NatWest Group plc
FY 2024 Results Call Transcript
14th February 2025
Hosts: Paul Thwaite, CEO, and Katie Murray, CFO

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Management Presentation

Paul Thwaite

Good morning - thank you for joining us today
As usual, I'll start with a business update, Katie will take you through the numbers and then we'll open it up for questions. 2024 was a very positive year for the bank. A strong financial performance drove upgrades in our income and return guidance - and we made excellent progress on our strategic priorities, disciplined growth, bank wide simplification, together with active balance sheet and risk management.
You will have seen that we also carried out directed buy-backs in May and November which supported a reduction in the government shareholding from 38 to less than 7% now. This makes it likely that NatWest will return to private ownership sometime in 2025, though naturally any decision rests with the government.
This represents a new chapter for the bank, one which is attracting new investors, and which enables us to put our future focus on driving growth by succeeding with our customers.

So, let's start with the financial headlines.
We continued to support customers throughout the year - whether it was to help them buy a home, grow a business or invest for retirement. As a result, customer lending grew 3.5% to £372 billion, customer deposits increased 2.9% to 431 billion, and assets under management and administration were up 20% at 48.9 billion.

This customer activity underpins our strong financial performance, we delivered income of 14.6 billion, up from 14.3 billion in the prior year, costs were 7.9 billion, in line with guidance, and this resulted in operating profit of 6.2 billion and attributable profit of 4.5 billion. Our return on tangible equity was 17.5%, driving strong capital generation - and double-digit growth in three key metrics.
First, earnings per share were up to 12% at 54 pence.
Second, we have announced a final dividend of 15.5 pence, bringing the total to 21.5 pence, up 26%.
And third, Tangible Net Asset Value per share increased 13% to 329 pence, as a result of strong earnings - together with a lower share count.
We continue to maintain a strong balance sheet with a CET 1 ratio of 13.6%. You can see here how executing on our strategic priorities has flowed through into our financial performance, where we have beaten or met all our recently improved guidance.

Strong capital generation allowed us to carry out £2.2 billion of directed buybacks in the year. This facilitated a rapid reduction in the government shareholding. The chart on the right shows how dividends and TNAV per share have increased as the share count has reduced. And distributions to shareholders in 2024 totalled 4 billion pounds. We intend to increase our dividend payout ratio from around 40% to around 50% from 2025 onwards. This reflects our confidence in the outlook with buybacks remaining a means to distribute surplus capital.

So let me turn now to progress on each of our three strategic priorities starting with disciplined growth. First, I'd like to share some examples of our organic growth. Over the year we increased our customer base by around 500,000 to over 19 million, and we grew both loans and deposits, with a six-year annual growth rate of more than 4%. In the Retail Bank, we attracted new credit card customers as we broadened our distribution through new channels, taking our share from 8.5 to 9.7%. In our Private Bank, we attracted net inflows of 2.2 billion contributing to 20% growth in assets under management and administration. And in Commercial and Institutional, we grew non-interest income by 10%, with higher fees from payments, foreign exchange and Debt Capital Markets.

We also provided clients with around £32 billion of Climate and Sustainable Funding and Financing, bringing the total to 93 billion since July 2021 – approaching our 100 billion 2025 target. In addition to growing organically, we made 2 acquisitions - a £2.3 billion portfolio of prime residential UK mortgages from Metro Bank and around a million new customer accounts from Sainsbury's Bank, adding about 2.5 billion of unsecured lending and 2.6 billion of savings. Metro Bank completed last autumn, and we expect the Sainsburys transaction to complete during the second quarter.

Our focus on bank wide simplification is designed to increase efficiency, improve customer experience and create operating leverage. Around 80% of our retail and business customers now engage with us digitally - so we're investing in further digital transformation to become more agile, faster and responsive to their needs.

For example, in Retail Banking, eligible customers can now receive a mortgage offer within 24 hours and during the year we reduced the average time to make an offer by about 20%. We are also deepening engagement. 6.4 million customers used Insights on the mobile app to improve their financial wellbeing.

In Private Banking, we are digitising more savings products, contributing to a tenfold increase in digital inflows to 3.5 billion. And in Commercial Banking we launched a multi-year programme to transform our digital channel, Bankline. This will give clients a single point of access to a broad range of products - and a much better user experience. This investment is also making life easier for our colleagues.

Improvements in transaction banking and payment services released them from around 20,000 inbound calls in 2024. At the same time, we have continued to simplify our operations by reducing our property footprint, delivering savings of 76 million, and we made a 3.3% reduction in headcount.

All this activity has enabled us to improve customer experience, keep costs broadly stable and create additional savings beyond our plan. These additional savings have enabled us to accelerate our strategy by funding more transformation in the year - including investment in Artificial Intelligence, the exit from our hub in Poland and other property closures. This has helped to create momentum by supporting further savings in 2025. Our third priority is to allocate capital dynamically and maintain strong risk management. We reduced our Risk Weighted Assets by 6.8 billion using a range of means, including Significant Risk Transfers, Credit Risk insurance and asset sales. This management of risk-weighted assets obviously also supports our management of credit risk.

You can see the strength of our risk management from our average loan impairment rate over 6 years. In 2024, it fell to just 9 basis points. This is the result of a well-diversified loan book with carefully managed exposure to sectors at risk and a prime mortgage book with low loan to value ratios. As we grow our share in cards and unsecured lending, we are maintaining a prudent risk profile.

Managing RWA’s, together with our low cost of risk, helped to drive strong capital generation which increased from 111 to 243 basis points. This enables us to support our customers, invest in the business and return capital to shareholders. As I mentioned earlier, we made

distributions totalling 4 billion pounds in 2024.
Thank you very much and with that I'll hand over to Katie

Katie Murray Thank you, Paul and good morning, everyone.
I'll start with our performance for the full year where, as Paul mentioned, we either met or exceeded our third quarter guidance. Income excluding all notable items grew 2.2% to 14.6 billion. Other operating expenses increased by 1.1%, excluding increased bank levies and the costs of the retail share offer, so another year of positive operating leverage.

