H1 2020 Sell-side Update

5th August 2020

Host: Katie Murray

(Operator instructions)

Katie Murray, CFO - Thank you very much Operator and thank you everybody for taking the time to come and join us as well this afternoon. I'll just say a few opening comments and then we'll move quickly into Q&A.

So, in terms of reflections and observations of the announcement, the first thing I'll talk to is our revenue outlook and last week we confirmed at this point we were pretty comfortable where consensus was sitting and didn't really see any need to change that, in the round. I'm sure as I'll get into questions later with individuals who are trying to get more precision on different lines but in the round we're comfortable.

We're also pleased with the approach we've taken on ECL. If I was to draw a continuum of where we'd like to take our approach from conservative to aggressive, NatWest Group would always be closer to the conservative end rather than the other, so slightly to the right of the middle, and we feel that we continue to do that as part of our process during H1.

We're very comfortable with our level of capital, 17.2%, obviously including the IFRS 9 adjustments, 16.3% excluding that. Our preference is to return capital when we can do, when it's appropriate to do so, and we may talk more about that but I think the reality is, it's a conversation that we'll have both internally and with the regulator later this year, so there's not a lot of further things to say on the return other than it really is our intention.

We also shared a number of points of guidance; so we confirmed the GBP 250 million of cost savings, our impairments we expect the full year to be in the range of GBP 3.5 - 4.5 billion. Our RWA's we're expecting to be at GBP 185 – 195 billion. Obviously remember that includes a reduction in terms of NatWest Markets, where we're seeking to get to the GBP 32 billion of RWA's this year.

We also talked about the progression of RWA's for NatWest Markets and that they'll be largely complete by next year from that GBP 32 billion down to the end state that we talked about in February of the GBP 20 billion and that will be largely done. You will of course all remember that we do still have a small book of legacy assets within there which will take a bit more time, but for the reshaping of business we're comfortable on that.

On disposal costs we're expecting GBP 200 million this year and GBP 400 million in the next year. We've always said that our plan and how we do the NatWest restructuring is to make sure it is capital accretive, and there has been no change to that as an approach.

And then finally our medium to long term CET 1 level of 13-14%, we are comfortable with that being our position that we are working towards.

So, happy to move to Q&A, and I'm joined today by Alexander Holcroft, Head of Investor Relations, and Richard Lawrence who heads up our Technical Accounting Team and he'll jump in maybe on some of the IFRS 9 questions, if any of you want to get into a bit more detail on that space, but thank you to both of them for joining me.

Operator - Our first raised hand comes from Aman Rakkar of Barclays.

Aman Rakkar, Barclays - Can you hear me? Awesome, thanks for taking the question. I had a couple if that's ok. First can I ask you on NIM, just in terms of some moving parts that we can expect in H2, so we talked about the hedge drag and the liquidity, is there any way to attach any numbers on either of those two into either H2 or Q3, would be useful and I think, presumably offsetting we should be thinking about deposit re-pricing and also interest free overdrafts, I know you guys have talked about the step-off in fees because of the change to the overdraft fee structure but presumably you've not been charging any interest on the overdrafts and just trying to get a sense of what kind of NII pickup we might be looking at there. I mean, if you're not able to give us that NII uplift, could you give us an indication of what your overdraft balance is typically are, that would be no. 1.

The second was, could I ask again on distribution policy, look I totally appreciate we're getting ahead of ourselves and it's a decision for the board at the end of the year, just trying to understand if internally you feel it's appropriate to propose paying a special dividend if you are loss making and/or will not pay the ordinary, which like I said on the call the other day, I think your profits probably preclude the ordinary. I'm just trying to understand, not if the regulator will sign off but if internally, there's appetite to propose a special, do you have any issue with doing that, is there anything about the dynamic that would stop you doing that?

That would be perfect thank you very much.

