be surprised to hear me say that it is an area that we are particularly focused on, not just as a consequence of the last week's events. We invest an awful lot in ensuring the resilience, safety and security of our systems, making sure we can protect ourselves, but also our customers. Obviously, the banks are part of the critical national infrastructure. So we are regularly tested, and we regularly test ourselves to ensure we are absolutely as safe, as resilient as we can be. There's certainly no complacency, from my perspective. And we do learn, you know, from all these events that happened, the current ones included in due course, we'll make sure we make sure that we learn and in many respects, it's a team sport in that, it's not a competitive issue. So we're very focused on cyber security and resilience.

And then the third question related to the Supreme Court ruling. So like all institutions, respect that decision. We'll review the EHRC guidance once it's published later this year. My understanding is that that will be at the start of the summer. My priority is very clear to ensure that all of our colleagues feel supported and welcome at work so they can support their customers in the way that we would want them to.

And I say my responsibility there is to make sure everybody feels supported, make sure we're complying with the legislation, and we'll await the guidance when it comes through. Thank you.

OPERATOR Our next question comes from Ben Martin of The Times. Ben, if you'd like to unmute and go ahead.

BEN Thank you. And thanks for taking questions. Just a quick one really.

A lot of your rivals have sort of made explicit provisions for the US tariffs economic impact. And obviously provisions for forward looking. You don't seem to have made an explicit provision for that, the economic impact of tariffs. Why is that?

PAUL Thanks, Ben. And Katie, over to you.

KATIE Lovely. Thanks, Ben. Good morning.

So I wouldn't speak to others and how they've kind of built their book. If we look at our PMAs that we're holding just now for economic uncertainty, they are £305 million. That works at about 9% of our current ECL balance.

So that gives you a little bit of a buffer over the specific ones that we have. What we did do this quarter, given the ongoing global uncertainty, is that we chose not to release a bit of the PMAs this quarter that would otherwise have been released. As we looked at the events of April, we thought, let's just hold that back. And let's see. So it wasn't specifically tariff tagged, but it certainly was in relation to the volatility. I think one of the things also, when you look at the book, you know, about 70% of our corporate credit exposure is to the services sector, which is less impacted by tariffs. And our exposure to production sectors is well spread. If I look at something like manufacturing, it represents around 2% of our group loan book. So at the moment, comfortable just now, we'll review it again as part of the July accounts. Thanks, Ben.

PAUL Thanks, Katie. Thank you, Ben.

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

PAUL Thank you, everybody. Appreciate the questions. Probably just conclude by reiterating what we said at the top of the call.

We've made a good start to the year, pleased with the momentum in the business and confident about our ability to deliver against the plans.

If you’ve got any follow up questions, I know you know where the team are. Have a good weekend everybody. Thank you.

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