

Virtual Shareholder Event 21 April 2022

NatWest Group plc held a Virtual Shareholder Event (“Virtual Event”) on 21 April 2022. The Virtual Event was held ahead of the Annual General Meeting (“AGM”) which will take place at Gogarburn, Edinburgh EH12 1HQ at 2.00 p.m. on 28 April 2022. By holding the Virtual Event as well as the physical AGM, we provided shareholders with two opportunities to engage with Board members and to ask questions prior to voting on the business of the AGM.

Shareholders were invited to submit questions either in advance of, or during, the Virtual Event and responses to questions on key themes can be found below. Figures quoted are correct as at the date of the Virtual Event on 21 April 2022.

What revenue growth opportunities do you anticipate over the next 10 years in terms of balance sheet size and geography and in what specific areas is the bank looking to grow the business?

Answer:

Our focus is very much on delivering long-term sustainable growth for our customers and the economy and we believe that the Group is in a very good position to do so as a result of many of the actions we have taken in recent years.

The UK remains a very attractive entrepreneurial market, with SMEs making up almost half of UK turnover and employing 60% of the private sector workforce. In light of our leadership position, the investment we have made in SMEs and entrepreneurs, together with our strong retail business, it is our belief that we will see continued growth in this market.

Sustainable growth will come from closer and deeper relationships with customers at every stage of their lives. This will be enabled by strategic partnerships and acquisitions, our simplified customer experience and a better allocation of our of capital.

We are two years into our £3 billion investment programme, with 80% of this having been invested in the data, digital and technology elements, helping to unlock different areas of growth. There is a particular focus in growth in the affluent market and in the unsecured market, where we have seen further opportunities to grow. There has also very strong growth in the youth market, with a 13% growth in acquisitions.

Why is the price to book ratio of the bank’s shares still less than 1 and price to earnings ratio less than 10 and do you anticipate future share price growth for these to exceed 1.5 and 20, respectively?

How do we expect the bank's shares to perform during rest of the year and in 2023?

Is the dividend yield of 5% sustainable in future assuming the price moves up?

Answer:

We are unable to forecast share prices and NatWest Group does not target a particular share price. The performance of our share price is, of course, an area of focus for the Board. All banks' shares fell sharply at the beginning of the COVID pandemic. The Group's share price, however, recovered well in 2021, increasing by 35% on a 12-month basis, more than the UK bank average.

Our price to book ratio is below 1 and we would like it to be higher than this. It is important to note, however, that our ratio is similar to, or above, that of the other UK banks and is trading better than the European banks as a whole. Factors such as uncertain economic prospects, the invasion of Ukraine, the aftermath of the COVID pandemic and very low interest rates have all impacted the European banking sector.

With regard to the yield, we have committed to pay out around 40% of attributable profit and to pay a minimum of £1 billion in capital distributions per annum from 2022 to 2023. We also maintain the capacity to participate in directed buybacks of the UK Government's stake and we will consider further on-market buybacks as part of our overall capital distribution approach.

We have a set of financial and non-financial targets that we aim to deliver against in line with our strategy of generating sustainable returns for our shareholders. We have been deliberately prudent when setting these and we believe that our distribution policies are sustainable for the foreseeable future.

When will the group be returned to the private sector?

Answer:

The Government's shareholding in the Group has reduced from 62% to around 48% since 2020. This is due to a combination of directed buybacks, a market placement and an ongoing trading plan. The Government are also in the process of selling their shares into the market under a trading plan and their percentage is gradually decreasing day by day.

The Government's most recent commitment is that they intend to dispose of their stake in the Group by the end of the financial year 2025/2026. The options available to them are, placing shares with individual investors in the market, selling them to the Group, and selling shares in the market, via a trading plan.

The Group maintains the capacity to participate in directed buybacks of the Government's shares, limited to 4.99% of our issued share capital in any 12 month period.

Any decision to dispose of its shareholding in NatWest Group is one for the UK Government.

What is the bank doing to retain staff and how does reward benchmark against competitors? What is the bank doing to help staff in the cost of living crisis and has pay risen in line with inflation?

Answer:

We regard staff retention as an incredibly important matter and we believe that the retention of skilled colleagues goes beyond the issue of pay. We monitor our employees' views carefully

by conducting twice yearly surveys to find out how they feel about working for the bank and the scores received are above the high-performing norm for financial institutions.

A broad range of factors are taken into account when setting the pay budget and we benchmark, in great detail, across a wide range of competitors and across a wide range of different jobs.

We believe that we pay fairly and we have been very explicit for many years that we do not pay extortionately highly. Recently, pay has increased by 3.6%, on average, across the entire workforce. Focus of spend is on those in lower paid roles and those at the bottom of their salary grades. Around half of our employees received a pay-rise in excess of 4% and one-third received more than 5%.

