



**NatWest Group plc
H1 2020 Results
Update for Fixed Income Investors**

**Moderators: Katie Murray & Donal Quaid
31st July 2020**

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OPERATOR: This is conference #7584097.

Operator: Welcome, everyone. We will now play a pre-recorded audio presentation of our Fixed Income Results. This will be followed by a live Q&A session with Katie Murray and Donal Quaid.

Katie Murray: Good afternoon, everyone. Thank you for joining us this afternoon for our fixed income H1 results presentation. I am joined by Donal Quaid, our Treasurer, and I will take you through our headlines then move into the detail, including a breakdown of the impairment charge and the scenarios we have used to model expected credit loss under IFRS 9. Donal will then take you through the balance sheet, capital and liquidity, and give you an update on issuance plans, and we'll open the call at the end for Q&A.

So, let me start on Slide 3 with the headlines. We've had a strong start to the year before the impact of COVID-19, and our pre-impairment operating profit for the first half was GBP2.1 billion.

Since we spoke in May, however, the economic outlook has worsened. As a result, we are announcing our first half net impairment charge of GBP2.9 billion, and I will take you through this in more detail later.

We reported total income of GBP5.8 billion for the first half, a decrease of 5 percent year-on-year, excluding the Alawwal disposal. Costs were slightly lower year-on-year, and after impairment, we made an operating loss of GBP770 million and an attributed loss of GBP705 million.

Given the ongoing economic uncertainty, we are pleased to be operating from a position of strength in terms of liquidity, funding and capital. Our CET1 ratio is 17.2 percent and our business continues to generate additional capital before impairment.

Turning to Slide 4, we set out our new purpose in February to champion potential by helping people, families and businesses to thrive. And during this time of uncertainty, we have done all we can to support existing customers whose risk profile we understand, through the government help schemes.

We have helped people and families in the U.K. by extending 240,000 initial mortgage repayment holidays, which represents 20 percent of our book by volume, and 72,000 payment holidays on personal loans.

With an easing of lockdown, our focus has shifted to helping customers as they start to resume normal repayments. At this stage, about 70 percent of U.K. customers who asked for a mortgage or personal loan repayment holiday have recommenced payments. Though this may change when the furlough system starts to roll off and all mortgage holidays run to their full three months.

We have also played our full part in all the government loan schemes for large and small businesses. At the end of June, we had received applications amounting to GBP13 billion on the government-backed loan schemes, for which we have approved lending of GBP10 billion, which is broadly in line with our market share. All of that GBP10 billion, GBP8.3 billion has been drawn down.

Turning to Slide 5 and lending trends. , Across the retail and commercial businesses, net lending increased by GBP16 billion in total during the first half, approximately half of which relates to government lending scheme drawdowns.

Looking at the impact of the pandemic on customer behavior in the second quarter, in personal banking, there was a fall off in demand in April but we are now seeing signs of recovery as lockdown eases.

New mortgage applications in July are nearing pre-COVID-19 levels and are 30 percent higher than June, spurred on partly by a reduction in stamp duty. Debit and credit spending is also growing and is 10 percent higher than the levels we saw in June.

In commercial banking, there was a steep increase in drawdowns on revolving credit facilities until April. As the government lending schemes kicked in, drawings have normalized to about 30 percent, down from peak for 40 percent.

On Slide 6 and the profile of our book. Despite the growth in lending, we remained comfortable with the level of risk and diversification of our books. U.K. personal banking loans represent almost half of our total loans and advances, and just 7 percent of our book is on unsecured.

Looking at U.K. mortgage book, our average loan to value is 57 percent, and just 12 percent of the book has a loan to value above 80 percent. Commercial bank lending accounts for one third of our total loans and advances and is well-diversified across large corporate, small and medium-sized businesses, real estate and others.

There are, of course, some factors that are more sensitive to a COVID-19-related downturn, including automotive, leisure, retail, commercial real estate, and in those sectors we have reduced limits and increased oversight of any new business outside the government scheme.

Moving to Slide 7, I want to give you a more detailed explanation of: how we've arrived at the impairment charge; the treatment of COVID-19 support measures under IFRS 9; and our approach to stage migration.

