Virtual Shareholder Event 18 April 2023

NatWest Group plc held a Virtual Shareholder Event ("Virtual Event") on 18 April 2023. The Virtual Event was held ahead of the Annual General Meeting ("AGM") which will take place at Gogarburn, Edinburgh EH12 1HQ at 11.00 a.m. on 25 April 2023.

By holding the Virtual Event as well as the physical AGM, we provided shareholders with the opportunity to engage with our Chairman, Howard Davies and our CEO, Alison Rose, DBE and ask questions prior to voting on the business of the AGM.

Shareholders were invited to submit questions before or during the Virtual Event and answers to shareholder questions on key themes can be found below.

How do the issues at Credit Suisse and regional banks in the US affect NatWest Group and how much exposure does the Group have?

What financial risks are there for banks that we know will start taking losses due to bond interest rates?

What can NatWest Group do to diminish this risk?

Answer:

We have very limited exposure to these banks. We manage risk very carefully internally and are well regulated here in the UK and, therefore, we do not expect any significant knock-on impacts from what we have seen with SVB and Credit Suisse.

Our starting point is that we have built in an 'all weather' balance sheet and we are well positioned for the downside as well as the upside.

We have strong capital and liquidity positions as well as a largely secured Retail book and our well diversified Commercial loan book and tight risk management underpins our strategy.

We have a diversified funding profile (figures below are as at FY 2022):

- Our Group Loan to deposit ratio is 79%;
- Our Liquidity Coverage ratio (LCR) is 145% with £52bn headroom; and
- Over 20% of balance sheet assets are in cash (over £140bn).

Cash makes up over 85% of our primary liquidity and two thirds of our entire liquidity portfolio. NatWest's bond portfolio at end 2022 was £29.6bn, less than 5% of total balance sheet assets. We hedge all interest rate risk on our bond portfolio and liquidation of bonds in our liquidity portfolio would have no impact on our CET1 ratio.

We hear a lot about all the good work that is supposedly going on towards the goal of net zero. Other than platitudes, what does this mean in the day to day running of the bank? How do you factor this into credit assessments of companies that want to borrow money? Also, what cultural changes have we seen in staff behaviour and what policies illustrate that actions speak louder than words?

Answer:

Addressing climate change is a strategic priority and sits at the heart of our purpose. Our climate ambition is to be a leading bank in the UK helping to address the climate challenge. We are seeking to identify and assess climate-related risks through three principles:

- Undertaking scenario analysis to understand the potential impacts of climate-related risks;
- Identifying segments of our portfolio and operations with heightened climate-related risk exposure; and
- Assessing individual customer and supplier climate-related risk exposure.

Our Climate transition plan outlines the steps we aim to take to at least halve the climate impact of our financing activity by 2030 and achieve our net zero climate ambition by 2050. We are developing customer level decisioning tools within Commercial & Institutional to continue to further evolve the initial iteration of our Climate transition plan and identify further opportunities to support our commercial customers' transition to net zero. These tools include Customer Transition Plan Assessments, Climate risk scorecards and Internal Carbon Pricing.

Developing the capabilities and skills of our people is a principle of the climate risk policy. Our focus is on climate education at Board level and also across our colleague network. We announced a three-year partnership with the University of Edinburgh to provide climate education for all colleagues and specialist learning for c.16k people by the end of 2024.

By the end of 2024, we need to evolve our climate model from a self-serve approach to a role mapping approach focused at three different levels of climate-related risk training:

- Core level – that all colleagues understand what climate change is and are aware of the associated impacts/risks;
- Common level – priority roles to have a deeper understanding of how to identify and assess climate-related risks; and
- Technical level – training and professional qualifications for specialist roles, including Green and Sustainable Finance and Climate Risk through the Chartered Banker Institute.

We have provided customers with access to educational resources, for example, our Climate Change Hub, which offers energy efficiency tips, and the Climate Matters resource, which examines the importance of climate finance and public-private partnerships in delivering the transition to net zero.

What are the barriers faced in bringing more green savings and investment products to market for Retail Banking customers to align with 'our purpose'?

How do you think that the markets are responding to the announcements you've made about climate? Are they having positive impacts on the share price?

Answer:

The bank has established itself as a leading voice for finance on tackling climate change. Through the launch of a Green Homes Retrofit Pilot and innovative solutions such as the EPC awareness feature in our customer mortgage portal, we continue to help customers better understand their emissions and the steps they can take to reduce their carbon footprint.