Katie Murray, CFO - Okay, let me just try to make sure I hit all of that, I'll take the distribution policy as the first step. When we made our first distribution, which was obviously 2018 when we made the small GBP 240 million payment, that was done when we had made a loss.   So, it doesn't preclude us from doing something, but it is not a conversation that we're having at this stage, it's a conversation that we'll get to as we work our way through the year and I think for me, we're very keen to do something, what we want to do is to make sure that we've got relative surety about, are we in a state where we can see consensus economics, I think that's the point that we're getting to, and you can start to see how impairments might continue to move through.

So, I think if we had comfort on those things, we would seek to find ways to how we might do something and that's certainly our intention.

In terms of NIM, there was many layers in that question so let me try to take a couple of them. The first point around interest free overdrafts; it's useful just to remind us what happened on overdraft pricing. We were due to go at the 1st April and we were due to move from a blend of fee plus 19.9% APR to a third no fee and 39.49% APR. What actually happened was that we stopped charging the fee following conversation with the regulator, but we continued to charge that 19.9%.

So, therefore we lost the fee, as part of that, but we didn't then increase the overdraft rate. So, what's now happening and a couple of our competitors have already started, we're now moving to that increased overdraft charge level, so, as we look at that, that will move in August to 39.49%, so that has a little bit of a positive impact on NII obviously, but we don't disclose the overdraft numbers. If you look at it in the round, they're a couple of GBP billion at the end of the year in Personal Banking, you'll have seen some movement in that, but you can do a little bit of a number round about that level. I would probably say they've come down a bit since the year end level.

So, if you look at NIM, we talked about the 3 buckets, the lower rate curves, that cost us 10 basis points, the mix and competitive pressure of 5 basis points, and the increased liquidity.

So, in terms of the rate curves, there was that 10-basis point impact, I would view about 2 basis points of that is the impact of the unwinding of the hedge. I would take that forward. I think the mix and competitive pressure in any quarter costs us somewhere between 2-4 basis points, there or thereabouts. It can obviously be a basis point up or down on that. So, as I look at NIM, going forward, before I get into liquidity, it's probably a 4-6 basis point reduction.

We'll have more coming in from overdrafts, but you've obviously got less coming in from commercial because of the lower yield there. Mortgages are interesting because your NIM is actually probably slightly up at the moment but it's slightly up because we're selling less, and actually we'd almost rather have the NIM slightly down because that means we're getting more income because you've got a bigger mix of products. Overall I would think of it as a 4-6 basis points movement in that space.

Then the last piece on liquidity, the interesting thing on liquidity will be, we talked about last week that we're still seeing deposit levels rise a bit, and actually how that starts to move, what you would logically think in customer groupings and individual customers you will see them start to burn through their cash at some stage but the reality is given the level of QE that's gone into the market, that, that will continue to move around the market, so I think we could still end up seeing a bit of a liquidity drag but I think I'll leave you to have a bit of a think about what that might do.

Aman Rakkar, Barclays - Thanks very much.

Operator - Our next question comes from Fahad Kunwar from Redburn,

Fahed Kunwar, Redburn - Hi Katie thanks for taking the questions, just on that point you just made, is that 4-6 basis point drag per quarter on NIM or annualised, you mean per year?

Katie Murray, CFO - Per quarter.

Fahed Kunwar, Redburn - Ok, so I guess starting on that, then if I look at 2021 NII I think it's annualising about 3.7 billion a quarter which assumes 2 or 3% growth in the 2H run rate. If I'm talking about a drag of around 25 basis points let's say, on margin per year, then you need a heck of a lot of volume growth to achieve that NII, is my maths, is that right?

Katie Murray, CFO - So, I'm thinking more of the next quarter rather than 6 quarters from now, in terms of what the impact would be, because what you would start to see, and I would hope we'd start to see, in the later part of next year, is that mortgages would start to smooth themselves out, because actually all the re-pricing that's been happening, if you think an average life of a mortgage is 2-3 years, we'll be talking a lot about that as you go through, so I wouldn't necessarily take the 4-6 and multiply it completely by 4. I do think the hedge will continue to be a bit of drag if you look at where swap rates are today, with what's coming off that's probably fair enough but I think the mix of business impact is a number that will evolve as we go through.