The impairment charge was 359 million pounds or 9 basis points of loans. Taking all this together, we delivered operating profit before tax of 6.2 billion. Profit attributable to ordinary shareholders was 4.5 billion and return on tangible equity was 17.5%.

Turning now to the fourth quarter compared with the third.
Income excluding all notable items was 3.9 billion, up 2.7%. Operating expenses were 2.3 billion including the annual UK Bank Levy. The impairment charge decreased to 66 million or 7 basis points of loans bringing operating profit before tax to 1.5 billion. Profit attributable to ordinary shareholders was 1.2 billion, which includes recognition of a deferred tax asset, and a provision release related to Ulster Bank discontinued operations. Our return on tangible equity was 19.0%.

Turning now to our income performance where we are pleased with the momentum during the year.
Full year Income, excluding notable items of 14.6 billion exceeded guidance of around 14.4 billion. Across the three businesses, income grew by 244 million. This was driven by an increase in non-interest income of 8.9%, reflecting growth in AUMAs and a strong performance in Commercial and Institutional. Net interest income was stable year on year, as the benefits of balance sheet growth and the product structural hedge were offset by mortgage book refinancing and the impact of the Bank of England rate cuts.

Turning to the fourth quarter, income was better than we had initially projected. Growth across the three businesses of 82 million was driven by net interest income, which increased 3.1%, due to strong growth in average interest earning assets, higher deposit margins and positive treasury activity as we took advantage of good market conditions. Net interest margin increased 1 basis point in the quarter to 219 basis points. Non-interest income was stable as a strong performance in Commercial & Institutional was offset by seasonally lower fees in Retail Banking.

I'd like to move now to lending.
We delivered another year of strong growth across the Group. Gross loans to customers across our three businesses increased 3.5% or 12.7 billion pounds to 372 billion. There was strong growth in Commercial and Institutional and personal unsecured lending throughout the year, and we returned to growth in mortgages in the second half.

In Commercial and Institutional we grew lending by 12.0 billion year on year, excluding the repayment of Government loan schemes. This reflects growth across Social Housing, Asset Finance, Supply Chain Finance, and Funds lending.

Turning to the fourth quarter, customer loans across our 3 businesses increased by 4.6 billion. Taking Retail Banking together with Private Banking, Mortgage balances increased by 700 million and our stock share was stable at 12.6%. Unsecured balances increased 200 million to 16.8 billion. In Commercial & Institutional, gross customer loans increased by 3.7 billion including 300 million in Commercial Mid-Market, which grew for the fourth consecutive quarter.

I'll now turn to deposits. Customer deposits across our three businesses increased 2.9% to 431 billion, with a gradual increase in balances every quarter. Growth in the fourth quarter was mainly driven by instant access accounts across both Retail and Private Banking. There has been a gradual shift from non-interest bearing to interest bearing deposits throughout the year, but the pace of migration has been significantly slower than 2023. Non-interest bearing balances were 31% of the total, down from 34% at the start of the year, and Term accounts were stable, at 16%.

Turning now to the product structural hedge. Many of you are familiar with our mechanistic approach to managing the structural hedge which continues to be an important driver of income. As we show in the chart, before further reinvestment is taken into account, around 80% of hedges are already written for 2025, and these will deliver income of 3.4 billion. When the impact of continued reinvestment is included, we expect 2025 product hedge income to be around one billion pounds higher than 2024. The product hedge notional reduced to 172 billion during the year, which reflects our 12 month look back at average eligible deposits.

We expect the notional to be broadly stable in 2025, based on our anticipation of a more stable deposit mix, which means a reinvestment each year of around 35 billion. Beyond 2025, we expect income from the product structural hedge to grow each year through to 2027.

So let me summarise on income. There are three main drivers to bear in mind.
First, we expect continued disciplined growth across our three businesses, subject to achieving attractive returns. Second, we will actively manage our product pricing as interest rates come down. We expect to continue passing through changes in interest rates to customers. Our plan assumes the Bank of England will make 3 further rate cuts this year, reaching 3.75% by the end of the year. Of course, the actual outcome may be different from our assumption. Third, we expect product hedge income to increase by around one billion pounds in 2025.

Taking all of this together, we anticipate 2025 income in the range of 15.2-15.7 billion, excluding any notable items.

Turning now to Costs. Other operating expenses were 7.9 billion for the year, up 1.1% excluding higher bank levies and retail share offer costs, in line with guidance. The main increase came from staff which account for half of our cost base. This included the average annual wage increase of 4.0% and our first annual share award for all staff. Although we reduced headcount overall, we are hiring for roles such as software engineers. This is reducing the need for temporary contract staff which is reflected in lower administrative expenses. Our ongoing investment in technology has resulted in higher depreciation and amortisation costs. And as Paul mentioned earlier, with additional capacity from accelerated bank-wide simplification initiatives, we were also able to fund additional severance and property exit costs in the fourth quarter that support further savings this year. In 2025, we expect other operating expenses to be around 8 billion, plus around 100 million of additional one-time costs in relation to the integration of Metro and Sainsbury's Bank portfolios.

Staff costs will be a key driver of overall cost growth again in 2025 as we implement the average annual wage increase of 3.3% and incur around £45 million of higher employer national insurance costs. As you would expect, we will continue to mitigate cost inflation by making further savings, creating capacity for higher investment to accelerate efficiency and productivity improvements. I'd like to move on now to impairments.

