Q3 Results 2020

MEDIA Conference Call

Held at the offices of the Company
250 Bishopsgate London EC2M 4AA
on Friday 30 October 2020

FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Interim Results announcement published on Friday 30 October 2020.

NatWest Group

Alison Rose, Chief Executive

Katie Murray, Chief Finance Officer

Introduction

Good morning, ladies and gentlemen. Today's conference call will be hosted by Alison Rose, CEO of NatWest Group. Please go ahead, Alison.

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Alison Rose, Chief Executive

Thank you. Good morning, everyone and thank you for joining us today for our Third Quarter Results. These results demonstrate the banks' resilience underlying performance and the good progress we have made against our strategic priorities whilst providing support to our customers and protecting the businesses in the safest significant and ongoing economic uncertainty.

Our sector leading capital ratio of 18.2 percent gives us the flexibility to navigate this uncertain environment and to provide support where it is needed as we build a bank that champions potential, delivers on its priorities and generates sustainable returns for its shareholders.

Since we last spoke, government measures have been tightened in order to combat COVID-19, and we have also seen a winding down of the furlough scheme and changes to other government support schemes.

Against this backdrop, we are reporting an operating profit before tax of £355 million for Q3, including an impairment charge of £254 million and a loss of £324 million on a liability management exercise carried out in September.

As we said in July, the majority of impairment provisions were taken in the first half of the year and impairments in the third quarter were low compared to the second. We remain comfortable with the risk and diversification of our lending books and we now expect a full year charge at the lower end of our guided range of £3.5 to £4.5 billion.

We have also reviewed the economic assumptions on which this charge is based and continue to believe they're appropriate.

Throughout Q3, we have provided exceptional levels of support to your customers and colleagues and the communities we serve, and I would like to take the opportunity to thank all of my colleagues who are working so hard on behalf of our customers. Whether that is face to face in our branches and offices, over our digital and video channels or from their homes.

In total this year, we have approved £13 billion of lending to businesses through the government schemes, including £2.9 billion in Q3 and helped 250,000 customers with an initial mortgage repayment holiday, whilst keeping 95 percent of our branches open.

The number of customers taking a mortgage repayment holiday has been steadily decreasing and in Commercial Banking, the activity levels are also starting to normalise. We continue to support businesses through the government support scheme. Their demand has tapered from about 48,000 applications on the first day to an average of about 700 a day in October.

Our NatWest Entrepreneur Accelerator programme has run 800 virtual events with 33,000 attendees since the start of lockdown and going forward, at least 25 percent of all places in our accelerators are being set aside for businesses whose core offerings support sustainable environmental activities.

The health and wellbeing of our colleagues and customers remains a top priority. We have more than 50,000 colleagues working from home and have delivered office furniture and 31,000 tech bundles to help enable this. For those who are working in our branches, contact centres and offices, our buildings are all COVID secure.

And as we build and open an inclusive bank where everyone can thrive, we've also published a report accompanied by a set of new commitments for the bank, including a target to have 3 percent black representation in senior UK roles by 2025. This is in addition to our existing target of at least 14 percent black, Asian and minority ethnic representation in senior UK roles by the same date.

The strategic priorities I set out in February underpin our purpose of championing potential to help people, families and businesses to thrive. By taking advantage of our strong franchises to support customers, by simplifying our business to make it more efficient, by powering our organisation through innovation and partnerships, and by sharpening our capital allocation, we will deliver sustainable returns over time.

We have capacity to grow across our sizeable franchises in retail, commercial and private banking, and activity levels have increased in both our retail and commercial businesses and gross lending grew £31 billion to £371 billion for the first nine months.

We continue to make good progress on simplifying the business and taking cost out whilst investing in new technology in order to drive efficiency. We have 9.3 million active digital users, including 7.5 million on our mobile app and we added almost a quarter of a million newly active mobile users during the third quarter.

There has been over 6 million interactions with our chatbot Cora from both retail and business customers and video banking is now available across our entire network, with interactions up from less than 100 a week in January to almost 9,000 a week now.

This digital acceleration is one of the reasons we've been able to reduce costs, and we remain on track to achieve our 2020 cost reduction target of £250 million.

We also recognise that we can accelerate the execution of our strategy if we work in partnership with others and we have recently announced a new relationship with Blackrock to support our wealth management activities with their investment management processing.