We have reduced the universal Green Loan threshold for SMEs from £50,000 to £25,001 to help them transition to more sustainable practices. Since July 2021, we provided £32.6 billion of climate and sustainable funding and financing against our target to provide £100 billion between 1 July 2021 and by the end of 2025. Our Carbon Planner tool allows UK businesses to unlock potential cost and carbon savings. Personal customers can access our carbon tracking tool on the mobile app.

In terms of residential mortgages, our strategy within this sector comprises the four pillars that we will continue to develop to support customer transition:

- Customer engagement: providing educational information and building credibility with customers to support making homes more sustainable;
- Product choices: rewarding and incentivising customers to purchase and refinance energy efficient homes and upgrade the energy efficiency of their current homes;
- Sector engagement: engaging with wider stakeholders to help influence change; and
- Managing risk and data: maintaining and developing the appropriate controls to manage the climate-related risk of our portfolio.

With regard to Commercial real estate and risk appetite, development of new build homes has been restricted to only finance EPC A and B homes since 2020, supporting the development of the most energy efficient housing stock.

89% of Assets under Management at Coutts are considered in-scope to be managed in line with net zero. This includes all core managed funds and discretionary portfolios, our Personal Portfolio Funds (PPF), Coutts Managed Fund (CMAF) range and our discretionary (non-bespoke) portfolios. All customers invested in our core managed funds and discretionary portfolios now have a minimum amount of their wealth invested in funds that are on a net-zero trajectory.

We are aiming to deliver Group ROTE of 14-16% over the medium term and supporting customers' sustainability transitions is one of three growth levers of our strategy. We are the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the Science Based Targets initiative (SBTi). These underpin the initial iteration of our Climate transition plan. The effective management of climate risk requires the full integration of climate-related risk factors into strategic planning, transactions, and decision-making.

Many factors impact our share price and it is difficult to attach a premium to climate strategy. However, feedback from investors who attended the recent Spotlight Event on Climate in March was very positive.

Given the great progress to date, how long will it take, in the current economic environment, to reduce the Government's stake?

Answer:

Any decisions around share sales are a matter for the Government. Since 2008, we have returned more than £17bn (nearly £18bn if including +£0.4bn final dividend recommended for approval at the 2023 AGM) to the taxpayer through dividends, directed buybacks and the dividend access share. This figure does not include any proceeds from HM Treasury's own trading plan, which, according to the Finance Ministry, has raised around £3.7bn.

The Government has confirmed that it remains committed to exiting its stake by 2025 – 2026, subject to market conditions. We have seen good momentum in the last couple of years, with Government ownership falling from 52% at end of 2021 to under 42% at the date of the Shareholder Event.

Returning to majority private ownership last year was an important moment for the bank and it is a reflection of the progress we have made as a bank. Our business is resilient and growing in key areas, underpinned by long-term investment and digital transformation.

Why does the Board consider share buy backs to be a better option to reward shareholders than paying an increased dividend or a special dividend? In such a volatile stock market the share price has failed to improve markedly and the only beneficiaries of share buy backs seem to be the board and executive team via their share option scheme which is virtually tax free as opposed to a dividend which would be taxable.

Answer:

Distributions are a key priority and there are four main levers which we intend to keep live:

- The combination of Ordinary and Special dividends, with 40% pay-out ratio;
- Directed Buybacks – we completed our second directed buy back March 2022 for £1.2bn. We will maintain capacity to participate in directed buybacks from HM Treasury, this is dependent upon HMT's intentions and is limited to 4.99% of issued share capital in any 12-month period. This is viewed as a highly effective capital return mechanism;
- On-market buybacks – we have successfully completed two £750m on-market buybacks and have announced another £800m on-market buyback. We will also consider further on-market buybacks as part of our overall capital distribution approach; and

- Inorganic opportunities will be considered if they provide compelling shareholder value and strategic rationale.

We have stated our intention to maintain ordinary dividends of c40% of attributable profit. Ultimately, the board will take a view as to any other distribution activity. In terms of our share price, markets have recently been volatile, with banking stock particularly affected.

With regard to the share option scheme reference, our Executive share awards are subject to income tax and social security at the point of delivery. In addition, if an Executive sells the shares they receive from their awards in the future, they would also be subject to capital gains tax on any gain made on the shares during their ownership period. The tax liability on Executive awards is therefore greater than the current dividend tax rate.