We have reviewed and made small adjustments to our economic scenarios, both forecasts and relative weightings. Our outlook for the macro environment assumes moderate growth, higher for longer rates and a resilient labour market. We reported a net impairment charge of 359 million for 2024, equivalent to 9 basis points of loans, and our Stage 3 loan impairment rate remains historically low. Our balance sheet provision for Expected Credit Loss includes 299 million of Post Model Adjustments for economic uncertainty, a year-on-year reduction of 130 million.

The current performance of the book, combined with our updated economic outlook, means we are expecting a loan impairment rate below 20 basis points in 2025.

And turning now to look at Capital and Risk Weighted Assets. We ended the year with a Common Equity Tier 1 ratio of 13.6%, within our target range and up from 13.4% in the prior year. In 2024 we generated 243 basis points of capital before distributions to shareholders of 4 billion pounds, which were equivalent to 218 basis points. Risk weighted assets were stable in the year at 183 billion. Business movements, which broadly reflects our strong organic lending growth, added 6.0 billion and the Metro Bank mortgage portfolio added a further 0.9 billion. These increases were offset by active RWA management. Following the delay in implementation of Basel 3.1 to January 2027, we now expect between 190 and 195 billion of RWA's at the end of 2025, though where the figure lands within that range will depend on CRD 4 models. We continue to target a CET1 ratio in the range of 13 to 14%.

As you heard from Paul, strong capital generation is helping us to create shareholder value. Tangible net asset value per share increased 37 pence to 329 pence. Earnings added 51 pence and distributions accounted for 21 pence. Improved profitability, together with a reduction in share count due to buybacks completed this year, has resulted in a significant improvement in the total dividend per share which is up 26% year on year at 21.5 pence. We are also pleased to announce an increase in our ordinary dividend payout ratio from around 40 to around 50% from 2025 onwards.

Turning now to guidance. In 2025 we expect income, excluding notable items, to be in the range of 15.2-15.7 billion, other operating expenses to be around 8 billion plus around 100 million of one-time integration costs, and the loan impairment rate to be below 20 basis points, delivering a Return on Tangible Equity of 15 - 16%, and finally, we expect between 190 and 195 billion of RWA's at the end of 2025.

With that I'll hand back to Paul.

Paul Thwaite Thanks very much, Katie.
Before we move on to questions, I want to speak briefly about the next three years.

At the same time as executing on our priorities in 2024, we have been thinking deeply about our strategy.
As you'd expect, this has entailed a considered analysis of data on our customers, competitors, markets, and industry trends to give us a detailed understanding of our position and opportunities. This work has confirmed our view that our three strategic priorities serve us well and that we must continue to concentrate on our strengths – whether that's the scale of our customer base, our robust balance sheet, our national and local presence, or our leading market positions; drive our tech transformation to create greater operating leverage and change the way we operate so that we are quicker, simpler and more agile. This speaks to the performance culture and customer focus we are fostering in the bank.

When I was first appointed, I said that we shouldn't underestimate the strength of our foundations or the opportunity we have to deepen customer relationships. Today we serve over 19 million customers across three businesses - each one with an attractive return on equity. We are the UK's biggest bank for business, with a leading mid-market franchise and a 20% share of new business start-ups. We have an award-winning private bank with one of the strongest Wealth brands in the country, and we have a strong track record in Retail Banking of growing share in attractive segments with good returns.

For example, we now serve around 20% of the youth segment and we are growing in mortgages and unsecured lending - though as you can see, there is still plenty of room for further growth.

After our withdrawal from the Republic of Ireland and the refocusing of the markets business, the major restructuring of the bank is complete, and as we return to private ownership, we can put our future focus on disciplined growth through existing relationships with customers and new ones. By succeeding with customers, we can create value for all our stakeholders, including shareholders.

The strength of our balance sheet and capital generation, together with our tight management of costs, capital and risk gives us the capacity to increase investment to build an even stronger business in the coming years.

First, we will continue to grow our business and customer base with a focus on returns - and on growing in key segments - such as mortgages, unsecured, asset and trade finance and wealth management. We will also continue to look at inorganic opportunities that create further shareholder value, whether they offer scale or new capabilities.

Second, we will advance our plan for bank-wide simplification. This includes: continuing to modernise our technology estate, maximizing use of the cloud, moving towards a single unified view of our customers, and deploying AI data solutions to improve customer experience and increase efficiency.
There’s also more we can do to simplify our operating model, including reducing our property footprint and the number of legal entities.

Third, the strength of our balance sheet and risk management gives us a competitive edge. We plan to take advantage of this by continuing to allocate capital strategically to optimise returns and dynamically in changing market environments, just as we did with mortgages and commercial lending last year. You can also expect us to recycle capital regularly.

We delivered a strong performance in 2024 by executing on these priorities and we have started 2025 with good momentum. As we continue to grow the business, manage costs and allocate capital dynamically we are targeting a 2027 Return on Tangible Equity of more than 15%. Our priority is to generate attractive returns for shareholders, and we intend to increase our dividend payout ratio to around 50% from 2025 onwards. This reflects our confidence in the outlook, with buybacks remaining a means to distribute surplus capital. Thank you very much – I'll now hand back to the operator for questions.

Moderator We will now take your questions. If you'd like to ask a question today, you may do so by using the raise hand function on the Zoom app. If you are dialling in by phone, you can press *9 to raise your hand and *6 to unmute once prompted. We ask that you limit yourself to two questions each to allow more of you a chance to ask a question. We will now go to our first question from Guy Stebbings. Guy, if you'd like to unmute yourself and ask your question.

Guy Hi, morning, just one broad question on net interest income. Seemingly implicit in your total income guide is that you're not trying to suggest that consensus is too low for 2025 unless you're planning for quite a reversal in non-interest income. With NII already annualising at north of £11.9 billion in Q4 or just shy of one and a half percent below the consensus for the 2025, it does seem slightly conservative. So, I'm just trying to understand the building blocks a little bit better.

