

# Natwest Group plc

## Investor Factbook

FY Results 2020



**NatWest Group**

## NatWest Group is a relationship bank for a digital world

### Our Strategy

Our strategy is to deliver on Our Purpose and drive sustainable returns to shareholders through four strategic priorities.

### Priorities delivered through:

- Sustainable growth with an intelligent approach to risk
- Simplification and cost efficiency
- Portfolio discipline and effective deployment of capital

1. Comprises customer loans in our UK and RBS International retail and commercial businesses
2. Total expenses excluding litigation and conduct costs, strategic costs, operating lease depreciation and the impact of the phased withdrawal from the Republic of Ireland



## FY'20 Key messages

- Resilient FY'20 performance
- Supported customers and accelerated digital transformation
- Disciplined execution of strategy on lending growth, reducing costs and RWA reduction
- Strategic review of Ulster Bank in ROI complete
- Strengthened ExCo team in place
- FY'20 proposed final dividend of 3p per share

**£2.9bn**

Operating profit before impairments in FY'20, up 4% on FY'19<sup>1</sup>  
(£753m)  
Attributable loss in FY'20

**c.7%**

**Net Lending growth in FY'20<sup>2</sup>**  
c.6% excl. Metro acquisition<sup>3</sup>  
>3% FY'20 Target

**£3.2bn**

**FY'20 Impairments** 88bps of customer loans up from £0.7bn and 21bps in FY'19

**£277m**

**Cost reduction<sup>4</sup>**  
-4% vs FY'19  
£250m FY'20 Target

**18.5%**

**FY'20 CET1 Capital Ratio** Up 230bps on FY'19  
Includes c.100bps of IFRS 9 transitional relief

**£27bn**

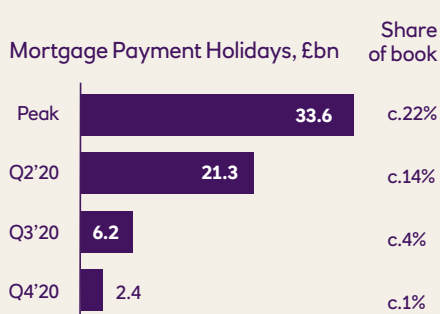
**NWM RWA**  
£11bn reduction vs FY'19  
£32bn FY'20 Target

1. FY'19 excludes £2,159m of notable items: FX recycling gain of £1,459m, Alawwal merger gain on disposal of £444m and £256m provisions release relating to the Alawwal disposal. 2. Retail & commercial businesses, NatWest Group excluding NWM and Central. Government scheme lending accounted for £12.9bn of lending growth in FY'20. 3. £3.0bn UK mortgage portfolio acquired from Metro Bank Plc in December 2020. 4. Other expenses excluding Operating Lease Depreciation.

## Supporting our customers' financial health through COVID-19

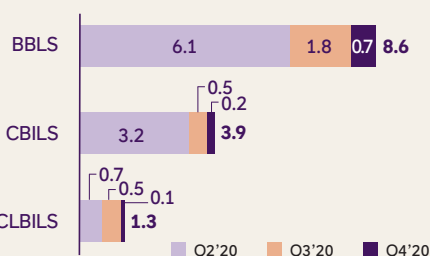
- 94% of mortgage payment holidays have matured in Retail Banking
- Over 97% of mortgage payment holidays due have returned to paying as normal in Retail Banking
- Revolving Credit Facility utilisation now below pre Covid levels

### Retail Banking Payment Holidays

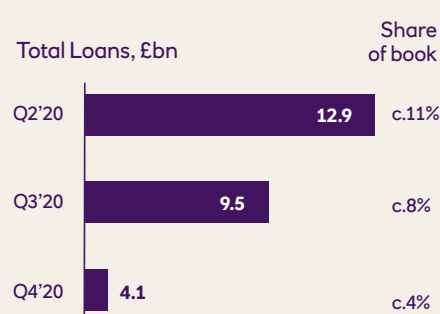


### Commercial Banking Activity

Approved value of c.£14bn under government schemes, NatWest Group's share of the total lending c.20%<sup>1</sup>



### Commercial Payment Holidays



1. Of approved schemes, according to Data per HM Treasury available at 24th January 2021.

# Accelerating digital transformation to deliver income growth and drive cost efficiencies

We are a relationship bank for a digital world with high levels of digital engagement

The pandemic has significantly increased the pace of digital adoption, providing the platform for income growth across all channels.

