# NatWest Group plc
## Annual Results 2020 - Analyst Call

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Operator: Welcome, everyone. Today's presentation will be hosted by CEO Alison Rose, and CFO Katie Murray. After the presentation, we will open up for questions.

Alison Rose: Good morning, and thank you for joining us today. As this is a quarterly update will be relatively brief this morning, I'll cover progress on our performance and strategy before handing over to Katie to take you through the financial performance in more detail. We'll then open it up for questions.

So let me begin with the headlines on slide three.

We delivered a profitable performance in the first quarter, as we continue to support our customers to advance our strategy and to accelerate our digital transformation in response to changing customer needs. We are reporting operating profits before impairments of 844 million, and have made an impairment release of 102 million during the quarter as defaults continue to remain low with little change in stage migration.

Taking this release into account, we delivered an operating profit of 946 million and an attributable profit of 620 million up from 288 million for the same period last year. We are seeing the potential for a more rapid recovery taking shape. However, at this point, our economic assumptions remain unchanged, and we will review them at the half year.

Net lending grew 2.2 billion driven mainly by mortgage growth. We reduced costs by 72 million year-on-year ahead of our targeted reduction rate. And we continue to benefit from a strong capital position with a CET1 ratio of 18.2 percent after a 1.1 billion directed buyback from the government of almost 5 percent of our share capital, the maximum amount possible in any given year.

This capital strength continues to give us flexibility to navigate ongoing uncertainty, to consider options for creating shareholder value and to return capital to shareholders. As you know, we intend to maintain a payout ratio of 40 percent of ordinary shares with distributions of at least 800 million each year up to and including 2023.

The purpose-led strategy we set out last year shown on slide four is designed to drive long term sustainable shareholder returns by serving customers across their lifetime, powering the organization through innovation and partnerships, simplifying and digitizing the business and maximizing capital efficiency.

Our purpose is also exemplified by three focus areas; enterprise, financial capability and climate change, all of which strengthen our ability to drive returns. I'm not proposing to cover these focus areas in detail today but I do want to mention a 1 billion euros affordable housing social bond, the first of its kind issued by any UK bank. This is the third issuance under our green, social and sustainability bond framework.

Our first social bond in 2019 has helped to create almost 7,000 jobs to date. And our first green bond issued last year has allocated proceeds to renewable energy projects around the UK, supporting customers' transition to a low carbon economy.

So let me move on now to how we are serving customers to generate growth on slide five.

It is too early to comment on the impact of this month easing of lockdown that credit and debit card activity has already been trending towards more normal levels. Spending on debit cards is now above levels in March last year before we saw any impact from COVID-19 whilst credit card spending is approaching those levels. We're also seeing recovering demand for personal loans and new cars.

Across the retail and commercial businesses, net lending grew by 2.2 billion during the quarter, excluding government schemes. And we continue to see strong deposit growth of 12.1 billion bringing the total to 415 billion.

In the retail bank, gross new mortgage lending was resilient at 9.6 billion with healthy margins as we maintain strong pricing discipline. Commercial banking lending has been more muted as businesses take a cautious approach during ongoing uncertainty and continue to deleverage.

Demand for government support schemes continues to taper and the majority of those who asked for payment holidays have now returned to normal payments in both retail and commercial banking.

Two new government schemes were introduced in early April, Pay As You grow and the Recovery Loan Scheme.  Pay As You Grow enables businesses which has started repaying their Bounce Back Loans to request an extension of their terms in six to 10 years take a repayment holiday or pay interest only for six months.

We've received around 14,000 applications to date, the majority of which are to extend the term of the loan.  But this number could increase as we have recently contacted over 100,000 customer accounts to advise it is 60 days or less for the first repayment date.

On the Recovery Loan Scheme, we received around 3,000 applications in the first week although demand has dropped since then to between 100 and 150 applications a day.

I want to move on now to talk about how we are using innovation and in particular, digital transformation on slide six.

The acceleration of digital adoption that we saw last year has continued during the quarter.  Sixty-one percent of our retail customers now use only digital means to interact with us up from 50 percent a year ago.  This means people are able to access our services at any time of day from any place they want, making their lives easier and more convenient.

In commercial banking, 68 percent of sales are now via digital channels, and use of our chatbot Cora has grown 58 percent year-on-year with over 40 percent of interactions completed without human intervention.

We're also using video banking for an average of 13,000 interactions a week up from around 7,000 a week in the fourth quarter last year.  This enables us to deliver personalized customer service efficiently despite the pandemic and without the need for customers to travel.  These are all good examples of how we are creating a relationship bank for a digital world.

We are also actively managing capital to drive returns which I will cover on slide seven.

As I mentioned earlier, in March, we announced a directed buyback from the government of almost 5 percent of share capital for 1.1 billion, the maximum amount possible in any given year.

We've also made strategic choices in relation to capital in NatWest Markets and Ulster bank. And NatWest Markets were ahead of plan as we reduced risk weighted assets which are now 26.5 billion and we expect to achieve the majority of the remaining RWA reduction by the end of the year.

On Ulster Bank negotiations are ongoing with AIB about the performing commercial loan book, as well as with other third parties about retail and SME assets, liabilities and operations. We will update you in due course when we have anything new to report.

In addition, we are actively managing portfolios and using synthetic trades across the business to reduce capital consumption and to manage risk. For example, in commercial banking, active capital management has resulted in a reduction in RWAs of 600 million in the quarter.

We also optimized our regulatory capital with ongoing liability management exercises, and we repurchased 1.6 billion of tier one and tier two securities during the quarter.

So before I hand over to Katie, let me update you on slide eight on the progress we're making towards the targets we announced in February.

We're pleased to report that our progress is on track. But of course, we did not expect this to be linear on a quarterly basis. Net lending of 2.2 billion in the quarter equates to annualised lending growth of 3 percent. Both fell by 72 million or 4.5 percent ahead of our targeted reduction rates of about 4 percent per annum.