The hedge you're saying is a one billion tailwind year over year. I think that's probably just shy of two thirds bigger versus the Q4 run rate. You've then got the four rate cuts in over the year with the managed margin sensitivity of £140 million or so per 25 basis points. Even so, it feels like that's less than the hedge tailwind. We'd expect some balance sheet growth, deposit mix. Isn't it a headwind? If anything, it looks like on the data we have today it's actually a tailwind. So, I'm just trying to work out, am I missing something in this equation? Is there some sort of conservatism or just factoring things that maybe outside of your control when you're thinking about that guidance there? Thank you.

Katie I would say as ever you've got it pretty well covered. I think one thing to remember is Q4 is not necessarily a perfect run rate just by there being one quarter. And remember that the around a billion is versus the total 2024 income. So, you'll see that come through as you go through but you're right on all the component parts of the organic growth. Three more cuts to come through from the one we've already had. And that product hedge is to increase around a billion for over the whole year. So, I'd say you've got a good picture with your views.

Guy Okay. Can I just come back on the deposit mix? Are you embedding any sort of change versus what was pretty encouraging trends over the course of Q4 when you were thinking about 25?

Katie No, very much there. The reality is we've been toggling around about that 17 number by rounding for the last couple of quarters. So, it's really been very stable in terms of that. What we have seen in Q4 is a bit more going into instant access accounts which is why our Q4 income was a bit better, but I don't expect to see it change particularly.

Moderator Thank you. Our next question comes from Benjamin Caven-Roberts from Goldman Sachs. Benjamin, if you'd like to unmute yourself and go ahead and ask your question.

Benjamin Morning both. Thank you very much for the presentation and taking my questions. So first would just be on the ROTE range for 2025. Just curious to understand how you would frame that and what factors effectively you would be thinking about to land at the lower versus the upper end of that range respectively.

And then just in terms of costs, secondly. The 2025 guidance implies a step down versus the Q4 run rate. Recognising there may be some seasonality there, what else would you call out as driving that run rate cost improvement into 2025? Thank you.

Paul Thanks Ben. Do you want me to take the cost one or?

Katie Sure... I'll go. I'm ready. I think Ben it's important when you look at Q4. One of the things we tried really hard to do in this last year was to create a bit of capacity to be able to make some strategic decisions in Q4 which we did around property and around severance costs. So, you do see that Q4 number being a little bit higher because actually we worked really hard to say can we sweat this number as much as possible. So that's really that. I wouldn't take the run rate. You know, we've given you the guidance of £8 billion plus £100 million for the inorganic costs. We hit our in-year guidance all the time. So, I would just bring that through.

But remember it can be lumpy as you move through quarter by quarter which I know is frustrating for your models but that's the kind of reality.

Paul Ben, just on that specifically. You'll remember in quarter three we were well ahead on costs, but we did trail that if we saw opportunities to drive more efficiencies and productivity then we'd do that. That's exactly what we did in quarter four as Katie said. So, and that will set us up nicely for 2025 as we continue to focus on driving efficiency through the business and the guide that Katie's talked to. ROTE?

Katie ROTE, sure, absolutely. So, in terms of that 15 to 16%. So, you've got our income guidance of the 15.2 into 15.7. That's the momentum through 2024 as well as the good volume growth. We've already talked about costs. If I look to impairments, nine basis point charge for the year was low. We've guided you to below 20 basis points for next year as well. We've obviously given you some, the RWA guidance as well. The piece that I would probably encourage you to look at a little bit more is around that TNAV growth that we've got coming through. And the two things in there, obviously RWA growth that you'll see coming through as well as the growth in tangible equity is going to be positive from the unwind of the cashflow hedge.

Due to the maturities that we have in that hedge, we would expect the majority of that to have unwound in the next two years. So, combining that with retained earnings, you would see a bit more TNAV growth than I think you may have in some of your models. But we're very comfortable on the operating outlook. You know, we started strong and comfortable with that 15 to 16% range.

Paul Thanks, Katie. Thanks, Ben.

Moderator Thank you. Our next question comes from Chris Cant of Autonomous. Chris, if you'd like to unmute and ask your question.

Chris Morning. Thanks for taking my questions. I just wanted to ask about your 2027 guidance actually. So as you push things out a little bit, 15 to 16% this year, the path out to 2027, if I think about what you've told us on the structural hedge tailwind, the stabilisation of the deposit book, and the fact you're now expecting to reinvest all of the maturities on the hedge, that hedge remains a very strong tailwind into 2026 in terms of the churn dynamics. And I guess that's annualising well into 2027, plus you have a more modest tailwind from the churn in 2027 specifically. What are the negatives that you're setting against that? So, rates coming down this year and then levelling off a little bit.

What are the negatives that lean into the hedge tailwind, which means the ROTE, you know, you have 15, 16% this year and then greater than 15 in 2027. Are you trying to point us in the direction of expecting tailwinds, or is the greater than 15% more how you used to as an institution talk about returns, which is sort of a, you know, through the cycle sustainable type number? If you could speak to that, that would be appreciated.

And then Paul, in terms of the strategy for the group, you talked about inorganic. You've had the reins in hand for the whole business now for over a year. What do you think the organic balance sheet growth potential is for NatWest as a group? What should we be thinking about with inorganic on top if you get the opportunities? But what's the sort of organic pace of balance sheet growth we should expect loans and deposits in your view? Thank you.

Paul Yeah, thanks, Chris. Two good and broad questions. I think on your 2027 diagnosis, as ever, you've read that pretty well. We've specifically chosen the greater than 15% number. We're confident in the income outlook, the momentum we had in 2024, as Katie alluded to, has continued into 2025. We're going to maintain our cost control through the 2027 horizon. I think it's realistic to expect some sort of impairment increase. The nine basis points in 2024 was low. There will be some TNAV growth. So, I don't think you're missing anything there. We're very deliberately saying greater than 15%. And I guess to your characterisation of the two different ways of thinking about that, in my mind, it was the former, not the latter. That's what we're driving to. We don't put a natural cap on the business. We're driving to the highest returns that we can. So that's how I would think about that.

