



**NatWest**  
Group

**NatWest Group plc**  
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**Aman Rakkar:**

All right. We'll kick off. Thanks, everyone, for joining us. This is the Barclays Global Financial Services Conference. I'm delighted to be joined by NatWest Group's CEO, Paul Thwaite. For those that don't know, I'm Aman Rakkar. I lead coverage of the UK banks at Barclays. Thank you very much for coming and joining us today.

Just by way of intro for Paul. Paul has been at NatWest for close to 30 years across a number of roles. You were appointed as CEO in July 2023. Previously, the CEO of the Corporate and Institutional Bank, but you've held various roles across the bank and closely involved in formulating the strategy. So anyway, thanks very much, Paul. Really appreciate you making yourself available and joining us here.

Let's kick off the discussion. So UK macro, it feels like the UK's at an inflection point. Inflation's falling, interest rates are falling, political backdrop feels more stable following this summer's general election. Given your unique vantage point, I'd be interested in your assessment of the operating environment.

**Paul Thwaite:**

Great. It's good to be here. Thanks for the invitation. I appreciate it. I think in general, I agree with your thesis there around an inflection point. I think if you look at the UK over the last, arguably, 8 to 10 months, I think we indicated that it's probably been better than most people anticipated, be it GDP, be it house price growth, et cetera. And we've certainly seen that in terms of our customer sentiment data, both our own sentiment, kind of customer sentiment, but also the market data as well. Admittedly, coming from a low base on the consumer side, mostly on the business side. But there's been, for all intents and purposes, 8 to 10 months of improving kind of customer sentiment. And that's rippled through to good customer activity on both sides of the balance sheet. So on the economic side, I would say better than anticipated.

I think the operating environment, the other part to your question, is encouraging. You can see a recovery in mortgage volumes, which is good especially the last two, three months. Business demand is there. There's definitely conversations and definitely engagement. You can see the system level growth is starting to come through. So that bodes well, I would say.

And on the political side, we have the election. It's a clearing event. It's a decisive outcome. It came earlier than I guess most would have originally anticipated. So you put that together, I guess the economic, the operating environment and the political, and it feels like those dynamics have settled. And that is reflected in how clients and customers feel, but off a low base in terms of certainly the consumer segment. So yeah, I think it's been an interesting 8 to 10 months. I think we have an interesting couple of years ahead of us.

The other thing to mention around I guess the new government is we have the budget coming up in five, six weeks. I think that's a key moment in terms of clarity around policy, the fiscal plan, what that supports. I think that will help as well, help with that broader inflection and stability.

**Aman Rakkar:**

I'll turn to the business itself. NII has been the key positive in recent results updates, reflecting positively ahead of expectations after a period of pressure. Can you talk to the

major drivers of revenue from here? And indeed, can we expect continued growth in top line from here?

**Paul Thwaite:**

I think the most encouraging thing about the revenue picture, as you said, we've had two strong quarters, but the growth has been broad based. We're adding customers in all three of our customer franchises. To me, that's a key indicator of kind of business health. So that's strong.

What you can also see is that there are clear, absolutely clear lines of growth in each of those businesses. So whether it's our commercial midmarket business growing, whether it's our consumer credit business, whether it's our assets under management in our private business. So you can see that there's -- that growth is broad based, which is great.

If you look at Half 2, how to think about revenue, we upgraded our guidance at Half 1. You're aware of that. We have upgraded it to around 14 billion. We've delivered 7 billion in the first half. That's a pretty strong start. You can see that, as I've alluded to, loan demand is certainly returning in the mortgage side. So when I look out for Half 2, you can see potential volume growth on the loan side, which is great. We've been pleased with the margin expansion in all three of our businesses. That's two quarters on the run where you've seen each of our three businesses widen margins. That's very encouraging.

Obviously, we're going to have the potential for more rate [cuts]. So that's something that kind of blows the other way. But on the positive side, we're through the inflection point on mortgages. So from both mortgage pricing is pretty much the same as the stocks, so that's behind us. So that headwind disappears. We've got the deposit reductions. There's always a lag, so that has an impact. You'd expect a little bit of seasonality in our C&I business, albeit that activity has continued strong in the market during the summer, so that does bode well. So that's what supports our Half 2.