The work that we're doing in NatWest Markets is a good example of how we are sharpening our focus on customers and capital allocation. We initially planned to reduce our RWAs in NatWest Markets to £32 billion by the end of 2020, and as a result of disciplined execution, we are now ahead of that plan.

So, to conclude, in spite of the ongoing economic uncertainty, the bank's performance remains resilient and our strategy remains the right one as we continue to deliver well against our priorities.

Our sector leading capital ratio means we are safe and secure. Through our well diversified and capital generative business, we will support our customers during the challenging times ahead, and resume dividend payments to shareholders (as soon as possible).

And as we build a bank that champions potential and has the capability to grow, we will deliver sustainable results over time.

Thank you very much, and I'm very happy now to open up to questions.

Operator

Ladies and gentlemen, if you'd like to ask a question, please press the "star" key followed by the digit "1" on your telephone keypads.

We will pause for a moment to give everyone an opportunity to signal for questions.

Your first question comes from the line of Ben Martin from The Times. Please ask your question.

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Ben Martin, The Times

Good morning, just a couple of questions, firstly HSBC said earlier this week that they would consider charging for current accounts because of the odds of low interest rates, can RBS – would NatWest do the same or can you rule it out – never having to charge for current accounts because of the interest rates, especially if we go to negative rates next year?

And also can you tell me do you hope to pay a dividend next year? Is that – is that your intention?

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Alison Rose, Chief Executive

Thanks, Ben. So, on current accounts, we have no current plans to change our pricing structure for current accounts. On dividends, obviously we have very strong capital ratios, and I've been very clear that it's my intent to start paying dividends as soon as possible and we'll review that at the appropriate time.

The PRA has indicated they will update their guidance in Q4, and we will wait for that and then we will set it in the normal course.

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Ben Martin, The Times

Can you rule out ever charging for a current account?

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Alison Rose, Chief Executive

We've got no plans to do so at the moment, Ben.

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Ben Martin, The Times

Thank you.

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Alison Rose, Chief Executive

Thank you.

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Operator

Thank you and your next question comes from the line of Iain Withers from Reuters. Please ask your question.

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Iain Withers, Reuters

Hi, morning – couple of questions, first one on the outlook, and impairments have been the – a little less than you thought this year, does that mean you think they'll be more next year?

And just to follow up on your capital position, appreciate your answer on dividends, and in terms of buying back government shares is that – do think that's possible in the next few years? Or is that completely out of your thinking at the moment? Thanks.

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Alison Rose, Chief Executive

Thanks very much. Well look, in terms of on the impairments and outlook, we did say in July that we expected the majority of provisions to be taken in the first half. You know, clearly the outlook remains very uncertain and it's a very difficult time for businesses.

We're very comfortable with impairment charge and the economic assumptions that we have made. But what you have seen is that the amount of support that has been put in place through the support from the Bank of England, from the government and the support that we've put in place with our own customers is really helping them bridge through this period, but there are very difficult times ahead and we still see very low levels of delinquencies and challenges for customers.

So, I think it's too early to say, I think there are challenging times ahead.

On your capital question, clearly our capital strength is – and the sector leading capital strength means – we're safe and secure, and I'm very happy to be in that position, CET 1 ratio of 18.2 percent.

We'll review our capital position as I said and our position on dividends. It is my intention to return capital to shareholders at the appropriate time and we'll evaluate that. And we'll look at all measures to do that at the appropriate time, so I think that's all I would say.

Thanks for the question.

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Operator
Thank you. Your next question comes from the line of Stefania Spezzati from Bloomberg News. Please ask your question.

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Stefania Spezzati, Bloomberg
Hi, good morning, I was wondering, how uncomfortable is NatWest about this level of provisioning in case of a no Brexit deal, and then also if you could please explain a bit more about your economic scenarios if the current level of provisioning include a national lockdown for the country?

And then on the commercial lending, we're just wondering there have been a few reports of fraud in those bounce back loans, so how comfortable – are you – are you concerned about – you know, the risk of getting fraud on your books? Thank you.

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Alison Rose, Chief Executive
Thank you. Well, I'll let Katie talk you through provisions. So, just turning to your question on the bounce back loans, as you would expect, you know, and as we've been clear, we've been supporting our existing customers. We are taking all the necessary precautions you would expect us to take in relation to fraud and customers undergo all the standard checks where we look for potential indicators of fraud.