I'll start with the impairment movement on the balance sheet at the top. We reported an impairment charge of GBP2.9 billion for H1 or 159 basis points of gross customer loans. The economic outlook deteriorated during the second quarter, and under current economic assumptions, the impairment charge for the full year is likely to be in the range of GBP3.5 billion to GBP4.5 billion.

This increase is expected to be made up of migrations to stage three as customers move into default. The Q1 overlay of GBP798 million has been absorbed into our provisioning. So, we are no longer hold an economic uncertainty overlay in our numbers.

So, let me take you through our approach on Slide 8. In order to arrive at the impairment charge, we have broadly taken a three-step approach. First, we developed four different economic scenarios based on the range of future economic indicators and made an assessment of the respective probabilities.

After applying probability weighting to these scenarios and given the continued uncertainty, we are using two central scenarios to reflect NatWest Group's extended outlook. They both have a 35 percent weighting while the upside scenario has a 20 percent weighting and the downside has 10 percent.

Over the four scenarios, our assumptions for 2020 included a drop in GDP growth ranging from 8.9 percent to 16.9 percent, U.K. unemployment rate between 7.4 percent and 14.4 percent, and a fall on house prices of 0.1 percent to 11.5 percent. We all assume a return to GDP growth and lower levels of unemployment from 2021 onwards.

As a second step, we made model adjustments to reflect the effects of government support aimed at delaying impairment and reducing the likelihood of default. We also applied expert judgment on specific sectors. The third step was to apply further judgments specifically for high-risk customers and other uncaptured risks.

I also wanted to cover our approach to stage migration. As a starting point, our approach to payment holidays and government lending schemes has continued in the second quarter. New or extended payment holidays will not on their own trigger a stage migration.

The key trigger for stage two migration in H1 is and the deterioration in probability of default driven by the adoption of the four new macroeconomic scenarios. We used a very conservative threshold for a significant increase in credit risks, or SICR, of just 10 basis point increase in P.D. This has led to a large migration of high-quality up-to-date balances from stage one and stage two. This will have a lower ECL coverage from past due stage two balances.

For stage two loans to migrate back to stage one, it must revert back to the P.D. threshold for a three-month period. Assets only move to stage three in the event of default, typically once the account is 90 days past due.

On the next slide, I will cover stage migration and expected credit loss coverage in more detail. Before going into the detail, I want to reiterate the fact that the vast majority of the movements I will be discussing on the following two slides are anticipatory and not in response to observed default.

Our starting point is that we have continued to use an appropriately conservative approach to stage migration and ECL in personal. Our trigger criteria includes persistence, where we keep balances in stage three typically, for at least 12 months.

For mortgages, 13.5 percent of mortgage loans now sit in stage two, which are not past due, against 5.6 percent in December. The majority of these are up-to-date as of the balance sheet date. In fact, of our total book mortgage book, only 0.9 percent is past due and 1.6 percent is in stage three.

Similarly, 30 percent of total loans in credit cards and personal advances now sit in stage two, not past due, against 24 percent in December. And you see a similar pattern repeating in credit cards and personal advances in terms of payments being up-to-date.

Looking at the defaulted balances across personal, we have 1.9 percent in stage three at June end, against 2.1 percent at December. However, given our guidance, we expect this to change over Q3 and Q4 as we see defaults starting to come through.

Turning now to wholesale migration on the next slide. As you would expect, there has been clearly been a larger migration here with 38 percent of total loans at stage two driven by forward-looking PDs.

Across wholesale, 36 percent of loans now sit in stage two not past due, while 1.7 percent is stage two past due, and 1.9 percent stage three. Our overall coverage for wholesale increases from 1.13 percent to 2.16 percent, reflecting the mix of P.D. migration across the good book, and staging with a slight offset from a small reduction in our stage three coverage.

From what we can see today, it may not be until Q4 that we start seeing event-based stage migration as furlough end on 31st of October and the various government lending schemes close. These movements, conditional on developments in economics, will combine to deliver our expected GBP3.5 billion to GBP4.5 billion of 2020 impairment charge.

Moving on now to look at risk-weighted assets. Risk-weighted assets decreased GBP3.7 billion in Q2. Counterparty and market risk were both down GBP1.5 billion as NatWest Markets' work towards the full-year reduction targets, which I'll cover in a bit more detail in the next slide.