And inevitably, the structural hedge obviously is an underpin to all of that. So that's why we're comfortable to upgrade guidance both on revenue and in returns at the half year. And then thinking beyond the Half 2 2024 out to 2026, which is obviously we have some targets out there, the structural hedge is a key part of that. And we'd expect loan to demand to return and system-level deposits feel strong. So that's why we've talked about income growth, feeling confident about income growth through 2024 through to 2026.

**Aman Rakkar:**

You alluded to the structural hedge. You upgraded your guidance and the hedge with 2Q, boosting an already material tailwind for the business. How do you balance this, though, between the various stakeholders, the shareholders, hitting the bottom line, the customer base or your ability to kind of compete for market share?

**Paul Thwaite:**

Well, on the hedge first, as you said, it's a healthy tailwind. We're seeing the benefits of that in '24. We also widened our disclosures in terms of what we expected the benefit to be in '25. We said an 800 million increase in '25 and more again in '26. So as you said, it's a healthy tailwind that supports the revenue profile not just in the short term and out to the medium term. We're confident about that because it's very mechanistic. I

know you understand this. You do a lot of analysis on it. But it's very mechanistic, and we've locked in those benefits. That's why we're confident.

The broader question of how you then think about it between the different stakeholders. Interestingly, that's not -- I don't think about the different stakeholders in the context of the structural hedge. The way I think about it is the broader business. We're driving the business for returns. ROTE is our north star. We want to drive capital generation and returns. And from that capital generation, I think about how we balance three things really: supporting our customers, investing in the business, but also returning capital to shareholders.

So I don't think about that stakeholder question really through the lens of the structural hedge. I think about it through the overall performance of the business and making sure we've got the right balance between those three, those three main ways I can allocate capital. And if I do that right, if we as a business do that right, that will drive long-term shareholder value. And that's how I think about it. I think it's quite -- it has different risks if you start to isolate different parts of the P&L and how you think about them for different stakeholders.

**Aman Rakkar:**

You mentioned rate cuts. The Bank of England delivered its first rate cut on the 1st of August. Markets are pricing somewhere between one and two further cuts this year. How well positioned do you feel to navigate this rate cutting cycle? And what do you expect the system to do around passthroughs?

**Paul Thwaite:**

Yeah. So I guess the sector and ourselves, everybody's had a lot of time to prepare. I guess what was unclear was when the cuts would come, but at some point they would come. So I think we've invested a lot of time over the last 18 months preparing some of the simple but very important things around the kind of practical operational processes, especially if you're going to have potentially as you go into '25, maybe a succession of rate cuts. We've invested a lot of time in that.

But as importantly and arguably more importantly, we spent a lot of time thinking about the product range over the last 18 months. We've widened the deposit range both on the consumer side and on the commercial side. We've also been very thoughtful around, for example, tiering within individual products. So I feel confident that we've done a lot of preparatory work ahead of rate cuts.

We passed through, in line with our kind of sensitivity disclosures, circa 60% on the back of the first rate cut. I think the market response has been encouragingly rational. Majority of the kind of large incumbent banks have done something similar. So it's been a relatively immediate and relatively consistent reaction. Interestingly to me, some of the digital banks who were paying at a higher cut of rates have passed through a greater amount. Again, to me that talks to kind of rationality in the deposit pricing. I'm definitely, definitely encouraged by that.

I think the system level reaction overall, we're still early in the cycle. In our forecast, we have one more cut coming this year, five next year, I think two the year after. So another 200 basis points to go. My job is to balance kind of funding needs, P&L, competitive position. And I think we're well placed to be able to do that. But if you were

taking your indicators from reactions so far, I think the responses have been very rational.

**Aman Rakkar:** Great. So we've got some audience response questions. We would love people in the room to kind of participate. You've got these devices in front of you. You can see the question there.

So what would cause you to become more positive on NatWest shares? One, better NII; two, stronger fees; better cost control; better asset quality; great capital returns; six, reduction in UK government ownership?