As I said, we've only supported our existing customers under these schemes, in other words, customers we know and whose risk profile we understand. And you know, unfortunately some applications are not eligible and we've got a responsibility to ensure the processes are followed, so it's definitely something we're very aware of and we make sure that we follow the usual and the expected precautions against fraud.

Katie, do you want to pick up the provisions and the economic scenarios?

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Katie Murray, Chief Finance Officer

Yes, thanks so much. Morning, Stefania, I'll pick them up both of them really as a collective kind of commentary.

So, Stefania, we've made no changes to our economics in Q3. We felt that the Q2 work was still appropriate. Within – and within that, we have within our scenarios and the four scenario of kind of Brexit downside that would – that could come through, and also the scenarios have some level of ongoing lockdown, because what you didn't see in any of our scenarios was a really deep very, very sharp recovery. So, it was always expected that recovery would take a little bit of time.

You know, and I think ultimately what we see happening in this lockdown, how consumer behaviour has adapted over the last number of months and(how many businesses have adapted as well, will ultimately dictate how that flows through, and we'll look at that again I think in more detail once we're more familiar with what the next state of lockdown actually feels like and update further on that in Q4.

But at this stage, very comfortable with the assumptions that are appropriate for the circumstances we find ourselves in.

Thanks, Stefania.

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Stefania Spezzati, Bloomberg

Thank you.

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Operator

Thank you. Your next question comes from the line of Nicholas Megaw from Financial Times. Please ask your question.

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Nicholas Megaw, Financial Times

Morning, guys. We had Lloyds yesterday saying that – they were saying in the housing market not just a temporary delay for house price falls because of the stamp duty cuts but also they saw – thought there was a genuinely brighter outlook and some structural changes in kind of customer behaviours. What is your view on the housing market…

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Alison Rose, Chief Executive

Thanks – well, we've – and Katie can give you the detail, we've made some assumptions in our economic scenarios on the housing market. You know, we are undoubtedly seeing a lot of activity in the mortgage market in demand from our customers.

If we look at the Q2 versus Q3, we've seen a 91 percent increase in terms of mortgage applications. And that's clearly benefiting from the stand duty reduction, which is seen very positively by our customers. I would continue to say though that I think the outlook does remain very uncertain as we continue to deal with the impacts of the pandemic on the economy, and it is, you know, a very stressful time for businesses and consumers.

But we are seeing activity levels increase, and you can see that in our Q3 results and particularly in the mortgage market. Katie, do you want to just touch on what's in our assumptions…

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Katie Murray, Chief Finance Officer

Absolutely … so if we look at our assumptions, we had quite a significant fall in our house price growth in this first year. You know the central assumption was between 8 and 9 percent. What I would say over, it's a kind of five year average, that actually reversed relatively quickly and sort of came to a kind of five year average of 1.5 to .5 percent.

At the moment, you know, while we have seen some temporary increases because of the stamp price piece, I think it's really too early to call. So, we certainly remain comfortable in terms of where we are over that longer – that longer time period in terms of the house price piece, and we're pleased I think to see such an active market at the moment as well, which we are obviously benefitting from as are our customers.

Thanks Nicholas.

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Nicholas Megaw, Financial Times
Thanks.

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Operator
Thank you. And your next question comes from the line of Kalyneea Makortoff from The Herald – I beg your pardon, from The Guardian. Please ask your question.

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Kalyeena Makortoff, The Guardian
Hi, good morning, first off, on cost reductions, I know you said you were on track to reach target, where are those remaining cuts going to fall? And in terms of headcount reduction across the whole business, as far – as far as I understand it, you've cut about 1,000 jobs since half year, can you just be clear about how many more jobs are expected – or if headcount is going to be reduced, or if it's going to be natural attrition by year end?

Thanks.

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Alison Rose, Chief Executive
Thanks for the question. So, as you say I've – we've – we confirmed that we're on track for our £250 million and we're continuing to make good progress on simplifying the business. The cost for the first nine months of the year were £193 million, lower than the same period last year. And we set out a clear strategy in February around simplifying our business.

I'm not going to comment on job cuts and numbers. We'll always talk to our employees, but I think it's a mixture of different things in terms of how we're taking costs out, and we remain on track in line with our strategy.

What you have seen, and I touched on it a little bit is a real acceleration in some of the underlying trends in customer behaviour, in terms of how customers are choosing to interact with us.

