



**NatWest Group plc
Q1 2020 Results - Analyst Call**

**Moderator: Alison Rose
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The results in this presentation relate to The Royal Bank of Scotland Group plc (“RBSG plc”). RBSG plc is intended to be renamed NatWest Group plc later this year. The targets, expectations and trends discussed in this document represent management’s current expectations and are subject to change, including as a result of the factors described in the “Risk Factors” section on pages 281 to 295 of the RBSG plc 2019 Annual Report and Accounts. These statements constitute forward looking statements under the US Private Securities Litigation Reform Act of 1995, refer to Forward Looking Statements in the RBSG plc ARA.

OPERATOR: This is Conference #: 6789865.

Operator: Good morning, ladies and gentlemen. We will now play a pre-recorded video of the results announcement. This will be followed by a live Q&A with Alison Rose and Katie Murray.

Alison Rose: Good morning, and thank you for joining Katie and me on the call today. We're here to cover Q1 results, but clearly, we need to address the context we're in.

Every person, family and business has been affected by the current situation and normal business activity has been severely affected and everyone, including governments, central banks, regulators and businesses have been responding at pace. I will discuss how the group has been responding and focus on the important things for NatWest Group, our customers and employees.

On Slide 3, before I cover our response to COVID-19, I will briefly touch on our headline Q1 results, which Katie will expand upon. Despite a strong start, our Q1 financial result is impacted by net impairment charge of GBP 802 million as a result of our response to the economic uncertainty.

This compares to GBP 86 million in the same quarter last year. It included a GBP 628 million management overlay as we build provisions under IFRS 9 against the uncertain economic outlook, which has substantially worsened. The detail here is important, and Katie will take time to walk you through the assumptions behind this in a moment. Our overall approach here is to provide thoughtfully in the face of uncertainty.

Taking that charge into account, our operating profits were GBP 519 million and attributable profit was GBP 288 million. It is key here that we had come into this crisis with strong fundamentals in terms of liquidity, funding and capital. And on capital, our CET1 ratio of 16.6 percent increased, in part from the cancellation of our full year dividend following consultation with the PRA.

Turning to Slide 4. My key messages for you today are the following: firstly, we are putting our purpose into action as we respond to the pandemic. Secondly, we retain a balanced and consistent approach to risk and are focused on careful and disciplined deployment of our balance sheet.

Thirdly, we come at this from a position of absolute and relative strength, with strong liquidity, diversified funding and sector-leading capital strength. And lastly, as we address the immediate challenges, we are maintaining focus on our key strategic priorities. This is both my agenda today and my agenda for running the bank in the crisis.

On Slide 5, as you know, our purpose is to champion potential, helping people, families and businesses to thrive. The work that we did on this last year gives us a solid basis for everything that we are doing now. Putting purpose into action has meant reacting quickly to COVID-19. I'm going to cover what we're doing operationally, what we are doing for our customers, and then the financial implications.

In terms of supporting our customers and colleagues, we have reacted quickly and made significant operational adjustments. We now have over 60,000 people working from home, around 3x previous levels and nearly 70 percent of our telephony staff can operate from home. And here, I would just like to pay tribute to my colleagues for their amazing commitment and resilience.

We have also guaranteed full pay for 6 months for any colleagues who cannot work due to coronavirus as well as providing a range of additional well-being measures. We've kept over 90 percent of the branch network open for those who need it, and we have also redeployed and retrained staff to address operational hotspots rapidly.

At the same time, we have seen new mobile banking customers are up by 20 percent, and new online banking customers are up by 30 percent.

For people and families, we've also set up dedicated phone lines for vulnerable customers and for key workers, proactively calling nearly 250,000 vulnerable customers to offer support. We've also extended over 190,000 mortgage repayment holidays and nearly 16,000 in short-term interest-free overdrafts. And we've matched customer donations to the National Emergencies Trust, raising GBP 3 million for the cause, as well as funding charities in the community supporting our customers, such as Tonic Health, a community hub in the East Midlands; and Don't Lose Hope, a mental health support charity.

To help businesses, we've added GBP 5 billion to our growth funding package to support SMEs with almost GBP 4 billion of that approved and accessible to customers. We've received requests for over 42,000 capital repayment holidays to help businesses manage their cash flow, whilst waving fees on overdrafts up to GBP 5,000. And we've worked alongside the Prince's Trust to create a GBP 5 million fund to help young entrepreneurs struggling in the crisis. It's taken a massive effort across the bank and I would like to reiterate my thanks to my colleagues for their commitment to supporting customers at this very challenging time.

On the next slide, as well as the proactive measures outlined, we are also playing a full part in the recently introduced government schemes. For our SME business customers using the COVID business interruption lane schemes where we offer loans starting from GBP 5,000, the lowest of our U.K. peers.

As of last Thursday, we had approved GBP 1.4 billion of lending, which is around 40 percent of the market.

And at the end of last week, we launched the CBILS scheme for larger businesses. This is a new scheme, and we've already received GBP 29 million worth of requests in the first few days.

To be clear, we use these schemes to support our existing customers with no change to our approach to risk and consistent diligence and underwriting standards, and we're comfortable with the volumes that we are writing.

At the same time, we've helped our bigger clients raise GBP 3.1 billion, with a strong pipeline and demand used in the COVID Corporate Finance Facility, making us almost 1/3 of the market.

Demand for these schemes has been very strong across all sectors. And looking ahead, we will use all facilities to support our clients, including the just announced small business CBILS scheme, helping our customers get the funds they need as quickly as possible, but with no change to our risk processes or stance.

On Slide 7, translating all this into the balance sheet. On lending, prior to the crisis taking hold, January and February were very strong months for us. And our strategic focus on growing our lending in U.K. retail and commercial, with a particularly strong performance on mortgages in this period.

And for Q1 as a whole, through retail and commercial, we saw net lending increase by GBP 13.1 billion or 4 percent, with GBP 4.8 billion through the personal bank, primarily mortgage growth and GBP 8 billion in commercial.

The commercial lending growth was driven by drawings on revolving credit facilities by our clients, particularly from large corporates and institutions in the face of disruption at the end of the quarter.

Part of this growth and need for liquidity translated into deposit growth in the quarter, up by GBP 15.6 billion or 4.2 percent, with GBP 8.9 billion in commercial.

In April, we've seen commercial lending continuing to grow, underpinned largely by the government schemes. The slide shows gross new lending to the 23rd of April, where the CBILS-approved lending I've touched on accounted for GBP 1.4 billion, and commercial overall was GBP 2 billion. Also, revolving credit facility utilization stabilized at around 40 percent of committed facilities.

Gross new lending in this period, it has been GBP 1.3 billion, largely coming from remortgaging as there have been very few house purchases in the U.K.

On Slide 8, our prudent approach to risk has supported us well for many years now, and the cost of risk last year was 21 basis points. Coming into the crisis, our book is well-diversified, of good quality, and well-balanced between retail and commercial lending.

