NatWest Group plc
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Paul Thwaite, NatWest Group Chief Executive Officer
Moderated by Benjamin Caven-Roberts, Equity Analyst, Goldman Sachs

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Goldman Sachs Fireside Chat

Benjamin Caven-Roberts Okay. I think we can get started here. Thank you very much, Paul, for joining us. It's a great pleasure to be introducing Paul, Chief Executive of NatWest. Paul, you've been CEO since July 2023, prior to which being Chief Executive of the Commercial and Institutional business. Thank you very much for joining us.

Paul Thwaite Good to see you, Ben. Good to be here.

Benjamin Brilliant. Well, let's jump right into the macro. How are you seeing the backdrop currently evolving in the UK, and have you seen any meaningful change in client behaviour as well in April or subsequent to that?

Paul For the UK macro, I'm sure you've had a lot of people talk about the global macro, has been pretty robust and fairly solid, relative to expectations. I wouldn't say it's exciting, but it's fairly robust. GDP for the quarter, 0.7, a slightly softer print today, but that's subject to the usual revisions. Inflation probably slightly ahead of expectations or certainly some expectations. Retail sales very strong in April. There's a bit of holiday seasonality to that. It dropped off in May. Wage inflation is still strong. I'd say generally, from that perspective, UK macro is robust.

I guess, then, the real insight then is what that means for customers, what does that mean for clients? What's changing? What's not changing? Probably easiest to step through the consumer and then into the businesses. On the consumer side, I haven't seen any material change in behaviour. How do we look at that? We look at the obvious things like mortgage volumes. They've remained fairly robust in the UK market. We had this little peak as you came to the end of the tax year. I'm sure we'll get into that. But even post that, volumes have stayed robust.

You look at debit card spending, credit card spending, very consistent patterns, up year-on-year, probably supported by healthy wage inflation. Where and how consumers are spending their money is the same categories. It's not on essential spend. A lot of it's going on discretionary spend, travel, leisure, hospitality. We haven't seen any big change in behaviour, saving habits remain strong. We've seen that from a strong ISA season.

On business, it's probably more of a mixed picture. I'd say smaller businesses, medium-sized businesses, they're actually more focused on domestic issues than they are the bigger international issues, Ben. Things like National Insurance, etc. is more on their mind than some of the tariffs. The UK is obviously a service-led economy. If you look at our book, 70% of commercial business clients are services rather than production and manufacturing.

At the smaller end there is not that much impact. Small business lending is robust, it's good. No material changes in how people are drawing down on

RCFs or anything like that. Where you have seen the uncertainty bite a bit more is at the top end, as you'd expect. So those customers trading internationally, so investment decisions – uncertainty doesn't help that – so maybe they pause. I think our observations would be most things have been paused rather than cancelled, where people are taking action. M&A activity obviously slowed down; arguably maybe started to pick up a little bit. It's a mixed pattern. Consumer... no big change. Businesses... unless they're facing directly into some of the most impacted sectors, still feels reasonably strong and reasonably good.

Benjamin Okay, very clear. If we think next about revenues, growth in NII is clearly set to be one of the key drivers of profitability and revenue growth going forward. You've got supportive trends that we've seen in Q1 across margins and volumes. What are you thinking about moving parts from here and then as well, if we think about non-NII, Q1 was pretty strong as well. How much of that do you think is sustainable?

Paul Quite a lot of questions in there. On income overall and revenues overall, as you alluded to, it was a very strong quarter one, over 15% up year-on-year, which is good. Most encouraging, from my perspective, is it's quite broad-based. You could see volume growth in most of our businesses and on both sides of the balance sheet. Then, as you said, in the latter part of your question, we also had a strong quarter on fee income and non-interest income, mainly out of our… not exclusively… but mainly out of our commercial and institutional business. So that felt good, and that's why we felt confident, to improve the guidance towards the top end of the range. That's the context.