Fahed Kunwar, Redburn - Ok so the 10 basis points drag on the hedge is just, that's just what it is, but that 3-4….

Katie Murray, CFO - I think that would be 8, I said about 2 basis points that we'd be at 8 annualised.

Fahed Kunwar, Redburn - Yeah 8, is kind of what is going to be the case going forward for the next few years but on the competitive and mix effect that 3-4 basis points per quarter should reduce meaningfully?

Katie Murray, CFO - Well, look I don't like giving you guidance at all, so I'm absolutely not going to confirm anything for 2021. What I would say is, a 4-6 basis point for this quarter is probably a good way to think about it and then you can have a look at how you want to evolve it over the next 4 or 5 quarters after that.

Fahed Kunwar, Redburn - Ok, that's grand. On non II, I think you previously, so obviously you've accelerated the plans on NWM, I think you've previously said the income hit would be about half the rates business, I think it was about a couple of a hundred million that you're going to lose by doing that, so in 2021 when you accelerate and get down to that medium term target, by the end of 2021, is that GBP 200 million loss in income in NWM still valid?

Katie Murray, CFO - Yes.

Fahed Kunwar, Redburn - And just on that point, I want to go back to 2021 here but, I'm not going to ask you for numbers but if other consensus are assuming GBP 3.5 billion, ex that drag you're looking at GBP 3.7 billion right? Historically, in non II you've done about GBP 4 billion, so apart from the disposal losses that GBP 4 billion of non II you've done historically for the last 3 or 4 years, obviously excluding this year, how much has there been structural retail pressure on fees, so we take the GBP 200 million out of that GBP 4 billion because that's gone, and because of the rates business coming down, but how much structural retail pressure has there been from change to fees, like the overdrafts, you were mentioning other things. I'm just trying to get an understanding of what a clean run rate is, non-II number to compare that GBP 3.5 billion in consensus to? Thanks.

Katie Murray, CFO - Lets take the NatWest Markets point first of all and page 33 of the financial supplements is probably a helpful place to look at it. So I would probably ignore Q1 on the rates business, in the same way that I would ignore Q3 2019 on the rates business as well. They're both peaks in the wrong direction. What you can see is happening to the rates business, it's going from GBP 662 million in FY18 to GBP 455 million in FY19. The GBP 200 million that we talked about in there, or that halving in size, feels appropriate. They started this year stronger than that because of the market volatility, that's helpful but it's not something we'd expect to see repeating so the guidance we gave on NatWest Markets is appropriate.

Then if I look at my non-interest income, GBP 4.7 billion in 2018, GBP 6.2 billion in 2019 but all sorts of noise in there, so around about a GBP 4 billion number is probably not completely ridiculous. If I just look at fees and commission and income from trading activities, its GBP 3.7 billion plays GBP 3.5 billion so GBP 4 billion probably feels a little bit toppy. Other operating income is made up of Alawwal and FX gains and things like that which are not real sustainable income, but you would then see income from trading activities, results that we've just talked about on NatWest Markets, and then you've got the impact of the loss of income with regulatory changes.

The GBP 200 million we talked about at the very beginning of the year, and then I just reconfirm that impacts fees and commissions, quite a lot in terms of the change in overdraft pricing, some of the changes of other high costs of credit points and also some of those international switching.

On P87 I'll let you go there in your own time, it gives you a nice split of that fees and commission line, where does it come from, where are you seeing the big movements and I think that gives you some quite nice insight into what we can expect as we move forward in that personal space.

Fahed Kunwar, Redburn - Ok that's very helpful, so like a structural drag from historic, so forget 2020, and we can make our own view on how activity bounces in 21 but all your historic fee income lines, OOI line, you've got a drag of about 400 million structurally?

Katie Murray, CFO – Yes, so GBP 200 million you've taken out for NatWest Markets, and then guidance of the GBP 200 million per annum, most of that was in that line, not all of it, but that gets you to somewhere in the range I think.

