LLOYDS BANKING GROUP PLC – 2020 HALF YEAR RESULTS – SELLSIDE ROUNDTABLE – TRANSCRIPT
(amended in places to improve readability only)

Friday 31 July 2020 – 4.00pm

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Alan Brindley, Finance Director, Commercial
Andrew Edwards, Chief Operating and Risk Science Officer
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William Chalmers
Thank you everybody for joining this afternoon. Apologies for doing it at 4 o'clock on a Friday but we felt it was better to get it done before everybody took off for vacations of various sorts. Today as usual we have the Finance team together with me on the line as well as Douglas who will help us co-ordinate. So, I look forward to a discussion and please feel free to ask questions that didn't get addressed yesterday as well as anything you would like further colour or context on. So with that I think that is probably enough introduction. Over to you Douglas, are you going to host questions or will questions come in automatically from the operator?

Douglas Radcliffe
They are going to come automatically through the operator.

Question 1 – Rohith Chandra-Rajan, Bank of America
I have got a couple please. One is just to clarify my understanding on your commentary around the credit cards book, particularly the quality and the coverage. So I understand the point you are making on charge-offs. But normalising for the charge-offs to get them to the right coverage level that you highlighted also adds to your Stage 3 loans. And that makes the proportion of Stage 3 look a lot higher than some of your peers. So that doesn't seem to chime with what you are saying about a shorter charge off period and better quality. It seems to be hard to get the numbers to work to get both of those things here to be true. So I was just wondering if you could help me understand what I might be missing there?

And then the second one was just on the mortgage book which declined in the quarter but you seem to be writing new business at 170 basis points, that you mentioned yesterday. It is sort of 40 to 50 basis points higher than your peers so I was just wondering if you could talk a little bit about your approach to the mortgage market, please?

William Chalmers
I wonder if on the first one whether Jon or Israel, you would like to add and then perhaps Israel on the mortgage approach and the mortgage margin.

Jon Burgess
So Rohith in terms of the staging, as you rightly say if you make the adjustment it takes us to around about 5 per cent, between 4 to 5 per cent in terms of staging which we think puts us more or less in the pack, relative to others. But that is inevitably part of the equation that you are referencing. In terms of the new business margins and Israel may well tip in and add in, as William said yesterday that would be writing at between 160 to 170 over recent quarters and that is a blend of both retention pricing, product transfer pricing and new business pricing. So when you are comparing to peers you just need to be careful that you are comparing like for like.

Rohith Chandra-Rajan
Thank you for the clarification on the cards book. Can I just come back on the mortgage book? So other banks have been growing their book in the quarter, I appreciate it is a very unusual quarter. Some of them have also been saying they have done a high proportion of retention business. So can you talk a little about the split between retentions and new business and your approach to price versus volume going forward?

Israel Santos
So Rohith, I might add a little bit there. Obviously we started Q1 quite strongly, in both terms of applications and retention. So we had a really good pipeline going into Q2. Clearly then Q2 shut down and not much by way of new business, but a decent amount in terms of retention. What we found towards the end of Q2 is that we started to see some of the application pipeline for Q1 completing and we are seeing more of that happening now. Into Q3 we are seeing that performance being quite strong still and obviously what we are trying to balance for ourselves is the ability to serve customers given that we still have some of our back office functions impacted by Covid. So balancing the right amount of volume relative to ability to service our customers in the way that we want to. The other thing to bear in mind obviously given the apps are now building up again into Q3, you do have the delays in terms of when they complete. So the strength of the second half will be determined by the speed by which we do complete and that speed to completion is probably a little bit slower than it would have been pre-Covid if I am honest.

Rohith Chandra-Rajan
And António was mentioning yesterday that delays are more than the usual 90 days?

Israel Santos
It is, yeah.

Question 2 – Ben Toms, RBC
Your impairment range is between £4.5 and £5.5 billion. I suspect the consensus will move to the top end of this range following the results. So if you take the top end of the range at £5.5 billion there will be an assumption at that level of how many loans move from stages 1 and 2 into stage 3. What is the quantum of NII or NIM loss in this move? From calculating interest on the net carrying amounts versus the gross carrying amount for those loans that move?