In terms of the moving parts, as you look at the P&L or you look at net interest income, you've got the volume side, we just touched on that in the first question. We still expect volumes to be supportive. We're at that time in the year on the margin side where the structural hedge is almost 90% locked in, or will be by the end of June. We completed our Sainsbury's acquisition on the 1st of May. That will obviously flow through into the numbers for the rest of the year. They feel like positive tailwinds. The flip side of that is we've been actually consistent since the start of the year about our predictions on rates. We're still expecting another two rate cuts, so you've still got that to play through for the second half of the year. That's on net interest income. Let's say, we have some tailwinds and the obvious, the rate outlook, just to temper that a little bit.

Our non-interest income, we've had a series of good quarters. Quarter one was another one: 8% up year-on-year, primarily owing to C&I, as I said. Stronger on currencies, stronger on rates, good capital markets activity supporting our core clients. So quarter one tends to be a seasonal high, but we've been encouraged. The volatility has continued. So by definition, some of those underlying trends have continued. I wouldn't want people to extrapolate quarter one. But on the other hand, there are some good tailwinds there. So net-net, Ben, if you look across the net interest income piece and the fee income, we feel good with where we are on income momentum and income trajectory.

Benjamin Very clear. If we think next about simplification, that's been a key focus of the recent plan. How are you thinking around how you're pairing that simplification drive with investment in the business? Then, maybe on a certainly related topic for digitalisation, how is that driving the group strategy, and what's the broader outlook you see for digital banking within the UK?

Paul I'll maybe start with the last part of the question. If you look across a number of different markets, certainly the more developed markets, I think the UK is one of the most advanced from a digital perspective. I think there are some other markets which are certainly more digitised, but the UK in many respects has been at the forefront of that. It's had a vibrant FinTech community. It's had a relatively vibrant, certainly post-financial crisis, challenger bank community. That had upped the game. It's upped the bar in terms of digitalisation, digital experience, customer experience. Everybody, including the large incumbents, has been investing in that. That's to the good of the customer. If you're a UK consumer or a UK business, you can get brilliant digital banking experiences if that's how you want to do your mobile banking or whatever it may be. That is the context for the UK. It's pretty advanced at the customer interface and the customer journeys.

If you look at us in simplification, if you take our retail bank, it is a highly digitised retail bank, 19 million customers, just over 80% of them are digital only. That gives you a bit of a sense of the size and the scale. If you look at the commercial bank, 83% are digital first. Wealth, for understandable reasons, a slightly smaller number, given the banker-led advice proposition. From that perspective, the retail bank is highly digitised. I was looking at the stats with the team the other day. 98% of credit cards are basically digital applications, 97% of loans, It's a similar number for a small business loans. Not only is it a highly digitised market, we’re a highly digitised bank. From that perspective, there's been a lot of progress.

You started with a question that you linked it to simplification. To me, whilst they're different, it's hard to decouple the two, the whole ethos behind the simplification agenda is, first of all, actually, not to make it only a technology agenda. I do think banks, and certainly NatWest, can do a lot of simplification that isn't about tech, but inevitably there is a big part of it that is tech-led. But it's simplification of the tech estate, the infrastructure. We have plans to decommission 600 of our applications. That's a big percentage of our overall applications. Another example would be we're moving from 29 customer data sets to a couple over [time]. We're [currently at] around half of our [workloads] in the cloud. There's a lot more we can do. So, I guess this intersection of simplification, digitisation, not just at the customer experience end, but also across the tech stack and across the IT infrastructure is at the heart of the strategy. We've made great progress, but I think there's a lot more we can do over the next couple of years if we get that right.

The virtuous cycle there is much better customer experience because of reliability, speed to market, functionality updates are better. You're also creating healthy operational operating leverage, which is great, but you're also creating a lot more resilience and stability and given everything that's going on that's important for us, it's important to our customers, and it's incredibly important to our regulators. So that's the virtuous cycle that we're trying to create. The larger banks, the amount of investment that we have available, I think scale's important in that context. So, we can invest in that simplification agenda, and I just want to keep going at it.