58% of our retail customer base exclusively use digital channels to interact with us, up 12 percentage points compared with FY'19.

67% of Commercial Banking sales via digital channels in FY'20<sup>1</sup>.

Branch counter transactions down 44% in FY'20<sup>2</sup>.

1. Excluding BBLS.  
2. Retail only.

## Video Banking

# 15k

Interactions per week at Jan'21 compared to <100 in Jan'20

## Mobile

# 7.7m

Mobile Users in FY'20 up 12% on FY'19

## Artificial Intelligence

# 9m

Cora Conversations in FY'20 up 67% on FY'19

40% required no human intervention

## Online

# 9.4m

Digitally Active Customers in FY'20 up 8% on FY'19

We're targeting over

# £300m

of gross savings through customer journey reengineering by 2023

## Simplification and cost efficiency

### Investment increasingly focused on delivering income and cost benefits

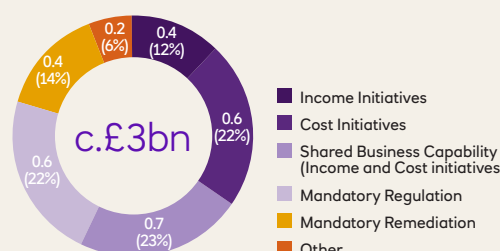
We have created the Chief Transformation Office to manage investment across the group, build key capabilities to simplify the bank, improve customer experiences and drive cost efficiencies.

We intend to reduce strategic costs further in 2021 to around £0.8bn with continued reduction through to 2023.

1. Denotes cash investment spend, the related income statement expense is included in Other expenses.

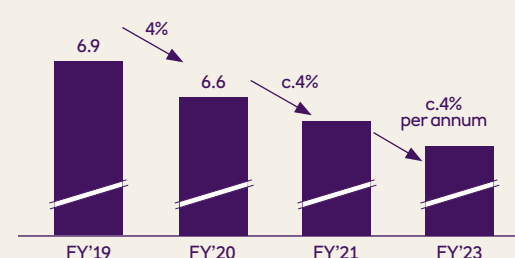
2. Total expenses excluding litigation and conduct costs, strategic costs, operating lease depreciation and the impact of the phased withdrawal from the Republic of Ireland.

Investment spend<sup>1</sup>, FY'21-FY'23



- We will invest £3bn over the next three years to support the One Bank strategy
- Includes the digitisation of key Customer Journeys, investment in data, cloud, and analytics to deliver One Bank technology.
- c.80% of investment relates to Digital and Technology programmes

Other expenses<sup>2</sup>, £bn



- Higher quality investment spend drives greater cost benefits and supports ongoing cost reduction.
- Stable annual investment spend becomes greater proportion of underlying cost base

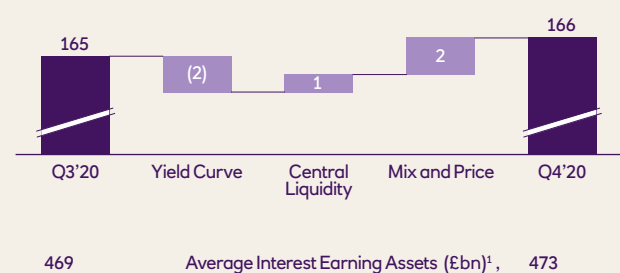
Target: Reduce other expenses, excluding OLD, by around 4% per annum in through to 2023<sup>2</sup>