**Paul Thwaite:** All of the above. Interesting. We'll go onto that, I'm sure.

**Aman Rakkar:** So it's kind of widely -- so stronger fees, interesting. Then net interest income, then I guess UK government ownership.

Let's shift to question two. What are you most concerned about in NatWest? Weaker earnings; weaker capital distributions; reg risk; political risk; M&A?

Political risk and weaker earnings. I guess you're only in control of only part of that.

Let's do the third question. What do you see the biggest risk to NatWest earnings? Rate cuts; competition; cost inflation; loan losses; government intervention?

**Paul Thwaite:** Interesting. Definitely a topic du jour, I'm sure we'll go onto it.

**Aman Rakkar:** Exactly. Okay. We'll probably touch back on that subject a bit later on. Can we just talk about competition in a higher interest rate environment? Obviously, the operating environment's been turned upside down by higher interest rates. Profitability swung to deposits and liquidity and away from traditional things like lending. I'm kind of interested in your assessment of the outlook for competition in this kind of new world, this new higher for longer world, and how do you navigate that strategically?

**Paul Thwaite:** To me, there's an inevitability about what you say. With the change in the rate cycle, there was obviously going to be a, I guess a change in the dynamics between I guess the two sides of the balance sheet. So in many respects, it kind of tipped traditional and typical asset and liability management was kind of back to the fore and back to the center. So to me, that was inevitable.

And I think if you look at what NatWest has done over the last couple of years is the strength of the deposit base within the commercial franchise combined with thoughtful, disciplined lending, which is profitable in its own right, has driven pretty healthy returns, circa 17% in '23, over 16% the first half of this year. So given we're a broad-based bank both from a customer segment perspective and a product perspective, I think good asset and liability management has supported healthy capital generation and healthy returns.

My response to that changing operating environment, the way I think about it is setting yourself up for now to drive good returns, but also setting yourself up for the future

should that environment change, be it the competitive environment, but also it could be the rate environment. We have a view now what will happen, but we all know that can be different. So that's the way I thought about the strategy in this operating environment.

We've been very consistent and I think very clear about the three things that we're focused on. The first thing is disciplined growth. So we've been very thoughtful about where we want to grow in the core of our business. It's not just lending-based growth, although we are pleased with the growth that we've driven in a couple of our asset portfolios. It's across a range of products. We've obviously grown organically, but we've also announced two small tuck-in acquisitions to help the growth on the inorganic side. So that's the first part of the strategy in this environment.

The second part is simplification. I've been very focused on creating the investment capacity within the institution to be able to continue to invest and improve in the business, driving a lot of simplification, automation, digitization, all the things that all of our stakeholders would expect us to do, but doing it within the existing cost envelope of the organization. And the reason why I believe that's important is if we get the first priority right in terms of disciplined growth and we get the simplification agenda progressed, then that gives us the potential to create operating leverage, irrespective of the environment that we head into. And then that's all underpinned by the third priority, which is a much more active approach to balance sheet, capital and capital RWA management and liquidity management.

And I think that strategy over the course of the last 12 months has bore fruit. You can see that in the financial performance. You can see that in the customer metrics, which is great. But I am thinking about it. And I'm not just, yes, it's driving good, healthy returns now, but it's also I think setting us up well, irrespective of how that competitive environment develops or indeed the economic cycle develops. Because I think what we will have created is a bank that has the ability to grow. It can drive operating leverage because its marginal costs are reducing and it's working its balance sheet a lot harder. So the classic managing today and tomorrow.

**Aman Rakkar:**

You alluded to that in the answers around loan growth, and it's been subdued in the UK in the face of higher interest rates. But you talk constructively about the growth prospects for your business. I'm interested, is that simply a case of kind of tracking system-level demand, or is that scope for you to take market share?

**Paul Thwaite:**

So in my mind, it's both. I think -- and I would say, we don't just talk about it. We demonstrate it. But that would be my view. We've demonstrated -- as the system recovers, be it mortgages, be it commercial lending, obviously given our -- the scale of our market positions, the size of our customer base, we'd expect to benefit from that. But we've also demonstrated we can take a greater amount of market share in areas that are important to us and where we think we can drive the right returns. So the progress we've made in our mortgage business over the last couple of years, we've increased market share up to 12.5% from once going a fair way back was 6%, then it was 9%. So they're big -- these are big sums.