And secondly there has been some discussion in the quarter on the potential for an SVR cap. What would be the annualised impact on NII if an SVR cap were to be set at 2 per cent?

William Chalmers
I will kick off with a couple of comments and Jon or Israel may want to add, Israel in particular, on the SVR cap. On the impairments I would not necessarily go to the top end of the range. We have given you a range for precisely the reason that we want to have a range. And the reason for that is because we are in pretty uncertain times, not because we are trying to steer you to £5.5 billion. If you think about the items that will come through the impairments line for the remainder of this year, assuming a stable macroeconomic situation and assuming that macroeconomic situation is in accordance with our projections and forecasts that we put down, then what you will see coming through the impairment line for the rest of this year is a charge for new lending, i.e. the Stage 1 new lending that we take on. A charge for the existing Stage 1 as it rolls through the 12 month window going into 2021 now and idiosyncrasies within the Stage 3 Commercial Banking book that we don't currently expect obviously, otherwise we would put a charge in for them today. And to a degree experience variance which is really intended to capture things like customer behaviour that our assumptions don't necessarily 100 per cent match up to for whatever reason.

Those are the items that go through the impairment for the remainder of this year, again assuming a stable macroeconomic forecast in line with our expectations. So that isn't intended to steer you to £5.5 billion. The £4.5 to £5.5 billion range is intended to capture a degree of uncertainty that we see out there which I think is a fair characterisation of the times in which we live. We are not putting a number particularly on the quantum of NII loss by virtue of any incremental impairments that we may take throughout the course of the year. You can probably get a sense of what the incremental impairments might be if you took middle of the range or for that matter a lower end or if you went to the upper end of it and do your own calculations off the back of them, should you choose to do so. But that would be in accordance with what you would normally see in the dynamics of the P&L and the balance sheet and they shouldn't diverge much from what you would expect to see there.

On the SVR cap, I think you know roughly speaking what the size of the SVR portfolio is now and you know roughly speaking what the run-off of it is. Again I don't think we will put a number on what would happen to that if there was an SVR cap on it. But I would say that the SVR that we have applied to the book is at the lower end of SVRs in the market and so if you compare the price of our SVR book, it is at the lower end relative to other providers and their SVRs. Which in turn if there was a cap introduced one would expect to proportionately impact us less for that reason. Israel feel free to add to any of that.

Israel Santos
No I think the right points are there. On an SVR rates perspective we are at the lower end of the market. I think the guys, if they want to try and do some maths, we have given disclosures before in terms of the quantum of the book as well as you can see the rates on any website. So yeah we haven't provided that number and not sure we would.

Question 3 – Robin Down, HSBC

I was doing a back of the envelope calculation, you are talking about a 40 basis point IFRS 9 transition rundown in the second half, which I guess is about £800 million or about £1 billion pre-tax. Then if I go to the middle of your impairment range that would kind of suggest charge-offs might be just over £2 billion or so. So doubling from first half levels. So I was just wondering if that is kind of the ballpark way you are thinking about the second half, that level of charge-off coming through?

And just a quick second one, just on the structural hedge. I am just curious that you don't appear to have been rushing to reinvest the structural hedge. Is that because you are concerned that some of those deposits you have flowing in might flow back out again in the second half? Or is it confidence that we won't get negative rates coming through and therefore you don't think it is worthwhile investing down at these levels? I was just looking for a bit of colour as to how you are thinking about that.

William Chalmers

I will kick off on those and Jon may choose to add on the first and Toby may choose to add on the second. In terms of the overall maths on the IFRS 9 transition, I won't comment too much on your back of the envelope maths, save to say that the 40 basis point IFRS 9 roll-off that we see in the second half is not so much charge-off, it is transfer from Stage 1 and Stage 2 into Stage 3. Once they are in Stage 3 they are subject to whatever remediation measures that they may be subject to, which in turn one would hope recoups value before the charge-off actually takes place. I think with that caveat, your methodology in terms of the transition from Stage 1, Stage 2 to Stage 3, the numbers on the amount of that transition, i.e. 40 basis points equal £800 million. That piece of it doesn't sound wildly out of place and we expect that to happen over the course of the second half. The caveat on that is that that is predicated upon a given evolution of those defaults. What we have seen so far in this crisis is that the defaults have been stalled by the larger forms of Government activity including either furlough schemes or alternatively Government activity directed through the banks including things like CBILS and Bounce Back Loans, and also payment holidays. So it is quite tricky to define exactly the defaults profile that you might expect with the Stage 3 migration profile that you might expect to see at the current time. And we are cautious about that, but what we are doing is that we have put in place the economics that you have seen and we are taking the Government schemes as they stand today and we are saying, based upon the Government schemes that we see today and based upon those economics, that is the profile of the Stage 1 and Stage 2 to Stage 3 that we see and that is the IFRS roll-off that fits with that profile.