Credit risk was down GBP700 million and mainly driven by personal banking with reduced undrawn RWAs in credit cards. For drawn balances, new lending and the government schemes offset general credit risk migration. Looking forward, RWAs at end 2020 are expected to be in the range of GBP185 billion to GBP195 billion.

Turning now to Slide 12, although we had taken swift actions to address COVID-19, we have maintained focus on our key strategic priorities. NatWest Markets is one of those and we set a target to reduce RWAs in the business to GBP32 billion in 2020 and almost halve them to GBP20 billion over time. To-date, we have reduced RWAs by GBP2.8 billion, making good progress towards our 2020 targets, and we expect to have largely achieved our GBP20 billion target by the end of 2021.

We have confirmed Robert Begbie, who is well-known to you all, in his post as CEO, and appointed David King as CFO. We have started to refocus the business in the U.S. and Asia Pacific by reducing our footprint and we have started aligning the business to a one bank model by centralizing technology within the group. We've also formed a new partnership with BNP Paribas for both the execution and clearing of listed derivatives.

So, onto my final slide and to summarize, we have a strong business franchise and we have supported our customers at the time of uncertainty. We are managing risks carefully and providing for impairments thoughtfully. We continue to execute on our strategic priorities. We have a robust capital position and a resilient capital generative business.

And with that, I will hand over to Donal, who will take you through the details of our capital and liquidity position.

Donal Quaid: Thanks, Katie. Good afternoon and thank you for joining today's call. Let me start off by thanking you for your continued engagement with NatWest Group through these unprecedented times. I'm pleased that we've been able to meet with many of you virtually in the weeks following our Q1 results as we all adjust to new ways of working.

Starting with the capital and leverage positions on Slide 15. We have entered the current period of economic uncertainty with a very strong capital position from an absolute and relative basis. Our CET1 ratio ended the half year at 17.2 percent. This includes the IFRS 9 transitional benefits of GBP1.6 billion or 90 basis points of CET1.

At this level of CET1, we operate with significant headroom of 830 basis points or GBP15 billion above our MDA of 8.9 percent. The decision to call our additional Tier 1 transaction resulted in an FX translation loss of GBP345 million or 19 basis points impact to CET1, which was realized on the announcement of the call and as reflected in our H1 figure.

Excluding the IFRS 9 transitional benefit, our CET1 ratio was 16.3 percent. In response to the COVID-19 pandemic, a number of relief measures have been announced by regulators to support banks' capital and leverage positions.

In March, the financial policy committee announced a reduction in the UK's counter cyclical buffer to 0 percent and the Central Bank of Ireland reduced the Republic of Ireland's counter cyclical buffer to 0 percent in April. The combined changes reduced NatWest Group's MDA to 8.9 percent.

The PRA confirmed in July that our Pillar 2A requirements has temporarily converted to a nominal amount. The impact of the change currently has a minimal impact on our Pillar 2A percentage but will result in a percentage reduction to our capital requirements and the MDA if we experience future RWA inflation.

The PRA also confirms that the proposed reduction in Pillar 2A announced in the December of 2019 Financial Stability Report would come into effect in December of this year. Our expectation, which remains to be confirmed, is

that the reduction in the Pillar 2A requirements will be offset by an increase in the PRA buffer.

We are expecting approximately 35 basis points of reduction in our Pillar 2A requirements, which will result in a 20 basis points reduction to our MDA, but our supervisory minimum will remain unchanged due to a 20 basis points increase in the PRA buffer. The H1 total loss absorbing capital is 36.8 percent, well above the Bank of England's interim minimum requirement.

Our NatWest Markets entity ended the quarter with a CET1 ratio of 18.9 percent, a total capital ratio of 26.5 percent and MREL of 43 percent, inclusive of internal MREL issued by its beholding company. The NatWest Markets' CRR leverage ratio was 5.3 percent after including the netting effect of regular-way purchase and sales settlement balances in line with CRR amendments.

The NatWest Group's CRR leverage ratio was 5.1 percent. This included a reduction in leverage exposure of 6.9 billion following a modification by the European Commission in June to bring forward the netting of the regular-way purchase and sales settlement balances.