Benjamin Let's wrap that all into a financial outlook. So, for costs, you're targeting about 8.1 billion in other operating expenses this year, including 0.1 billion of one-time integration costs. Within that, Q1 was a bit of a lower print with 1.9 billion. How are you thinking about the moving parts beneath the surface from here?

Paul Yeah, 8.1, including the one-off integration costs. I feel very confident about the annual guidance, we've got multi-year track record, We're very clear on costs. We deliver against that line. I always point out, Ben, and you know this, but for everybody's benefit, our cost number is an all-in number. There's everything that's in there, there's nothing above the line or below the line. It's the Opex of running the business. It's any restructuring charges that we have, be they property or people, it takes in the investment budget, it takes in the inflation budget. It's one number. There's no smokes and mirrors in that regard. Quarter one was a low print. Some of that is just phasing. I'd encourage you and everybody else to think about the whole year number. Some of it is when different investments and different restructuring charges come through. So, there was a low print in Quarter one. You should expect it to be slightly higher in Quarter two. But as I said, very confident about the year-end out turn.

In terms of the moving parts on costs. Things that are pushing costs up, are wage inflation run about 3.5%, that drops in April, National Insurance tax changes obviously drop through in April as well. Tech contract inflation, that drops through as you renew them, you don't renew all those contracts, you renew a proportion of them. But then the offsets are, we're working very hard on basically driving efficiencies in the business, you've seen branch closures, you've also seen property consolidations. We exited our Poland hub operation. We've relocated a lot of operations in our wealth business from Switzerland to the UK and India, lower cost locations. So as a management team, we recognise, like all banks, you've got some inevitable cost pressures, but on the other side you have to work very hard and drive multi-year efficiencies. I feel pleased with the work that we're doing, I feel very confident in the guidance. And I guess the natural incentive we have is the more we can invest in the business to create capacity allows us to go even faster on driving those efficiencies out.

Benjamin Perfect. So, if we pivot to asset quality next, you are targeting a loan impairment rate below 20 basis points. Could you talk through some of the factors that give you confidence in achieving that, and if any of the individual business lines there in have changed at all over recent months?

Paul Yeah, I think the context for NatWest there is, given what the bank is now, it's a UK centric prime retail and commercial bank. So, in many respects it's a very low risk business model in the context of banks. We've guided to less than 20 basis points. If you look across the last number of years, you can see the cost of risk in the business have been very low. You look at the business lines and think about how that's panning out. Take mortgages. The majority of customers now have moved from lower rates to higher rates, over 70% have now moved from the lower rates, they are refinancing at 3 or 4%. You can see in the data; impairments haven't moved at all. Credit cards, again, no signs of stress there. So, we feel very comfortable about the consumer asset quality, consumer credit quality.

On the business side of things, on the credit side, again, I think incredibly resilient over multi-years, whether it's through the pandemic, whether it's through the spiking rates, whether it's through some of the consumer pressures playing through into business, underlying impairments and cost of risk on the commercial side of being very low. And that's really because it's, by definition, a prime asset book. We're not competing in near-prime or sub-prime on the consumer or the business side and leverage in those core businesses is relatively low. So, I feel very confident about the less than 20 basis points cost of risks.

It is worth pointing out that within that, the Sainsbury's acquisition brings on two basis points, but that's in that number. Again, it's an all-in number, so it'll be a one-off that comes through, but that's in the below 20 basis points cost to risk. We spend a lot of time as a team looking over the asset portfolios, looking for signs that things are deteriorating, looking for any commonalities in defaults on the commercial or corporate side, but most of them are quite idiosyncratic where you've had one-off losses. Credit quality still feels strong and we're not flagging any deterioration in portfolio at this stage.

Benjamin Okay, and thinking about strategy now, you've been CEO for close to two years, how are you assessing how the strategy is currently progressing? And across the three businesses, where are you seeing most opportunities for growth?