We're comfortable with the level of risk on our books, including the new lending and the government schemes. The features of our retail book that gives me that comfort are that 8 percent of our book is unsecured. And in our U.K. mortgage portfolio, our average loan-to-value was 57 percent. Of course, it isn't average mortgages that lose money. However, at the higher risk levels, only 13 percent of the book had LTVs above 80 percent, and we had no particular geographical concentration.

In commercial lending, our book is diverse with a good spread across sectors. To give you a sense of that and where we stand in our corporate loan book and applying accounting standards to our expected credit losses. As at the end of March, only GBP 1.2 billion or 1.5 percent of the book is Stage 2 or 3. Of course, we will suffer losses on our books as the crisis plays out.

And as Katie will explain further, we do think that it's too early to estimate the shape and scale of the economic impacts of COVID-19 with no consensus amongst forecasters on the impact of lockdown or the effectiveness of the government response. As you should expect, what we have done at this stage is make a considered judgment on our books through the impairment line, and we will do so again through Q2 and beyond.

Turning to Slide 9. And whilst we do not know the future, we do know that our risk stance and capital base means that we come into the crisis from a position of absolute and relative strength.

One lens on this is the system-wide stress tests that have been applied since the financial crisis. Looking at the most recent Bank of England stress test, on an absolute basis, we achieved a clear path through the stress. We were well above our hurdle requirements at peak stress points and no AT1 capital conversion was required.

And as we show on this slide, our relative stress performance was strong, with 5-year impairment losses around 1.8 percent lower than the peer average. And our final stress CET1 ratio, nearly 1.5 percent better.

As I say, this is only 1 theoretical lens, but it points to progress made in recent years and give some background to my view that we start from a position of strength.

And on to Slide 10. Facing into the crisis increases my confidence that the strategic steps I set out in February are the right ones for the bank. Starting with costs, where our track record is compelling. We have cut more than GBP 4 billion from our cost base in 5 years, including 4 percent in each of the last 2 years.

And our target is a further 4 percent this year or GBP 250 million. And I reiterate that target today. Of course, the facts have changed. So whilst we retain the same target, the makeup of the savings will be different to what was in our plan 2 months ago. And we have delayed some planned cost-reduction measures. We have moved our strategic cost guidance for 2020, down to the lower end of our previous range of GBP 0.8 billion to GBP 1 billion.

In line with this and after careful consideration, we have decided to merge our personal digital account, Bó, with our digital bank for SMEs, Mettle. As a result, we will be winding down Bó as a customer-facing brand and technology in Bó will be integrated as we develop Mettle. We retained the longer-term commitment to reshaping the bank to be fit for the future and driving sustainable success.

Turning to Slide 11. When I became CEO, I made refocusing NatWest Markets a priority. It is worth recalling why. The business was not sustainable, it consumed too much capital and costs were too high, and it was far too removed from the needs of our core customer base. Here, our refocusing work is well underway. You will, however, see that RWAs are actually up in Q1. This was because of market volatility and increased counterparty risk, but the level of fluctuation was lower than we would have seen in past stresses.

This year, we still expect to reduce RWAs to around GBP 32 billion, assuming no regulatory changes. And we now expect disposal costs to be below GBP 400 million for 2020.

In the medium term, we are still targeting a reduction in RWAs to around GBP 20 billion.

More generally, whilst we will incur cost to execute our strategy, we are targeting a lower cost base over the transition period as the business develops a leaner operating model.

Moving to the final slide and in closing. Clearly, we all understand that the pandemic has obvious implications for our outlook. With downward pressure on the yield curve and significant uncertainty for the economy and for how or when it will begin to normalize.

The outlook remains extremely uncertain. We will, however, maintain a strong focus on risk and the management of our capital and liquidity. But we approach the crisis with confidence in our balance sheet strength and focus on

our strategic priorities. I'm confident that these are the right ones and will create a better future for the bank.

The importance of being purpose-led has only increased in the crisis, and I'm proud of how we have responded. The impetus to reduce cost is now greater, and our target remains to remove a further GBP 250 million from our cost base this year and to keep up that downward pressure. We are carefully deploying our balance sheet to maintaining strong capital levels and a balanced and consistent approach to risk, whilst ensuring, most importantly, that we continue to support our customers.

And in NatWest Markets, we have already begun refocusing the business as we target a halving of RWAs in the medium term. I look forward to taking your questions shortly, but first, I'll hand over to Katie.

Katie Murray: Thank you, Alison. Good morning, everyone.

In the current market environment, safety and soundness is key. I will go through the details of our key balance sheet and liquidity metrics in more detail than usual. But first, I will give you a brief overview of our Q1 2020 income statement.

Slide 14. Our attributable profit for the period was GBP 288 million, significantly impacted by the multiple economic scenario overlay of GBP 628 million we have taken in the quarter.

On income, total income was up GBP 125 million on Q1 last year. Income across the Retail and Commercial businesses decreased by 6.5 percent versus Q1 2019. This reflected loan growth across Retail and Commercial businesses of GBP 13 billion, and of course, the ongoing margin pressure we're familiar with.

NatWest Markets core income of GBP 412 million was GBP 35 million or 9 percent higher than Q1 of 2019, as the impact of the credit market write-downs was more than offset by increased customer activity as the market reacted to the spread of the COVID-19 virus. In terms of other income items,

the OCA gain of GBP 155 million was driven by the significant widening of credit spreads across the market.

On costs, a cost reduction of GBP 26 million was achieved in the quarter, excluding operating lease depreciation. Strategic costs in Q1 were GBP 131 million and include, among other charges, GBP 39 million relating to technology spend and GBP 34 million in NatWest Markets in respect of restructuring activity.

We have also benefited from GBP 100 million of PPI release, where we have continued to make good progress in dealing with claims and remain on track to complete the complaint process by the end of Q2, ensuring our customers get the refunds they are entitled to. Looking at impairments, our Q1 charge of GBP 802 million represents 90 basis points of gross customer loans, and we'll talk to this in more detail in a moment. All of this combined together produced an attributable profit of GBP 288 million and RoTE of 3.6 percent.

Slide 15, moving on to NIM. Q1 2020 Bank NIM of 1.89 percent was down 4 basis points compared with Q4 2019. In personal, we continue to see structural pressures in mortgages as blended front book margins of 110 basis points, which includes the switchers, remained below the back book of 140 basis points. In the past, we've talked about the new-to-bank business having a margin within an 80 to 100 basis point corridor. In Q1, as in the last few quarters, we remained at the top of that range, and in reality, I would, today, think of this range as 90 to 110 basis points.

In the latter part of March, the blended front book application margins were around 125 basis points. Commercial NIM decreased 11 basis points compared with Q4 2019. If you remember, at Q4, we called out a 4 basis point positive one-off as a result of a review of customer repayment behavior change. So all the underlying 7 basis points quarter-on-quarter decline, the main drivers were lower deposit income and higher liquidity portfolio costs.