On organic, very deliberately, we touched in the slides the track record we've had around lending growth for six years. The ability of the two large customer franchises in retail and commercial institutions to capture demand when it's there, we've proven over multiple years. 2024 was another good year. It was the sixth year of growth. So, I still feel like there are significant opportunities both in the retail bank and the commercial bank to continue to drive lending growth. We still have opportunities breaking down on retail. We still have opportunities in mortgages. We still have opportunities in unsecured in both credit cards and unsecured lending.

In commercial, you can see our track record there. We feel confident about our ability to drive asset finance, infrastructure finance. But also, if you look at some of our core businesses, our mid-market business, four quarters of consecutive growth during 2024. I feel, not just having run that business previously, I know the latent potential of the commercial business. So, I feel very confident that we can drive lending growth. And you'll take your view on deposit growth, but all other things being equal, obviously you can take a view on where deposit growth will be as well. So that gives us confidence about the outlook organically, our ability to grow the three businesses, which we've done very well this year, as we look out to 2027. Thanks, Chris.

Chris Thank you.

Moderator Our next question comes from Aman Rakkar of Barclays. Aman, if you'd like to unmute and ask your question.

Aman Good morning, Paul, good morning, Katie. Thank you very much for the presentation and the questions. I had two questions, please. One on income and one on capital returns, please. On income, I know we've kind of moved away from talking about specific line items on a guide. I guess I'm just interested in more high level around the outlook for NIM through 2025 and whether, you are optimistic about delivering additional NIM expansion from here or should we think about the balance kind of swinging to volume growth from here? And within that question, I wanted to probe on kind of deposit and asset margins if possible. So, your lending margins were down in the quarter. Is that just because of the Metro Bank book coming on and the volume growth, or should we be thinking about kind of asset margin compression from here?

And I guess most importantly is the deposit piece. You've grown the deposit margin through a series of base rate cuts. And I'm just trying to work out why that doesn't continue from here. And ultimately that to me feels like that should drive ongoing NIM expansion from the Q4 level. I know consensus doesn't have much in. So, anything you can help me in the moving parts there would be great.

Maybe I'll fire the second question at you now. You've indicated on the M&A piece that you're open for inorganics. I'm just trying to think about what that means for your distribution outlook. So, is it a case of scanning the horizon, seeing what's available, but ultimately if you end the year having not executed, that we should expect you to come back with some surplus capital distribution and be it a buyback or whatever, or is there potential for you to run a bit more dynamically on capital? Would you potentially run with elevated surplus while you execute on something? It's just a timing mismatch. You know, what are the implications of this appetite for inorganics, which makes a lot of sense to me. What does it mean for your surplus distributions from here, please? Thank you.

Paul Thanks. Thanks Aman. Quite a lot in those two questions. On the first one, we can cover that off pretty simply and quickly.

On NIM, we're confident of further expansion, driven primarily by the structural hedge. So it's very, very simple to understand.

On the asset margin question that you asked, that's really a mixed story for quarter four. As you alluded to, there's a mortgages dimension to that, but also some of the business which we wrote in C&I, in fact, low margin, but very high risk adjusted returns because of the low-risk weights. So, I'd think about that really as a mixed point for quarter four, nothing more fundamental around the business trajectory. You look at quarter four, the average interest earning asset growth is pretty strong. So confident in both the further volume growth and the margin outlook.

On the question of inorganics, I think it's important, I guess, I frame that. I've been very consistent, as you know, actually, Aman, over the last 18 months. First and foremost, shareholder distributions are very important. We know that's a very key part of the investment case. I'm very confident that we can grow the business organically. I think we've demonstrated over the course of the last five quarters, the potential of the retail business, the commercial business and the wealth business. So that's great. On the inorganic side, it's a very high bar. It needs to be compelling financially from a shareholder perspective. Strategically, it needs to be aligned to the strategy I laid out last year. The two acquisitions that we did, modest in size, but they both hit those criteria.

But the key counterfactual, that Katie and I and the Board will always take into account is the alternative uses of that capital. So, whether that's supporting our existing business, investing in our business, or indeed buyback. So that philosophy hasn't changed.

Probably worth pointing out as well, Aman, that the capital generation in 2024 was very strong at 243 basis points. We're a highly capital-generative business. Even though we grew our lending quite considerably, you can see that a lot of RWA, capital management activity allowed us to keep RWAs flat, despite growing the business. So I feel as if we've got very positive dynamics in terms of our capital generation, our ability to manage our capital, but our philosophy around how I framed how we think about capital hasn't changed.

Aman Thank you. Is it possible to ask a quick follow-up?

Paul You've got the mic, so go on.

Aman Thank you so much. Just obviously, not to mention names, but I guess when you look across the horizon right now, are there attractive inorganic opportunities that you can see at the moment?

Paul Yeah, I'm very consistent, Aman, as you know, and will probably be slightly frustrated about. For 12 months, I've said I would never talk about individual businesses or individual counterparties. From a principal perspective, I don't think that's a good way to do. You'd expect us to be scanning, you know, that's what good businesses do, but I won't talk about any individual names.

Aman Thank you so much. Appreciate it.

Moderator Our next question comes from Andrew Coombs of Citigroup. Andrew, if you'd like to unmute and ask your question.

Katie Hey, Andrew.