Our unsecured market share is increasing. You'll have seen our commercial lending business, excluding kind of COVID loans, has grown by 3% as compared to a system level of 0.1%. So from my perspective, it's hopefully there's a double benefit. You get system recovery which supports demand, but also we continue to take share.

What's encouraging to me about the share we've taken is we haven't done that by materially changing our risk appetite. We've done it in a disciplined way. We're very happy in the segments that we're deploying capital and the returns we get. So we drive the growth, but we keep the asset quality very strong. And that's a nice combination for returns and earnings.

And I guess the complement to the organic activity is a couple of inorganic transactions. We've added a mortgage portfolio for our acquisition kind of six, eight weeks ago. We've added nice market share within the same risk envelope to our unsecured book from our Sainsbury's acquisition. So we've got organic growth, but we're also complementing it with simple prime acquisitions.

**Aman Rakkar:**

You alluded also to the kind of risk appetite there. The broad observation is asset quality in the UK has been remarkably benign for a very long time. And this is not a new thing. I was looking back, you've outperformed your cost of risk for more than a decade. A notable exception was provision building during 2020, which everyone substantially wrote back. This is not a new concept. And I think there is a view that UK banks perhaps aren't taking enough risk or are under-risked businesses. So my question is, are you taking enough risk? Is there a chance for you to kind of dial up your risk appetite here to kind of safely originate loans in this environment?

**Paul Thwaite:**

So you're right. The asset quality performance continues to be very strong. We upgraded our guidance. I guess to add to your successive years, we upgraded our guidance at the half year. We said that cost of risk would be less than 15 basis points. In the first half of the year it was -- it benefitted some changes to our economic assumptions, but it was running at 3 to 4 basis points, and we're seeing no signs of deterioration [3bps in H1'24] . So just to frame it, yes, asset quality is very strong. We're not seeing signs of deterioration.

But to me, the link to the previous question, but with the current risk appetite, we're still demonstrating we're able to grow in our chosen markets. We've listed them. So I would -- I'm very comfortable having as a prime asset quality books, those that we're growing organically and those that we're buying inorganically, I think that gives the institution a very strong foundation, and I think it has served us well. I think the long sweep of the 10-year trend, or more actually, kind of 12-year trend is the reality of the post crisis and the derisking that not just NatWest has had to do, but the sectors have to do. So I think that explains that.

But the headline from me would be don't expect any fundamental change in our, what I would call our risk posture or our risk positioning. We're very comfortable with the performance, very comfortable that we can grow with that risk appetite at that risk posture.

I think what often gets lost in the debate, though, is there's a big difference between moving up the risk curve and your risk posture to doing sensible things at a product level and an asset class level. And obviously, we review them all the time. So whether it's tweaks to mortgage policies, credit card policies, your SME lending, your project finance lending, we're very active in that space. I think we have good antennae around risk/reward. And we'll make changes there where we see opportunities and where the risk/reward tradeoffs are good. So you can expect to see that. But that's not a fundamental change in our risk posture. We're very comfortable with, I would say, the prime positioning that we have and the returns we can generate that give us that posture.

**Aman Rakkar:**

I want to turn to fees, if I could. You generate close to 80% of revenues from net interest income, which is great but also does leave you exposed to things like policy interest rates that are clearly outside of your control. So kind of what role does growing fees counter that? And more specifically, can you deliver on the kind of fee ambition organically, or does it require outside inorganic acquisition?

**Paul Thwaite:**

So we start with revenue and income. You can see in the Half 1 numbers, the Quarter 2 on Quarter 1 growth is 5% on revenues, so that's -- we're pleased with that. If you drop down a level into the fee income, you can also see that actually the growth was just below 5%, so relatively consistent. You're right. Our business mix kind of drives a certain type of output and then creates a certain dependency on the wider policy environment. The growth that we've seen in our fee lines, whether it's payments, whether it's FX, whether it's assets under management on the private side is a function of the investment that we've been putting into those businesses. So we continue to invest in those businesses. We continue to be encouraged from the growth that we're seeing.