Clearly, there are potential headwinds of NIM coming due to the BOE rate cuts and lower spot – excuse me, lower swap curves. And the fact that our deposit margins are already low, which of course reduces the ability of us to

pass through the recent reductions. Other factors to consider when thinking about the future NIM trajectory includes the volume of TFS funding and the volume of lower-margin CBILS that we're currently writing.

Slide 16. As you are well aware, we find ourselves in an unprecedented shutdown in the global economy. There's a lot of uncertainty, both around the scale and duration of the impact of COVID-19 on the economy, including when and how lockdown eases and also on the nature, shape, timing and endurance of the eventual recovery. There is naturally a huge amount of market commentary currently on what COVID-19 would mean from an economic impact perspective.

And with many wildly differing views, with which we have seen deteriorating during April. It actually means it's very difficult and likely too early to provide a medium-term view of what the impact is on our KPIs at this time. What I want to focus on is how we have approached this uncertainty in terms of our Q1 impairment charge.

Slide 17. Q1 2020 impairment charge of GBP 802 million, included GBP 628 million related to the multiple economic scenario overlay. This builds our stock of ECL from GBP 3.7 to GBP 4.2 billion. For the end of March, we were only beginning to see the initial signs of credit deterioration. In Retail, our Q1 trends were stable, but heading into April, we were beginning to note some arrears buildup in our unsecured portfolios. In Commercial, we had no new tall trees in cases in Q1.

We were beginning to see signs of stress in certain sectors, and while there is a broad read across the sectors that typically forewarn a traditional recession, the effect was more acute in a number of these sectors.

I'm going to spend some time explaining how we approach the multiple economic scenario overlay, or MES, as we refer to it. The MES approach is designed to capture the historic variability and distributions of economic risks. The approach to capturing any incremental or skewed forward-looking risks is to apply an overdraft – overlay to the ECL.

After reviewing relevant readily available sources of information, we concluded that leveraging established internal stress testing analysis was the most reliable and supportable source of information on which to base this overlay, alongside significant management judgments. The stress analysis included unemployment rising to 7.6 percent, a start-to-trough GDP of 4.3 percent and a U.K. HPI of 19.7 percent.

Our considerations on top of this scenario included: firstly, government support actions, the potential recovery trajectory and the differential impacts on portfolio and sector classes, including the application of IFRS 9 in the context of COVID-19.

The overlay at Q4 2019 of GBP 170 million was primarily predicated on Brexit-related economic uncertainty. However, uncertainty related to COVID-19 has now significantly eclipsed this. We decided that the value of the economic uncertainty overlay should be increased to GBP 798 million. This broadly equates to an increase in Stage 2 exposures of 32 percent and 65 percent in the personal and wholesale businesses, prospectively.

Over the course of the year, we anticipate observable credit deterioration of a proportion of assets resulting in a systemic uplift in our ECL requirements, mitigated by the economic uncertainty overlay. As we see how the economy emerges from this stage of the pandemic and we start to understand the real impacts on the economy after the impacts of the government interventions, which are slowing the immediate effect on the economy.

Slide 17. I'll now spend some time focusing on the impact of the various customer support measures and their IFRS 9 implications. Starting with retail payment holidays. Customers do not automatically trigger a significant increase in credit risk when a payment holiday is granted and there is no automatic move to stage 2. Accrual of arrears is being suspended during the payment holiday periods and accounts will not progress to stage 3. However, interest is still charged. A similar approach is taken on unsecured payment holidays.

Turning to Commercial. Customers seeking COVID-19-related support, including payment holidays, who are not subject to any wider SICR triggers, and who are assessed as having the ability, in the medium-term, post-crisis, to be viable, and meet credit appetite metrics are not considered forborne.

On CBILS, the granting of a CBIL does not represent a significant increase in credit risk criteria, and therefore loans are not automatically moved into stage 2 and stage 3. CBILS loans are only made to companies who were considered viable prior to COVID-19. The government guarantee of up to 80 percent per loan reduces the loss expectations on CBILS, impairments and RWAs, are reduced pro rata with the guarantee, i.e., the LGD is effectively reduced by 80 percent.

The treatment for CLBILS which is targeted at larger companies, is aligned to this treatment. On Monday, the government announced bounce back loans. This is a new scheme focused on micro businesses seeking a loan of up to GBP 50,000 or less. Unlike CLBILS – or CBILS, this will be 100 percent guaranteed by the government. Again, the use of this scheme will not change credit risk criteria and the 100 percent guarantee will reduce loss expectations and credit RWAs on this lending to 0.

And finally, on the COVID Corporate Financing Facility. There is no discrete or distinct IFRS 9 treatment required as these facilities are provided by the Bank of England, and we are a facilitator of the issuance of these facilities to the Bank of England. These are not on our balance sheet, and we are not bearing any credit risk of these loans as a result.

Slide 20. RWAs increased by GBP 6 billion over Q1 and primarily driven by credit RWA increases of GBP 5.4 billion. Looking at credit RWAs, increased income and drawdowns accounted for the majority of the increase. This was largely driven by Commercial Banking.

In NatWest Markets, RWAs increased by GBP 1 billion in Q1 as the impact of market volatility, increased counterparty and market risk that was partially offset by the PRA's temporary approach to the value at risk back testing exceptions. We anticipate further PD migration in Q2 and 6 regulatory

measures are through the cycle. This effect will be more muted than we see on the ECL. Most of the regulatory interventions and release we are seeing will go directly to capital and will not affect the RWA calculations.

Slide 21, turning to the balance sheet. The starting point capital ratios reflect a track record of strong underlying capital generation, active de-risking and RWA management and conservative approach to capital distributions. Our CET1 ratio at Q1 was 16.6 percent. And although the outlook is uncertain, we operate with significant CET1 headroom of 760 basis points or GBP 14 billion above our MDA of 9 percent.

We welcome the Bank of England's recent reduction in the countercyclical buffer, which together with the removal of the G-SIB buffer from 1 January 2020 and the action taken on our 2020 dividends, has increased our CET1 headroom over MDA. The total capital ratio was 21.4 percent, and the total loss-absorbing capital is 34.1 percent, well above the BOE's 2020 interim minimum requirements and reflects our progress on MREL issuance. Our U.K. leverage ratio was 5.8 percent at Q1, leaving us with 255 basis points of headroom above the U.K.'s minimum requirements.

Slide 22. On liquidity and funding, we have a high-quality liquid asset pool and a stable and diverse funding base. Our total liquidity portfolio is GBP 201 billion, of which GBP 134 billion is primary liquidity, comprising a mix of cash and Central Bank balances and high-quality, government-issued securities. As we have talked about previously, we have been prudent in our approach to liquidity, consistently managing buffers in excess of registry requirements.