And our CET1 ratio of 18.2 percent is down from 18.5 percent at the year-end as we move towards our target ratio of 13 to 14 percent by 2023.

Our intention remains to return capital to shareholders or pursue other options that create value as we move towards that target. So bear in mind, we have yet to experience any procyclicality.

And with that, I will hand over to Katie to take you through our performance in more detail.

Katie Murray: Thank you, Alison, and good morning everyone. I will start with the group income statement taking the fourth quarter as a comparator.

Total income of 2.7 billion pounds was up 4.9 percent on the fourth quarter. Within this, net interest income was down 2 percent to 1.9 billion and non-interest income was up 29 percent to 728 million. This increase reflects seasonally higher trading income and higher lending volumes.

Operating expenses fell 22 percent to 1.8 billion pounds driven by the absence of the annual UK bank levy, lower strategic and conduct costs, and of course, ongoing cost reduction. This means we're reporting an operating profit before impairment of 844 million pounds up from 194 million in the fourth quarter.

The net impairment released for the first quarter of 102 million pounds represents 11 basis points of gross customer loans and compares to a charge of 130 million or 14 basis points in the fourth quarter. This release reflects improvements in underlying credit metrics.

Taking all of this together, we reported an operating profit before tax of 946 million pounds, an attributable profit to ordinary shareholders was 620 million, equivalent to a return on tangible equity of 7.9 percent.

I'll move on now to net interest income on slide 11.

Banking net interest income for the first quarter was 35 million pounds lower than the fourth. A strong mortgage growth and improved mortgage margins were offset by lower commercial balances and two less days in the quarter.

Turning to bank net interest margin, this reduced by two basis points to 164 basis points. The lower yield curve accounted for three basis point declines due to the structural hedge, which was partially offset by one basis point increase for mix and pricing as a result of stronger mortgage margins.

As you can see, liquidity had no impact as our TFSME repayments was offset by an increase in deposits.

Turning to the drivers of net interest margin on slide 12.

Asset yields and funding costs were stable in the quarter after a period of decline following base rate cuts in March last year. On the asset or lending side, gross yield for the group was broadly stable at 184 basis points despite a slight reduction in the retail banking loan yield as a result of lower unsecured balances.

On the liability or deposit side, group funding costs were broadly stable at 49 basis points with a further small reduction in retail deposit costs to eight basis points.

There are three main factors to consider in relation to net interest margin for the second quarter.

First, ongoing pressure from the structural hedge. We have increased the hedge by 8 billion pounds in the quarter due to increased deposit growth in line with our policy. If deposits stay broadly stable, we would expect to add a further 15 billion pounds over the next 12 months.

Taking into account the current yield curve and our expectations for the size of the hedge over 2021, we now expect a reduction of income of around 250 million pounds from our hedge portfolio compared to 2020. This will not be completely linear and equates to around three basis points per quarter.

Second, a change in liquidity which as you know affects average interest earning assets and therefore NIM.

The third factor is mix and pricing.  In the first quarter mortgage margins on the front book increased from 161 to 179 basis points.  This is above the back book which improved 12 basis points to 159.

These improvements include around five basis points from our transition to SONIA from LIBOR at the beginning of the year, which has no impact on group income but does affect individual product lines.

Average application margins in the first quarter were 180 basis points. However, these reduced towards the end of the quarter due to higher swap rates and market pricing.  And our March margin was around 165 basis points slightly above the back book.

Mix is also affected by demand for higher margin unsecured and corporate lending which will ultimately depend on the shape of economic recovery.

Moving on now to look at the volumes on slide 13.

Gross banking loans were stable in the first quarter at 363 billion pounds. Mortgage growth of 2.7 billion was 1.4 percent reflects continued strong demand in the UK post stamp duty extension.  Our mortgage flow share in the first quarter was 13 percent above our stock share which increased from 10.9 to 11 percent.

Gross new lending in the quarter was 9.6 billion pounds.  Unsecured balances declined in the first quarter across both personal advances and credit cards.

Demand for government schemes also slowed, but this still accounted for 600 million pounds of additional lending.  However, this was offset by repayments from commercial banking customers, including 300 million pounds of RCF repayments and utilization stable at 22 percent.

Average interest earning banking assets grew by 7 billion pounds or 1 percent driven by mortgages.

I'd like now to turn to non-interest income on slide 14.

Non-interest income excluding notable items was up 15 percent on the fourth quarter to 742 million. Within this, income from trading activities increased 33 percent to 162 million. This reflects a stronger performance in fixed income with higher levels of customer activity. Growth is clearly lower than the first quarter of 2020 given the volatility we experienced last year.

Moving now to fees and commissions for the retail and commercial bank which decreased 4.3 percent from the fourth quarter to 470 million, this was driven by lower cards and lending fees as a result of lockdown.

The outlook for fees and commissions is uncertain given the ongoing restrictions due to COVID-19 across Europe but we expect them to grow as the economy recovers.

So to round off my comments and income, there is no change to our guidance from February. We continue to expect the income excluding notable items to be slightly lower this year than 2020 due to two main headwinds, the impact of the structural hedge and the lower income in NatWest Markets as we refocus the business to better serve corporate and institutional customers.

I will now we move on to look at costs on slide 15.

Other expenses, excluding operating lease depreciation and the direct cost base of Ulster, were 1.5 billion for the first quarter about 72 million or four and a half percent lower than the first quarter last year. Naturally, these cost reductions will not be linear and we continue to expect savings of around 4 percent for the full year.

Strategic costs in Q1 were 160 million and we expect these to be around 800 million for the full year.

Turning now to impairments on slide 16.

We are reporting a net impairment release of 102 million or 11 basis points of gross customer loans in the first quarter. This compares to a charge of 14 basis points in the fourth quarter. The release is driven by a continuing low

level of defaults in the commercial book and stage three defaults broadly in line with our historical experience in the retail bank.