## FY'20 Key Financials

### Results by business

	Retail Banking	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	NatWest Markets	Central items & other	Total NatWest Group
Income statement	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Net interest income	3,868	395	2,740	489	371	(57)	(57)	7,749
Non-interest income	313	115	1,218	274	126	1,204	(179)	3,071
Own credit adjustments	--	--	--	--	--	(24)	--	(24)
<b>Total income</b>	<b>4,181</b>	<b>510</b>	<b>3,958</b>	<b>763</b>	<b>497</b>	<b>1,123</b>	<b>(236)</b>	<b>10,796</b>
Other Expenses	(2,295)	(454)	(2,261)	(466)	(244)	(1,038)	(21)	(6,779)
Strategic costs	(226)	(25)	(179)	(15)	(49)	(267)	(252)	(1,013)
Litigation and conduct costs	(19)	(7)	10	26	2	(5)	(120)	(113)
<b>Operating expenses</b>	<b>(2,540)</b>	<b>(486)</b>	<b>(2,430)</b>	<b>(455)</b>	<b>(291)</b>	<b>(1,310)</b>	<b>(393)</b>	<b>(7,905)</b>
Operating profit/(loss) before impairment losses	1,641	24	1,528	308	206	(187)	(629)	2,891
Impairment losses	(792)	(250)	(1,927)	(100)	(107)	(40)	(26)	(3,242)
<b>Operating profit/(loss)</b>	<b>849</b>	<b>(226)</b>	<b>(399)</b>	<b>208</b>	<b>99</b>	<b>(227)</b>	<b>(655)</b>	<b>(351)</b>
Return on equity	10.2%	(11.7%)	(4.5%)	10.3%	6.1%	(3.8%)	nm	(2.4%)
Cost:income ratio	60.8%	95.3%	59.9%	59.6%	58.6%	116.7%	nm	72.9%
Net loans to customers – amortised cost (£bn)	172.3	18.0	108.2	17.0	13.3	8.4	23.3	360.5
Loan impairment rate	0.45%	1.33%	1.73%	0.58%	0.80%	nm	nm	0.88%
Risk-weighted assets (RWAs) (£bn)	36.7	11.8	75.1	10.9	7.5	26.9	1.4	170.3

## Bank Net Interest Margin<sup>1</sup> bps

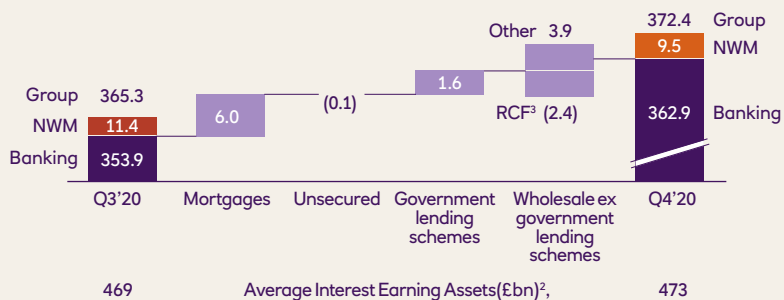


## Net interest income support from mortgage volumes and margins

We expect income from the structural hedge to be c£0.3bn lower in 2021 than in 2020, equivalent c.3bps per quarter impact on Bank NIM.

1. Bank net interest margin and Bank average interest earning assets exclude NWM from NatWest Group plc figures.

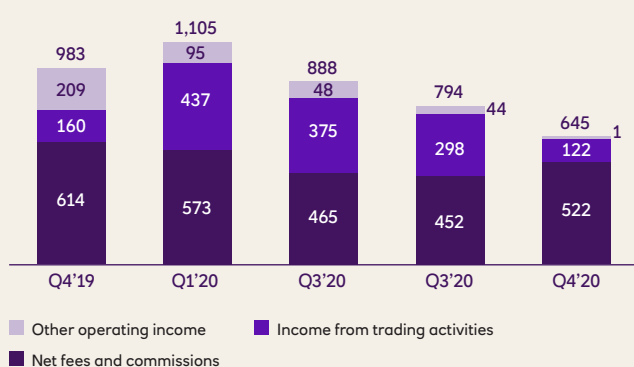
## Gross loans and advances<sup>1</sup>, quarter on quarter, £bn



## Continued loan growth in Q4'20 – targeting growth above market

- Loans – amortised cost and FVOCI.
- Bank average interest earning assets NatWest Group plc excluding NWM.
- Revolving credit facilities for our Commercial Banking customers.