With regard to risks in the UK housing market and IT start-up businesses, does NatWest have a Financial Guru with a finger on the pulse of risk?

Answer:

We have taken steps to reduce exposures over the last decade in riskier areas of lending, for example, Commercial Real Estate is now less than 5% of our lending. We have teams monitoring our mortgage portfolios and lending to start-up businesses and any emerging risks in these areas. We have a strong, well-balanced mortgage book. Banks and their customers are in a very different position compared to other crises.

Overall, mortgages have very low levels of arrears. Towards the end of 2022, we had to increase rates due to market conditions and other lenders exiting and re-entering the market. Despite the volatility, we stayed in the market throughout, with a full range of products available.

We also monitor early warning indicators for all types of lending so that we can see where there are signs of stress and look to support customers. Overall our lending book is well diversified, we do not have liquidity concerns and we have strong risk discipline.

Why was the Chief Executive paid £5.25 million when the bank is still majority-owned by the taxpayer and the country and people are struggling? Increasing profits does not take any special effort or skill when interest rates rise and a number of branches are closed.

Answer:

Last year, the Board reviewed the bank's executive pay policy to bring it more in line with, but still below, the average pay levels of our other major UK bank peers. So, there's still a level of restraint whilst ensuring the business is closer to commercial norms. The Policy was supported by nearly 93% of the votes cast at last year's AGM. The Group has reported a strong performance for the year and progress against our strategy, delivering for shareholders and supporting customers and colleagues.

In 2022, our CEO, Alison Rose, received a bonus for the first time and has long-term incentives vesting from our previous policy. Almost 70% of the £5.2m figure is delivered in shares between 2023 and 2028, and therefore aligned with shareholders' interests over the long term. The total pay for Alison in respect of 2022 performance is £4.5m, up from £4 million in 2021, approximately a 12% increase. The Board and the Group Performance & Remuneration Committee thought about this very carefully and we believe it's entirely appropriate and should be compared against the fact that profits are up by about a third.

We know a lot of people, families and businesses are facing challenges in the current inflationary environment and we recognise that senior positions within the financial services sector are very well paid. However, we also have to acknowledge that there are particular skills needed for these roles which are often in high demand. We are operating in an increasingly competitive external market for key talent and skills. The Board is very pleased with the performance of the executive directors since their appointment and setting pay materially outside of market norms would create a significant risk to the business.

The Group is no longer majority owned, with HM Treasury's holding now down below 42%.

NatWest Markets reported negative numbers for many years, are their numbers still negative or have fortunes changed?

Answer:

NatWest Markets results are still reported separately and are available on investors.natwestgroup.com/results-centre.

NatWest Markets reported a loss for the year ended 31 December 2022 of £264 million compared with a loss of £491 million for previous year. Higher income largely reflected stronger performance across the product suite in 2022 compared with the prior year. Operating expenses for the year were slightly lower than in 2021, as an increase in litigation and conduct costs was offset by a decrease in other operating expenses.

We now have a simplified, less capital-intensive markets business focused on providing services in FX, interest rate management and capital markets for customers group-wide. NatWest Markets is now the Centre of Excellence for market products and capability that support the wider C&I franchise. We had a good year in currencies due to volatility and bringing the businesses together and we expect this to continue in 2023. We also expect continued improvement in fixed income and capital markets in 2023.

Why are the AGMs still held in Edinburgh which has no relevance for the majority of shareholders, customers and staff? Why hasn't Gogarburn been sold?

Answer:

NatWest Group plc is a Scottish registered company, therefore holding the AGM in Edinburgh is appropriate. Our shareholders live throughout the UK and, as such, no single location would be convenient for everyone. There is an opportunity for shareholders to watch the AGM online via Zoom. Holding a Virtual Shareholder Event the week before the AGM offers shareholders an opportunity to ask questions before voting on the business of the AGM.

Gogarburn is one of three hubs of NatWest Group, which includes the NatWest brand in England and The Royal Bank of Scotland in Scotland, providing a comprehensive range of banking/financial products. The other hubs being at 250 Bishopsgate and 440 Strand in London.