Robin Down

Does that then mean there is a risk that we end up at the low end of your impairment charge range, but purely because we aren't seeing Stage 3 migrations until Q4 when some of the schemes end, and therefore we are just effectively moving things into the first quarter of next year?

William Chalmers

I think it is not impossible. It is not so much the impairment range that will change, the impairment range is what it is and that is based on the macroeconomics that we have taken. But you may end up at the low end of that IFRS 9 roll-off because the transitions simply haven't yet happened and so the stock of IFRS 9 you are holding on your capital ratio is correspondingly higher because it hasn't burnt through Stage 1, Stage 2 and Stage 3. That is certainly possible. I think we have our profiles and our expectations going forward, but it is difficult to know with certainty whether they will roll out that way.

The other point that we have seen so far is that the trends in terms of customer behaviour, in terms of asset performance, whether it is houses or cars, so far has been at the more benign end of our expectations and I suspect that is because of Government programmes, other support measures being in place, which to a degree at least are delaying the realisation of the macroeconomic expectations that we have.

On your second point, structural hedge reinvestment, just a couple of points. First point is the deposit inflows that we have seen in the first half of this year, the £29 billion of deposit inflows, those are not in the structural hedge capacity as we describe the structural hedge capacity as £190 billion, and that is not taking into account those deposit inflows that we have seen. In a sense we don't worry about the stickiness of those deposits for purposes of the structural hedge capacity. We may worry about them for other reasons because they are obviously parts of the franchise, parts of the business and so forth, but we don't worry about them for structural hedge capacity reasons, because they are not in the structural hedge capacity given their relatively recent introduction.

In terms of the outlook, why we don't reinvest. I think it is a function of a very flat curve right now and not being much value or for that matter other stability characteristics that you can see by reinvesting right now. But primarily value, the very shape of the curve causes you to think carefully before you necessarily lock in the structural hedge.

Secondly, I don't think it is because of any particular outlook on negative rates. I think our position on negative rates as far as anybody has a position on negative rates is to clearly follow Government policy, but to note that Government policy at the moment is much more focused on QE type approaches than it is on negative rates. Certainly what they are telling us and I think what they are telling everybody really is that negative rates is not yet on the table. One would be foolish to rule it out, but we don't see it as happening in the near-term and we are not getting indications that it is going to happen in the near term from the Bank or anybody else.

Toby is there anything that you would add on the structural hedge point?

Toby Rougier
The only thing I would add is that, you are right, we haven't been reinvesting to term which you can see from the profile of our hedge, but we have been reinvesting because we do continue to balance shareholder value issues with income protection issues and you can see the nominal of our hedge hasn't reduced in the first half. So the maturities that we have had, we have been reinvesting, but we have been reinvesting them at relatively short maturities. So between one and two year type maturities and we did most of that in March time. So we have been reinvesting, but we have kept the duration short and kept the option to go longer if the curve were to steepen.

Robin Down
I was just slightly surprised given the market is increasingly pricing in negative rates, that even though the gross yield on the swaps is quite low, if 3 month LIBOR is going to move down to kind of -20, -30, there might still be some value in reinvesting at the moment and I was just slightly surprised that you weren't perhaps being a bit more defensive there?

Toby Rougier
As I say, that is why we have kept the duration of our hedge at around 2.5 years and haven't let it amortise further.