Coupled with further positive migration of Stage 2 loan back to Stage 1 following improvements in the underlying credit metrics. Economic assumptions we presented in February are unchanged and we include these in the slide appendix. We will update these in line with our usual practice in Q2.

Our post model adjustments for economic uncertainty are also broadly stable over Q4. We have not changed our guidance for impairments for 2021 and we do expect these to be at or below our cycle range of 30 to 40 basis points. So clearly, if economic outlook continues to be favorable, then we would be below 30 basis points.

Turning now to our credit risk profile on slide 17.

There has been some positive migration during the quarter reflecting improving credit metrics as government support measures continue and customers build healthy cash balances. Eighty percent of our loan book is in Stage 1 up from 77 percent at year-end, reflecting migration of Stage 2 loans back to Stage 1, in particular in the retail bank.

Over 98 percent of loans are in Stage 1 or Stage 2. Stage 3 loans are slightly down to 6.1 billion or 1.6 percent of gross loans. ECL coverage of 1.6 percent is down slightly due to write offs with Stage 3 coverage of 39 percent.

As you know, some of our wholesale loans are in sectors that we monitor particularly closely. These amounted to 27 billion pounds or 7 percent of gross loans. Similar to the trend at group, Stage 3 gross loans in these sectors was down slightly at around 700 million and we remain comfortable with coverage at 47 percent.

Turning now to look at capital and risk weighted assets on slide 18.

We ended the quarter with a common equity tier one ratio of 18.2 percent on a transitional basis under IFRS 9 which is 30 basis points lower than Q4. The

1.1 billion directed buyback and associated pension contributions together accounted for an impact of 72 basis points.

And an accrual of 200 million for the 2021 dividend reduced the ratio by a further 11 basis points. This was largely offset by a 48 basis points benefit due to lower RWAs and a further 31 basis points from attributable profits.

Impairment release had negligible impact on our CET1 ratio as this relates to Stage 1 and Stage 2 expected credit loss. But it's currently added back to our capital position in line with the IFRS 9 transitional rules.

RWAs decreased 5.6 billion pounds in Q1 including a 1.3 billion pound benefit from currency exchange rates and a 900 million pound benefit from our annual operational risk recalibrating exercise.

Credit risk reduction of 4.8 billion was driven by lower commercial and unsecured retail balances, as well as the benefits of 1 billion pounds from procyclicality, largely arising in the retail bank.

NatWest Markets RWAs reduced to 26.5 billion pounds. And as Alison mentioned, we still expect to achieve the majority of our targeted reduction to around 20 billion this year.

Our guidance and RWAs remained unchanged and we expect them to be in the range of 185 to 195 billion at the end of 2021, including all regulatory impacts effective on January the 1st 2022. Where we are in this range will depend on procyclicality and loan growth throughout the balance of this year.

Turning to my final slide on our strong balance sheet.

Our CET1 ratio is now between 420 and 520 basis points above our 13 to 14 percent target range, and more than double or maximum distributable amount despite the directed buyback and 2021 dividend accrual.

Our UK leverage ratio of 6.2 percent is 295 basis points above the Bank of England's minimum requirements. We have also maintained strong liquidity levels with a high quality liquid asset pool and a stable diverse funding base.

Our liquidity coverage ratio decreased in the quarter to158 percent due to the 5 billion pounds of TFSME repayments.  And our headroom above our minimum requirements is now 65 billion pounds.

So to conclude, we have delivered a good operating performance with strong lending growth and continued progress on both cost reduction and capital optimization.

And with that, I'll hand back to Alison.

Alison Rose: Thank you, Katie.  So in summary, we have delivered an operating profit of 844 million in the first quarter with an impairment release of 102 million as default levels remain low whilst government support schemes are still in place.  We are comfortable with our position but we recognize there may be economic challenges ahead.  And against this backdrop, we remain focused on supporting our customers whilst advancing our strategy and accelerating our digital transformation.

We're making good progress on our targets and have increased net lending by 3 percent on an annualized basis, reduced cost ahead of our target reduction of about 4 percent a year, and used our capital strength to make a 1.1 billion directed buyback from the government as well as meet our commitment to distribute a minimum of 800 million in dividends each year for the next three years.

Our focus remains on driving improved shareholder returns by growing income, reducing costs, and maximizing capital efficiency.  And with disciplined execution in each of these areas, we aim to deliver a return on tangible equity of 9 to 10 percent by 2023.

Thank you very much and we're now happy to take your questions.

Operator: Ladies and gentlemen, if you would like to ask a question, please press the “star” key followed by the digit “1” on your telephone keypad.  We will pause for a moment to give everyone an opportunity to signal for questions.

And we will take our first question from (Aman Rakkar) from Barclays.

(Aman Rakkar): Good morning, Katie. Good morning, Alison. Couple of questions actually if I may on income please. I was just trying to stitch together your commentary on the net interest margin. So you're flagging structural hedge drag, the benefit of mortgage margins in Q1 probably is going to be a bit lower going forward.

So rough ballpark, a couple of basis points off NIM each quarter I guess is the first part of the question. And then in terms of what that implies for the full year, net interest income (print), I mean, if that is the case, you should probably be able to offset that with some balance sheet growth in retail and commercial such that can we take Q1's net interest income as a decent run rate for the full year? Because I think that would imply a number above 2021 consensus. So sorry for asking a question relative to consensus. I know – I know we do that a lot.

I guess, second was just around your expectations for NatWest Markets for the full year, I guess, is probably a touch softer than what we were looking for. Does that guidance that you gave us before 800 to a billion still stand? That'd be really helpful. Thanks.

Alison Rose: Right, thank you. Well, look on NatWest Markets, yes, so our guidance for NatWest markets is unchanged, 800 to 1 billion. Katie, do you want to take the walk through the NIM (asset) question?

Katie Murray: Yes, no, sure, absolutely. So in terms of the Q1 performance as we know fell by two bps. The low yield curve was three bps of that decline and then that was offset by the mix and pricing in terms of a positive one basis point, which was largely driven by the higher mortgage margins. And this quarter, central liquidity was flat.