And our LCR for Q1 is 152 percent. We will continue to assess all options available to us to maintain significant headroom above our regulatory requirements. Our funding base continues to reflect the diverse mix of retail and commercial deposits with lower reliance on wholesale debt. With an LDR of 91 percent, we have significant headroom to deploy to support additional lending, and we have seen customer deposit growth of GBP 15.6 billion during the quarter, particularly in March.

Slide 23. I thought it would be helpful to put all of our 2020 financial targets and our outlook onto 1 page. We continue to expect that regulatory changes will adversely impact income in our personal business by around GBP 200 million as we discussed at the year-end, in relation to the overdraft fees and high cost of credit reviews. On costs, as Alison already highlighted, we remain committed to our GBP 250 million cost target reduction. On strategic costs, we now expect this to be at the lower end of our previous guidance of GBP 0.8 billion to GBP 1 billion for the year.

On impairments, our Q1 2020 impairment loss rate was 90 basis points of customer loans. We expect that for the full year, loss – the full year 2020 loss rate will be meaningfully higher than our guidance of below 30 to 40 basis points. The impacts of COVID-19 and the mitigating benefits of government schemes are uncertain and challenging to forecast accurately. At this time, it would be inappropriate to provide full year loss rate guidance. On Lending, we expect to achieve lending growth of greater than 3 percent across our Retail and Commercial businesses, given the significant increase in lending during 2020 to date.

And finally, on capital. Given the unprecedented levels of uncertainties we discussed earlier and even taking into account the lack of mortgage floors, we're very likely to exceed the GBP 185 billion to GBP 190 billion range for RWAs that we've previously guided you to.

Given the uncertainties, which we are well understood by you all, we are not planning on providing an update on medium-term outlook at this time and continue to monitor the evolving situation.

And with that, let me hand back over to Alison for our live Q&A.

Operator: We will now hand over live to Alison Rose and Katie Murray for Q&A. Alison, over to you.

Alison Rose: Thank you very much. Thank you, everyone, and Katie and I are delighted to take any of your questions. Thank you.

Operator: (Operator Instructions) And your first question comes from the line of Martin Leitgeb from Goldman Sachs.

Martin Leitgeb: The first question I have is just in terms of NIM guidance from here. And just bear in mind, 2 of your peers guided for significant net interest margin declines in the U.K., and particularly starting in the second quarter this year. Was just wondering if you could give us a similar gearing in terms of how meaningful an impact to expect here?

And then the second question is more broader, just on payment holidays. And the latest industry statistics show that 15 percent, 16 percent, 17 percent of mortgages in the U.K. are currently on a payment holidays. And I was just wondering, if you could you shed a bit of light how you see the spring in holidays, both for mortgages and for unsecured debt, what are the expectations in terms of some of these payment holidays converting into some form of payment issue? And to what extent of those payment holidays were just here to maybe rebalance some of debt mix out there.

Alison Rose: Well, let me touch on the payment holidays, and then I'll hand over to Katie on NIM.

On the payment holidays, on our mortgage book, we have around 190,000 mortgage repayment holidays that we have agreed. That's about 18 percent by value of our book. At this point, it's too early to call what the issues are and what that will move into. In a lot of cases, what we've seen from customer behavior is they're asking for holidays from a prudent perspective rather than from a stress perspective.

But obviously, we're spending a lot of time talking to our customers about that. But that is broadly the behavior we're seeing. And in terms of our deposits, you can see consumers and businesses are conserving cash and we've seen an increase in our deposits there. So I think it's very early to call what that is. With that, I'll hand over to Katie on NIM, please.

Katie Murray: Yes. And thanks very much, Alison. So if we look at back NIM, obviously, Q1 to Q4 were down 4 basis points. And then when you start to separate that

into Commercial and Personal, that was sort of 7 and 8 basis points. When you look at our NIM guidance, as you know, we're not big fans of giving guidance, but we have given you enough for you to be able to work it through.

I think the way that I think about it, Martin, and I know you're very familiar with the disclosure we give you on how our structured hedge and we deal with our managed margins. So we've had a 65 basis point cut. We've always talked about there being a 25 basis point cut at some point during this year.

But if you look at that managed margin, for a 25 basis point cut, it's about GBP 160 million in our disclosure. So I would say if you just gross that up for the fact that it's a 65 basis point, you'll get to broadly the right answer. And that will give you GBP 400 million over the impact on NII within a year.

We've talked a lot and previously that every GBP 10 million impact on NII would equal 1 basis point in any quarter. So you take your GBP 400 million a quarter and then you can kind of apply that math. That would probably be my first base point. So you'll see a natural deterioration because of the rate change. And I think you probably already got that in your model already.

The next thing to think about what's our kind of normal, just the pressure on the mortgage book that we've seen coming through. And again, I think we've probably given you enough guidance to kind of get there. So I wouldn't expect it to be an unexpected fall, but it will certainly be a slightly bigger fall than we've seen in this quarter really because of that rate cut.

Martin Leitgeb: Perfect. And just a follow-up on the payment holidays. Is there a difference in how you approach them in terms of mortgages and unsecured? So are you more worried about payment holidays on the unsecured side as opposed to mortgages and – with mortgages mainly trading?

Katie Murray: The difference is probably one that's more from the consumer side. So we continue to charge interest. But clearly, if you're a mortgage individual and you've got 18 months left to run on your fixed rate period and potentially 20 years left, that interest will be spread over that time. So what you'll see is your monthly payment will increase very slightly. And if you're – naturally, if

you're a credit card holder, we'll continue to charge interest. And when you start to pay down that balance is immediately there, sort of things.

So I think that's the kind of difference from our perspective. It doesn't have a particular difference. But I think that's why you're seeing a real difference in terms of the number of people who are taking mortgage holidays. Because actually, it feels much more manageable on managing your personal cash flow versus so much lower levels in terms of the credit card space.

Alison Rose: And Martin, I'll just remind you of the mix of our book, which is 92 percent secured and only 8 percent stronger account secured.

Operator: Our next question comes from the line of Andrew Coombs from Citi.

Andrew Coombs: Two questions, please. But firstly, just on the way that overlay applied on the existing ECLs. Can you just explain what's the difference between applying the overlay with the economic assumptions you have versus simplistically changing your IFRS 9 base case scenario to have those economic assumptions and put 100 percent weighting on it? If you could just explain the technicality between those 2 different approaches.

And then my second question would just be on the prior core Tier 1 target of 14 percent to end 2021. Does that remain the target? I know the mortgage floor has been slightly postponed. But are you still aiming for a 14 percent core Tier 1 ratio at the end of '21?

Alison Rose: OK. Thank you. Katie, do you want to walk through the first piece.

Katie Murray: The first piece? Yes. No, absolutely. So just in terms of your first question, in terms of the economic assumption piece. So when you – when we compare that to what we had previously, and there's a nice table in Page 14 of the IMS, we had economic assumption that was mainly based on what the likely impact of Brexit would be in what we were seeing in the economics there. I mean, interestingly, if we go back to year-end, I think some of us we were under pressure as to why we not even released that yet, as things are looking more positive.