Gogarburn is the base for over 9,000 colleagues and, in recent years, we have exited a number of offices in the Edinburgh area with staff re-located to Gogarburn. The Business School and Conference Centre are widely used by colleagues across the Group when they need to come together to collaborate. As well as being highly valued internally, the Gogarburn campus is also an excellent facility that is broadly used to support the Group's purpose, for example:

- the Conference Centre was used as a foodbank distribution hub during the Covid pandemic;
- the campus is used as a welcome centre for people displaced from Ukraine. We welcomed 10,000 people in 2022 and assisted refugees wishing to open bank accounts; and
- Gogarburn is also used as a venue for hosting events, with a number of client events planned in connection with the Royal Highland Show.

We continue to keep our property footprint under review and we have continued the rationalisation of our portfolio as we return to offices post the pandemic. We continue to adapt our properties to support colleagues to work in the most efficient manner. Our plans see us retaining Gogarburn as a key hub and we will continue to evolve its layout to ensure it continues to add value.

When will a Dividend Reinvestment Plan (DRIP) be offered to shareholders and why is it not already set up?

Answer:

We continue to keep our shareholder arrangements under review. However, we have no immediate plans to offer a DRIP.

In terms of shareholder returns more generally:

- we have returned £9.2bn of capital in the last three years (£300m FY'20; £3.8bn FY'21; and £5.1bn FY'22)
- For FY'22 specifically, we plan to pay £1.3bn of ordinary dividends (£967m final (10p/share), £364m interim) – above our committed distribution of at least £1bn and also paid a £1.75bn special dividend in September last year.
- Going forward, we have maintained our 40% target dividend pay-out ratio.

Why has the Bank given up on its customers with the closure of so many branches which have been a vital artery?

As this is absent from the Annual Report, what are the numbers of retail branches and independently sited ATMs, other than those announced for closure, in England, Wales, Scotland (RBS and NatWest brands separately)?

What support is being given by NatWest to accelerate the opening of full Banking Hubs to adequately replace closed branches?

Answer:

There are more ways for our customers to bank with us than ever before, with over 16,000 points of presence and continued investment and support. Branches will remain an important component of our Strategy, complementing our Digital First / Led approach which is reflective of the changing behaviours of our customers:

- over 60% reduction in our counter transactions since January 2019; and
- more customers are engaging with digital (over 60% of Retail customers are Digital Only and over 85% of Retail customer needs are now met digitally).

We are investing £20m in our existing branches while providing continuous alternative services, such as our ongoing collaboration with the Post Office and a dedicated support line for over 60s.

Closing a branch is a decision we take very seriously and we consider a range of factors, such as local demand, proximity to next nearest NatWest Group branch and community alternatives. We know that, for some customers and communities, the closure of their branch can be a worry and we are wrapping a range of support solutions around impacted communities and customers:

- 41 mobile vans that visit 600+ communities and, for impacted communities, we will explore potential inclusion and extension of these routes:
- piloting "Community Pop ups" in certain communities impacted by closures;
- face-to-face support to help customers with the transition following closures, including help with next nearest options, support with digital banking and information on frauds and scams; and
- we proactively engage with vulnerable customers, including digitally excluded customers, via telephone to support them with alternative ways to bank.

We are an early proponent of industry collaboration around Access to Cash and Cash Action Group and have been actively driving progress on delivery. We played a leading role in the stand-up of the Cash Access UK (CAUK) company, which is responsible for deploying shared industry infrastructure, and we continue to meet monthly with the CEO and leadership team to understand challenges and offer support. We have aligned significant internal resource to supporting working groups on hub deployment and new solutions and we have seconded talent to key roles in CAUK to support success.

Following the 42 branch closures announced on 29 March 2023, we will have 613 branches once all of the announced closures take place, including 90 branches in Scotland. We are very thoughtful about our closures and consider the pressure on the new CAUK teams. Of the 33 hubs to date triggered by bank branch closures, only two have been driven by NatWest Group closures. We are committed to extending the closure dates of our branches where hubs have been recommended to ensure the gap between services is minimised.

In the last shareholder event David Lindberg spoke about the work the Bank is doing to support neurodivergent colleagues and customers. What can you tell us about how the Bank is attracting and retaining diverse talent, including those from marginalised communities?

Answer:

Having a diverse, equitable and inclusive workplace is integral to fulfilling our purpose. Our One Bank Diversity, Equity & Inclusion (DE&I) Action Committee is made up of senior leaders from every function, representatives from bank-wide employee-led networks, and leads from the Racial Equality Taskforce and Accessibility Working Group. The Committee drives action on DE&I across the bank through leadership, retention, learning and development, and recruitment.