So as you know, again, when we look at the NIM, there’s three buckets that we think about, the yield curve, we expect to continue with a three basis point decrease in Q2 to lower hedge income driven by the higher yields on certain positions due to the roll off that's happening in 2021.

You'll have noted my comments that we are helped by an improvement in the swap curve in that piece but it's still going to be around the three basis points number.

Liquidity, of course, remains sensitive to the movements. We'll leave you to decide what might happen in terms of liquidity. So when we get to mix and pricing, there's a few things to consider.

The positive mortgage trend that we saw in Q1 is reducing. The average application margin in Q1 was 180 basis points for the quarter but this decrease to the 165 basis points kind of for March primarily due to the higher swap rates as well as some competition in the market.

We know that the commercial loan book will continue to be impacted by lower front book yield and we do also continue to see a bit of a mixed effect in terms of lower unsecured balances. So I think you're right, it does all kind of come back a little bit to what's the volume story to make sure that we manage that margin impact as well as on the volume.

And I think we've obviously done well on that in terms of mortgages and I think we'll then see customer behavior dictate ultimately what happens in terms of volume across retail and commercial and unsecured and corporate lending as we return back to a post lockdown world.

(Aman Rakkar): Thanks for that. Do you think then the Q1's net interest income might be an indicator of a full year? Do you think we could annualize that?

Katie Murray: So what I would probably do with you there, I would take you back rather than give you just kind of total income guidance and kind of just refer to the revenue guidance that we gave in February which I'm sure we'll get into more later as other questions kind of go on but I would go in that basis and we'll come into that, I'm sure later.

(Aman Rakkar): OK. Thank you very much.

Operator: Our next question is from Jonathan Pierce from Numis. Please go ahead.

Jonathan Pierce: Good morning, both. Thanks for the questions.

Alison Rose: Hi, Jonathan.

Jonathan Pierce: I've got two actually. The main one is on the hedge and I have to confess that I'm a bit confused about the margin guidance as it relates to the hedge drags. Because if we've seen three basis points in Q1 and we're going to see something similar in Q2, I don't know what happens towards the end of the year, but that's applied to the interest earning assets.

You're suggesting there's a sort of annualized impact each quarter for the next few quarters of about 150 million pounds which given you're only rolling, I don't know, probably 8 billion pound a quarter, something like that. It's pretty mechanical rise.

The delta on the reinvestment rate is huge. It's sort of 150 to 200 basis points. And that's before the benefit you're going to get from the scaling up of the hedge that you've just talked about.

So I don't know whether I'm missing something here, whether you're being ultra prudent on the drag from the hedge that's coming through, maybe that drag just abates completely into Q3 and Q4 but what am I missing on the hedge just three basis points a quarter given where swap rates are at the moment is just it's very big.

Katie Murray: Yes. So I mean, I think the important thing is to really reiterate there on the hedge is what I said in the speech, it's around 250 million impact full year – on full year.

Jonathan, I know you understand our hedge well but just for the sake of others, it's all about sort of being very mechanistic and very consistent. We've got the average size of 177 billion in Q1 so we added 8 billion onto the hedge since year-end. So you're right, about 8 billion a quarter. That's 20 billion since the end of 2020.

We worked the hedge on a rolling 12 month basis. So if deposits were to stay stable as they are broadly stable as they are today, we'd expect a further 15

billion to come on over the next nine months which would take the hedge size to 192 billion. Kind of further growth on that would be more upside.

Clearly some outflows would have a little bit of an impact but given the rolling 12 month basis, it takes a little bit of time to come through on that. When we look at the hedge, it's a blend of our product hedge with an average – with a five-year maturity, an average life of two and a half years, an equity hedge with 10 year maturity, an average – an average life of five years. And together, they have an average of 2.9 years.

We have – we've given you the sensitivities around what with a 25 basis point move doing so we know that in year one, it only adds about 37 million pounds but by year two, you see that increasing up to 118 million pounds.

When we did our base case budget, I think we – we've had seen the swap rate down to about eight basis points, the current five years about 47 basis points. So you've a delta of 39. You can kind of work out what the maths do in terms of the yield compared with the growing of the – growing of the – of the hedge within there.

So I want to reiterate, we're looking at 250 this year as long as rates and our expected volumes stay the same.

Jonathan, you said you have a second question. Sorry, I didn't give you a chance to ask it.

Jonathan Pierce: Yes, thanks for – thanks for that. Yes, the second question actually is just much more simple. Consensus income ex notable items for this year is down 3 percent from the income last year ex notable items. Is that within the bounce of your slightly lower and consensus is being too optimistic, too pessimistic?

I'm thinking in particular of the miss in Q1 on NatWest Markets but if you're talking the round on whether you're happy with consensus income this year, that'd be helpful.

Katie Murray: Yes. So I mean there's no change to our 2021 revenue guidance that we gave you in February so that gives you some guidance as well. So just to remind you what we said, we're expecting the 2021 income ex notable items to be slightly down on 2020 driven by the three factors, lending growth across UK, RBSI, retail and commercial excluding obviously government schemes that will be above the market rate.

We're comfortable with our performance on that in Q1. The impact of the structural hedge we've just talked about, the reduction of 250 million and I think (Aman) asked in the last question around the income reduction in NatWest Markets for 0.8 to 1 billion.

Then if you put some takes, we obviously in February talked a lot about the fact that we had the rate cut. Clearly, that's no longer there. We've got this sort of curve movements. We've talked about we've a little bit of a longer lockdown but then at the same time, we're quite – we can see a scenario of a positive growth out of where we are. So I think comfortable kind of in the round.

Jonathan Pierce: OK. Thanks (for taking my question).

Katie Murray: And that guidance still works. Thanks, Jonathan.

Operator: Our next question is from Benjamin Toms from RBC. Please go ahead.