So what we then did at the end of this quarter is to kind of have a look at the economics, apply all the different end parameters, as I talked about in my narrative, to kind of come up with this number of GBP 798 million, which I realize is sort of spurious accuracy in terms of the impact on that. And basically, both of those amounts come together. So what we did in terms of the amount that we took through the accounts this quarter, the GBP 628 million, it was we need just to top-up the whole MES overlay.

In terms of the difference and why don't you put it into the base models, the reality is because the base models rely and are fed by the experience that you're seeing in your book. What you do with the MES overlay is to say that you understand and you accept that the models cannot possibly, at the end of March, be seeing the experience that we're seeing. We weren't actually experiencing any particular signs of stress, and we certainly didn't have a view at that point of where we'd be sitting there today.

So you use your models based on the data and the experience that's coming out of your business. And then what you do with your overlays is to say, "Well, actually, I understand what that's doing." But the reality is that probably doesn't affect how we really believe things are developing.

And so we have this additional model that we use on top. And I talked in my narrative that the reality is this model is obviously complicated because it's a situation – there isn't a simple economic situation as you would normally have seen in the past. I hope that that's helpful answer. Alison?

Alison Rose: Yes. Thank you. And look, in terms of looking at our capital, what I would bring you back to, clearly, we're starting from a very strong position at CET1 of 16.6 percent and we've given you an indication of our view on impairments. But given the economic uncertainty and outlook in the variables there, I think we are comfortable with our capital position. We would expect it to form. But I think we remain entirely comfortable with the robustness of that and our ability to manage through that period. And I'm not uncomfortable with where we're starting from.

I think we also said it would be inappropriate at this time to give you an update on medium-term outlook at this stage. But we have obviously not paid dividends this year, and we've given you the – and I would point to our pre-COVID performance in terms of our profit position.

Andrew Coombs: If I could just come back on the point on IFRS 9. Obviously, your closest peers have changed their economic assumptions under their IFRS 9 models, regardless of the experience that they're currently seeing. So I'm just trying to get a feel for – in the overlay approach versus changing your economic assumptions, I'd assume that both are just reflecting a change in what is essentially LGD because in either cases, are you assuming stage migration? So are they an essentially equivalent in approaching your view?

Katie Murray: Look, I think you get to point of equivalence of results, certainly. So I think they are quite important. I think what's important there, Andrew, is we haven't changed the LGDs. What we've done is change the PDs. The underlying models will have been updated as well.

Remember, that overlay is trying to do a forward look on things that you don't completely understand as to how they're going to play out in the economics that come into there in terms of all the standard updates that you would see in some of the underlying models. But it's really important to stress that in our underlying models, we weren't seeing signs of stress.

So we had no single names in the quarter, which I think is really important. And there are some quarters, that would happen to you and the next quarter, you might get 2 or 3. And we saw that certainly in Q4 of 2019 where we had a few single names. I think that's also an important part of those core models as they build. You basically...

Andrew Coombs: So the final one, this one and then I will drop. But the – you're saying it's PD changes rather than LGD changes. So even though you talk about a 19.7 percent house price index decline, that's not feeding through into your LGD assumptions when you're booking a provisioning on your secured portfolio.

Katie Murray: Not at this stage. And the way that you can – you can see clearly that that's clearly not, is that as you look at the – on the Page 14, where we showed you

the allocation by segment. So in terms of mortgages, we're only holding that at 28 percent.

And bear in mind, our average loan-to-book value is 15 percent and 7 percent at this stage. So while that's important, I think it's probably more important for the future business that you'd write on it, but we have not, at this stage, change the LGDs. I think we'll start to see that coming through in Q2.

Operator: Our next question comes from the line of Ben Toms with RBC.

Benjamin Toms: It's just a very brief one for me. In relation to the newly announced government scheme for micro businesses, and I think the acronym is (CSBILS). Or I'm sorry, I get a bit confused with the acronyms. That's due to start next week. Do you expect to set your own pricing for these loans? Would you expect the government to announce a cap over the weekend? And if there is a cap, will you choose not to lend that money if the price that is set is the wrong level for you?

Alison Rose: Thank you. See, the scheme that is being announced next week is called the bounce back loans. So that is for loans under GBP 50,000. You then have the CBILS loan and then the large CBILS loan. So they're called bounce back loans, which is for the small loans.

We are currently working on the details of that with the government in terms of the terms and conditions, and that is not yet finalized. So as you would expect, I'm not really able to comment on that at this stage.

Thank you. We now have a question, I believe, on the webcast.

Operator: Our first 2 questions come from Raul Sinha of JPMorgan.

Question 1. Could you please discuss the outlook and drivers of NII and NIM post the BOE rate cuts and the U.K. lockdown, especially into Q2?

And question 2. Could you also provide some additional thoughts on how sensitive your MES overlay is to changes in U.K. GDP in '20 and '21 – 2021?

Alison Rose: Thank you. So just looking at question 2, I think it's not a sensible approach to think about 1 specific economic metric as we look at that GDP knocks on into corporate activity and then into unemployment and into consumer spending and so on. So having said that, GDP is clearly the key driver.

What you would expect, as we have approached this, is we are making a judgment call as we see things today, and we're positioning the bank to manage for all of the outcomes, albeit there are huge uncertainties and no consensus on these things at the moment. Katie, is there anything further on NII and NIM post new rate cuts that we haven't covered?

Katie Murray: No. I mean that's – I think on NIM, I think I probably answered that already with Martin's questions, so there's probably nothing further I would add on that. And then obviously it just kind of leads through naturally from the NII. So we've seen the comment around the base rate cut. We're likely, in terms of any TFS, it'll be a little bit dilutive as well, but nothing really further to add, I guess, to what we've talked about already.

Alison Rose: Thank you. Back to audio now, Joan, please.

Operator: Your next question comes from the line of Jonathan Pierce from Numis.

Jonathan Pierce: I've got 2 questions. I'm sorry to come back on the margin again, but it's an important focus through the course of this week elsewhere. But I just want to make sure I'm entirely clear what the guidance here that you're giving is.

Lloyd's, we're talking about a 30 to 40 basis point drop in the margin in the second quarter. Barclays, similar order of magnitude, top end of that. Sounds from everything you're saying that even once we include some of the costs of the customer support programs, the issue of mix shift, CBILS, so on and so forth, that you think you're going to be somewhat less than that. Can I just confirm that that's what you're telling us this morning?

Alison Rose: Yes, that's what I'm telling you. I mean I would really – I would use the guidance that we've given you sort of consistently on the structural hedge to kind of work out the margin. That will give you the bulk of the drop. And then what we know in any 1 quarter is that we see a sort of – I mean it's 6 percent

this quarter. It was a little bit less last quarter in terms of the move, and then that will kind of be your sort of balancing for.

I think the thing about CBILS, although they are important, they're still – given the size of our book, they're still a very small portion of the book. So they will have a natural dilutive impact. I would go with the guidance that we've given you, and we'll – you'll get there, I think, in the round. So we're not expecting the larger impacts others have spoken about.