That example I've given you around – you know, the increase for example in video banking, you know, our customers are now choosing to interact with us in a very different way, from around 100 a week in January, we're now averaging around 9,000 a week through video banking. It's a really positive experience for our customers.

We've seen, you know, our mobile – active mobile application users go up in Q3 by another quarter of a million, so we now have 7.5 million active mobile app users and 9.3 million active digital users. So, those underlying trends are continuing to accelerate. But in terms of overall costs, we will continue to update our colleagues and our customers and we're on track for our £250 million.

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Kalyenna Makortoff, The Guardian
Can I just ask a follow up question on that, in terms of what customer service facing jobs are starting to look like – I know it was sort of a call to arms right after the pandemic started to have people retrain and kind of fill in the gaps where they could. What is that looking like now?

And is that helping save any – you know, so you save branch related jobs that might otherwise have been at risk because they're now able to do sort of hybrid work doing call centre work or those video chats?

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Alison Rose, Chief Executive
Yes, I mean I would say that what my colleagues have done has been fantastic. One of the things we launched earlier this year was something called the NatWest Academy, which provides a range of services in re-skilling and retraining to all of our colleagues, which gives them the opportunity to explore the evolution of digital skills and different developments, so a real commitment to supporting our colleagues.

We train, we learn – we develop – we’ve also seen – you know, a real evolution in the ways of working, how people are working. The fact that my call centre colleagues, a lot of them can work from home. It gives them flexibility in terms of how they work and we've sent for example, over 30,000 tech bundles to people's homes to allow them to have a positive working environment using the technology in a very different way.

So, our Academy provides a way for colleagues to re-skill, we train, redevelop and we use a lot of that also into our communities as well. A good example would be Dream Bigger, where we're helping kids in schools, girls in particular, develop entrepreneurial skills. And our social mobility apprentice program is really focused on black, Asian, minority ethnic colleagues coming in to train in the new digital apprentice program to bring more social mobility into the bank.

So, the retraining, re-skilling, re-education is very much part of how we support our colleagues as the situation evolves.

Thanks very much.

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Operator
Thank you. Your next question comes from the line of August Graham from the Press Association. Please ask your question.

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August Graham, Press Association
Good morning, I was wondering a couple of things – part – I mean there's been a bit of a build-up of cash in some people's accounts over the lockdown period because we didn't have much to spend it on, are you – are you seeing any signs of that now being spent again and kind of what areas is it being spent on?

And then secondly, could I just touch on the – on the bounce back loans scheme. It's – I mean it's coming to an end – applications end in about a month if I've understood it correctly, are you seeing – have you seen a spike, an increase at all in the – in recent week, ahead of that deadline of course?

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Alison Rose, Chief Executive
So, in terms of cash behaviour, I mean – and Katie can give you the details in a moment – our cash deposits have continued to increase, and we're seeing our customers, both in terms of

managing their own personal balance sheets, which was a trend we saw earlier in the year through COVID, you know, pay down their more expensive debt and retain cash and savings.

And on the business side, we've seen a real increase in our cash deposits, so our deposit ratios have continued to increase and we're holding more liquidity. What we are seeing is activity levels come back in terms of debit and credit card spending and – but we're still seeing those deposit levels continue to increase, and Katie can give you the numbers in a moment.

On the bounce back loans, we've actually seen from the very high peak at the early part of the crisis when we were getting very high levels of applications, that has – that has continued to taper down. I mean obviously putting a lot of support in place, but that's now averaging around 700 applications a week, so it's starting to really taper down.

We're also seeing, you know, a return to normal activity. So, for example, in our commercial and corporate banking, revolving credit facility utilisation which was at a peak at 40 percent at the beginning of the crisis is now sort of dropped down to 26 percent, which is a – which is back to around pre-COVID levels.

The number of people on mortgage repayment holidays, which we offered at the beginning and we did say we felt that people were asking because of being – you know, cautious rather than constrained, that was about 22 percent of our book, that's down now to around 4 percent.

So, deposits are continuing to rise as things continue to normalise.

But on the bounce back loans, with it tapering off. I mean clearly, one of the things I would say and I've continued to say this, this is – you know, a lot of extra debt that companies have taken on. These are loans that customers have taken on, that they're 100 percent liable for. I mean clearly the terms give them a long period to repay, but continued uncertainty in the economy, continued uncertainty for business owners is really challenging for them.