Benjamin Toms: Morning, both. Thank you for taking my questions.

First one is on cost of risk. I think your guidance is at or below through the cycle of 30 to 40 bps. I think to hit a cost of risk of 30 bps for 2021 taking to account the buyback in Q1 implies something like 33 bps cost of risk the remaining three quarters of the year given that you also need to update your economic assumptions and markets more positive outlook.

Can you just give some more color while you're not happy to get more positive on cost of risk guidance?

And then secondly on buybacks, you've executed your directed buyback 5 percent. I think you're right in saying that you now have to wait 12 months to do another one but I think there's also technically scope to do a general buyback, although it's not favored by investors.

Can you update us on your thoughts on this (method) of capital return for the rest of 2021 versus special dividends? Thank you.

Alison Rose: Right. Thank you. We'll look on the cost of risk. I mean, I think we expect impairments to below – be below and we will update our economic guidance at the half year. And I think as I said, we are seeing potential for a more rapid recovery to take place.

If you look at the impairments that we've released, the 102 million in this quarter, that's really reflective of the low level of defaults that we're seeing and an improvement in the book and things migrating back from Stage 2 to Stage 1. So we would expect to be below our 30 to 40 that we guided.

Katie?

Katie Murray: Yes, no, thanks very much on that. Good morning, Benjamin. When we looked at the directed buyback, you're absolutely right. It's a rolling 12 month calendar maximum 4.99 percent. So we did the transaction on the 19th of March, which means you couldn't do it again until the 19th of March next year.

At the AGM last week, we would have sought permission and we received a permission, that was only this week or a lot happens in a week, that's to get to do an in market buyback. I think it's something we'll – when we talk with our investors, our preference has always been directed.

I think what we did at the year-end was to be very clear in terms of the guidance that we wanted to return a minimum of 800 million which would be across a mix of ordinaries and specials in line with our dividend policy and to make sure that we had capacity to do the directed buybacks.

We're very pleased that we managed to do that in Q1. And I think let's see how the rest of the year unfolds but we've always been very clear around our preference is to return capital to the shareholders.

Benjamin Toms: Thank you.

Female: Thanks, Benjamin.

Operator: Your next question is from Alvaro Serrano from Morgan Stanley. Please go ahead.

Alvaro Serrano: Good morning. I had a question on revenues which is kind of a follow up of what you've already touched on and then on provisions. So on revenues, I mean, I duly noted that you're sticking to your guidance but with a rate cut now out of the equation as bigger structural heads are steepening, the stamp duty extension, you obviously bought back some of the sub debt.

What – and you're keeping NatWest Markets guidance. So what's gone worse for you to keep your overall guidance unchanged? And are you building any buffer for NatWest Markets given the slow start? I don't know if there's any change in seasonality that gives you more conviction that 80 to a billion is still valid.

And the second question on provisions, can you update us how much your (amount) and where your stock of provisions related to the management overlays where it is that I haven't seen it? And I think it was close to 900 million in Q4. And is there any reason sort of assuming your macro assumptions aside? Any reason why we – I mean, you coudln't release those over time? Thank you.

Alison Rose: Right. Thank you. Well, look – I won't repeat what Katie's given you on the revenue guidance. I mean, as I said, it's relatively early days in terms of coming out of lockdown. We are – as I said, we see potential for more rapid recovery to take place. And I gave you some information on what we're seeing around debit and credit card spending and activity.

I think where we're seeing more muted recovery at the moment is in the commercial banking side where I think we're seeing our customers be very cautious. They've deleveraged quite significantly and well prepared for the recovery.

And I guess the degree of commercial banking loan growth in 2021 remains uncertain. I think what you will see is three real sort of dynamics coming through and we'll see more of that over the coming quarter.

Firstly, customer behavior in relation to paying down current government schemes. Secondly, how customers use the Pay As You Grow features as well as the new schemes and I can give you some more information on that if you'd like. And then the degree and speed of the economic bounce back and that's where we see more potential for a more rapid recovery.

We also see scope for growth within large corporates in areas such as infrastructure, ESG, lending, all of which will recover. So I think we're not – we're not seeing anything bad. We actually see an opportunity there.

On the NatWest Markets side, our guidance remains the same. We're comfortable with our 800 to 1 billion revenue guidance as the business completes its refocus and reaches steady state. And it's making good progress and significant progress on reshaping the business.

So I'm very comfortable in Q1 that business has performed well in the areas where we support our customers. So there's been good growth. Clearly, we haven't had the same volatility in the market that we had last year, but the business is performing in the way we expect it to and our guidance remains the same.

Katie, do you want to pick up (inaudible)?

Katie Murray: Yes, no, let me – let me, I will pick up that PMA question. Our PMA for economic uncertainty, it's unchanged from the year-end of 878 million that we disclosed. We're continuing to hold that at this stage.

When we look at it, we're looking at the – we've a lot of conversations (to tell you) but what would be the hurdles you – that we – you need to cross to trigger that release? So if I looked at somethings, for example, in retail, you would reference factors such obviously as unemployment, what's happening in your arrears trends, what's happening in your high risk sectors.

For wholesale, you'll be looking at variable such as the performance of different wholesale sectors as well as what the government scheme debt performances is doing in terms of take up of further schemes and deferral of debt.

We expect to be continuing to assess this economic adjustment each quarter over the next – the next 12 to 18 months, I would imagine. There's no specific timeline on when we would release it.

I would say overall – I don't want you to go away thinking that means they're going to hold it in perpetuity till that time. I think it will be a number that will start to evolve as we – as we get later on to this year and we start to see the real impact of what's actually happening in the economy.

But at this stage, it would the appropriate saying as we've literally just left lockdown to continue to hold that.

Alvaro Serrano: Very clear, thank you.

Katie Murray: Lovely. Thanks, Alvaro.

Operator: Your next question is from Andrew Coombs from Citi. Please go ahead.