Jonathan Pierce: OK. All right. That's helpful. The second question, and again, sorry to come back on this point.

So on the overlay. I understand that this is all horribly complex and deeply uncertain at the moment. But if I, again, look at what you have done in the quarter versus what we've seen at Barclays and Lloyd's, your Stage 1/2 ECL has been built by almost 60 percent. Those other 2 banks increased the Stage 1/2 provisions by about 35 percent.

And I guess there was a bit of true-up needed from you because your economic scenarios at December, particularly the downside scenarios, were not particularly harsh. When you look at where you are now, do you think that you have now largely trued up to an equivalent level of the other banks and hence, overlays moving forwards will not necessarily be disproportionately sized versus what we'll see elsewhere?

Katie Murray: Yes. So look, let me kind of run through the impairments of – again and see if I can help you. So what we did was, in total, we charged GBP 802 million or 90 basis points of loans and advances. So obviously, well in excess of our through-the-cycle charge of 30 to 40 basis points. Most of this was the GBP 628 million overlay.

So as I said in my speech, that was based on our internal stress scenario because we didn't actually feel that we had the data or we're not seeing the data yet coming through our books. So we overlaid on assumptions on government support, likely recovery, individual kind of sectoral stresses.

And then that got us to a resulting charge, which equates to an increase in Stage 2 exposures of sort of 32 percent and 65 percent in personal and wholesale. And increased the provision stock to GBP 4.2 billion at the end of March, of which GBP 798 million is the – of that GBP 4.2 billion is in relation to the MES.

There is, therefore, significant uncertainty and judgment involved in our Q1 charge. There is much more uncertainty in thinking about how that will play out in 2020. This – we know about the wide range of views around medical issues and lockdown and economic impact on that and the shape, timing and scale and the duration of the recovery.

What we've not done today is to forecast the 2020 impairment charge and how it might come through. I think the difficulty in forecasting is reflected not only in all of your own forecasts that we – in terms of the consensus we've published. We've got ranges of GBP 1 billion to GBP 4.6 billion. So there's no real consensus coming through in that. And I think we've seen similar ranges coming out from some of our peer group as well.

But given that analysts need focus – I mean need to forecast, I guess, what can you do? I would say an absence of guidance from us and there's significant caveats of uncertainties that we've just gone through. I would say, a rational approach would be to extend something like our Q1 charge of 90 basis points through the rest of the year.

And let me now just know if I can do about the uncertainties again. I'm happy to do so. But what we know definitely is it will not be an evenly spread. 90 basis points will not be the answer. And what I would say is I don't kind of offer this as a forecast, but this is a rational way to kind of approach the problem as we go through with the MES.

Jonathan Pierce: OK. That now is really helpful. So again, accepting the uncertainty. What you're essentially saying is as good a guess as any at the moment is to take the Q1, multiply it by 4, gets us a little bit above where consensus is at the moment, but that's as good a shot in the dark as any at the moment?

Katie Murray: Yes. I would – we thought of that. And the mix of us compared to others is also something that's important.

And then sort of – Jonathan, if I can just make sure that we're clear that we're – in terms of the kind of the NIM and where we are. I think what we're sort of saying is that we're kind of happy enough with where consensus is sitting. And that kind of 10 basis point kind of impact as a result of the GBP 400 million is how we should read it. And don't read it as 40 basis points. I think we might have confused you a bit with that answer earlier, if that's helpful.

Jonathan Pierce: Yes. That's really helpful.

Operator: Your next question comes from the line of Edward Firth from KBW.

Edward Firth: I think you've actually answered all my questions. So just a very small one. You said the runoff cost will be less than GBP 400 million. I guess that's a huge range. Can you help us a little bit more than just less than GBP 400 million?

Katie Murray: Ed, I'd love to ...

Edward Firth: Or there will be losses, for example?

Katie Murray: Yes. No, look, what we had said at the year-end was GBP 400 million in terms of those disposal losses. That will obviously go against the income line. At the moment, what we're saying is we're working towards the GBP 32 billion. At the end of the year, we'd expect those losses to be slightly less. And as we get them, we will share them with you.

Edward Firth: OK. But there will still be losses?

Alison Rose: No, but they will be less. Ed, one thing I'll point out is when we announced the NatWest Markets refocusing strategy in February, since then, we have a dedicated team who are managing our RWAs and our book. We've obviously made some announcements around some changes in that business. We would expect to continue to reduce our RWAs without crystallizing the full amount of that GBP 400 million. So there will be some losses, but they will be less.

Operator: Your next question comes from the line of Chris Cant from Autonomous.

Christopher Cant: If I could just come back on the revenue and NIM piece again, and I appreciate we've covered this on a couple of questions, but I'm just cognizant that we've seen consensus revenues need to move pretty consistently lower for 4, 5 quarters now. Could I just come back on the previous answer?

Are you saying you're happy with where consensus is sitting for revenues for the full year? Because I'm not sure you'd give us a NIM number. So consensus of about (10.7). Obviously, that includes some disposal losses, which you're now saying are going to be less than the GBP 400 million. So I'm just trying to understand what it is you're telling us there, to clarify.

Katie Murray: No, absolutely. Chris, let me give you hear kind of a clean revenue answer rather than kind of mixing up with NIM as well.

So look, we note the consensus, where it's sitting at (10.7) you're absolutely right. We gave you really very fulsome guidance at the year-end. The GBP 200 million, so I think is quite well reflected in that 10.7. And I think that the 10.7 has already also probably reflected well some of our structural hedge kind of guidance. So the overdraft and high cost of credit, the GBP 200 million guidance, we're still in and around that number. We talked about the 25 basis point cuts.

We got 65 basis points. In that note, it gives you good views as to how to kind of roll it forward, impact of lower margins. Obviously, from CBILS. And (CLBILS) will have a bit of an impact. We do continue to accrue income for mortgages and other retail payment holidays. And although we do expect the disposal losses in line in NatWest Markets, in the round, we kind of – we know where consensus is sitting, and we don't feel the need to talk more about it.

Christopher Cant: OK. That's helpful. And if I could just follow-up on the questions around the IFRS 9 and the provisioning approach. Just trying to understand your scenario a little bit more. You've given us some slightly qualitative commentary relative to some of your peers where we've got some clearer tables outlining the scenario.

So could you just give us the GDP moves you're assuming for 2020 and 2021 sequentially and the equivalent numbers for what you're assuming for the unemployment rate in the U.K. in 2020 and 2021? Just to help us cross-compare between banks. So I appreciate the approach is a little different, but I'm more interested in the scenarios that are underpinning the numbers.

Katie Murray: So Chris, at this stage, we haven't shared those later dates. I'm sorry, I'm going to disappoint you on the call this morning in terms of what our assumptions are. And I think the reality is and what has become increasingly clear to us, I think, during April, it's just actually how difficult it is to give you those forward-looking dates.