Some of those loans, around 1 million bounce back customers were due to be starting to repay those loans next May, so it's important that we're continuing to support them through these difficult periods, but you know, very simply in answer to your question, we are seeing the tapering down of requests as we come to an end of that, but we continue to keep a close eye and make sure we're continuing to support customers.

Katie on the deposits …

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Katie Murray, Chief Finance Officer

Yes, no, absolutely – the deposits you're absolutely right, people did build up deposits, and if I look in the retail and customer base, we added an extra £3.9 billion on deposit in the third quarter alone, so that build up is still quite significant.

What was interesting is we saw the credit card balances grow by 0.1 as well, so people have started to use their credit cards a bit, but what we can see their transactions also increased in debit cards, so people are still kind of carefully managing their money.

You know, and it's repeated to an extent as well in commercial business, where their deposits grew by £1.7 billion, as well over time, so people still very much holding on to their cash balances, which is – obviously with the uncertainty that's coming forward, is a sensible – the sensible thing to do.

Thanks, August.

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August Graham, Press Association

Lovely. Thanks.

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Operator

Thank you. Next question comes from the line of Lucy Burton from the Telegraph. Please ask your question.

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Lucy Burton, Telegraph

Hi, just a couple more on negative interest rates. Howard Davies said earlier this month that banks weren't ready for negative rates, so I just wondered if you agreed with that and if the bank was ready now. And also on free banking. I know you're not looking at it now, but is it something that you think the industry's debating? Do you think that all banks will eventually have to start charging for basic banking services?

Thanks.

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Alison Rose, Chief Executive
On negative rates, it's currently not part of our base case assumptions but in the event that that situation happens, we're ready to deal with that and we will react appropriately.

On the free FM banking question, we have no current plans to charge, and that's probably what I would say at this point. As others said, there's clearly pressure on the current model in the lower for longer interest rate environment, but it's one of the reasons why we've introduced current accounts that offer a level of service and benefit that our customers are willing to pay for, such as our reward account.

And we have around 2 million customers who already pay for current accounts and get service for that. And look, we have good opportunities to grow within our existing businesses and improve profitability across the bank.

We have sizeable franchises in retail, commercial and private banking. We're continuing to meet evolving customer needs, and we have capacity to grow. So alongside other strategic priorities of reducing costs, investing in partnerships, improving our capital allocation and continuing to support our customers through the lifecycle and meeting their needs through different products and ways that we would think about addressing the pressure that exists because of lower for longer interest rates.

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Lucy Burton, Telegraph
OK, thanks.

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Operator
Thank you. Next question comes from the line of Lucy White from the Daily Mail. Please ask your question.

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Lucy White, Daily Mail
Hi…

Alison Rose, Chief Executive
Hello.

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Lucy White, Daily Mail
... hi – just wanted to check as well on the – sorry just to expand on the – on the free banking thing, I know you say you haven't got any plans to implement charges on current accounts at the moment, can you see any other areas that – you know, where there's currently – you know, free banking services or – you know, where prices might be raised sort of across the board?

And can I just touch on branches as well, and you know, ask if there's going to be any plans to close branches over the next few months or year and whether there's – you know, kind of any under review at the moment?

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Alison Rose, Chief Executive
Thanks, Lucy. So, we have no plans to charge for current accounts at this time. What we are doing – and you can see through the – for example some of the innovations that we have launched and are bringing to market, broadening our service proposition to customers, which are much more fee-based potential.

The refocusing of NatWest Markets for example and a really strong FX business, bringing that more closely aligned to our commercial and corporate customers offers us an opportunity to continue to grow.

The launch of Tyl, which is our re-entry into the merchant acquiring or starting from a low basis getting – you know, excellent customer feedback, really good engagement and a – and a necessary servicing requirement of support for small businesses and commercial customer and Payit which is our open banking solution for e-commerce as well, which is launched.

These are all areas where we really focused on deepening our relationships with our customers. I announced in August as well, bringing together our Premier and Private business under the leadership of Peter Flavel to really support bringing that expertise of savings and investments to our customers and great performance.

So, I think there are – there are lots of areas where we can both continue to grow and support our customers.

On your second question on branches, as you know, we have around 16,000 physical points of presence up and down the country and we've kept 95 percent of our branches open right the way through this crisis and our colleagues have been doing an amazing job supporting customers, not just providing banking services, but really reaching in and supporting the communities in lots of different ways.