Question 4 – Aman Rakkar, Barclays
The composition of the impairment charge in H2 that you laid out just now in terms of it is going to be made up of new lending, of Stage 1-2 and any Stage 3 experience that you might have. As things stand, assuming your assessment of the macro is perfectly right and the impact of the balance sheet is perfectly correct, could you take us through the moving parts of next year's impairment charge, i.e. experience in terms of balances going from Stage 2 to 3 and then any offset you are going to get from the reserves that you have built to date? I am struggling with next year's charge and the degree of offset that you are going to get from the reserve building you have done this year.

William Chalmers
It depends upon which part of next year you take and Jon Burgess is on the line as our resident IFRS 9 expert so he will add to my comments here, as is Andrew Edwards as well. I think the right way to look at the ECL which is the £7.2 billion that you have seen in our numbers, is that is the appropriate provision for the stock of assets that we currently have on the balance sheet today. Predicated upon 12 months of Stage 1 stock of assets and obviously lifetime for Stage 2 and Stage 3. So that is, I think, the start point for the right way to look at it. Therefore when you look at the course of next year, if what you are talking about is the first half of next year, then effectively the observations that I made earlier on still stand and that is to say, you have new lending which comes on and incurs the Stage 1 charge, you have the roll forward of the window as described earlier on and you have what I described earlier on as idiosyncratic Stage 3 CB behaviour. That ECL charge effectively just gets added to as you roll the charge forward over the course of the coming quarters and into next year. Again just continually rotating on that basis. So I think the right way to think about it and again Andrew, Jon please add, but the right way to think about is you take the £7.2 billion stock of ECL as being the right provision for the balance sheet as it stands today, and importantly, based upon the macroeconomic assumptions that we have. You then roll the balance sheet forward over the course of the coming months and you accrue the incremental charges to the impairment line as I just mentioned.

Jon, Andrew do you want to add to that?

Jon Burgess
Two things from me William. One is I don't think anybody ever wants to be labelled as an IFRS 9 expert, but more importantly I think it is the same as you articulated and it is the same factors that you described for the second half of the year. Clearly the experience variations that we allude to will be the experience as it evolves. Now we do all of this on a portfolio basis and based

on lots of historical data. So we have confidence in our models, but clearly this is quite a significant short-term shock and the outcomes may differ slightly, but we wouldn't expect that to be material. So I think the half two articulation should describe how 2021 emerges as well.

Aman Rakkar
I was just trying to make sense of your Central items division. Net interest income in H1 was really, really, really low and I think typically it is an under or over allocation of 3 month LIBOR or funding costs or whatever normally gets squirreled away there. Could you help us understand what is going on there and how should we think about an income run rate for that division going forward please?

Jon Burgess
Where you have the interest rates that you have seen, you get some volatility in that space. I wouldn't expect it to be materially different in the second half of the year, but I am going from the hip a little bit in that respect. The reason for the movements are some of the interest rate movements, but looking forward I think all you can do is take what we had in H1.

Aman Rakkar
So it is normally kind of £270 million each half, it was £9 million in H1. Are we saying £9 million again in H2 is the best guess, or back to £270 million?

Jon Burgess
Can we come back to you through the IR team?

William Chalmers
We will come back to you as Jon said through the IR team, but the Q1 impacts of interest rate volatility may have an effect on it being lower than it might normally be. So let us come back to you.

Question 5 – Ed Firth, KBW
I am going to go back to the margin, but I have just got four really just straight questions. I can obviously do the 2.5 per cent times flat average interest-earning assets, but obviously you have got the non-banking adjustment which is getting bigger every quarter. I think it was £60 million in Q2. How should we think about that going forward, is that a sort of £240 million negative going forward?

You mentioned that one of the big positives of your four drivers of the margin as we go into the second half is overdraft fees potentially coming back. I am assuming that is in Q4. So if we are assuming a 2.4 flat for the second half, I am assuming Q3 will actually be down and then there will be recovery in Q4. Is my assumption correct?

The third one was on unsecured. Your tone is quite cautious on unsecured volumes in the second half, on credit card volumes. If we actually see the market bouncing quite strongly in terms of credit cards and unsecured, would you be expected to go with that and therefore do better on the margin? Or is there something in terms of your credit criteria or the way you are looking at the business which would mean you would stay pretty cautious and could cede some market share in the second half if that is what was happening? Would you go with that, i.e. would you hold your market share and therefore do a better margin or would you actually stand on the side lines because it is a credit issue you have got or concern about the market generally which is why you are holding back. So is it a market thing or a Lloyds specific thing?