The nature of our business mix -- and I guess this is implicit in your question. The nature of our business mix means that it is very different to drive a step change in the revenue mix over a short period of time. That is the reality. Are we focused on fee income? Yes. Will we continue to invest in the products and the customer segments and the businesses that drive fee income? Absolutely. But the reality is, given the maths, it's going to take time to materially change that shift, which then triggers I guess the last part of your question around organic versus inorganic.

We'll look at things. But I've been very public on we'll be very disciplined around does it good shareholder value? Is it strategically congruent? And you look at what it would cost to buy fee income, and in the current environment, it looks very prohibitive to me. I don't think shareholders would thank me for some of the earnings multiples that are associated to fee type businesses relative to banking businesses. So I think the net-net of that is we'll work very hard organically to continue the growth, and the inorganic piece just feels very difficult because of the cost associated with buying fee income.

**Aman Rakkar:**

Great. I might switch back to the AR questions. We've got three more. Question 4. What do you expect from NatWest revenues into '25? One, growing driven by NII; two growing driven by fees; three, flat; or falling driven by NII; or falling driven by fees. Please take part.

It's growing driven by net interest income. Don't know if you've got a comment on that?



**Paul Thwaite:** Yeah. I was clear at the half year around how we're thinking about revenue generally. Not only for '24 where, as I've said, we've increased our guidance, but also our confidence in the revenue line through into '25 and into '26, underpinned by the structural hedge, but also underpinned by growth. So I think that's a -- it's good people have listened. So I think it's a fair view of how we see things. And what I would add is a fair amount of those revenue benefits are locked in already. That's why we've been I guess public around our confidence levels around that.

**Aman Rakkar:** All right. Let's go to Question 5, please. What do you expect NatWest to do on capital and dividends versus the market expectations? One, beat on better earnings; two, beat on lower cap requirements; three, miss on weaker earnings; four, miss on higher capital requirements; five, risk from inorganic acquisitions.

Okay. It's pretty faceted kind of constructive answer there. Beat on better earnings, on growth. Let's do Question 6 and then we'll kind of come back --

**Paul Thwaite:** Obviously I won't comment on that one.

**Aman Rakkar:** Fair enough. Question 6, how concerned are you by the risk of UK bank taxes? One, not concerned, don't think it will happen; two, low concern, limited impact; three, moderately concerned; four, very concerned.

Okay. Three, people worried. I guess the 30th of October is --

**Paul Thwaite:** Yeah. We have six weeks until the budget. What I would say is the sector already has two, in effect, bank taxes. We have the levy and we have the surcharge on corporate taxation. My personal view is if -- is the intent, which I genuinely believe it is from the new government, is to drive economic growth, then what is absolutely required is a strong -- not just a strong banking sector, a strong financial services sector. And what will help with that strong sector is policy certainty as well as regulatory certainty. So that's how I think about it.

It will be good to get to the 30th to see what's in the budget. Where I want the capital of the bank to be consumed is supporting our customers, helping them grow, helping the UK grow. That's exactly how I think about it.

**Aman Rakkar:** Great. Let's switch back to the business itself. Capital, you're highly capital generative. There are multiple draws on your capital. You've got regulation. We've talked about them. You talked about increasing RWAs. There's the growth outlook. There's distributions. But there's also getting the UK government off the shareholder registration, which is a journey that you guys are -- the end is in sight. Interested in kind of how do you view the various priorities for allocating capital to your businesses?

**Paul Thwaite:** As you said, maybe start with the capital generation itself. We are highly capital genitive 140 basis points in the first half of the year. That allows us to do the directed buyback of 1.2 billion to pay the interim dividend of 500 million. We completed the previous buyback, market buyback in July, and we still printed 13.6%. So we have a business model that's working well and generating capital, which is great.