But we have seen huge changes in customer behaviour, with more and more customers choosing digital got their everyday banking needs, because it's faster, simpler, and more convenient and safer. What we saw in 2019, with counter transactions in our branches fell by 23 corporate across NatWest, having fallen by 18 percent the prior year.

And that shift to digital has accelerated even further during COVID-19 and I shared some of – you know, the key statistics there. And video banking in particular I think is quite a stark way of showing how customers are choosing – choosing to interact with us.

So, we will always follow our customer behaviour and look at how they are choosing to interact with us and continue to leverage our investment to give them great service, as well as that personal service that – you know, my colleagues are doing every day and have done right the way through this pandemic.

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Lucy White, Daily Mail
OK, thank you.

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Operator
Thank you. Your next question comes from the line of Scott Wright, from the Herald. Please ask your question.

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Scott Wright, Herald
Yes, good morning. I was keen to ask you, Alison – you lead a very high level profile report just before you took over the top job at NatWest looking at how to encourage more women to

start their own businesses etc, and came up with a range of measures. I was just keen to ask you to what extent has the pandemic affected that?

I mean sometimes in crisis you actually see more businesses starting? Can you give a flavour as to what you're seeing in that regard and how difficult it otherwise is for a woman starting a business at the moment?

Alison Rose, Chief Executive

Yes, absolutely. You know – as you know, I think there is enormous potential that exists within the entrepreneurial community and particularly with female entrepreneurs. And you know, those barriers that get in the way were something that we were really trying to address.

What we've seen with the support that we've put in place – and you may have seen we recently announced a partnership with Be the Business to roll out mentoring to female entrepreneurs. I announced earlier this year, a £1 billion pound fund for female led businesses. Since I announced that we've seen almost 50 percent of that accessed by female led businesses. And we've seen a 600 percent increase in the lending to female led businesses since that period.

So, that active support of female entrepreneurs is in place.

Our entrepreneur accelerators, the 12 free accelerators, we have up and down the country we've moved to being online so that that continued support for entrepreneurs is in place. We've held 800 virtual events, 33,000 attendees, so that support is there.

But I think the point that is really important here is as we go through this pandemic and the challenges, it's absolutely critical and it's something that I feel very strongly about is that we do not lose sight and we do not go backwards, and the challenges and barriers that face female entrepreneurs are as relevant now and as important now that we keep them right at the forefront.

So, I think that the initiatives that we continue to see are working and getting that help and access to female entrepreneurs, keeping that very, very firmly on the agenda to make sure the support is there, and that funding and financing that we put in place for female led businesses, as well as the entrepreneurs – you know, the bankers in residence that we put in every single LEP around the country to make sure expert advice is there on the ground and local, and of course as a regional and local bank, our entrepreneurs advisors are there to help female entrepreneurs.

So, very much firmly at the top of the agenda. We know that for female led businesses there are already barriers. Clearly you know, with schools closing at the early part of the pandemic, that put an additional pressure for a number of female entrepreneurs, but I can see an uptick in the level of support that's going to female entrepreneurs through the programmes we put in place.

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Scott Wright, Herald

Thank you.

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Operator

Thank you. Your next question comes from the line of Joe Brennan from the Irish Times. Please ask your question.

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Joe Brennan, Irish Times

Good morning, Alison, just jumping in with an Ulster Bank question, just when might we see the outcome of the strategic review into Ulster Bank in the Republic of Ireland? Might it drift into next year or should we see something this year?

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Alison Rose, Chief Executive

Thanks very much. Well, look – thank you for the question and to be clear, the strategy for Ulster at this time, remains unchanged, and quite rightly our priority is supporting our customers during the challenging time. But we are evaluating the impact of COVID and the challenges to the economy and we're reviewing the strategy.

In the event of any changes, and there is no decision made, we would undertake it with full consideration of impacts on customers, colleagues and shareholders. So, no decisions have been made and there's no update on timing but we are carrying out a review.

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Joe Brennan, Irish Times

And just maybe can I jump in with a follow up question, is – you know, obviously Ulster Bank holds a very high level of capital. It has a CET 1 ratio – the last report of the (CET 1) ratio was 26 percent, double what – that NatWest is targeting itself for the Group for – over the long term, is NatWest being frustrated by the Central Bank of Ireland, in terms of releasing some of the excess capital or trapped capital that's in Ulster Bank?