The U.K. leverage ratio was 6 percent, leaving 275 basis points of headroom above the UK's minimum requirements. The PRA announced a number of modifications to the U.K. leverage framework in June, and NatWest Group received permission to apply these changes including the netting of regular-way purchase and sales settlement balances and the exclusion of the U.K. leverage exposure for bounce back loans. These measures combined to reduce the U.K. leverage exposure by 12 billion.

Onto liquidity and funding on Slide 16. Our LCR ratio for H1 increased by 14 percent to 166 percent, reflecting significant excess primary liquidity of 68 billion above minimum requirements. The elevated liquidity levels were primarily driven by deposit inflows in H1 with customer deposits increasing by GBP39 billion.

Our total liquidity portfolio increased by 44 billion to 243 billion, of which 33 billion was an increase in primary liquidity. Secondary liquidity increased by 11 billion as we prepositioned more eligible collateral at the Bank of England.

During H1, we took a decision to repay 5 billion of the Bank of England term funding scheme and drew 5 billion from the new term funding scheme with additional incentives for SMEs or TFSME. This leaves a total of 10 billion outstanding with 5 billion of TFS and 5 billion of TFSME.

Our current drawing capacity for TFSME is in the region 70 billion following continued lending growth in Q2. I would expect our drawing capacity to increase further in H2 as we continue to support our customers with further net lending primarily through the government lending schemes.

Wholesale funding has remained stable at GBP86 billion. On Slide 17, you can see that retail deposits grew by GBP11 billion to GBP161 billion, with most of the growth in current accounts as a result of lower consumer spending in the face of lockdown and increased economic uncertainty.

Commercial banking deposits grew GBP25 billion to GBP160 billion as customers built up liquidity during the pandemic and retained the percentage of the government lending scheme drawdowns of deposits.

Our deposit base is well-balanced across the commercial and retail franchises and our wholesale funding mix reflects a range of different sources and maturities. Our loan to deposit ratio remains healthy at 86 percent underpinning our strong liquidity and funding position as well as our considerable capacity for lending to support our customers. We will continue to look at all options available to us in the light of the impact of COVID to assess the optimal blends and most cost effective means of funding.

Turning to Slide 18 and issuance plans for the remainder of the year. Given market conditions in the latter part of Q1, we're very pleased with the progress we have made on our issuance plans in Q2.

We took the decision to step away from capital and MREL issuance in March and April given the market volatility. Our guidance for senior unsecured

MREL for the year from the holding company was in the range of 2 billion to 4 billion, and in H1, we issued \$1.6 billion in a dual tranche transaction, comprising a 1 billion eight non-call seven maturity and a shorter dated 600 million four-year non-call three green bond.

This was NatWest Group's inaugural green bond issuance, with the proceeds allocated to renewable energy assets across the U.K. This was also the first green bond issued into the U.S. onshore market from a U.K. bank.

We announced plans earlier this year to do more issuance in green, social and sustainable format, and I'm pleased that the green bond represents our second transaction under our GSS framework following last year's social bond.

Last week, we published the first interim impact report relating to the social bond transaction. We're also making progress with our ESG ratings with Sustainalytics recently announcing reduction in our risk rating score from 27.7 to 20.5, leaving us very well placed from an industry perspective.

On capital from the holding company, we guided up to 2.5 billion of Tier 2 and we were very pleased to return to the sterling market with a 1 billion 10-year non-call five transaction, our first sterling Tier 2 since 2006.

We also guided up to 1.5 billion of additional Tier 1 to get the flexibility to refinance the outstanding \$2 billion 7.5 percent coupon with an August 2020 call. We were pleased to be in a position to issue a new \$1.5 billion perpetual non-call six transaction on the 24th of June, our first additional Tier 1 issuance since 2016, and to subsequently announce the call of the \$2 billion security on the 29th of June.

The decision to refinance and call the outstanding security was finely balanced from an economic perspective, given both the movements in FX impacting the 345 million impact to CET1 and the movement we experienced in additional Tier 1 pricing, impacting the potential coupon savings on a new transaction.

From our NatWest Markets' operating company, we guided 3 billion to 5 billion senior unsecured for 2020, and in the public markets, we have issued a

EUR1 billion five-year and a \$1 billion three-year transaction. In addition, NatWest Markets have completed a number of private placements.