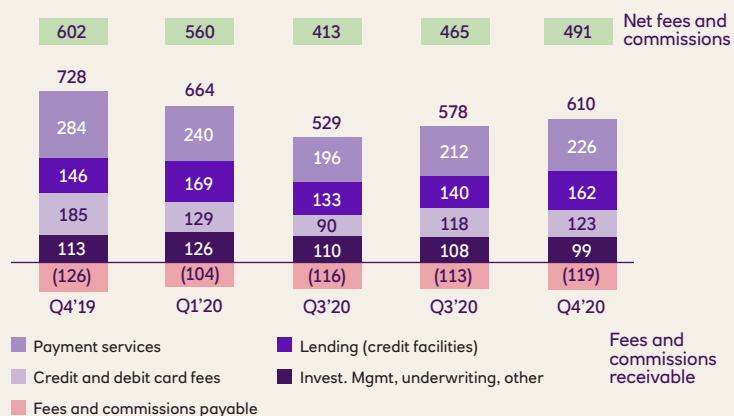
## Non Interest Income<sup>1</sup> £m



## Non interest income impacted by customer activity levels

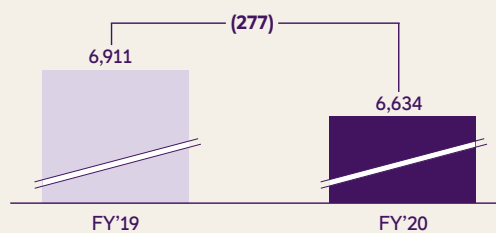
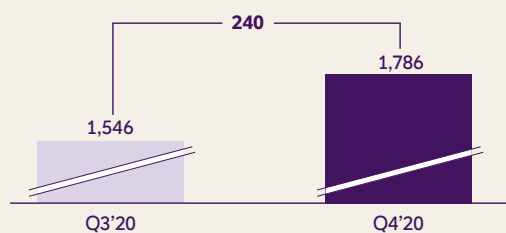
- Excluding all notable items
- Excluding NatWest Markets and Central & Other.

## Retail & commercial Businesses' Fees and Commissions<sup>2</sup> £m

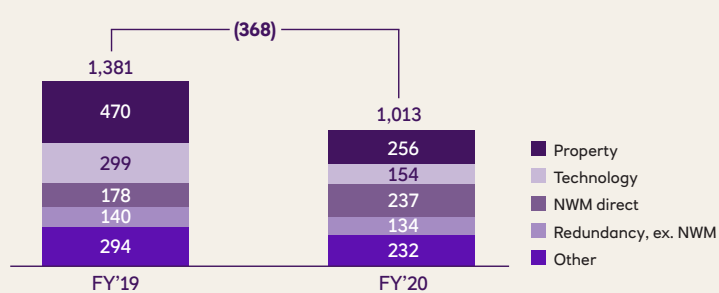
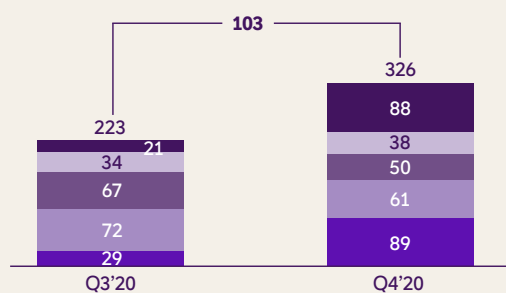


# Ongoing cost reduction in Q4'20

## Other expenses ex Operating Lease Depreciation<sup>1</sup>, £m



## Strategic costs, £m



1. Operating Lease Depreciation £37m in Q3'20, £35m in Q4'20 £138m in FY'19 and £145m in FY'20.

# Sustainable growth with intelligent approach to risk

## Impairment charge of 14bps in Q4'20

Q4'20 impairment charge of £130m is 14bps of gross customer loans.

FY'20 impairments of £3,242m equivalent to 88bps of gross customer loans.

We expect FY'21 impairments to be at or below our through the cycle range of 30-40bps of gross customer loans.