Andrew Coombs: Good morning. I think Alvaro asked both of my questions actually. So let me just throw in one which is on the FCA investigation. Obviously, you have flagged this in your annual report. Previously, there's a newsletter on March and I think the case is due to be heard on the 26th of May.

In your commentary, you talked about substantial potential costs or provisions but my understanding is that this investigation is into a single customer and it's around 365 million that's being investigated.

So can you just elaborate on, a, if there's any provision that's already been booked for this case? And b, what your definition broadly speaking of substantial is concise by the wording in the context of what's being investigated? Thank you.

Alison Rose: Thanks. Well, look, I think as I said, we're disappointed by the announcement obviously but we have been fully cooperating with that. There's nothing more that we can say at this point. The only other thing I reiterate is how seriously we take our money laundering and financial crime responsibilities. It's an area of significant investments that we have in the business.

We have over 4000 people doing that as their full time job but beyond that, nothing further to add at this point.

Katie Murray: The only one thing I would add on to that is that there's a confirmation that we have not taken any provisions. And Andrew, you wouldn't I think expect me to do a definition of what substantial might mean because it would be quite dangerous to give a number out there as an important point of negotiation.

So there are no provisions at this point and we're comfortable with all the points Alison made. Thanks very much.

Andrew Coombs: Thank you.

Operator: Our next question is from (Omar Keenan) from Credit Suisse. Please go ahead.

(Omar Keenan): Good morning. Thank you very much for taking the question. I just had a quick question on customer behavior and hat you've seen since the exit from the lockdown.

Just on slide five, the debit and credit card spending, it's very helpful. I think it was to the middle of April. Do you have any data perhaps a little bit later than that? And just on a related question on the corporate side, so from what you've seen so far, what kind of clues have you got on business behavior with respect to the business loan schemes and how much they might pay down?

I think you've given a number historically as what the utilization rates were of those loans versus what may just be sitting in activity in deposits on the balance sheet. So any color that would be – would be very helpful. Thank you.

Alison Rose: So I think we've given you some sort of data on activity on debit and credit card spending that is tracking out. Let me – let me talk about the government lending schemes and give you a little bit more color.

So in terms of – as you know our lending under the government schemes is around 14 billion. In terms of the Bounce Back Loans, around 20 to 30 percent of the cash that has been borrowed under that is still sitting in the current accounts of the businesses.

The new schemes that have launched, so the Pay As You Grow Scheme, that launched on the 6th of April. As at yesterday, we've had 14,000 applications coming through the Bounce Back Loan Pay As You Grow portal as we call it. And of that 75 percent of the applications coming through are asking for an extension where customers can extend from 6 to 10 years.

Now, we expect those volumes to increase quite significantly. We recently written to 100,000 of our customers to give them 60 days notice that their first payment under the Bounce Back Loan is starting in 60 days and that would be the trigger for the application in the Pay As You Grow.

So I think the behavior that we will expect to see is something that you'll start seeing more data on I think and this show – very, very early days show a reasonable uptick in requests for taking that extension. And I think, at this point, we – that's not what – that's exactly what we would expect.

If you're a small business, bear in mind, most of these loans are average size 37,000 pounds extending them for 6 to 10 years as you come out of lockdown to give you a bit more breathing space I think is an unexpected behavior we would expect to see.

But I think as the economy and the lockdown sort of releases and businesses come back online, I think you'll need to see them paying down their loan,

commencing repayments or extending through the Pay As You Grow but that's the early data that we're seeing at the moment.

(Omar Keenan): That's wonderful. Can I just ask a quick follow up question? So …

Alison Rose: Sure.

(Oman Keenan): … the 20 to 30 – the 20 to 30 percent of cash that's still sitting in the current accounts of the businesses, how has that changed since a couple of months ago? I think to remember a 50 percent number but it could be mistaken.

Alison Rose: No, it hasn't changed significantly. We haven't – so for example, we haven't really seen the cash burn that we've talked about as people sending the money. I think as businesses come out of lockdown, the question and the dynamics that, hey, really, you may see is them using that cash for working capital purposes as they ramp up.

But broadly, that's stable and I think it's really then as the trigger point is really as the loans start falling due for repayment. So if you think about the history, the bulk of drawdown, the big ramp of drawdown and application of Bounce Back Loans, was in May, June, July.

And so May, June, July is when those loans will start falling for their first repayments and I think that is the trigger point at which you'll see whether they will repay their loan, whether they'll advance through the Pay As You Grow or use the cash for working capital purposes. So I think we'll get more granular data over the next quarter that we can share with you.

(Omar Keenan): Lovely, thank you.

Operator: Our next question is from (Martin Leitgeb) from Goldman Sachs, please go ahead.

(Martin Leitgeb): Yes, good morning. Could I have three, please? And the first one, I think along your earlier comments on excess capital and obviously the intention to return it to shareholders. You also mentioned that you might look to pursue other options, which might be accretive to shareholder value.

And I was just wondering if you could shed a bit of light what you mean with that? Are these essentially potential deals similar to the mortgage book acquisition last year in terms of size? So could this be potentially bigger items?

Secondly, I was just wondering if you could elaborate on your credit card strategy in the UK. I mean, you've made a tremendous progress in increasing mortgage stock share over the years, and where the market share of NatWest compared to the current account still remains markedly below its credit card in particular. How should we think about progression in particular share gains going forward as the economy recovers?

And certainly just to come back to the – to the unchanged revenue guidance on the back of (one peer) yesterday slightly improving the guidance, I was just wondering, what is driving that conservatism if so. Is this essentially a view that mortgage competition could continue and potentially mortgage growth could slow?

Or all the way around, are you still targeting 13 percent flow share? Or is it simply could this be driven that NatWest Markets is obviously a range of 800 to 1 billion and given the first quarter (print) that we might end up towards the lower end rather than the upper end? Thank you.

Alison Rose: Right. Thank you. Well, look, I think we've answered the revenue guidance. I think Katie went through the sort of three buckets of that and we are pretty confident about our position and no updates to the guidance. We've been pretty clear on NatWest Markets as well. So I don't think there's anything more I can add to that.