Andrew Good morning. If I could just press you on slide 14, please. I think the difficulty investors are having this morning is that if you take your Q4 annualised, you're already getting to the midpoint of your 2025 revenue range. You've obviously been quite explicit on that slide on the structural hedge tailwind, and we can debate whether the reinvestment year is the right one or not. But on the other two, the growth across customer businesses and active management of product pricing, I'd love to just drill down a bit more about what your underlying assumptions are. So, on the growth across businesses, if you look at the Q4 across the three core businesses, you're running at 5% annualised growth rate. So I guess my question would be, you know, how sustainable is that given the market share gains you're currently taking?

And if I look at the active management of product pricing, by coincidence, I think your team has just sent out your new deposit pricing coming through from the 6th of March whilst this call's been ongoing. And if I look at that, it looks like a 15 to 25 bps cut across the piece. And actually for a lot of customers, it looks like it's actually going to be a 25 basis points cut to their deposit rates. So, actually the pass through the interest rate cut is quite high, but I'd love to know what your underlying assumptions are. Thank you.

Paul There's quite a lot in that, Andrew. So just on the last point, and then Katie, maybe come back to you generally about the income piece. On the last point, we have moved our savings product pricing on the back

	of the last change, but it's in line with the kind of disclosures we give. You alluded to it being, in effect, 100% pass through. That isn't the case across the customer base. It's more in line with the disclosures that we've given and consistent with the previous two base rates, so circa 60%. So just to put that point to bed, obviously there's a very broad range of products and tiers, Andrew. So, it may be what one particular aspect of the product range you're looking at.
	More generally on income, Katie?
Katie	I mean, more generally on income, and I think also kind of lift you a little bit to ROTE as well. I mean, we've given you a range of outcomes on many different aspects. And I think if you pick the end of all of those range, you're likely to get outside of our range of where we take that 15 to 16% return is landing. So, you've got an interlinking set of assumptions. And when you work your way through them, I think you'll get yourself into the 15 to 16% on income and the other lines within the income statement. But I really kind of leave you to form your own judgement. We're very comfortable with the guidance we've given you. 2025 has started well, which is great. But I think you'll find that it's a good set of guidance.
Andrew	And just on the volumes, do you think it's sustainable for you to keep taking market share throughout the next year?
Paul	So in terms of, if you look at the gains that we've had during the latter part of 2023 and during 2024, the growth has come both in the retail bank and the commercial bank. I still believe we've got opportunity in the retail bank. I touched on some of the areas. Likewise, in commercial is some of the sectors and specialisms which we play in. They're markets that are expanding. We think we've got a great proposition. And I think we've got a six-year track record of growing volume. So there's no reason why that can't continue. Thanks, Andrew.
Andrew	Thank you.
Moderator	Our next question comes from Sheel Shah of JP Morgan. Sheel, if you'd like to unmute and ask your question.
Sheel	Great. Thank you for the presentation. I've got two questions, please. First, coming back to the total income. Now, the range looks quite wide at 15.2 to 15.7, especially considering what you've spoken about, NIM benefiting from the structural hedge. You've spoken about the AEIA growth. So, I'm wondering, why is this range not more narrow? Is there

some uncertainty within other income or any other area that we should be thinking about? And then secondly, on cost growth. Now, the 25, it's implied at a 3% underlying level year on year. I'm wondering if the 3% is the right growth rate we should be thinking about going out to 2027, especially in the context of some of the bank-wide simplification plans that you're talking about versus some of the investments that you're making. Thanks.

Katie Shall I kick off on income? Look, we feel very good about the range we've given you. And it's clearly a number of variables and I'll go into them, but we're only six weeks into 2025 is probably something I would point out. However, we have entered the year with good momentum from 2024 and also January has gone well. But as you think about the variables, and I'm sure you've got these already, what we're doing on organic growth, Paul's talked about that already a lot. Customer and competitive behaviour will have some impact.

If I look at non-interest income, the second half of the year was particularly strong. In C&I, we were able to take advantage of some of that market volatility that was around. And then we also have a little bit of contra revenues that come through from our capital actions that we did so well in last year and obviously we'll continue to do them. But certainly at this stage, we think it's a good range. We feel comfortable with it and we'll look forward to talking about it more as the year goes on. Paul, shall I talk on costs?

Paul I'm happy to take it. Thanks, Sheel. So obviously, 2024, the cost increase was 1.1%, excluding the change in the bank levies. So, another year of strong cost management, given, I guess, if you think about the numbers around wage inflation and tech contract inflation. So we feel that's a good output. We're guided to £8 billion, as you said, for 2025 and then £100 million of one-off acquisition costs.

The simplification agenda is building momentum. We touched on the work we were able to do in quarter four in terms of accelerating some of the investments and that will give us benefits as we go through 2025 and 2026. So I wouldn't take a straight read across from your, I guess, your interpretation of a 3% number to year two or year three in the plan. We'll guide on that at the right time. But being no doubt, we still see opportunities to drive productivity and efficiency. And I fully expect the simplification agenda to increase in terms of momentum as we go through.

So very focused on that, but don't just take a straight read across. We're going to continue to be very focused on what's required on the cost side. Thanks.

Moderator Our next questions come from Jonathan Pierce. Jonathan, if you'd like to unmute and ask your question.

Jonathan Yeah, morning, both. Good set of numbers and guidance today. Couple of questions, please. The first, back on net interest income, sorry. In the third quarter, there was quite a bump up in margin from funding another, that at the time you put down to, I think, some redeployment of the liquid asset pool. The suggestion at the time was some of those positions would roll off in the fourth quarter, but in funding another, there's another 1 basis point increase in the last three months of last year. So, I'm just wondering, are we going to see a bit of a headwind into this year? Obviously, everybody's annualising that Q4 number and wondering why guidance isn't a bit better. Is this anything to do with it? There's still some sort of one-off, if you like, excess margin being earned on those shorter-term gilt positions. That's the first question.