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Alison Rose, Chief Executive

Yes, I mean our CET 1 ratio is up at 28 ... 28.5 percent now, so it's very strongly capitalised. But look, my – look our priority is supporting our customers right now. It's very difficult times and we know there are challenges, so we're focused on that. Clearly, with a focus on capital allocation, which is a key part of my strategy, I'm looking at that in terms of what we do and evaluating the impact of COVID and the challenges to the economy.

So, we'll continue to work very closely with all of our regulators, but most importantly, focus on supporting our customers.

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Joe Brennan, Irish Times

OK, thank you.

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Alison Rose, Chief Executive

Thank you.

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Operator

Thank you. Your next question comes from the line of Oscar Williams-Grut from Yahoo Finance UK. Please ask your question.

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Oscar Williams-Grut, Yahoo Finance UK

Morning, guys, just ... a couple ones from me – morning – in terms of the lower than expected sort of defaults that are faltering through, do you expect that those are just essentially being pushed further forward due to these government support schemes? Or do you think it's genuinely avoiding losses that we otherwise would have had?

And just another one on mortgages. Yesterday, Lloyds announced that they are re-introducing their lend a hand mortgage which – that sort of young buyers get above 90 percent loan to value mortgages, what's your thinking around entering that sort of higher loan to value corner – sort of re-entering that higher loan to value corner of the market? Is that something we could see – do you feel confident in the market to do that?

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Alison Rose, Chief Executive

Great. Thanks for the questions. Well look, I mean one thing I would say on – I mean we're comfortable with our impairment outlook Katie covered, but the outlook does remain very uncertain.

I think the amount of support that has been put in place from the government, from the regulators, the support that we've put in place with our customers is really helping businesses – you know, navigate this very uncertain time. But the outlook does still remain very uncertain for businesses.

I spend quite a lot of my time as do all my colleagues talking to customers, talking to business owners up and down the country and you know, this is very difficult times for them.

Some of the research that we've done is – you know, we've seen specifically for small businesses in some recent research, 71 percent of smaller businesses reported a drop in demand and 30 percent of SMEs think COVID will impact their business for more than six months.

So, you know, there are real challenges with that uncertainty. I would however say the entrepreneurial nature of business in this country is something we should be really proud of. You know, the extent to which businesses have pivoted their business models, have – and how they a have responded has been amazing.

And you know, I think what businesses are doing to respond to these uncertain times is incredible, whether it is the – you know, the business – gin distillery that's now making hand sanitisers or the manufacturing companies who are now using automation and changing how they work, you know, they are really responding. But the outlook does remain very challenging.

And in the economic circumstances, the reality is not all businesses are going to survive. So, my focus is making sure that we can do all we can to support them and make sure that they have the help in having a network of relationship managers up and down the country, with specialisms in different sectors who really understand the nature of businesses and work closely with those businesses is going to be key.

But you know, I think we see very little underlying deterioration at the moment, but I would caution very much, in terms of – you know, underestimating the challenge that business is facing.

On mortgages, again, I would say our priority remains the question of affordability. We really need to make sure that customers can afford to do that. If you look at our mortgage book, our average loan to value is 57 percent and you know, the diversification of our book predominantly is secured, so we find the mortgage market very attractive. It's performing very well, but we'll always focus on affordability for customers and we need to continue to be responsible.

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Oscar Williams-Grut, Yahoo Finance
Great, thanks very much.

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Operator
Thank you. Your final question comes from the line of Terry Murden from the Daily Business. Please ask your question.

Terry Murden, Daily Business
Oh, good morning, yes just a couple of points, could you just update us on your future office requirements and the – and the outlook for people returning to work? And secondly, do you have any comments or – on the – on the response you might have had to your call for a national renewal fund that you made earlier this week?

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Alison Rose, Chief Executive

I didn't catch the second question sorry.

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Terry Murden, Daily Business

Yes, sorry, you called for a national renewal fund to be set up earlier this week, wondered what sort of response you've had?

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Alison Rose, Chief Executive

OK, let me – let me take the first question, so in terms of our working from home, we've kept 95 percent of our branches open and our priority – and I've always said my priority is to look after the safety and wellbeing of customers and colleagues and therefore we gave the guidance that a majority of our colleagues will continue to work from home into 2021.

But we have almost 20 percent of our key worker colleagues in branches and offices throughout the UK and Ireland on the High Street, continuing to support customers.

We are seeing a shift in the ways of working – you know, I think this crisis has shown the flexibility, the use of technology – so my priority will be to remain to support customers, to support colleagues.