Examples of progress include the 36,000 colleagues who have learned how to confront non-inclusive behaviours, support for Global Accessibility Awareness Day, International Women's Day and Pride events and gender and ethnicity development programmes to improve representation at all levels.

We look to attract and recruit a diverse range of colleagues, ensuring DE&I is front of mind during the recruitment process, and our Inclusive Interview Ambassadors to bring an objective lens to the decision-making process. We monitor our progress and colleague sentiment on inclusivity remained strong in 2022, maintaining a score of 93 percentage points. Our focus remains on where scores may vary for our minority colleagues.

We have a dedicated adjustments process to support disabled or neurodivergent colleagues in the workplace. We educate our colleagues around disability, accessibility and neurodivergence through our disability eLearning and neurodiversity webinars. Our employee led networks, Enable (Disability) and the Neurodiversity Alliance provide support and education. We recently renewed our leadership status in the UK Government Disability Confident Scheme and continue to be a member of Business Disability Forum who we meet with on a regular basis.

Why do you not lend to people over the age of 70 when they can offer both the ability to repay and provide security?

In recent years NatWest has not necessarily prioritised leading savings rates. What is the reason for raising a greater proportion of cash through savers than through wholesale markets?

Answer:

Personal Loans:

We do lend to customers over the age of 70, although our rules often depend on the amounts being borrowed, with the rules based on the age of the customer at the end of the agreement. The maximum age that individuals can borrow amounts up to £25,000 is the age of 86. Borrowing above £25,000 is more nuanced and can often depend on a customer's individual circumstances. Our approach balances helping customers with their needs with lending responsibly.

Mortgages:

We do lend to customers above the age of 70, via our Broker channel, we will consider up to the age of 75 within policy and up to the age of 80 by exception. We plan to offer this through our direct channels by the end of the year, technology and system access issues have delayed the delivery across all channels.

Savings rates:

Our customer deposit rates are influenced by ensuring we are competitive, our need for funding and expectations around the pace and size of rate rises. On average, we have passed on around 35% of base rate rises since December 2021 and have passed through approximately 50% over the last quarter. We are committed to balancing the needs of all our stakeholders and getting tailored and effective support in place for those who need it most, for example those on the lowest incomes and the youth market.

We have focused support on our Digital Regular Saver, with interest rates from 3% to 6%, to help people start to save and build their resilience funds. In February 2023, we helped 43,200 customers start to save, which is 2% more than we saw in January 2023. We have a new Fixed Rate product, with year 1 paying 3.25% and year 2 paying 3.75%. So far, 7,800 accounts have been opened and £250m deposited. We also now pay 2% on all of our youth accounts, as 57% of young people have stated that cost of living is their greatest concern. We are committed to helping our customers build savings habits and financial resilience and we are on track to help an additional 2m people to start to save by the end of 2023.

Are there any plans to restrict the purchase and sale of Bitcoin via personal bank accounts at the group?

Answer:

Cryptocurrencies, such as Bitcoin, and their regulation are rapidly evolving in the UK. Digital assets are becoming more mainstream and there is significant potential in the technology that sits behind them. We are taking a conservative approach and keeping our stance under constant review. We understand that customers may want to engage with cryptocurrencies and we need to help educate and protect them.

Crypto scams cost UK consumers £329 million annually. There are concerns around the high level of crypto investment scams as well as systemic risks posed by payments to crypto exchanges. There is limited protection and we expect these trends to continue. We recently set a daily limit of £1k and a 30-day payment limit of £5k to cryptocurrency exchanges to help protect customers from losing life-changing sums of money to scammers. We also introduced restrictions on payments to certain cryptocurrency providers where we saw evidence of customer harm. We helped reduce value of authorised push payment scams where a crypto exchange was the destination by around 50%.

For what is now a predominantly English domestic bank, what are the reasons for employing staff in India, in Scotland and in Poland?

Answer:

NatWest Group is principally a UK focused banking group and we have a large proportion of our workforce based in the UK, including Scotland, where we have an extensive retail presence. We have a presence outside of the UK for a few different reasons, including, to recruit in markets with availability of critical skills, to service our global clients, and because it also helps our operational resilience and business continuity to have employees diversified outside of the UK. When considering the location of our workforce we consider a number of factors, but our ability to serve our customers effectively is always at the centre of our decision making.