Paul Yeah, I mean it is coming up for two years. I think the good news is that the strategy is simple. I think the investment thesis is simple, and the strategy is working, and so that's a good place to be in. We try and articulate it in a very simple way. We're looking to grow, but in a disciplined way; we're looking to simplify, you touched on that; and we've been looking to get a lot more active around the balance sheet and risk management. If you look across the three pillars, we can show a quarter-on-quarter progress. We've touched on simplification, but on balance sheet management and risk management, we've obviously been a lot more active around some of the instruments that we've used to increase our capital velocity, lay off some of our credit risk, and that's helped support returns, so those two pillars are good.

On the growth side, if you look multi-year in the business, there's a track record of growth on both sides of the balance sheet. And in both of the larger businesses in retail and commercial. I'm very confident we can grow all three of our customer businesses, taking them one by one. You look at our retail business, it's a great business, but it's still got a lot of runway. If you look at some of the key customer segments and some of the key products, whilst we've made a lot of progress in mortgages, we've made a lot of progress in consumer credit and cards, we're still below our natural market share if you look at our share of the UK population and primary banking. They are obvious areas for us to continue to grow in. Really good progress but there's more that we can go after. Likewise, distribution of investment products, savings product to our retail customer base. We still think there's a more natural place for us to be from a market share. So retail, we think there's opportunities. Commercial institution has a slightly different picture, and as much as our market shares are so much stronger in most of the customer segments, really it's about bringing the whole of the bank, more of the whole of the bank to those customers rather than a volume customer play. But if you look at some of those areas like asset finance, project finance, infrastructure, trade finance, we've had great success bringing more of our currencies and rates products to our core commercial clients. To me, that's where the runway is. We've got some really deep specialisms in infrastructure, in project finance, in sustainable financing, and my view is that the macro trends, affordable housing, social housing would be another one. And to me, we're playing into what I would say are both, arguably global trends, but certainly some UK trends. It's where the government's policy agenda is focused, it’s where we have deep specialism and expertise. So that's where I see the potential in the commercial business.

Then in our wealth and private banking business, it's demonstrably smaller relative to the two other businesses in the group. We're optimistic and ambitious about the opportunities there. We've got an investor day coming up, in two weeks actually, where we'll talk more about that specifically. That'll be the first investor day we've done in our wealth business for a while. But at its heart, we've got some great assets there. We've got some great brands; we've got a very strong banking proposition. Where we under-punch our weight is on the investment side, so the real opportunity there is to get more of our private bank clients doing more from an investment perspective, but also get more of our affluent and retail clients taking more of those investment products. That’s a focus for management, for all the obvious reasons: demographic trends, capital-light products, recurring revenues. But as I say, we've got the brands, we've got the customer base, we've increasingly got the product set, so to me that's a kind of delivery and execution. That gives us cause for optimism across what I'd call the latent growth potential of the three businesses. If you can grow those businesses whilst working the balance sheet harder, as we have done, and simplifying the business, that should be a nice mix in terms of capital generation and returns.

Benjamin If you think about the next, or rather other, face of growth in terms of what you can do inorganically, how is M&A currently fitting within your broader framework? I know you've done some bolt-on deals recently with Sainsbury's and Metro. Is there anything you've learned from those processes? And how's the integration progressing?

Paul We're pleased with the couple of smaller bolt-on deals. The opportunities presented themselves, the financial returns were compelling, we executed quickly…and doing those sort of deals…both add scale to our retail business. Sainsbury's brings another million customers…growth on both sides of the balance sheet. Metro is more of a mortgage asset play, so we're pleased with them. Metro completed in quarter four '24, as I think I said earlier, Sainsbury's completed on the 1st of May. So, from that perspective, good.

You always learn both positively and things for the future. One of the key things we've learned from these couple of deals, is our sophistication around how to engage customers as they join us, how to retain them. We've learned a lot there and that's improving. I think we've got some great case studies around how to retain. You take the Metro deal and mortgage customers, how to retain those customers, how to engage them, bring them into the NatWest brand, so we certainly learned that.