The progress we made in H1 gives us plenty of flexibility for the remainder of the year and we will continue to assess opportunities in light of market conditions.

It is unlikely that we will consider secured issuance from NatWest Bank this year given the introduction of TFSME and our significant funding surplus. However, we will keep this under review going forward subject to funding requirements.

On Slide 19, the H1 total capital ratio was 22.5 percent or 21.6 percent excluding IFRS 9 transitional benefits, well above the Bank of England's 2020 interim minimum requirements and reflecting our progress on MREL issuance. As of H1, we have senior MREL stock of 21 billion against an estimated end state requirement of 23 billion, and that's based on indicative RWAs of 200 billion.

On legacy securities, we are focused on a couple of areas of regulatory change that are on the horizon. Firstly, capital optimization opportunities have not been an area for priority so far this year, given the significant focus on our response to COVID-19 and the actions we have taken on additional Tier 1 and Tier 2 issuance. However, this is something that the team will be reviewing as we think ahead to the end of 2021.

And secondly, on LIBOR transition, we've undertaken a comprehensive due diligence exercise on our outstanding securities that referenced LIBOR, and we will continue to engage with the industry working groups to support the smooth transition to new risk-free rates by the end of next year.

And to ratings on Slide 20. In March, both Fitch and S&P revised their outlook for banks, citing the increased downside risks to asset quality and earnings from the economic and market impacts of the COVID-19 pandemic.

Fitch affirmed the long-term senior debt ratings of NatWest Group Plc at A and the Royal Bank of Scotland Plc, National Westminster Bank Plc and also

Ulster Bank, Limited at A+. Fitch also upgraded the senior debt ratings of NatWest Markets Plc and NatWest Markets N.V. by one notch as a result of methodology changes. S&P affirmed the ratings of NatWest Group and related subsidiaries.

In line with much of the U.K. banking sector, both Fitch and S&P revised the outlooks on the long-term issuer ratings for all entities in the NatWest Group to negative from stable.

So, in summary, substantial economic uncertainty remains but we continue to build and operate with very strong levels of capital and liquidity. With that, I will now open up the call to Q&A.

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

Katie Murray: Thanks, (Steve).

Operator: We will take the first question from (Sameer Aditya) from Citibank. Please go ahead.

Katie Murray: Hi, (Sameer).

(Sameer Aditya): H, everyone. Thank you for the call today. So, I've got a number of questions. Firstly, can you discuss your stage two balances and why they looked optically higher than your peers particularly within wholesale funding – wholesale lending, sorry, as you pointed out on Slide 10?

Secondly, are you able to share any thoughts on what proportion of your stage two balance will migrate into stage three under your base case forecast?

And then finally, are you able to provide any guidance of how much of your IFRS 9 transitional benefit, which I see around as 90 basis points, do you expect to be used up by yearend driven by the risk migration or stage two into stage three? Thank you.

Katie Murray: Hi and thanks very much, (Sameer). Let me take them in order. In terms – in terms of the stage two balancing, I guess we're not overly concerned around the level. I mean I think if we look at our stage two for the group, we're at 26 percent, which is slightly higher than Barclays and Lloyds.

But the reason that you read them – you would see that is the way that we basically treat something called SICR, which is a significant increase in credit risk, we have a 10 basis points move. So, if I see a 10 basis point move in the probability of default in the P.D., they will move those loans into stage two. What that does is it lifts about GBP16 billion of loans out of stage one in stage two, and then that will basically explain some of the difference other banks use higher percentages and then that.

What's interesting though is of all of that book, that only – that only account for about GBP60 million of actual additional underwriting, I mean impairment losses. So, that just means you're now moving them to – into that category. What you would say is they're generally high-quality names and so you would still expect lower – relatively lower levels of losses on that.

And if we then go to the transitional adjustments, it's a very interesting kind of conversation. If we had a view today around what we're moving into from stage two into stage three, the reality is that would be based on kind of real experience. And so, we've probably pushed it through already.

So, we can make some assumptions and you might have heard me talk about it on the equity call earlier on today to sort of say, (if you hit the mid number in terms of that range, and that was the move predominantly from where it is now in stage two into stage three then you could see a kind of 20 basis point cut in that – in that rate.