In terms of capital and our position now – I'm very clear. My clear preference is, is to return capital to our shareholders. We have a capital generative business and we intend and expect to operate within a CET1 ratio of 13 to 14 percent.

We have robust capital levels, as you can see, and we're at 18.2 now on CET1 and my intention is to distribute capital to shareholders and we're giving you the guidance as a minimum 800.

In terms of other options, we would look at other options that we would consider would be accretive of value to shareholders.  So the metro mortgage acquisition that we made is a good example of something that adds value to shareholders is in line with our strategic priorities and aspirations and areas of growth.

So we would always look at those options opportunistically and proactively but it would be in those sorts of ranges.  But clearly preference is to return capital to shareholders.

On the credit card strategy, as you know, that's an area where we have significant capacity to grow and we would look to grow it in the unsecured space within strong risk appetite and we're starting to see good uptick in that space.

So I think that is an area which David Lindberg is very focused on as an area that he will look to grow and he can probably give you a bit more detail on that when we have the spotlights later in the year.

(Martin Leitgeb): Thank you very much.

Alison Rose: Thank you.  Thanks, (Martin).

Operator: Our next question is from Joseph Dickerson from Jefferies.  Please go ahead.

Joseph Dickerson: Oh, hi.  Most of my questions have been answered but just, can you describe briefly the philosophy around that because I know it gets – we asked it like every other quarter but I suppose just in the – in the current rate environment, why wouldn't you be more dynamic with the hedge in terms of duration, et cetera, in addition to the amount that you're deploying into the hedge? Thanks.

Katie Murray: Yes and thanks, Joe, and good morning.  I think the thing for us is we're not looking to take punts on where rates are and where they're going.  This is about being consistent and mechanistic in our approach.  It's an approach that

served us incredibly well over the last number of years rather than taking actions in one quarter that you could regret in quarters to come.

So we're very comfortable in the way that we – that we manage this. And it's growing nicely in terms of the size of it. And as I said, we expect to put another 15 billion on over the next nine months and that will benefit us. And if the rates continue to improve, well, we'll take that upside as it comes through but very comfortable with the approach rather than taking a punt on what might be happening on the interest rate at any one time.

Joseph Dickerson: Thanks.

Katie Murray: Thanks, Joe.

Operator: And our next question is from Ed Firth from KBW. Please go ahead.

Edward Firth: Good morning, everybody. I just have …

Alison Rose: Morning, morning.

Edward Firth: … two questions. Hi. The first question was the fixed income business in NatWest. I just wondered if you could help us understand a little bit what's going on there because my recollection was that the reason you were restricting the size of that business or making it smaller was to focus on customers and produce a more stable income stream.

And yes, I'm looking at the quarterly numbers in your financial supplement and I mean, it's like a random walk is anything between minus 12 and plus 230 million a quarter. So I'm just trying to get a sense what drives that business and can we can you give us something or idea of is it going to stabilize soon or was there something one off last year that was sort of throwing it around? And if so, can you know – roughly what to the level might stabilize that? So I guess that's my first question.

Female: Yes.

Edward Firth: And then the second one question was on surplus capital. You talked a lot about group surplus capital but I guess we can all see that a speck of it is, for

example, in somewhere like Ulster. So I'm just trying to get a sense. I think you must know the numbers so I guess could you – could you just tell us or give us some indication of how much surplus is actually at group and distributable today I guess is the easiest way I could ask that question.

Alison Rose: OK. Thank you. Well, look, on NatWest Markets, what I would – as you know, we – we're strategically refocusing that business and the team are making good progress. In Q1 sort of the FX and capital markets income was in line with our expectations. Rates, income was lower due to reduced activity levels across the market.

And also our rates income was also impacted by a one off in the course of summer and LME exercise but in terms of having that business focus around the areas that we wanted to in supporting our customers, it's doing exactly what we wanted to do. So – and….

Edward Firth: One off. So could you give us sort of roughly what – I mean, sort of orders of magnitude so we can sort of get some sort of idea of what our run rate might be?

Katie Murray: I think (technical difficulty) was about 20* million in terms of the number that was – that was in that piece. Look, if I …

Edward Firth: All right.

Katie Murray: If I look at how I would look at the numbers, so we said 800 to 1 billion. What we've also said is currencies are going to be relatively stable.

* There was a £20m impact from the redemption of internal MREL issuance by NatWest Markets to NatWest Group/HoldCo. This had no impact on group income. The entries affected non-interest income in NatWest Markets (Fixed Income) with the offset in Central.

Capital markets, that's where our core work is, that's working with our – with our numbers. You can then see the revenue share. The revenue share doesn't impact rates.

The revenue share are not – given as capital intensity is not there. And then that kind of gets you to your, well, the rate is kind of the balancing number of what might go on. And you're being a bit naughty saying, looking at the numbers over the last number of quarters we made, very specific decisions because we didn't like the volatility of this business in history.

I think what we will get through is a kind of a steady state number where the business is balancing, as it should be in that 800 to 1 billion number in terms of that place. And in terms of …

Edward Firth: OK.

Katie Murray: … cash where it's sitting with the holding company just now (inaudible), I mean, I'm happy to share that used about 4 billion pounds. That's what it's sitting here today. So I mean, there's no – there's no issue at all arise. Our capital commitments, we've got the cash in the right place to be able to meet that. So there's no – there's nothing hidden in terms of the numbers – the numbers there …

Edward Firth: No, no, that's right.

Katie Murray: … in terms of all of the capital commitments that we've made over the year,

Edward Firth: So the 4 billion and that's above your (MDA), is that effectively?

Katie Murray: Yes. Comfortably, I mean, there's really …

Edward Firth: Perfect. (Inaudible) …

Katie Murray: … not an issue in terms of – clearly that number will move as dividends flow up within the group as well. So back in a few weeks, it would be a different number again, but I wouldn't look for a growth in terms of the capital distribution around where capitals sitting. There are none.