## Impairment charge / (release) as share of loans by segment, (bps)

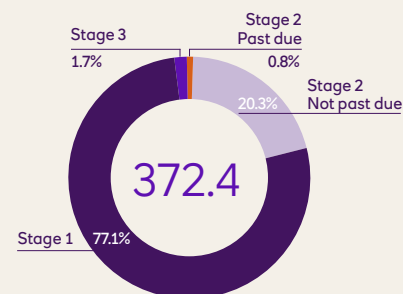
	Retail Banking	Ulster	Commercial Banking	Private Banking	RBSI	NatWest Group
<b>FY'20</b>	45	133	173	58	80	88
<b>FY'19</b>	25	(18)	38	(4)	1	21
<b>Q4'20</b>	15	(2)	4	61	81	14
<b>Q3'20</b>	17	17	45	43	105	28

## Impairments

### Economic scenarios and weightings, FY'20

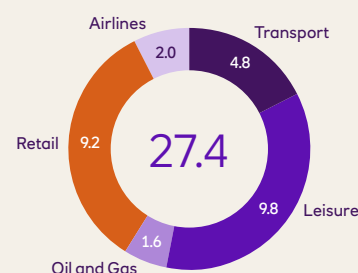
Scenario	Unemployment	UK GDP – Annual Growth (%)			UK Unemployment rate – annual average (%)		
		2021	2022	5y Avg.	2021	2022	5y Avg.
Upside	20%	9.0	2.6	3.6	5.6	4.5	4.4
Base case	40%	4.5	4.2	3.1	6.3	6.3	5.7
Downside	30%	2.6	4.6	2.8	8.5	7.7	7.1
Extreme Downside	10%	(4.6)	6.1	1.3	12.3	12.0	9.7

### Gross Loans & Advances by stage<sup>1,2</sup> £bn, Q4'20



### Spotlight on sectors in focus for management, Q4'20

Total loans and advances<sup>1,3</sup>, £bn



### ECL provision and sensitivity to economic scenarios

- ECL £6.2bn at FY'20, down £0.2bn on Q3'20 due to write-offs of legacy mortgages in Ulster Bank
- ECL has increased £2.4bn since FY'19 and includes £878m post model adjustments for economic uncertainty
- 100% weighting to our Extreme Downside scenario would have increased our ECL by £2.2bn
- 100% weighting to our Upside scenario would have reduced our ECL by £0.8bn

1. Loans – amortised cost and FVOCI.

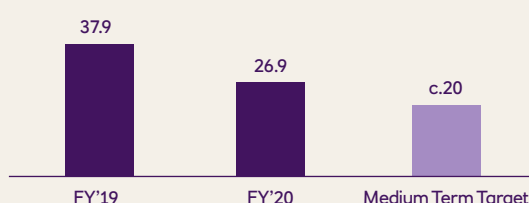
2. May not cast due to rounding.

3. Includes: Airlines and aerospace, Land transport and logistics, Leisure, Oil and Gas and Retail sectors. Subset of Corporate Loans, see pg191 of the NatWest Group plc's FY'20 IMS.

## Capital allocation

### NatWest Markets RWA reduction progressing toward target

Risk Weighted Assets (£bn)



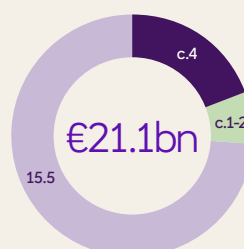
### ECL provision and sensitivity to economic scenarios

- Reduced RWA by £11bn or 29% during 2020, c.£5bn ahead of FY'20 guidance<sup>1</sup>.
- £500m dividend paid to NatWest Group in Feb-21 from NatWest Markets.
- We expect NatWest Markets disposal losses and the impact of Commercial Banking capital management actions to total £0.3 billion of losses in 2021.

1. At H1'20 we guided to a reduction in NWM RWAs to c.£32 billion by the end of 2020.

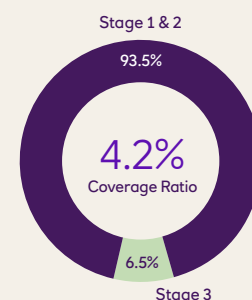
### Ulster Bank Ireland DAC FY'20

Loans amortised cost (£bn)<sup>1</sup>



■ Allied Irish Banks plc  
■ Other Wholesale  
■ Retail

Loans by staging (£bn)<sup>1</sup>



- NPL ratio of 5.7% at FY'20

### UBIDAC Capital and RWAs, FY'20

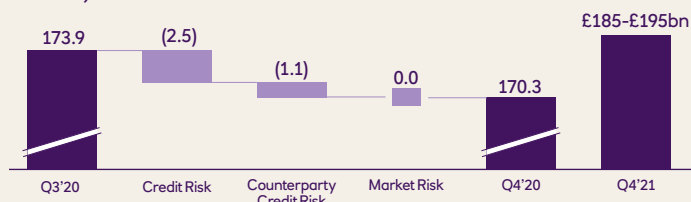
- CET1 Capital Ratio: 28.1%
- Total RWA: €14.1bn

We expect NWG's withdrawal from the Republic of Ireland to be capital accretive over the multi-year process.