The way I think about it is there's three components we talked about earlier. I guess the management discipline is to get the balance right between deploying that capital in support of your customers, number one. Number two, ensuring we're investing enough in the business to set it up for the future. We invest a lot in the business, over 3 billion between '23 and '25. 80% of that investment goes into technology and data. That's important.

And then the third, which is the distribution to shareholders. We know how important that is. I know how important that is. I guess my management judgment is from the -- by being focused on returns, by generating these healthy levels of capital, to get the balance right between those three areas.

And then within distribution to shareholders, I've been very consistent. We start with the ordinary dividend, circa 40% of operating profit. We then look at directed buyback. We've executed one earlier this year. Given the change in the UK listing rules, we have the potential, should we want to do that, to do further directed buybacks.

Then we look at our market buybacks. I still think with the stock trading where it is, there's value in that. And ultimately, whilst the DBB is in effect a decision for the shareholder and the buybacks are a decision for the board, we'll look at those options to distribute capital. So it's the balance between the three.

**Aman Rakkar:** In relation to the UK government, they're on course to exit. I think it's a shade below 17% at the moment. And at the current pace, I think it's a matter of months until the UK government exits. What does it mean for NatWest? Does it throw you off in any way strategically to kind of get the UK government out?

**Paul Thwaite:** To me, the bank being back in private hands is in the interest of all of its stakeholders. So I think that's, to me, absolutely the best path. I've been really pleased with the reduction in the shareholding from what was 38% at the start of the year to just over 17%. So the trading plan is working well. We've executed the directed buybacks, so that's great. And it will -- the issuing market conditions are fine. That trading plan works really well.

The strategic consequences, there's no direct strategic consequences. Ultimately, the strategy of the bank is set by management. And the board, the government shareholders never had a seat on the board, even going back to the financial crisis. So directly, there's no impact. But I think optically, completing the sell-down, returning the bank to private hands is absolutely in everybody's best interest. And I've been pleased with the messaging from the new government that they're committed to the sell-down during the '25/'26 fiscal year. So that's an encouraging message.

**Aman Rakkar:** I might see if there's anyone in the room that wants to ask a question. We can just take a moment to --. Yeah, we've got one here.

**Unidentified Participant:** First of all, thank you for coming all this way to speak with us today. My question really centers on the budget and the expectations around that, which I think at least to an outsider sounds a bit like austerity 2.0, which really wasn't a good thing for the average

UK citizen consumer. So are you concerned about the possibility that that budget will change the dynamics in consumer borrowing that have been surprisingly favorable in the recent several years?

**Paul Thwaite:**

I think the easy answer is we'll need to wait and see, because I think it is unclear exactly how the fiscal statement is going to play out. There is definitely fiscal constraints on the government. They're well known and they're well trailed. I think what they're trying to wrestle with is how to get that policy environment right to make sure that they can support growth, but also be realistic around the state of the nation's finances.

At the moment, inevitably in a new administration, ahead of their first fiscal statement, I think there's a lot of rhetoric, there's a lot of media coverage. I genuinely believe -- and I think I said this earlier, I genuinely believe that the government wants to drive growth over the medium term. It wants to put policies in place that will facilitate that, whether that's investment, whether that's in skills and in productivity. So I think they are clearly focused on the right things. They're trying I think to solve in some respects, they're having to work for how they solve a short-term challenge, some of the near-term fiscal constraints, whether that's public sector pay, whether it's investments in health care. I think that's what they're working through at the moment.

So to your question, am I worried? I'm very thoughtful about what the budget will contain. I'm not making any judgments at this stage about what will come on October the 30th. I do believe the government's trying to find the right balance. And we shouldn't forget the consumer has managed through a very difficult environment. The reality is that most of consumers have managed to service their borrowings through a high rate environment. That's now coming down. Consumer spending to a certain extent has held up. So there are some positive signals. GDP, as I touched on, has been higher than expected. So it's very much a watch and breathe, but I'm cautiously optimistic.

**Aman Rakkar:**

Cool. I think we are exactly on time. So I will thank everyone for joining us, and thank you very much, Paul, for making yourself available. We'll bring it to an end there. Thank you.

**Paul Thwaite:**

Thanks, Aman.