And then finally in terms of the hedge, if I take all you have told us on the hedge it looks to me like it is about two basis points a quarter of margin headwind, but if I look in Q1 you said it was five. Was there something in the five that was different or was my two wrong?

William Chalmers
On the margin, non-banking is essentially a place where we put the aspects of the margin that are not related to balance sheet, lending or more generally balance sheet income in that sense. So if it is to do with a business, so a fee driven business let's say e.g. Lex, the car business or other types of activity, that are not essentially around the core lending products, then that is really where the concept of non-banking margin comes from. If you look at that and the volatility around the particular period I think there are couple of things going on in that volatility. One is that there are some aspects of the Commercial business, which is essentially a fee driven business, which are typically placed into that space. Those were lesser in the course of Q2 and as a result that then had a lesser positive impact on the non-banking income. Equally there are other things going on in the non-banking income including things like costs of funds and so forth for non-banking activities, whether that is LDC, whether it is other aspects of the

business that fall into the non-banking area. So you see a bit of volatility there on the non-banking income line. Overall it will be absolute market dislocation. It will be relatively stable and so I would encourage you to look back at probably Q4 maybe Q1 just to get an idea of the regular run rate, absent as I say market dislocation which causes funding cost changes and/or causes divots in terms of the Commercial contribution to that non-banking income line and therefore loss of depositors.

Overdraft fees, it is a fair question, the base case is obviously that the overdraft interest free holidays run out over the course of Q3. It is not impossible that the Government chooses to suggest extensions to that. We don't have any particular reason to say that is the case, but there is a bit of form here as you know. So one should bear that in the back of one's mind. When you look at the contribution of overdraft fees to the margin, as you rightly say it is a significant contribution to the margin, i.e. it does make a difference whether those interest free periods are there or not. I won't put a precise number on it, but it is an important ingredient in that overall margin discussion that we had yesterday, both as to what happened in Q2 and also as to what will happen as we look forward to H2. Predicated upon our base case of those interest free periods coming to the end of their lives, then indeed you would see the contribution of overdrafts becoming more positive in the margin picture as a whole in Q4 versus in Q3. The only slight caveat I would put on that is that it is obviously balance related. So based upon our views of the macro, I think we have been relatively cautious in terms of the expectations for increased balances or otherwise on the overdraft product. So although the interest free periods may be coming to an end, nonetheless our balance expectations, as mentioned yesterday, they are coming down 5 to 10 per cent across the higher margin unsecured areas, and overdrafts is one of those. So we are pretty cautious in a way that is consistent with our macro expectations for what will happen in Q4 even though the interest free periods come to an end. Clearly if we are wrong in that respect and there is more of a resurgence of consumer activity, consumer spend, then you will expect to see overdraft balances do better frankly than our forecasts and in turn that will have an incrementally positive impact on the margin should that arise.

Credit cards. There is nothing particularly distinct about our view or our position on the credit card book. So I would make a couple of points in passing. One is that the credit card book that we have is reasonably geared into travel and that type of expenditure and typically our benefits from credit card expenditure have been quite travel related and so when you see subdued travel behaviour, that impacts us. I can't really compare it to anybody else's but it is a feature of our book. There's probably a little bit of impact there from balance transfer activity as well. Historically our credit card book has been, to a degree at least, leaning towards balance transfer activities perhaps more than others and that may have an effect.

And then risk, I just don't know where others position themselves on risk. I think from a risk point of view we are obviously being careful right now. We want to protect customers who take out credit and don't want them to over extend themselves. Equally we want to protect the balance sheet and make sure that we don't engage in what we consider to be difficult or hazardous lending. So our risk characteristics are appropriate to the macroeconomic scenario that we project forward, but whether that is different to others it is hard for me to say.

Ed Firth

Sorry just to clarify, we see the monthly data. So if in August, September and November we start to see unsecured balances for the market as a whole growing quite strongly and credit card lending coming back etc. I suppose my question is, would you expect to be part of that or would you be expecting to stand on the side line?