With regard to the remuneration of the CEO, last year she was appointed CEO on agreed terms, why give her an 11% pay rise this year?

Answer:

We are aware that executive pay is a sensitive area for our shareholders and the Board has given this a great deal of thought.

Our CEO's previous terms were agreed in 2019 and we did state then that further salary increases would be considered, subject to satisfactory performance and development in the role. The Board is highly impressed with the performance of our executive directors since their appointment and the new strategy is delivering results.

Our pay levels have continued to fall behind our peers and we need to recognise that we are operating in an increasingly competitive market for key skills. The Board believes this is the right time to normalise our pay policy, to bring it more in line with other UK banks. The changes will move us closer to, but still below, the average compensation levels paid by the other major UK banks.

Our aim is to pay a fair market rate for the role, whilst demonstrating restraint. Importantly, around two thirds of pay will continue to be delivered in shares, providing direct alignment between executive directors and shareholders. We hope that shareholders will support the proposals at the 2022 AGM and consider these to reflect a structure and a quantum that reflect prudence, fairness but not excess.

Inflation hits those earning less disproportionately, are there any plans to cap the ratio of employee to CEO pay?

Answer:

Our purpose is to help individual families and businesses thrive and that speaks to our own people, as much as it speaks to our customers and the rest of the community. We don't believe that it would be helpful to our lower paid employees to say that we will address matters by fixing a ratio. We believe that the right approach is to monitor progress over the course of the next few months and decide on the right thing to do for our employees across the spectrum.

This year's pay rise, this was channelled heavily towards our more junior and lower-paid employees. Getting pay right, across the spectrum, is extremely important to the Group and

we are deeply aware of the circumstances that people are facing and we will address the matter in a humane and sensible fashion as the situation develops.

What is your strategy for your Investment Banking arm, NatWest Markets? How can shareholders take confidence from senior management who continue to deliver significant underperformance?

Answer:

NatWest Markets was absorbing too much of the capital of the bank and was not strategically aligned effectively enough to our core customer group. We have restructured the business, which is now largely complete. NatWest Markets is focused on delivering strong products and support for our core customers and it provides capital markets and risk management products to the Group's Commercial and Institutional customers.

The refocus of the business means that it is absorbing less capital and is now strongly positioned for growth. Focus is on product areas that are core to the growth of our customer aspirations, that are market leading, with a strong focus on ESG financing. This will support strong growth and generate sustainable returns to shareholders.

We recently announced that our Commercial Banking, NatWest Markets and RBS International businesses have been brought together to form a new franchise of our Commercial and Institutional business. This will ensure that objectives are closely aligned to deliver value and growth for our customers across their lifecycle.

What is Natwest Group's view on technological innovations, particularly in Web3 with Distributed Finance using Blockchain / Distributed Ledger Technologies? Do you plan to innovate your services to help our customers in Industry 4.0 landscape?

Answer:

A big focus of our strategy and our investment is around technology and innovation and ensuring that we are investing in technology that can support and provide insight to our customers and provide value.

We are keenly aware of the developments in the Decentralised Finance (DeFi) and the associated Web 3.0 movement. For several years, NatWest Group has been engaged in the Blockchain and Distributed Ledger Technology (DLT) ecosystem and using different elements of these in some of our products and our services.

We are an active member of various consortiums, including R3, which consists of over 100 leading organisations focused on DLT related opportunities. Paul Thwaite, CEO of Commercial Banking, has a seat on the Bank of England's Central Bank Digital Currency Engagement Forum. Furthermore, we have internally appointed a new Head of Digital Assets and Head of Digital Capital Markets focused on business opportunities for the bank in this space.

We are working with partner banks across the world on a new service for corporate customers called Carbonplace. This uses blockchain to create a thriving and transparent global marketplace for carbon offsets, with clear and consistent pricing and standards.

What is the position with your Irish tracker mortgage portfolio and is it staying with the NatWest Group when the Irish exit is complete?

Answer:

We have made good progress in our phased withdrawal plans from Ireland and continue to progress with the disposal of different elements of the portfolio. We remain convinced that we took the right decision to withdraw from Ireland, as we could not see a way of making acceptable profits in the Irish banking market.

It is our intention to sell the tracker mortgage book. This is subject to ongoing commercial negotiations and we are not in a position to comment further at this time.

What is the bank doing to support customers through the climate transition?

Answer:

We put climate at the heart of our strategy. As the UK's leading business bank, with more than 19 million customers, we have an important role and responsibility to help finance and fund transition and to provide practical support to our customers in the fight against climate change.

We want to deliver real change and have many different initiatives in place to help translate the 1.5 degrees challenge into practical steps for our customers to take on a day-to-day basis.