So I think our guidance has really – has been quite focused on the 2020 year. We'll see how those evolve. And I would say that the qualitative is as important as the quantitative in terms of how you actually get to the kind of number that you feel relatively comfortable with.

I mean, our view is very much we're so early in the crisis, of how it unfolds. I think that we'll have a far more substantive conversation when we get to Q2. So apologies, I think that our guidance for '20 is probably as far as we'll go this morning.

Operator: Our next question comes from the line of Fahed Kunwar from Redburn.

Fahed Kunwar: I had a couple of questions. Just 1 on the dividend. I know your caution on giving medium-term outlook but when you had a 760 basis point buffer over your MDA, obviously, dividend was canceled in '19 because of the PRA.

But going forward, the buyback strategy changes, of course. But why would your ordinary dividend strategy change at all considering the size of the buffer unless you're expecting extremely significant losses to eat that kind of capital buffer, especially the fee builds are quite low-risk weight intensity. That was my first question.

My second question, just on NWM revenue guidance. I know we talked about the rate of income. I think halving from the kind of ordinary reductions that

you're planning to see in that business. Is that still relevant guidance? Or does that change or slow down based on the kind of changes we're having to some of the disposal losses?

Alison Rose: Thanks very much. On dividends, clearly, our strategy is to resume dividend at the appropriate point. We recognize it was disappointing for shareholders that we canceled the dividend following discussions with the regulators, which we banks went through. We would look to receive dividends at the appropriate moment, and we'll review that at the end of this year and we see no need to change our dividend policy. And I remain committed to distributing back to investors and shareholders at – that's our position on that. In terms of NatWest Markets, Katie?

Katie Murray: Yes. I would say, Alison, in terms of NatWest Markets, I mean that guidance is obviously for as we get further through the process in terms of where we are now. I would say that the – what we have said to you that you would expect ultimately, the rates business group would be significantly lower, and this year was probably quite a step-down year.

I do sort of note on sort of Page 30 of the pack that the rates income for last year was (GBP 328 million) and we've done (GBP 276 million) in the first quarter. So I would say that they performed well with the volatility that was in the market, which is good because it gives us a bit of a runway into the year as we continue the transition of that business. But our strategy is unchanged. So we would – where we get to ultimately, that guidance would still be valid. But obviously, we're pleased with the performance that they've had in the first quarter.

Fahed Kunwar: Perfect. And can I just follow-up on one more question? Sorry, it's a slightly unfair question. But on the CBILS scheme, obviously, you're a big part of the CBILS in terms of the share – the loans are getting out at the moment. Do you feel any kind of extra responsibility? Are there any kind of implicit pressure on you as a kind of state-owned bank to be a bigger part of that CBILS scheme? Or is your larger market share more because you have a larger market share in the U.K. corporate space?

Alison Rose: So no, not an unfair question. Very happy to take it. We are not under any undue pressure or do I feel any. I act in the best interest of all of my shareholders, and we make those decisions as an Executive and a Board, as you would expect.

In terms of CBILS, we are participating in that scheme, supporting our customers. One of the things that we were very aware of when the crisis unfolded was the need to move very quickly. I reorganized the organization very fast, and we operationalized that program very quickly. And that was why we were able to meet so fast at getting GBP 1.4 billion of lending out under that scheme. That is to our existing customers within our existing risk appetite, taking into account very disciplined viability analysis in the normal course of business.

So as you can see, as other banks operationalize more and step up, they will take more of a share of that program. We are lending to our existing customers. But no unique pressure for us at all nor do I feel any, and I will act in the best interest of all my shareholders.

Operator: Your next question comes from the line of Aman Rakkar from Barclays.

Amandeep Rakkar: Yes. I just wanted to come back to the ECL comment you made earlier. I appreciate the uncertainty in predicting ECL for the full year, and I do really appreciate you're giving us that kind of guidance about times in Q1 by 4. I guess, just based on that view of the world that it is, obviously, a big part of the Q1 charge was the macro overlay.

I mean for that 90 basis point charge to recur in the remaining 4 quarters or 3 quarters, are we saying that there is a decent charge, actually, given that the macro situation has been flat and a fast-moving target that we potentially will see a mixture of additional macro overlays as your assumptions around macro that you put into your models are kind of a bit more conservative.

And then I guess following on from that. Benefiting from IFRS 9 transitional relief in Q1, simplistically put, if we saw the same 90 basis points charge materialize in Q2 composed of the macro overlay and the actual underlying charge, could we see a similar level of transitional relief in coming quarters?

And then just the final one is just interested in – you obviously printed a really, really strong capital ratio. The headwind in the MDA is massive, basically. Just wondering how you guys were kind of weighing up the temptation to kind of gold plate your provision reserves, kind of you front-loading potentially a higher charge in Q1, you can still print a really, really healthy CET1 ratio and potentially get ahead of this issue, particularly relative to other banks. It would be very interesting to hear your thoughts behind that.

Alison Rose: Thank you. Well, let me start and then I'll hand over to Katie. I think Katie has given you, hopefully, a very detailed and helpful view on our approach to the overlay and impairments when we look forward. What I would say is, as you would expect, we are looking at a period of very significant uncertainty.

And I think there are a number of variables in there, both the duration of the lockdown and the speed with which the economy can and will recover as we come out of this situation, which impact that what you would expect me and the team to be doing at this point is making a balanced judgment for you on what we see, running the various different scenarios and positioning the bank well to deal with that. I think what we've given you is a sense of our approach and also, hopefully, a view of how we look at that. So I think probably that's what I would say on that.

In terms of the strong capital ratio, I am – we are starting from a position of strength. We do have a strong CET1 ratio. We have a balanced portfolio and mix across our books, which I am not unhappy with, and a resilient performance coming out of Q4 into Q1 pre the COVID. So I think that gives us a strong starting point facing into a challenging operating environment.

We've tried to give you a balanced view. I'm not gold plating anything. I think that is our balance sheet. But it's certainly not saying that our provisions and impairments in Q1 are the end of it, and that's the guidance Katie has given you there. So hopefully, that helps.

Katie, do you want to pick up the transitional relief point?

Katie Murray: Yes, absolutely. Look, I mean, transitional relief, as you know, is our – a kind of hideously complicated calculation. It basically tracks the changes in stage 2 and the movement therein. So in the quarter, you can see that we got GBP 296 million of transitional relief. You can see that in our capital, our capital kind of deductions, our schedule. What I would say is we would – I would absolutely say, given that we expect to incur more impairments, that we would expect to see more of that relief coming through. We'll continue to kind of update you on the exact number as it kind of flows through.

And I think you also asked, would we see going forward that we'd end up with a mix of overlay and our base? The desire is always not to have overlays but I could imagine that as we go through this year, you'll still end up with a bit of a blend because the reality is it's going to be uncertain for the next few quarters. So we'd think you'd have a bit of a blend. I wouldn't like to comment in any way what those numbers would be.