Second question, pensions. In the report on accounts, you disclose latest actuarial position of £5 billion, sorry, £4 billion of surplus at the end of 2023. The accounting surplus is five at the end of last year. Recent initiatives that government has been talking about regarding releasing these surpluses, is there anything we should think about there that you might be able to do? I mean, even if it just relates to this £365 million of trust assets that are still being deducted from capital.

And I'm sorry, given I was talking in slightly more detail around the numbers now, can I just bolt one additional on? Sorry, Katie. The DTA, there's another £428 million in these numbers helping the bottom-line profit. Last year, you suggested sort of last year's £300 [million] was a one-off. Are these a bit more repeatable than we previously thought, maybe?

Katie Yeah, sure. That's no problem. Let me take you through all of them. At Q3, we did have a bump, and it was a little bit that came through at that time and we said that some of them were going to run off. And then what happened as well after October, what we actually saw was really good market conditions. So, we actually sought to repeat some of that activity, taking advantage of that. And that was helpful again in Q4. And Jonathan, you'd expect us to be actively managing those positions as we go through. And you can see in the accounts that we've been steadily building up some of our gilt positions because they make good sense at this point.

So, I wouldn't suspect it to be an unwind, but it's not something that you could lock and load and say, actually, there's definitely going to be that positive every single quarter. We really push the Treasury team to make sure they take the right advantage where they can.

In terms of pensions, there's a lot being written about it just now and we'll wait to see what regulation kind of comes through and how we might deal with that or if that gives us any opportunities. We've got great relationships with the pension trustees and the fund and it's performed incredibly well for the pensioners and also for us as a bank. So I'm very, very pleased with that. The £365 [million] that's the deduct from capital, you remember when we did that a couple of years, I did say it would be a multi-year event before that came back. Very comfortable that it will come back in time. So that's not an issue for us as we look forward on that. It just, it's a question of timing and I don't have a view exactly as to when that timing might be.

If I look to DTA and the way to sneak in a question is to ask the FD about a little bit of DTA. So, as we look at it, we did have an event last year and we did mention last year that it would come off, it would come back again. So much of that right back relates particularly to the Royal Bank of Scotland where we're seeing those come through and when you get further into the accounts, I think it's page 325, 326, we'll show you. There's a lot more kind of information of the other write backs that are coming there. It's largely used up. There will be a little bit that will come in next year as well, which we'll look at in Q4 when we do our kind of assessment of our next year's plan. So you'll see a little bit more coming next year, but I wouldn't expect to see the numbers we've seen sort of last year in this as it comes through. I think I've hit them all, Jonathan? So thanks very much.

Jonathan Yeah, that's great. Sorry, I know it was three questions as well.

Katie No, that's all right, Jonathan, don't worry.

Moderator Our next question comes from Amit Goel of Mediobanca. Amit, if you'd like to go ahead and ask your question.

Amit Hi, thank you. So maybe just a bit more follow-up from me, but my first question, just curious if you can just give us a bit more of a walk on the RWAs between, you know, I guess where we are today to the 2025 guidance. I appreciate, you know, taking out the Basel III effect, but just curious this year, it was kind of flattish. You were able to offset RWA growth through RWA management. So just curious how much capacity there is to continue in that trend.

And then secondly, just a question on strategy, within the UK on unsecured balances. I think previously you've been talking about kind of growth there, and some of your peers are targeting a similar thing. Customers have generally been, I think, paying down rather than building balances. So outside of Sainsbury's book, I'm just curious what actions you can take to encourage more growth in that segment. Thank you.

Paul Great, do you want to take this?

Katie Shall I kick off on RWAs and I'll come back. Yeah, perfect. So I think one of the important things, Amit, is to remember that 2025 RWAs are going to be a different narrative from 2024. And there's a few reasons from that. Main one is we've got inorganic growth coming in. From Sainsbury's, that will add about £2.5 billion of growth coming in. We've obviously got a regular growth that you'll see within our book of the organic growth. We've got our annual update to operational risk. That comes in in Q1, as it does every year. The number's a little bit higher this year, given the way that calculation works. So you should put sort of £2.5 billion into your models. We've got the CRD4 model changes. And you've heard me say in the guidance and also in my prepared words earlier that really that's the kind of the delta number within the range as we're looking at that.

We do expect to see some inflation coming through in H1. And we'll share more detail of that with you as we finalise those numbers. And then of course, it's partially offset by our ongoing programme of RWA management, which this year we did £6.8 billion, but actually next year we'll see how that kind of continues to look at. So, kind of those four things that you're there, but because of the inorganic and the CRD4 changes, for me, this isn't a year about flat RWAs. It should be one of growth. Paul.

Paul Thank you, Katie. And Amit, thanks for the question on unsecured and cards. The context here is we obviously started from a low base. This wasn't an area historically that the bank had a high market share. The progress has been pleasing over the last couple of the years. You can see the market share gains in the deck around cards explicitly. Once we add in the acquisition of Sainsbury's, our card share will be around 11%, which we still feel is below our natural share given our current account relationships. And currently the growth has come from our existing customer base and a high credit quality. We have opened up new distribution channels through some of the price comparison sites. Again, the quality of business there, both in terms of price and credit have been good. So we still feel there's good runway, but we're going to be very disciplined from a credit and pricing perspective. So that's how we're thinking about it. Hope that gives you a little bit of insight into the opportunity there. Thanks, Amit.

Amit Thank you.

Moderator Our next question comes from Ed Firth of KBW. Ed, if you'd like to unmute and ask your question.

Ed Morning, everybody. Thanks for the questions. Two very quick ones really, probably for Paul. The first one is about just profitability. And I guess there's been loads of questions about the building blocks, but if I look at your profitability, 2023 was 17.8%, this year was 17.5%, you're now guiding to 15 to 16%. So I guess one has a sense that peak profitability was actually in 2023, which, and I guess maybe that's part of the share price reaction, etc, but it feels quite surprising given you've got this huge tailwind from the hedge. And so I'll welcome your thoughts on, is that the right sort of conclusion we should take from these results, that peak profitability is behind us and it's now a question of how far down you go before you hit the bottom. So I guess that's the first question.