Initiatives for retail customers include the launch of green mortgages in October 2020, which offer a discounted interest rate on properties rated EPC A-C. Green mortgages with a value of £728 million were completed in 2021.

Another initiative is the launch, in partnership with fintech, CoGo, of a carbon tracker feature in our mobile banking app to help customers check the carbon footprint of their spending.

In terms of our business bank, we are the largest lender to SMEs who represent 50% of the turnover of the UK and 60% of the private sector employees. Funding the transition presents an opportunity of around £160 billion revenue. We have therefore launched a number of commitments in the form of the £100 billion Climate and Sustainable Funding and Financing by the end of 2025. We have launched new SME green loans to help SMEs support their initiatives.

We are working with companies in the energy and housing sectors, and a number of different partners, to find answers to the climate transition. In the agricultural sector, we have dedicated and specialist Relationship Managers supporting this sector who have all gone through climate training to better help our customers. Our real focus is on practical help to provide information to small business owners and consumers to help them address the climate emergency we are facing.

As NatWest's corporate business opportunities have been shrunk by its downsizing to UK Banking, how can it justify turning away business under the guise of an over ambitious climate change policy?

Answer:

Our climate ambition is to help people, families and businesses transition to low carbon and a net zero economy is a core part of our growth strategy.

For more than a decade, we have been in the leading position in terms of renewable transactions. The strong demand for climate sustainable funding and finance is evidence of the important role that banks have to play in financing the transition. As the economy recovers from the COVID pandemic, our focus is on delivering sustainable long-term growth for our stakeholders.

In terms of market trends, the recent McKinsey report highlighted that, globally, around 7.5% of GDP will need to be spent on supporting the transition and growing new industries. That's around \$275 trillion in total between now and 2050. In the UK alone, we believe that there is £160 billion revenue opportunity in relation to SME transition. We believe this to be a significant growth part of our plan as it offers real opportunities to fund and finance the transition. We recognise that the downside of not doing this would be very significant.

We acknowledge that our climate strategy is ambitious and we are aware of the uncertainties around it. We do think it is important to be transparent about the risks and dependencies involved in achieving our ambitions. We are aware that we will need to work in collaboration with others in the industry, the public sector, private sector regulators and others to ensure that the transition is carried out in a just and fair way.

We view this as a growth opportunity and business opportunity and recognise the need to protect against future downside risks and to do things in a practical and long-term way to drive sustainable growth.

We are committed to supporting customer transition and recognise that the risks of not tackling climate change are significant.

The bank was fined £265 million for breaches of Money Laundering laws when a gang deposited £700,000 in cash in black bin bags, how on earth could Senior Management allow that to happen?

Answer:

We deeply regret that the bank failed to adequately monitor one of our customers between 2012 and 2016 for the purpose of preventing money laundering. Detecting and preventing financial crime is a key priority for NatWest Group and a matter that we take very seriously. We have invested almost £700 million in the last five years and we are planning to spend over £1 billion in next five on investing in the detection and prevention of fraud and financial crime. We now have more than 5,000 staff in specialist financial crime roles, including 1,000 individuals in dedicated fraud roles.

We cannot tackle financial crime in isolation and we work closely with industry bodies, law enforcement, regulators and Government to help find solutions to this shared challenge. We hope that, through substantial investment, we will continue to make progress in order to protect customers and communities.

Post pandemic with customers having rapidly adopted digital, how is NatWest ensuring customer service is not a thing of the past with this shift to impersonal digital channels?

Answer:

Building the best digital experience is central to our strategy to offer customers effortless digital journeys that build their financial capability securely and easily. The use of digital channels is growing rapidly across all franchises and this was boosted by the COVID pandemic. 87% of our retail customer needs are now met digitally, with 60% of our customers banking exclusively digitally. There were around 10,000 video banker conversations per week in 2021 compared with 3,000 per week in 2020. In 2021, Cora, our AI virtual assistant, handled 10 million retail banking conversations, up 27% on the previous year.

All channels, including branches and call centres, are important for delivering good customer service. We kept our branches open throughout the pandemic, albeit sometimes on reduced hours. We are investing to ensure a very good digital customer service, via chat functions and telephone, to ensure that we have well-designed processes in place, where customers know where they are in the journey. Our focus on getting the right balance between digital and human interaction has resulted in improved Net Promoter Scores (NPS), which have gone from 7th to 3rd on Main Bank NPS in April 2020 to March 2022, and from joint 7th to 5th for branch NPS over the same period. Digital and personal interactions can each result in good and bad customer service. The highest NPS results are received when a journey has been completed digitally end-to-end.

We believe that the way that we are delivering our digital service, which is what our customers increasingly want, represents good customer service.