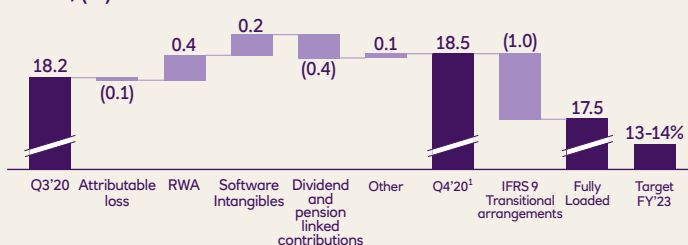
1. Per page 82 of UBIDAC's 2020 Annual Report and Accounts.

2. The proposed sale may not be concluded on the terms contemplated in the MoU, or at all. See UBIDAC's 2020 Annual Report and Accounts within FY'20 CA.

## RWA, £bn



## CET1, (%)<sup>2</sup>



1. Including IFRS9 Transitional adjustment at 100% reducing to 75% in 2022.

2. May not cast due to rounding.

### Robust capital position with limited procyclicality to date

RWA reduction of £3.6bn in the quarter driven by NWM, which reduced by £3.1bn. Procyclicality for the group was a benefit of £0.5bn in Q4'20 and nil for FY'20, as positive Retail trends more than offset Commercial.

CET1 ratio increased 30bps in the quarter driven by lower RWAs and software intangible benefit partially offset by the 3p proposed dividend and linked pension contribution.

1. This presentation contains forward-looking statements, please see Forward-Looking Statements on page 9 of NatWest Group plc FY'20 Company Announcement.

### Key Drivers of CET1 ratio<sup>1</sup>:

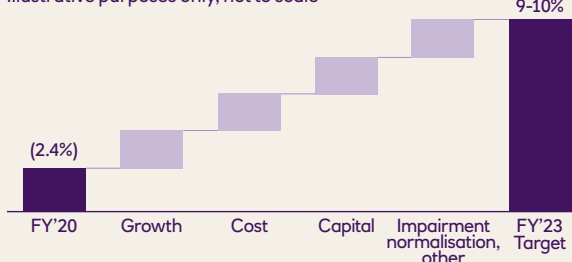
<b>Earnings</b>	We target an improvement in ROTE to 9-10% by FY'23
<b>Shareholder distributions</b>	We intend to distribute a minimum of £800m per annum through dividends while retaining capacity to participate in Direct Buy Backs.
<b>Dividend-linked pension contributions</b>	Further £1.1bn pre-tax accrual, with a maximum of £500m per annum.
<b>IFRS 9 unwind</b>	£1.7bn benefit of 100% at FY'20, will unwind to 75% in FY'22, 50% FY'23, 25% FY'24. Will also be affected by stage migration which remains uncertain.
<b>Lending volumes</b>	RWA consumption is dependent on loan growth and mix.
<b>NatWest Markets refocus</b>	In 2021 we expect to achieve the majority of the remaining RWA reduction towards the medium term target of £20bn.
<b>RWA procyclicality</b>	We expect to incur inflation due to negative credit rating migration, timing is dependent on economic development.
<b>Regulation</b>	We expect mortgage risk-weight inflation of around £12bn and other model changes to be introduced on 1 Jan 2022. Procyclicality may bring part of this forward into 2021. We anticipate RWA inflation from Basel 3 amendments to be less than 5% of RWAs as at FY'20 and currently expect implementation in 2023, subject to regulatory uncertainty on both quantum and timing.

### NatWest Group capital distributions

- FY'20 proposed final dividend of 3 pence per share.
- Subject to economic conditions being in line with, or better than, our central economic forecast, NatWest Group intends to maintain ordinary dividends of around 40% of attributable profit and aims to distribute a minimum of £800 million per annum from 2021 to 2023 via a combination of ordinary and special dividends.
- NatWest Group intends to maintain the required capacity to participate in directed buybacks of the UK Government stake and recognises that any exercise of this authority would be dependent upon HMT's intentions and is limited to 4.99% of issued share capital in any 12 month period.