Fahed Kunwar, Redburn - That's fantastic, that's very helpful, thank you Katie, cheers.

Operator - Our next question comes from Jason Napier at UBS.

Jason Napier, UBS – Hi Katie, I'm well thank you. Two probably quite odd questions, the first one, I really enjoy the product income disclosures, but if I've gotten them put into my model correctly, they're not going in the direction that I would have expected. So, in the first quarter, deposits were up 7% and mortgages were up 4%, in retail. Both higher volumes. I would have thought with lower bank rates, we'd probably have seen deposits potentially under more pressure, there's an awful lot of current account liquidity. Just in principal, I wonder if you'd run us through how you calculate those sorts of numbers and how things like policy rate changes lead through?

And then the second question was on the mortgage loan loss charge, taken in the second quarter, your house price forecast, looks awfully bearish, I certainly hope that they're not right, from a personal perspective and so I just wondered to what extent the top-up, which is down largely I think to sort of stage two provisioning, is geared to HPI and if there was a way to give a sensitivity to what that charge might have been if house prices manage to hold onto current levels, that would be helpful. And if it is feasible similar kinds of thoughts for commercial real estate, just how geared is it to that LGD assumption. Thanks very much.

Katie Murray, CFO - Sure, so on the deposit pricing, you can see reporting numbers from P16 and 17 of the financials. So, if we look at our deposit pricing, we have a bit of a lag factor going on, so, in Q1 it was 37 basis points compared to 20 basis points in Q2 for personal banking, and then you can see in commercial banking it was 42 basis points compared to 33. So, what you have happening there is in commercial banking, there's a relatively extended notice period that we need to give to our customers that the rate is changing, about 76 days, which in terms of what we actually have to give to them, so the reality is that, that only came through relatively late in the process, so you do have a bit of a lag in terms of that piece, so you'd expect that number to come down into the next quarter as you see the impact of that coming through.

And then on the personal banking side, their period is shorter and I would say that they were a bit quicker to act, possibly than the commercial bank, in terms of passing through that re-pricing, so that's why you see a relatively bigger fall in terms of the cost of their funds.

On the house pricing piece, we haven't given you single point sensitivities, mainly because we didn't think they were particularly helpful, because within mortgages it's both what's happening on HPI as well as what's happening on unemployment that's really impactful. I don't have anymore detail that I can share with you today on that or probably within CRE? It's certainly, if I look at mortgages its house prices and unemployment, and then CRE, that model does very much relate to in terms to what the assumptions are within CRE.

Jason Napier, UBS – Ok thanks very much.

Operator - We'll move straight onto a call from Jenny Cook at Exane

Jenny Cook, Exane – Perfect, a couple of questions please, one on CLBILS, if I take what you told us around risk eight density, it suggests you are applying something like a 1% probability of default on these loans, give or take with some guess work on SME. I appreciate that, that's higher than typical new business PDs but it's still below the average for your portfolio. I'm trying to marry that up with market expectations for 25, 30, 50% whatever it is of these loans to default at some point. Do you see scope for those PDs to go up materially from here?

And then, second question, a little bit cheeky and I'm not sure that you'll be able to respond but, your EU Divestment portfolio seems to be going the wrong way, if I look at Challenger Bank balance sheets right now, they would probably have far less capacity and appetite to take on SME loans at this point. I can see that they've extended the scheme, any risk of anything further being introduced or is it becoming increasingly likely that this will be a GBP 50 million fine at some point? Thanks Katie.

Katie Murray, CFO - Thanks very much, delighted you asked about EU Divestment because it was also what was interesting. So, let's look at what was happening within there - if you were a business who had got yourself into the pipeline to move and then COVID happens, what we saw was, actually you didn't want to take the risk of moving, because what you knew is that we would lend to you today, because we were very much saying that we'll lend to our existing customers. So that would have covered you as well. And what you didn't want to be is in transition from one bank to another bank and have a challenge there, so, what we can see is that's gone in the wrong direction for two things, one, transfers have slowed down but secondly, they've taken levels of government lending support as well.