And those numbers will vary because obviously, as you're moving into stage three, you're quite possibly having new things moving into stage two as well because obviously, you've taken on your boutique more kind of – more impairment hits in the last – in the last stage of that.

And, (Sameer), also, I didn't last – write your last question.

Donal Quaid: And the transitional relief, the 90 basis points and how we see that evolve over time?

Katie Murray: Yes. So, I think – oh, thank you very much, Donal. So, how do we see that evolve is those are stable. What we're seeing is 3.5 to 4.5 through the end of the year. If we kind of go to a mid number of that being booked, I would see about 20 basis points being written off in terms of CET1 because actually, what we're seeing is more migration happening into stage three where, of course, it doesn't attract any transitional relief.

(Sameer Aditya): Very clear, thank you.

Katie Murray: Yes, thank you.

Operator: Thank you very much. The next question today comes from – excuse me, the next question taken from the line of Robert Smalley from UBS. Please go ahead.

Katie Murray: Hey, Robert. Good to hear from you.

Donal Quaid: Hi, Robert.

Robert Smalley: Hi, how are you? Just thank you all for the details, greatly appreciate it. I want to go back to the economic scenarios that you had.

Katie Murray: Sure.

Robert Smalley: And I'm wondering which one or which ones include a Brexit – hard Brexit and how that factors in and where your probabilities lie on that? I also just wanted to ask a broader question. As we start to look through to the other side of government assistance and mitigation programs, how do we avoid some more cliff-life experience in terms of credit quality? What are you looking for in terms of early indicators?

I know you – you're very formulaic in terms of – in terms of provisioning, et cetera, and that makes sense. But are there any other indicators or what's on

your dashboard that might be a little softer than that, that we can look at?
Thanks.

Katie Murray: Sure, thanks. Thanks so much, Robert. So, if you look at economic scenarios, the way that we would probably look at them is to say that the downside is much more of a disorderly Brexit. So, that's a really hard thing to define what do we really mean by that, but naturally, all aspects of scenarios have some level of Brexit in them.

And the reality is, at the moment, given that economists, were really struggling to even create a consensus forecast. Very hard to separate what COVID is doing to the economics from what Brexit might be doing.

But I would say that if you went through Brexit very disorderly, you get more towards the downside. That's how we sort of viewed it, but I think that there's a bit more art and science in some of that.

In terms of the government assistance and the program, look, I think the government has done a good job in getting out really fast, putting in a lot of stimulus into the – into the economy. I don't think that we should assume that when furlough ends at the end of October and when the banking team ends that that it's – they consider their job is done.

I think one of the best things that we've really done is just a great level of coordination between regulators, business and the government. And I think we'll continue to see that happening over the next – the next number of years as we all work our way through this. So, they are as concerned as we are.

What I would say in terms of early indicators, the credit ratings are obviously a big part for us. I'm looking at the personal lending and you're looking for things like: are people starting to pay their lending to help cover themselves; what's happening on unemployment, it's really one of the keys that we think about; and then what do we see flags being raised on the credit bureau and things like that. So, there's a lot of work to kind of try to look for other flags, that's why there might be issues in some of the loans.

Robert Smalley: That's very helpful and greatly appreciate the level of detail and the presentation and what you did earlier today too, thanks.

Katie Murray: Super. Thanks, Robert.

Operator: Thank you very much. Once again, if you'd like to ask a question today, please press star followed by the digit 1 on your telephone keypad.

We'll take our next question from the line of Daniel David from Autonomous. Please go ahead.

Katie Murray: Hi, Daniel.

Daniel David: Hi, thanks. Hi, thanks for the call and thanks for taking my questions. The first one just touches on the payment holidays that you showed on Slide 4. I just want to – just drill in maybe to what you're seeing as the main drivers behind the kind of extensions of those holidays whether it's unemployment, whether there are some other factors.

The second one is just on your macro scenario assumptions in there, and so, to go back to it, and I am cognizant of the comments that you've already made. But just looking at the probabilities that you assigned, you all think that 70 percent on your central one and two, and then there seems to be more upside and more of a probability given to the upside scenario rather than downside. And we've touched upon the provisions bill being quite a lot larger than some of your peers.