### Return on Tangible Equity

Illustrative purposes only, not to scale



1. Comprises customer loans in our UK and RBS International retail and commercial businesses

2. Total expenses excluding litigation and conduct costs, strategic costs, operating lease depreciation and the impact of the phased withdrawal from the Republic of Ireland..

### We expect to generate a ROTE of 9-10% by 2023.

Improvement in ROTE driven by:

**Growth** – we target loan growth above market through to 2023<sup>1</sup>;

**Costs** – we target c.4% per annum reduction in other expenses ex OLD through to 2023<sup>2</sup>; and

**Capital** – we target CET1 ratio of 13-14% by 2023.

## 2021 Issuance plan, £bn

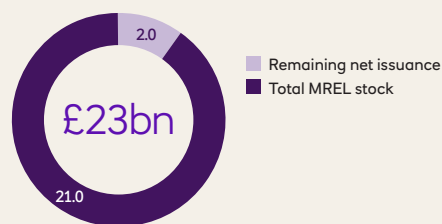
### Senior unsecured

- ~£3-5bn HoldCo senior MREL
- Limited OpCo issuance

### Senior MREL end-state requirement

£billion equivalent

Illustrative amount based on £200bn RWA.



Senior MREL requirement is 11.4% of RWA as per Bank of England guidance

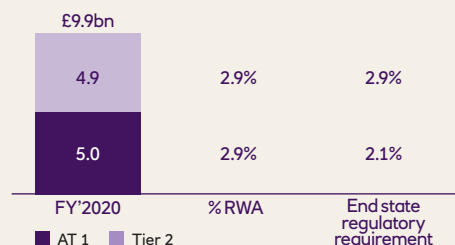
### Capital

- ~£2bn HoldCo Tier 2
- ~£1bn HoldCo AT1

### AT1 & T2 instruments

£billion equivalent

Regulatory value of CRR compliant capital as at 31 December 2020.



## Well positioned to meet 2022 capital and MREL requirements<sup>1</sup>

### Countercyclical buffer

UK rate reduced from 1% to 0% effective from 11 March 2020

- ~£3-5bn HoldCo senior MREL
- Limited OpCo issuance

### Pillar 2A requirement

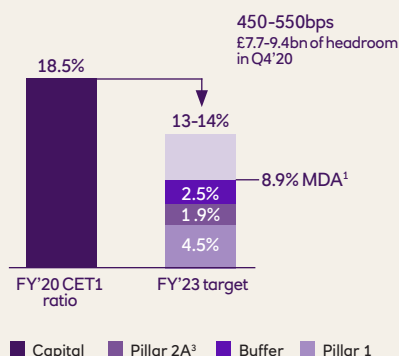
Applied as a nominal amount as at 31 December 2020

### O-SII buffer

Buffer of 1.5% is applied at the ring-fenced bank level (NatWest Holdings Group). At NWG plc consolidated level, the O-SII forms part of the PRA buffer

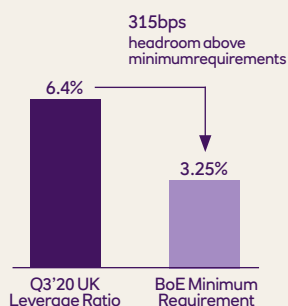
## Capital headroom

CET1 headroom above minimum requirements (MDA)<sup>1,2</sup>

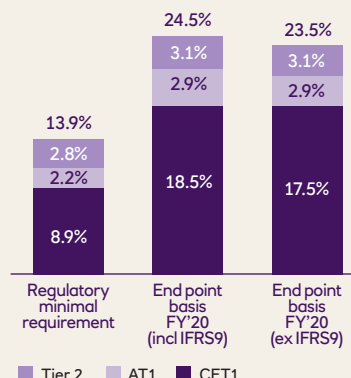


Our CET1 ratio is now 450-550bps above our 13-14% target range and more than double our MDA

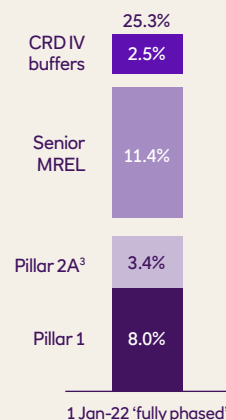
Headroom above minimum UK leverage requirements