In terms of the announcement that was made, what's good is that, that's the end, there's nothing further that we expect after that. I wouldn't say Jenny at this point that I would think we are automatically on the GBP 50 million fine, I wouldn't say that we're not either, it's a conversation that we'll have with them as we go through. But what we really liked was, this is the extension, that's the end date, and so therefore once we get to August 21st, there isn't another leg, so its pulled it all together. We're getting back to some kind of normality. Us and other banks will be starting to talk about what does lending look like post government schemes, does that mean that some of the challengers then say, I've actually only got a year now to get my hands on some of this portfolio and so they may do other things? But I can't really comment on their views on that.

On the CLBILs, I must admit I don't know the exact PD we've got on them so your maths, I'm sure it's fine. But there's definitely scope for that PD to increase, particularly as we see the CLBILs moving through. What we did with the CLBILs before we grant them to anyone we used this viability assessment, that would dictate how much we'd lend to you and our views on what you had to be viable before you could borrow. There is obviously the assumption of what was viable pre-COVID may or may not be viable post-COVID so we've lent only to our customers, the risks that we understand well, and trying to lend to help them transition through. But you could certainly see that if individual entities have issues, that you'll start to see individual increases in PDs, as a result of the customer not as a result of the fact that they happen to have a CLBIL.

Richard Lawrence, Head of Accounting & Valuation Policy - What I was going to say is I would imagine that PD is probably what I would term as pre-COVID PD, so it would be the PD that you saw before the effect of the economic switch which would have migrated most PDs up.

Jenny Cook, Exane - Ok, that's quite useful, and do you just have any internal guesstimates around what proportion could default at some point or is it too early?

Katie Murray, CFO - It's too early, our view is, what we've given you in terms of the guidance for this year, that will certainly be covering some CLBIL lending within there, but its too early to give a view of X that we lent out, Y will go bad... we're not in that space.

Jenny Cook, Exane - Great stuff, thanks both.

Operator - Our next question comes from Jonathan Pierce of Numis.,

Jonathan Pierce, Numis - I've got two questions actually, the first is, more to check my maths on what's going on with impairments in the second half of the year, for this 20 basis points closing up of the equity tier 1 ratio on a transitional basis, presumably just means that the add back which is GBP

1.6 billion at the moment, we've got to about GBP 1.2 billion, in the second half, so, essentially that is a net GBP 400 million release of the reserves that you built in the first half of the year, is that, just checking my understanding if that is correct, is that right?

Katie Murray, CFO – What you wouldn't see is an add back of it coming back into the P&L, what I'm expecting in terms of that 20 basis points is that what you're seeing is a significant proportion migrate into stage 3 so you basically add back your capital piece, so it's an impact on capital rather than anything else, so what we're expecting is that you would see a level of stage 2 to stage 3 migration. We probably anticipate there's still a bit of stage 2 being built as well but if you were to go at the mid-range point of it, we work out it would be about 20 basis points.

Now what I would say Jonathan is, there's any number of different ways that could land. If you don't get a lot stage 3 but actually you end up with more going into stage 2, and it's not migrated because the government has done what it hoped to do in terms of delaying or even deferring some of the migrations, the number would be a bit less. If you get more things that go straight to stage 3, then the number would be a little bit more.

Jonathan Pierce, Numis - Ok, that's great, so essentially the midpoint of the range is assuming that the reserve GBP 400 million give or take net release of the reserves, the stage 2 reserves that were built in the first half?

Katie Murray, CFO – Yes that would be fair. There's lots of different ways that could unwind but yes it will take a bit of time for it to push its way through.

Jonathan Pierce, Numis - Ok, so I guess if that's consistent with the middle of the impairment range, that was going through the P&L, there's a GBP 1.2 billion additional impairment charge in the second half to get you to the GBP 4 billion, with a GBP 400 million release in reserve, so what you're essentially saying is in the middle of that range, you are assuming that there's a GBP 1.6 billion pound genuine, if you like, impairment charge to come through in the second half?