So, what – just holistically, if there's more weighting given to the upside scenario, what – is it just the significant increase in credit risk that you talked about or is the central assumptions kind of a bit more severe than your peers? How do you see that?

And then finally, if you – let me with the third question, just on your AT1, I guess from the outside looking in, a lot of issues. And you talked about looking at economics of the. Just looking at the recent level on AT1 that you did call and obviously the FX hit that you took, it didn't perhaps look as economic as it could. We've got decisions. So, maybe should we just step

through some of the points that you consider when making that call up, that'd be really helpful. Thanks.

Katie Murray: OK, Daniel, let me start with the first couple and then Donal will comment on the AT1. And in terms of payment holidays, there will be as many different regions almost as there are – as there are people in terms of the payment holidays. Some of them will almost certainly be on unemployment but at that point, that's something we would be flagging. And so, therefore, you would say that that's another kind of SICR event. So, you'd start to see those kind of migrate.

And for many of them, it will just be sensible financial planning though you might be somebody who's self-employed who's a little bit worried about their income. And when you look at the lifetime of your mortgage, the reality is at the rate that you're paying, the extra month it cost when you start repaying is quite de minimis and this kind of allows you to provide yourself a little bit of – a little bit of time.

I think what's really pleasing is that at the peak, we have 20 percent of the group by volume that was on holiday, and at the moment, there was only about a third of them requesting extension.

When we look at the third requesting extensions, they do not all need it in terms of their immediate financial situation. You can see that some of them are just in good kind of cash flow management from their side.

In terms of the macro factors, there was one thing you said in your question around our provisions being larger than it appeared. Well, I will, probably just be creative with your wording a little bit. I think our exposures moving people into stage two are probably bigger than the peers which have higher absolute provisions than us. But obviously, the provisions in absolute amounts there but – and I explained earlier on the kind of the SICR piece.

When we look at the weighting, and you'll be familiar with this as I am at the moment in terms of to say, where is the weighting sitting in terms of what's coming out from economics. And what we felt is that the – when we looked

at the weighting, there was much more of a balanced fit to the upside in terms of rather than to the very downside weighting.

One of the disclosures, I think it's on Page 34 of the document, it shows you if we had to move to 100 percent of either the upside or the downside weighting, we would – if you went to 100 percent upside, you would add that 1.4 billion of the provisions that we have to-date in terms of the 2.9 or if you went to the downside, you would add on another 1.9 billion. So, you can see there is quite a big – a big range than the numbers of outcomes.

Donal, would you want to talk to AT1?

Donal Quaid: Yes, I'll take the AT1. So, no change to our strategy, that any call decision we make is on an economic basis. A decision on additional Tier 1 call was no different. So the considerations included, obviously, the replacement cost of the instrument, as you said, the potential FX impacts as well.

It's important to remember that a no-call decision does not remove that FX impact. It only defers the impact to the next call days, so for which security that we had call was in five years time.

So, we look at the economics over the life of the transaction, not just the day one impact. And we look at day one impacts of the call up to now versus in the future and then compare that to the coupon savings over the five years both from a lower notional and also a lower coupon as the new security.

So, if I look at the new security we issued \$1.5 billion, that provided pretty much a similar additional Tier 1 benefit in sterling terms and the outstanding 2 billion transaction and then the reset on that new transaction as well, that's approximately – that's 19 basis points lower on a like-for-like basis. Those coupon savings I see were greater than the incremental CET1 impact from FX translation. We concluded that it was an economical decision.

Daniel David: Great. Thanks a lot.

Operator: Thank you very much. There are no further questions at this stage. I'd like to hand the call back to Katie Murray for any closing comments.

Katie Murray: Lovely, thank you very much, (Steve), and thank you very much for everybody on the call. And it's really great that you take time to ask further questions and we are, as Donal said earlier in his own speech, we're very appreciative of the support – the support that you've given us particularly in this year in terms of some of the issuances that we're getting away. It really is – it really is something that we do value very highly.

If you have any other further questions or you'd like any more detail, please don't hesitate to contact Paul Pybus from our I.R. team. We'll be very happy to help you out to make sure that we can get in touch with you. Thanks very much and enjoy the rest of your day. Goodbye.

Donal Quaid: Thank you.

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

END