I would say however, you know, getting to a hybrid working model is really important and we shouldn't underestimate as well that the working experience for people is very variable. Different colleagues have different experiences. For some colleagues, it's been – you know, a really positive experience, you know, not having to commute, more flexibility, that's been incredibly positive, but others you know, their mental health and their wellbeing has been affected.

So, we have put in place an option for those colleagues who feel that their mental or physical wellbeing would benefit from a return to the office, they can come back to the office, all our buildings are COVID secure. And we've also put in place substantial support through free mental health support through a new partnership with Silvercloud and sector leading support to any – help any colleagues who need that.

So, we'll – the ways of working are changing. I think we will continue to put health, wellbeing and customer service at the forefront, and I think most roles will have an element of home working in the future, but we'll continue to evaluate it and certainly make sure that the mental health and wellbeing issues are at the forefront of how we support colleagues and customers during this period.

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Terry Murden, Daily Business
Do you have any idea whether this is going to impact on your office requirements in the future?

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Alison Rose, Chief Executive
Well you'll – you may have seen at the half year that we brought forward the closure of one of our buildings in London, and we'll continue to evaluate it.

I think you know, one important aspect which I'm very focused on, as are the leaders of my teams, is around – you know, the need to bring people together for collaboration, for culture and making sure that we – you know, create that right cultural and social capital and creativity that comes together.

So, we'll continue to evaluate that as we go forward.

Thanks very much.

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Terry Murden, Daily Business
Did you have any comment on the national renewal fund I mentioned?

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Alison Rose, Chief Executive
You mean the Blackrock partnership that we announced…

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Terry Murden, Daily Business

No, no, the one – the one that you made a – you made a comment this week about this new fund to bring financial institutions together to invest in growth companies? You were putting some money into a UK enterprise fund?

Alison Rose, Chief Executive

Yes, we are working with the business growth funds ...

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Terry Murden, Daily Business

That's right the business – yes, yes, that's right.

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Alison Rose, Chief Executive

... yes, BGF, OK. Apologies, I'm sorry – apologies. So, yes, one of the things that we have focused on – and this is really back to my focus on entrepreneurs, and particularly the work that we did under The Rose Review identified that access to funding and diversified funding was a general challenge and making sure – rather than just entrepreneurs taking on debt, which often is not the right thing for them at the beginning of their journey, increasing the different sources of funding available.

So, we have been working with the BGF in terms of a partnership with Coutts where we're looking to create a fund to really help and particularly focus on diversification of funding for female entrepreneurs to make sure there is more diversified funding.

And I think the work that BGF are doing in terms of you know, they provide capital to small businesses, really focused – I know they have a particular focus on life sciences, and that's one of the areas of diversification is funding, which I think is a very positive – but our focus is really working very closely with them with Coutts and particular diversify funding for start-up entrepreneurs, with a particular focus on female entrepreneurs.

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Terry Murden, Daily Business

There were calls from the BGF and yourselves for the government to come forward and join with you in this partnership, have you had any response from government to that effect?

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Alison Rose, Chief Executive

Well, the – BGF have been very clear that they want to put more funding into businesses, that is the approach their running, our partnership is very much supporting with Coutts.

I think what you can see is there's been a huge amount of support put into the economy to help businesses, you know, from our perspective, being a key participant in the government schemes, over £13 billion of lending, you know, that support that's gone in from us and other banks and the support from the government is really helping bridge this very difficult period.

So, I think we're very comfortable that we're putting a lot of support in place.

Thank you.

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Operator

Thank you. There are no further questions at this time. I would now like to hand the call back to Alison for any closing comments.

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Alison Rose, Chief Executive

Thank you very much. Well, thank you very much for your time today and your questions. We do appreciate you making time.

I think in terms of where I would end, I think what you can see from our results in this quarter, a resilient performance, these results demonstrate the bank's underlying performance in the face of significant and ongoing economic uncertainty.

I would reiterate how proud I am of my colleagues who have provided exceptional levels of support to our customers and communities, whether through the government lending schemes, our own products and services and the support they've provided.

The bank remains safe and secure. We have sector leading capital strength. We have well diversified and a capital generative business and we are working very hard to support our customers through the challenging times ahead.

Thank you very much for your time.

Operator

Thank you very much. That does conclude today's call. Thank you for your participation. You may now disconnect.

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