Katie Murray, CFO – So, if I was in the middle I would be taking me from the GBP 2.9 billion that we have, to the GBP 4 billion range. So, it would take us to the midpoint of the impairment range, so that would mean there would be a GBP 1.1 billion, not a GBP 1.6 billion, P&L charge you would see coming through.

Jonathan Pierce, Numis - Yeah, obviously, sorry GBP 1.1 billion not GBP 1.2 billion. But GBP 1.1 billion is all in, which is net of the GBP 400 million reserve release that we just talked about. It's just trying to get our heads around exactly what's, these various movements into stage 3 and out of 2, different banks are assuming, different amounts of reserve releases in the second half of the year, I guess it's something we'll have to get used to.

On, my second question, which is risk weighted assets, sorry it's probably the same question I asked you last week, the credit card IFRS 9 default assumption moved up quite appreciatively in the first half, so did the other retail PD assumption but the credit card and the other retail risk weights in the pillar 3 went down. So, I guess there is quite a lag here which I wasn't expecting, a lag between the IFRS 9 inputs being changed and the risk rate inputs being changed. When we get to full year and implicit within your guidance for full year RWA's are you assuming that there is a full true-up at that point, between the inputs into the IFS 9 models versus the risk weight models, or are we going to see further increases in risk weight into next year as well?

Katie Murray, CFO – The way that I would think about that Jonathan, if we look at what we know, and I'm conscious that you know this, the Basel PDs they obviously don't incorporate the forward looking information in the way that IFRS 9 PDs do, so that's why you get an increase in IFRS 9 but it's not affecting your Basel PDs.

In terms of your actual experience of default, it remains relevant for the Basel piece in there. And that's still relatively flat year on year, which again, we talked about and you can see that in IFRS 9 in terms of the amount that's been modelled. So, year to date transfers, GBP 186 million versus GBP 343 million which we had in the previous years.

We did see a small rise coming through on PD's. And the LGD's fell by 1 percentage point which will broadly offset this PD move.

What I would say as you get towards the end of the year, I'm not sure that you would see necessarily a true up, it really depends upon what's happening in terms of the IFRS 9 stage migration, so you could expect, I would expect the Basel PDs to go up a bit more because we are expecting things to move into stage 3, but I would still expect IFRS 9 to be ahead of it. Therefore into 2021 I would expect there to be more increase on that Basel side.

Richard is there anything else that you would add to that?

Richard Lawrence, Head of Accounting & Valuation Policy - No, I think that's right, I think across the retail space generally I think the challenge that we see if obviously a lot of the relief measures and the payment holidays are going to run out till September, October time, and we would then see most cases go to default when they're then 90 days past due beyond that point, so I think it may well be that you're delaying much of that default wave into at least early next year. Obviously we could have things move for other reasons, but I think most of the stuff that comes off the back of payment holidays we may not see this year.

Jonathan Pierce, Numis - Ok, brilliant, thank you very much, it's helpful.

Operator - Our next question is going to come from Chris Cant at Autonomous

Chris Cant, Autonomous - Quick one on interest rate sensitivities, your disclosure there has changed quite a lot and is now very, very lopsided, so, you're saying minus 25 basis points for Sterling would be GBP 143 million negative but 100 basis points would only be GBP 4 million additive to that, and then GBP 100 basis points positive is over GBP 1 billion. So, it's minus GBP 150 million for 100 basis points negative rate shift and plus GBP 1 billion for 100 basis points positive rate shift. There's a comment underneath the disclosure about, you've changed some things in terms of your assumptions, but could you just explain how your rate sensitivity on the downside has come down so much and why it's now so lopsided in terms of the positive and negative gearing.