What has also been excellent is in effect these deals test your systems, your policies, your processes, your integration skills, so you learn from that. In our mind, we've proven that we can bring customers in, we can bring products across, add them to our platform at relatively low marginal costs, so that gives us confidence in our ability to execute. Like any discipline, whether it's an organic activity or an inorganic activity, your kind of muscle grows because you get used to it, you can do these things quicker, so that's probably what we've learned.

More broadly on the inorganic stance here, I've been consistent, arguably boringly consistent. The business is generating very good returns. We've got targets greater than 15% out to '27, anything that we look at has to be genuinely financially compelling versus deploying capital in the business, returning it to shareholders through buybacks. Myself and the board will be very, very disciplined around that, so it's a very high financial bar. Some will have heard me talk about this before, it's a very high operational bar as well. We're very mindful of management distraction. We think we have an exciting organic plan. Things that could distract from that, whether it's contention in terms of resources or just management bandwidth. It’s not only a pure financial lens, which is the primary lens, but then also there's a whole set of operational considerations, so we'll be very disciplined. Even with the share price trading where it is, we still think buybacks make a lot of sense with the current value. So, the bolt-ons are good. If others come, we'll look, but we'll just be cold-eyed around those transactions. If we can add scale at financially compelling returns in a way that doesn't distract management, then a good management team should consider that, but if it doesn't satisfy those criteria, then we won't be looking.

Benjamin Before we open up to audience Q&A, I just wanted to pick up on one of the last points you mentioned in terms of buybacks. So, in terms of the payout, recently you increased the ordinary dividend payout ratio to 50% and indicated you'll consider buybacks as appropriate. So how are you making that prioritisation between additional growth and additional buybacks?

Paul So we've increased the ordinary to 50%. I think we did that in February, from memory, from 40 to 50. We're confident to do that, because as the government shareholding came down, we knew that the role for directed buybacks is going to diminish. Obviously, we're now at the stage where the government is no longer a shareholder, so directed buybacks from that perspective are off the table. So that was some of the background context to increasing the ordinary dividend. If you look at the business, we finished quarter one at 13.8% for the CET1 ratio. We're highly capital generative. We generated 49 basis points of capital in quarter one. Even allowing for the growth, deploying more RWAs against some of the growth, we're very happy to operate within that 13 to 14.

At quarter one, there was still a potential for kind of a clean-up directed buyback. Obviously, that's now off the table, because the government's trading plan has got rid of the residual shareholding. As I said, my view is even at these valuations, buybacks still make a lot of sense. We'll look at it at the half year with the board, and that's a consistent process, we do it at the half year and we do it at the full year. But in the absence of a directed buyback, I think we're generating enough capital to both grow the business and think about returns to shareholders. I know how important that is to the investment case. Again, that's been what I've been saying for nearly 24 months.

Benjamin Brilliant. Well, let's open it up to the audience to see if anyone has any questions- at the back.

Audience Hello, you mentioned about the buyback impact of the government ownership. Is there anything else that changes now that the government's out in terms of either balance sheet, capital, restructuring, management of the debt basis? And then just internally what changes?

Paul The simple answer is no. The final couple of percent don't change anything from a balance sheet, capital, liquidity perspective. So that's the simple answer.

Likewise, on the management side, nothing changes. In many ways it's a symbolic moment for colleagues, certainly those who were with the bank back in 2008, but from a strategic perspective, it isn't a symbolic moment. The plans that I laid out nearly two years ago, they're clear, they're working, we want to be very consistent in that respect, so no fundamental change.

Benjamin If not, maybe one from me. Just on thinking about ISAs and savings more broadly. So, there's been talk about limiting the cash ISA allowance and pushing some of that more into shares. How would you see that – as an opportunity or a threat – over the medium term for the business?