Edward Firth: No, no, that's perfect. Great. Thanks very much.

Alison Rose: Thanks.

Katie Murray: Thanks, Ed.

Operator: Our next question is from (Chris Cant) from Autonomous. Please go ahead.

(Chris Cant): Good morning. Thank you for taking my questions. I just wanted to come back on the hedge again, I'm afraid. And I understand you don't want to take punts on the on the – on the (rates market). It is secretive, I guess. Do you worried you're leaving money on the table at the moment?

And again, thinking about some of the commentary from your nearest domestic peer yesterday, they have improved their guidance on the drag from 400 million to 300 million. And I don't think previously, they were assuming a rate cut this year.

And you were previously assuming a rate cut this year. You've gone for a more modest improvement in that guidance. And obviously, you're not being as proactive in the hedge. So I just wanted to get your view on whether that's something you might revisit in future.

And in terms of the longer term outlook for the hedge, could I invite you to comment on what you expect the drag to be into 2022 and 2023? Again, thinking about some of the commentary from your nearest competitor, they do not expect to drag in 2022 at all, for example, year-over-year.

And then on the – on the NatWest Markets (comes to) the previous question, could I just confirm, is that – is that a 50* million negative one off in the rates business which have not put as a notable item in terms of how you presented the numbers this morning? I just wanted to make sure. That seems like a

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notable item but yes, could I just confirm that I heard that correctly? Thank you.

Katie Murray: (Let me) – so, Chris, let me deal with that last point first. Obviously, the – it's an LME. It was an internal LME so actually, it sorts itself out for the group. So therefore, as a group result, it is not a notable item, but on that line within

their NatWest Markets results, it is obviously of interest in that line so it is not a notable item for the group.

If I look at the hedge, (Chris), you understand the hedge well so I won't go through the whole kind of long question, then what we know is that kind of 25 basis points, kind of uplifted 37 million in year one, 180 million in year two. So clearly, given the spread where it is today, that will be a kind of a further benefit into year two as well. And that will go a little bit given the – that we're putting a bit more on in terms of volume. But it's not something that we're looking to change our approach on.

We spent a lot of time looking at it, talking about it, but it – ultimately, when you look at it on a multiyear basis, we're very comfortable that we're doing the right – a right approach and we're very comfortable that we provide the clarity and visibility for you so that you are able to see what we're doing in that – in that space. Thanks for the question, (Chris).

(Chris Cant): Could I just ask the – where's the other side of that LME just in terms of our understanding of the divisional numbers? I presume there's...

Katie Murray: So it...

(Chris Cant): … (inaudible).

Katie Murray: … will come to the center that it will just – it will disappear on consolidation.

(Chris Cant): OK. All right. Thanks.

Katie Murray: And the center as you know is always a mishmash of many things, the number – the number that – number is not big enough to call out anywhere particularly.

(Chris Cant): Thank you.

Katie Murray: Thanks, (Chris).

Operator: Our final question for today is from (Guy Stebbings) form BNP. Please go ahead.

(Guy Stebbings): Morning, Alison. Morning, Katie.

Alison Rose: Morning.

(Guy Stebbings): I'm afraid I'm asking you another question in advance. So can I just come to RWA sort of issue and it sits at 165 billion today even pro forma for some of the volume growth, the regulatory changes that started next year and some credit migration. The 2022 guidance does look quite conservative.

I think he said, Katie, the extent sort of where you sit in that range will depend on the extent of credit migration but is it not possible if credit migration was quite modest, you could be even below that range? Am I being too optimistic there?

And then the second question, just on India, I think you've got quite sizable middle back office operations in India so I just wondered whether the current situation there is having any impact on how you operate any associated costs with that. Thank you.

Alison Rose: Thank you. Well, I mean, in terms of – in terms of – let me – let me take India. So we do have back office operations. In India, we're working very closely with our team. There are no operational impacts from what's happening.

Clearly, we're very concerned on behalf of our colleagues in India with the situation. We're putting a lot of support in there and have relief some of the pressure just in order to help the human side of the equation for our colleagues there who are doing a great job, but no, no business impact.

And as you know, we have no direct customer call centers or service centers in India, although we do have some web chat services, but no, no disruption to business and all of our incident management operational side and our main

focus is really on supporting our colleagues at the moment in what's a pretty tough situation.

On RWA, look, I think we've given you the guidance. I would say we've been surprised by the resilience of the credit environment and I think the ongoing government support measures have clearly – they've lasted longer than we anticipated and the tapering off of that I think is really, you will start to see procyclicality if it's going to come in later in the year. But yes, absolutely, it is possible that we will come in below that guidance if the procyclicality doesn't come through.

I think the dynamic we will all managing is clearly the support measures have been extended which we think is very helpful. The economy is opening up. The lockdown is ending. So as I said, we're seeing potential for a more rapid recovery to take place and the opportunity for businesses to get going again and recover faster means that that procyclicality is either deferred or may not come in as much. So it is possible and that's something we're obviously keeping a very close eye on.

(Guy Stepping): OK. Very helpful. Thank you.

Female: Thanks, (Guy).

Operator: There are no more …

Alison Rose: Great. Well – thank you. Well, look, thank you very much for your questions. As always, Katie, and I really appreciate you taking the time to join us. As I said, we – we're happy with the performance this quarter. We're on track and delivering on all the guidance that we gave you, a strong, good operating performance in our core franchises.

I think, as you will see, we are taking an appropriate and conservative approach to impairments and we'll update our guidance at the half year. But we are seeing potential for a more rapid recovery to take place so we are cautiously optimistic.

I'd like also just to remind you later on in the year, we have, "Our Meet the EXCO," spotlight. So we'll be putting a spotlight on the commercial banking and NatWest Markets. That's on May the 20th which will give you a chance to talk to our team more directly there. So I'll hope you'll be able to join us for that but thank you very much.

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