Katie Murray, CFO – Absolutely, so, its helpful if you can see me, if you think of the curve it goes like this, and so what we're saying is from a 25 basis points cut, versus where on the curve you are, in year 1 you've got a bigger gap down to zero. What we've done is we've floored it at zero, then when you get into year 2, the gap is smaller so therefore the impact of that is smaller.

Then obviously, if you think of the curve continuing, it means if you have 100 basis points up, you've got more space above it than you have below it, so, the disclosure is really just the reality of the fact that we have floored things at zero, rather than take them anymore negative. And as you move further along the curve, it's the amount of space you've got below the line if that makes sense?

So, that's why you see the managed margin, the bottom part of P75 it goes from GBP 134 million down to GBP 72 million in the second year, just because of the shape of the curve you've got as it moves from year 1 into year 2.

Chris Cant, Autonomous - So, to be clear, when I'm looking at these disclosures now, given the base rates at 10 basis points basically what you're showing me is a minus 10 basis points move, its just it's labelled as minus 25 and minus 100?

Katie Murray, CFO – Yeah, so it gets floored at zero exactly.

Chris Cant, Autonomous - Ok, fine. That explains a bit why it's changed quite so much from the previous disclosure thank you.

Operator – Our next questions comes from Rob Noble at Deutsche Bank.

Robert Noble, Deutsche Bank - Just a couple of questions, just on the amount of liquidity that you're running with and all of the banks are running with at the moment, I presume you don't want this much liquidity, I can appreciate you want some, but you have masses of it. I presume most of it is invested at LIBOR which is 5 basis points, or whatever, and your wholesale funding bits, why not switch your liquidity and pay off your TFS or any other of the wholesale funding instead, given that you don't think deposits are likely to move lower given the amount of QE that's in the system at the moment?

Then secondly, the next one is just an annoying question, the shape of your economic scenarios that you use to drive your ECL's, its very, very sharp, so what's the difference between having a peak of unemployment of very high and comes back down versus a persistently high unemployment rate lower than your peak, if you know what I mean, does persistence matter as much?

Katie Murray, CFO – So if I go with the first one, look I would agree with you, I don't think we would be holding as much liquidity as we are, I think 166% where we ended, I mean Barclays were at c.180%, huge levels of liquidity that are out there. We did do a bit of a TFS repayment and in terms of the time ordering of this, the way it's written in the narrative, it looks like we did one and then did another, the reality is we had the TFS SME first of all, because we really thought liquidity was going to go down and we didn't want to have any particular movements and then we realised actually our liquidity was just going up and up and up as you had this enormous amount of liquidity that was going into the markets

And I think what's been different now, from the last time when we had the financial crisis, the banks needed that liquidity to survive and we don't today, and so therefore that liquidity is much more there for real lending which is how you will ultimately see it going down, so look, we might do as we get through the year, a little bit of adjustment of TFS and do a little bit more repayment, that's eminently possible, the reality is, it probably won't change the liquidity that much because we've now got such a small level of TFS anyway, GBP 9- 10 billion in total, so it's not a big repayment piece that we've got.

What we want to see is how does it really move. Our opinion is, although you'll see stress by customers, but actually when you look at the system, we'll still see continued high levels of liquidity, moving forward, mainly because the banks are not needing it to shore up their own balance sheets.

And then in terms of the shape of scenario, so we don't give any views on any single attributes, whether its better to fall short and then recover, one would assume that if you were persistently, if you went down less and then stayed low, lower for much longer, that would be worse, rather than the recovery but it's not something that we've shared.

Richard Lawrence, Head of Accounting & Valuation Policy - So, I think I guess it is interesting when you look at it in something like unemployment which is obviously a default indicator, as opposed to something like a house price which is an asset price indicator.

So, the asset price indicators staying lower for longer is clearly worse because it means that you can't manage effectively the exit of your asset, you still each take a hit. In terms of the indicators of default, it comes back to the lives that you're looking at. So, a higher but sharper peak unemployment would increase your stage 1 PD so it would increase the level of ECL you took in stage 1, and then it would be relevant to the extent that your lives were shorter. If you've got longer lives, look at something like mortgages, then staying lower for longer would generally be worse.