Alison, I think there's a question from the web after this one. Should we take this?

Alison Rose: Yes, let's take this. Thank you.

Operator: Our next web question comes from Robin Down of HSBC.

On Page 15 of the accounts, you called out various corporate exposures where you see heightened risks: Oil, airlines, leisure, et cetera, and yet the Stage 1 and Stage 2 ECLs here look very modest. For example, just GBP 31 million on a GBP 2.4 billion oil exposure. How do we square that circle of elevated risks with low ECLs? Is the exposures to oil, oil majors, for example. Why has the economic overlay not had a material impact here?

Alison Rose: Thank you, Robin. Look, when I look at our book, our oil exposure, I think, as a percentage of our overall book, is relatively low. And our oil exposure is to more major companies, and this is lending. So we've applied stress PDs, but if the specific counterparty is very strong, then the overlay is not that huge. So it's really about risk appetite. But as an overall percentage of our book, our exposure to the oil sector is rather (small.)

Thank you. Should we go back to the phone lines for any further questions?

Operator: (Operator Instructions) The next question comes from the line of Jenny Cook from Exane.

Jennifer Cook: Can I switch out business, invite you to comment on cost expectations for the next few years? Clearly, you've provided guidance in terms of what you're expecting, but consensus seems to be the order of magnitude more optimistic than that?

Secondly, kind of following up on Robin's question, actually, I was looking at the airlines and aerospace exposure where I can see that your exposure increased around 44 percent in the quarter. I appreciate all numbers, but quite relative new. Your coverage cases decreased by 2 percentage points to just 1.5 percent. What are the nature of those exposures? And are you factoring a significant amount of government support to this sector?

And then my final question is just given that nearly 20 percent of your mortgage book is on a payment holiday, but there's incredible disconnect between cash and accounting at the moment. And intuitively, your assessment of risk must be going up in this environment. And in normal circumstances, this would lead to higher mortgage spreads.

You previously talked underwriting mortgages based on expected impairment losses around 25 percent to 40 percent above the reserve loss rate. Are you look to maintain that buffer in your underwriting. Could I therefore ask your perspective on the trend for mortgage spreads over the next few years from here?

Alison Rose: Thank you. Apologies, I didn't quite catch the first question.

Katie Murray: So the first question was cost expectations for here and into the future.

Alison Rose: Thank you. Sorry. Apologies. My hearing is not as good as Katie. So we've reiterated our guidance on costs for this year of GBP 250 million. As you know, we have a strong track record on cost and over the last few years, we've taken around 4 percent out of our cost base, GBP 250 million this year.

I'm reiterating that. We will continue to take cost out of the business. The mix, as you would expect, has changed and little as a result of us adapting to the crisis, but I may remain committed to that GBP 250 million and continuing downward pressure on our cost base. And looking forward, we would expect that to continue. So I think that becomes and continues to be an imperative.

We've obviously also reprioritized, as you would expect some of our spending and where we will look to invest and where we will look to take cost out. So we remain committed to the GBP 250 million this year and continuing costs coming out.

On the airline and aerospace exposure, what I would reflect back is we have relatively low exposure to multinationals given the nature and shape of our business. Our airline exposure is included in their lending to airline services as well, not just airlines. So our exposure is relatively limited in terms of the big multinational players that you, I think, are thinking about when you talk about airlines. And we've obviously looked as we've assessed our impairments, both the – from a sector perspective and also government support and overlays, but I would go back to our exposure to airlines is relatively limited from that perspective.

Katie, do you want to pick up on mortgage?

Katie Murray: Yes. No, absolutely. But there is naturally a disconnect between the cash and accounting flow that we're seeing at the moment. And certainly, given the volume of requests that we have had around mortgage holidays, 18 percent. What will happen is they will all have been granted 3 months in holiday.

And then there will be a process where we'll go back and talk to every single one of those customers about them recommencing their mortgage payments and how they would like to do that. And that's where we'll actually get through that process, which will be in its very early stages now as we run in through May and the payments are due to kind of start again toward beginning of June. That's when we'll start to get some of the kind of the real insight within there.

In terms of pricing on mortgages, look, I think, obviously, with the way the swap curve has gone, it's probably a bit beneficial at the moment. What we think is going to be interesting on future demand, 50 percent of our new business is to do with new mortgages. You can see even in those numbers that we shared with you up until the beginning of April, we wrote GBP 10 billion of – GBP 10.4 billion of new gross mortgage loans in Q1.

What we've done, I think it's about GBP 1.4 million, it's more or less in April. So you can see there's just a massive kind of fall off in that volume. What we have done with all of the mortgage offers that we have out there, we've extended them all, so they're all valid for 6 months.

And I think we'll just start to see as and when and how we emerge. Some of those will still come back on the books. Some of them will move away. And then I think in a year or 2 years' time, it's incredibly hard to call at this stage, Jenny, as to how we might kind of see that evolving. Thanks, Jenny.

Operator: Your – our final question is another question from the line of Fahed Kunwar from Redburn.

Fahed Kunwar: Sorry, just one more question. Just on credit migration. I know you don't want to give guidance, but just how to think about this? It looks like a lot of increase on risk rates over the course of this quarter were from RCF usage, and you kind of flagged that the RCF usage has stabilized.

And then also that the mortgage risk raise had been postponed. So should we infer you're expecting kind of reasonable, significant credit migration in the Corporate and Regional book? Or should we say that your RCFs don't actually get any worse from here, that the risk-weighted asset penetration could actually moderate it?

Katie Murray: Yes. So when we think of RCFs, they are about 57 percent risk-weighted. So they're not – I mean there's – in the round within our corporate book. We have seen that stabilize. That's really – is a large part, is I think is a result of the CCFS scheme that's come on with the government. So we're not expecting that to particularly migrate. But I think in terms of how the kind of the group

migrates in general, I think we'll obviously – we're watching it very closely. We'll continue to do so. But I wouldn't see them as a particular flag within that migration.

Alison Rose: No. I would add the RCF drawdown was very early on. As the crisis happened. You've seen a lot of that come back in terms of deposits on our book. And as the capital markets have reopened, the credit markets have reopened, a lot of the corporates are now accessing those markets, which, for a period, were very volatile. So I think we're in a much more normalized moment now.

Operator: Thank you, Alison. I'll now hand the call back to you for closing comments.

Alison Rose: Thank you very much. Thank you, everyone, for joining and for your questions. Much appreciated. I think we have addressed most of your concerns.

I would just end by reiterating what we've seen is a resilient performance coming into Q1. We're clearly facing into a period of significant economic uncertainty, and we are taking a measured and prudent approach in how we position the bank going forward mindful of supporting and preserving our financial liquidity strength and shareholder value as well as playing our part in supporting the economy as we go through this difficult period.

Thank you very much for your time.

Operator: Ladies and gentlemen, that will conclude today's call. Thank you for your participation. You may now disconnect.

END