Paul There's been plenty of, I guess, discourse around ISAs. Which I understand, because I think in the UK, on one hand it's quite a small topic, but everybody can relate to it. So, to me, it's been a bit of a proxy debate, or proxy for a broader debate, around savings and investment habits of the UK population. It was a very lively ISA season. For those who follow the Bank of England data, you can see that's probably a larger ISA season, certainly it was a larger ISA season in '25 than it was in '24. And I think that's actually perpetuated by the discussion and debate around are ISAs going to change? Is the amount that you can invest going to change? Is it going to go up? Is it going to go down? Is it going to be in cash? Is it going to be in equity? So, I think that's some of the undercurrents of the livelier kind of ISA season, albeit the trends have moderated pretty quickly once you've gone through the end of the tax year.

More broadly on the topic, Ben, what I would say is I would encourage a much wider discussion on savings and investments, and whilst ISAs are one path, one product, important product, to me, they're just one product. I think if the wider intention is to get more of the UK population saving on a more regular basis to prepare better for their retirement, then that's a good debate to have. It's an important debate to have given some of the demographics. The FCA review of financial advice, advice and guidance boundary is very important, so to me that's a slightly bigger question of which ISAs is part. I welcome that we're going to contribute to that.

I don't get too hung up on what I call some of the product specifics. There's a lot of cash in ISAs from a policy perspective. I can't see a situation where all that cash isn't grandfathered to cross into any new ISA construct. So really the debate is, are the right incentives in place to encourage consumers to both save, but also to save in a way that generates the returns that are possible in a way that's aligned to their particular risk appetite. I think that's where the sharp end of the debate would be.

The last part of your question, is it opportunity or threat? I think it's an opportunity in its broader sense because an environment that encourages more savings, more investments. I think large banks who have, in our case 19 going on for 20 million customers, are very well-placed to support consumers with their broad range of saving needs, whether it's instant access, term deposits, ISAs, pensions. To me that's opportunity, and to me it feels very uncomfortable that only 8% of the UK population got financial advice last year. That doesn't feel like that's an advice market that's working well.

So, in that sense, I see opportunity. I think if you drop down then to opportunities and threats at a product level, I think there'll be both, and for different institutions it might mean different things. Some institutions obviously are more heavily dependent on in effect what are cash deposits, ISA savings, for their funding. We are long deposits; we are long liquidity. So, from that perspective, that's not a big issue for us, but I really want that public debate to happen from a customer lens in rather than from an institutional lens out. Because ultimately the problem the country is trying to solve and needs to solve is how to get more of the UK population saving and investing in a risk appropriate way.

Benjamin Then one final question for me would just be on ring-fencing. So, there's been discussion around the potential merits of removing that.

Paul Yes.

Benjamin Could you talk around what you would see as the opportunity for NatWest if ring-fencing is removed and how it might change broader industry competition for deposits and loans?

Paul Yes. Again, it's a relatively live topic. My starting position on that is that when ring-fencing was introduced it was for some very important, but some very specific purposes. As the regulation has evolved over time, be it the capital and liquidity regs, be it the resolution regime, many aspects of ring-fencing have been superseded, and that's just natural cumulative impact of regs. Not that anybody was trying to duplicate or replicate. So that's why it's a valid debate, especially at a time where governments and regulators are looking to balance regulation and growth, so that's why the topics, the topic is live. When I look at it, you referred to my previous role running the corporate and institutional bank, I could see every day how ring-fencing in effect had impacts on how we served clients and therefore the friction it created. Companies having to contract with two different entities, go through two different levels of governance, etc. and when some of the underpinning intentions are no longer valid because you've got other regulations, I think that's a relevant debate to have.

For us, we have what I call a relatively narrow non-ring fence bank. So, the big impact or opportunity for NatWest is just to be able to serve its clients better rather than having to contract with two different entities. Yes, there is trapped capital, there's trapped liquidity. That means different things depending on how people have designed their ring-fence. There's narrow ring-fences and there's broad ring-fences. So, the impacts are different for different institutions, but my view is we can improve things for customers. I think we can free up more capital to support the UK economy without jeopardising any of the financial stability, which is crucially important to the UK banking sector.

Benjamin Understood. Well, unfortunately, I think we're out of time but thank you very much for joining us and for your insights.

Paul Thank you, Ben. Appreciate it.