Total Capital versus minimum requirements



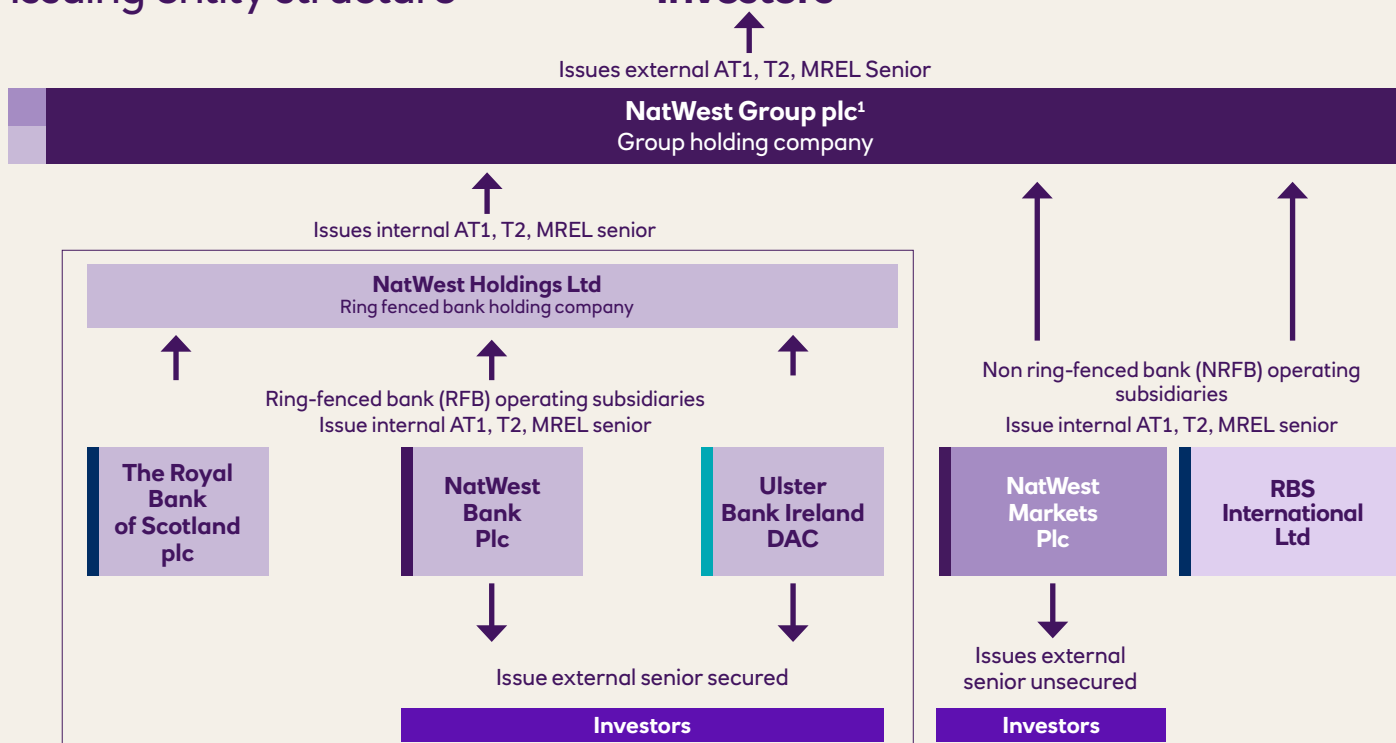
Total LAC requirements 1-Jan-22<sup>2</sup>



<sup>1</sup> "MDA" = Minimum Distributable Amount Illustration, based on assumption of static regulatory capital requirements. <sup>2</sup> NatWest Group plc's Pillar 2A requirement was 3.4% of RWAs as at 31 December 2020. 56.25% of the total Pillar 2A requirement, must be met from CET1 capital. From July 2020 the Pillar 2A requirement is set as a notional amount. Pillar 2A requirement held constant over the period for illustration purposes. Requirement is expected to vary over time and is subject to at least annual review.

## Issuing entity structure

## Investors



<sup>1</sup> The Royal Bank of Scotland Group plc was renamed NatWest Group on 22 July 2020