As a purpose driven organisation, NatWest Group is committed to helping colleagues, customer and communities to thrive through a focus on learning. What commitments and progress have you made to support these key stakeholders groups now and in the future?

Answer:

We have made significant progress against our purpose commitments. We have three focused areas in terms of learning and education, enterprise, addressing the climate challenge, as well as creating a learning organisation. Much focus has been on how we can ensure that we support our stakeholders, colleagues and shareholders.

From a colleague perspective, we recognise the rapidly changing technology trends and that jobs are changing significantly. We have invested significantly in creating our Talent Academy, a learning academy to invest in our people to help them develop their careers and skills for the future.

We have committed to supporting people to reskill, which we believe helps to reduce people costs, mitigate people risks and create a positive experience for our colleagues. For example, we currently have a number of colleagues who are retraining to be software engineers. We believe that creating a learning organisation, which invests in diversity and inclusivity, allows people to thrive.

With regard to customers and communities, and on the themes of education and support, we have made a number of colleague training programmes available to schools.

Last year, we launched our 'CareerSense' programme in schools, which provides education and support tools to develop critical workplace skills to support youth employability. We recognise that people have been affected by the COVID pandemic in terms of loss of access to education.

Our 'Moneysense' programme, which has been running for 25 years, helps to educate children about money and finances. Our 'Dream Bigger' programme focuses on young women in schools, teaching them about entrepreneurship, starting a business and building the resilience needed to be a business leader.

We offer extensive apprenticeship programmes, for example, our 'Digital Mobility' programme, which focuses on socio-economic and ethnically diverse cohorts to bring them into a career in banking.

In 2022, we announced a partnership with footballer and campaigner, Marcus Rashford MBE, to help more young people appreciate their strengths and become more money confident.

What are you doing to ensure all regions of the UK benefit from economic recovery?

Answer:

We are the UK's leading business bank and a broadly spread, regional bank, with a presence in London and the South-east and strong presence in Scotland, Northern Ireland and Wales. We have 19 million customers in communities throughout the UK, including 1 in 4 UK businesses, and we have an important responsibility in supporting and promoting the strength of regional economies.

With regard to our mortgage business, we have a higher market share in regions other than in London and the south-east. We have over 800 branches and 16,000 physical points of presence and we also have our mobile banking fleet supporting communities.

We expect to help create an additional 50,000 new businesses by 2023 (75% outside of London/South East) and provide £6 billion of Growth Funding for SMEs (£4 billion to help SMEs outside London/South East). We have a number of regional entrepreneur accelerator hubs located in premises throughout the UK, providing access to co-working space and other entrepreneurs to help grow businesses. We have seven Regional Boards to ensure regional, economic and business representation and that we understand the needs of these local areas.

We work often with Chambers of Commerce and with the regional councils of the CBI and remain alert to any opportunities that may emerge from the Government's initiatives. For example, the Government's Levelling Up white paper makes it clear that more funding will be given in time to local areas, and we need to ensure that we are alert to the opportunities that will arise for the bank in helping bring those developments to fruition

What action, if any, has been undertaken to improve the culture within the bank?

Answer:

We place significant focus on culture. We are a people organisation and, making sure we have a truly inclusive and supportive culture, is area of focus the management team and the Board.

We are committed to championing the potential of our colleagues and we are working to build a learning organisation. We are creating an environment where people can bring the best of themselves to work and work in an open environment where they can challenge and learn from each other. We recently launched our 'Talent Academy' where colleagues can self-refer themselves and go through the training programmes.

We recently refreshed our values, with direct input from colleagues throughout the organisation, to bring these up to date to reflect the organisation we are today, and will continue to be. Our refreshed values ensure that we are investing in areas such as inclusivity, curiosity, robustness, sustainability and ambitiousness, for customers and colleagues.

We measure our culture through a number of different dimensions, using behavioural audits, to identify positive and negative behaviours. We use a number of different mechanisms to gauge how our customers and colleagues feel about the organisation and we use these to measure behaviours. Our CEO chairs a Culture Committee, with a number of colleagues and the junior management team, to constantly test and shape our culture to ensure that we are living up to our purpose.

What is the current extent of the Group's business in Russia and/or with Russian companies and individuals?

Answer:

NatWest Group has no physical presence in Russia, and very little direct exposure. That has been the case since 2014 when we implemented a comprehensive sanctions policy in relation to Crimea. We continue to monitor the situation closely and our indirect exposure is not a cause for concern.

We comply with sanctions laws and regulations in the jurisdictions in which we operate and we will continue to act in accordance with these. We are responding to all measures and sanctions announced in the UK and internationally in line with regulatory expectations and implementing the blocks and filters as required on our systems.

We are exiting a small number of customers because of their links to either sanctioned individuals or as entities of the Russian state. We continue to review our customer base for other connections.