Robert Noble, Deutsche Bank - Ok, great, thanks very much.

Operator - Our next question comes from Chris Cant of Autonomous.

Chris Cant, Autonomous - Could I just ask about costs, there was a piece in the press recently talking about far more significant cost programs looking out over a number of years, and obviously you reiterated your GBP 250 million cost take out guidance for this year, but could you just talk a little bit about how you're expecting costs to develop beyond that. I guess you won't want to comment on the specifics of that article but I guess the question would be, is there potential for significantly more costs to come out annually on look forwards beyond 2020 potentially as you deploy some of your excess capital into further re-structuring efforts, thanks?

Katie Murray, CFO – Thanks Chris, I won't comment on that article specifically. What we've said is reiterating the GBP 250 million for this year. What we're trying to do each year is to take 3-4% of costs out, and that's really the guidance in any one year and that's the guidance I would hold with. What I would say is in February, we will reconfirm what our number is for next year, and if there's anything more substantive to say we would share that with you at that point as well, but at this point, I think the guidance we've got is the most appropriate guidance to be working with.

Chris Cant, Autonomous - Ok, thank you.

Operator - Our next question comes from Aman Rakkar of Barclays.

Aman Rakkar, Barclays - Hi Katie, thanks for taking a follow up. Can I just ask on strategic costs, I think it was where you told us that you'd probably expect that number to be trending down to GBP 300 million over time, be great just to get an update on that as to whether that's still relevant and what that glide path might be, particularly given this year, it's probably gonna be back within the GBP 900 million range.

And then you might have addressed it earlier but just to clarify, a similar comment on NatWest Markets revenue as well, I guess both of these questions are in light of just fairly dramatic change in the operating environments since you gave all that guidance. But just in terms of what that revenue might look like, particularly given you're pulling harder on NatWest Markets quicker, I think you typically talked about Currency, Financing, Other sustaining itself, basically Rates probably half of the GBP 460 million level, over the next few years. I mean, any kind of change to expectations to that please?

Katie Murray, CFO – I think it's important to note our strat costs last year were GBP 1.4 billion, so we're not returning to GBP 900 million range, we are, this year taking a sizeable step down on where we were, so GBP 0.8 – 1 billion is what we're looking at, at the moment. Our guidance in terms of getting to GBP 300 million is still the most appropriate guidance that we've got out there and we certainly haven't changed our view on that so that still stands in terms of the way we would expect it to trend to over the medium term.

In terms of NatWest Markets revenue, it's still similar in terms of guidance, what we talked about at full year was looking at their numbers as we looked at them when they got to the end of the process, so when they got to where they want to get to by the end of next year. So the fact that they're getting there a year early, doesn't change the income guidance, it just means that you're going to be at that level, that bit sooner. I would say ignore the abnormalities in financing in Q1 2020 where you obviously saw the impact of a number of mark to market as a result of the uncertainty in the market and the volatility within there. But currencies and financing and other can we get to the levels we've talked about. Then I think the guidance around rates halving from 2019 numbers is still good enough in terms of that space so, that will get you to more or less the right place.

Then you've obviously got expenses, a little bit of pref interest that will come over all and all getting you to our break-even position.

Aman Rakkar, Barclays - Thank you.

Operator - Katie, we have no further questions, I shall hand back to you to close.

Katie Murray, CFO – Thanks very much indeed. What I'll just say to everyone is thank you for your time today; hopefully we've helped cast a little bit of light. If there are any further questions you've got Alexander and the IR team are obviously there to help you and thanks obviously for the coverage in the last week or so as well. We look forward to the challenge and insight from you all as we work towards Q3 which, as I was saying to the teams today, it's only 9 weeks away before we actually close this quarter, before we get to have the next conversation of what we're actually seeing in the businesses as we head towards the end of Furlough. I think it will be an interesting set of weeks, so thank you very much for your time, enjoy the rest of your day and take care.