The second question is growth. I get what you're saying about growth and I can see your growth, but a lot of it is very much in the large corporate end. And if you take out things like the metro acquisition, the growth in the sort of small business area, mid corporates, etc, is quite lacklustre. And I'm not, I mean, for the market as a whole, not just for you. The Government is clearly very keen to see this pick up. And I guess you with 20% share are going to have to be a big part of that. What could the regulator do to make you lend more? I guess is the question. That seems to be the big debate at the moment. And you talk about the LTI limits moving, but I don't think any of you banks are anywhere near your LTI limits. So I'm just trying to think, what do you think regulators could do to make the sector grow more? If that makes sense. Thanks very much.

Paul Thanks Ed, broad questions. I wouldn't characterise the first question the way in which you did. We've delivered, as you say, very strong returns in 2023 and 2024. And we've laid out a plan that shows strong returns in the 2025 and out to 2027. So another three years of strong returns. I've been very explicit and clear around the greater than 15% aspiration. And when I look at the plan, that's the intention to improve our profitability as we go through the plan. So Katie, I guess, as you said, has given you some of the building blocks and the tailwinds and some of the headwinds in terms of reducing rates. But I'm confident about the ability of the business to generate profitability. And yeah, I certainly wouldn't be characterising it in the way you did, 2023 versus 2027. We've got momentum, the outlook I think is over the medium term is positive. And we've got the strength of franchises which allow us to grow and improve our profitability. So that's what I'd say on the first question.

Ed Well, just so just coming back, just within your thinking, I'm not the sort of targeting and thinking. Within your thinking, could you see a world where you could make 18% again?

Paul I'm not going to get drawn into different numbers, but I guess, Ed, like you, we can run a range of different assumptions. What you believe around rates, what you believe around loan growth, what you believe around deposit growth. There's a whole host of scenarios and a very broad spread of returns, I would say. And I'm sure you run those scenarios as do we. And then what we do is take what we think is a reasonable balance of those scenarios to make sure we're giving you guidance, we can be confident into the market. But you move some of those assumptions and obviously the returns are higher, you move them the other way, the returns are lower. But I think we've taken a balanced approach.

On lending and growth, to me, what's needed here is demand. The reality is we've got capital, we've got the customer relationships. If demand is there from customers, whether it's in the SME end, whether it's in the large corporate end, I think we've got the latent potential in the franchise to be able to grow. The supply side initiatives that the Government are pursuing, albeit some of the benefits will come in the medium term, housing, planning, infrastructure, reform of some of the public financial institutions, the UK Infrastructure Bank, the British Business Bank, they're all initiatives and policies that will help support demand in the economy.

	So to your question, what needs to be done? I think it's the acceleration on those supply side initiatives, which would hopefully catalyse more demands and then a large commercial and corporate bank like ourselves would be able to capture that demand. That's how I think about it.
Ed	But if we, so just to come back on that, say if tomorrow the Bank of England were to announce a change in LTI limits or a reduction in risk weighting for certain areas of the market, I guess the conclusion from what you're saying is that we shouldn't necessarily then start upping all our growth numbers for NatWest or for any other bank?
Paul	I think, I guess danger to get into hypotheticals around policy.
Ed	Sure.
Paul	I think things that would catalyse demand, housing, where there's obviously intentions, planning regs associated with that, further crowding in of private capital and public capital to some of the infrastructure initiatives. I think they are things that will drive lending demand. I guess some of the items that you mentioned, I'm not sure they would immediately spare some sort of increase in demand, e.g. changes to risk weights, etc.
Ed	Great, thanks so much.
Paul	Thanks, Ed.
Moderator	Our next questions come from Benjamin Toms of RBC. Benjamin, if you'd like to unmute and ask your questions.
Benjamin	Morning, both. Thank you for taking my questions. The first one's on cost of risk. In 2024, it was nine basis points, but you still have around £300 million of PMAs. So should we be placing emphasis on the less than element of your 20 basis points guidance for 2025? And then maybe connected to this, in respect to the Sainsbury's transaction, I think you said it's expected to close in Q2, but can you remind us of the P&L implications for the bank, both in terms of the one-off day one impact for impairments and the annualised underlying basis for the P&L going forward? Thank you.
Paul:	Thanks Ben, Katie?
Katie	Sure, absolutely. So as we look at the impairments, obviously incredibly low at nine basis points for this year. Next year, it's less than 20 basis points. So still very low in terms of that. We do expect Sainsbury's to

close in Q2. And what I'm planning to do is to share the numbers with you at that time. The reality is, of course, that book is still evolving and developing. And so we'll share it with you once rather than twice. We have given you some guidance on the RWAs and the costs, which will help you, but the ECL and income, we'll share at closure. Thanks, Ben.

Paul And Ben, you mentioned the PMAs as well. You're right. So we still have circa £330 million of PMAs. And obviously we'd expect that to be released.

Katie Yeah, thank you, Paul.

Benjamin Thank you.

Moderator There are no more questions at this time. I would now like to hand back to Paul for any closing comments.

Paul Okay, thank you, everybody. We appreciate you joining us and for the succinctness of the questions.

We think it's a strong performance in 2024. I'd emphasise what Katie said. We feel good about the momentum. The year has started well. So we have good momentum during January.

We are going to hold three investor spotlights this year on each of the three businesses. To allow you to get into another level of detail in terms of understanding the customer franchises, their strategy and their progress.

The first of them will be the Commercial and Institutional franchise in the last week of March, March the 26th.

So, we look forward to speaking to you then and that's our, I guess, first quarter session in April. So, I hope you have a good weekend and maybe even a good Valentine's Day.