William Chalmers

No I think we would expect to be part of that. Whether at the margin we give up one percentage point of market share of whatever it is, I just can't say because I just don't know what the relative risk metrics are. A straightforward answer to your question is yes, we would expect to be part of that. We have had a number of different discussions about how we project the macroeconomic conditions going forward and we have had a number of different discussions about how the balance sheet positions and particular product positions feed off the back of that. There is consistency in our approach, but as you say if the macroeconomics and the spending patterns come a bit more readily than we expect them to, then I think we would very much expect to be part of that recovery going forwards. And the base case should be in line with our market share. I don't see a reason why our risk standards would be frankly any different to anybody else's. Andrew you must comment if you want to on that particular point.

Andrew Edwards

I agree William, I think it is as you say, about ensuring that we are lending appropriately within the market conditions that we are facing. So like everybody else we will be thinking about ensuring that we are lending responsibly to customers who need those funds and equally we are going to be wanting to grow our business and so I would expect us to be, broadly speaking, maintaining our market share.

William Chalmers
So then your fourth question on the hedge contribution. As we look forward, clearly the hedge is one of the headwinds that I pointed out yesterday in terms of the overall margin development. That is a combined effect of low rates and the structural hedge which is a significant contributor to the margin picture in the course of H2 in terms of weighing on the negative factors. It is obviously offset by the positive factors that I mentioned yesterday and therefore producing net zero. I don't think that your analysis is necessarily incorrect, but I do think the structural hedge and its contribution to the margin in any given quarter may be a bit lumpy because the profile of the hedge and the earnings contribution of any particular component of it likewise is somewhat lumpy. And so I think you can look at the hedge, you can look at the overall earnings from the hedge and you can take a view that the length of that hedge is five years as it stands today. And you can say, okay well if I assume that nothing is done on the hedge in that five years then I know what the impact of that is going to be over that time period. Now if you try to unlock that between different periods of our P&L, you will definitely get it wrong, but on the other hand there are no other bases to go on. It is fair enough because you have got no other information to go on and all I would do is caveat three things. One is, I would caveat the fact that the hedge is quite lumpy from period to period so there will be some aberrations from what you might guess on an arithmetic basis. Number two as Toby was just saying, we are investing on a short term basis as long as the curve is flat. So it isn't simply going to run off over five years, because of the actions that we are actually taking. Where we see windows which suggest that maybe more than one or two years is an appropriate term to hedge, then we will take them. So this thing isn't going to run off on a five year basis and that will be the incorrect assumption because of that variance. Beyond that, we will see what happens with the rate curve, and I suppose the market is the best guess at what will happen to the rates curve, at least for the time being.

Toby Rougier
The only other additional comment I would make particularly with regards to Q1 and Q2 is that there are some balances of the hedge that are currently uninvested and whilst they are uninvested they tend to sit on LIBOR. Clearly there was a big difference in the first half between the LIBOR rates in Q1 and Q2. So that might count for some of the impacts we saw in the particular quarter.

Question 6 – Chris Cant, Autonomous
On SVR, could you tell us what the blended SVR rate is today please? I know we can see various rates online but you have got so many brands and different back book rates so it would just be good to know what the blended SVR is.

And similarly, what is the average cost of deposits in Q2 please? So the rate paid to customers across all deposit products including current accounts. I see you restated the slide where you gave us the spread on deposits and now includes the structural hedge and it was only to one decimal place to begin with. So I am not really sure what to do with that.

And then on your comment about the 5 to 10 per cent down for consumer credit balances. Just to clarify, is that a H2 comment, so a 5 to 10 per cent, or is that a full year comment? I thought it was a second half comment, but one of your earlier answers on this call made me think I had misunderstood in that regard.

William Chalmers
Can I just check with my colleagues, either Jon or Douglas as to whether we give out the SVR rate? I don't have a problem giving out the SVR blended rate particularly, but I just want to make sure I am not breaking a precedent or if I am I can at least know about it.

Israel Santos
Sorry I will have to dig the blended SVR rate out and probably come back as obviously, as pointed, there is a lot of different back books so I would need to dig that out. In terms of the other numbers I am not aware that we have given them previously.

William Chalmers
Well correct me if I am wrong. I am going to give Chris a rough idea and you can shout if you think this is wrong on the SVR point. But the blended rates that I have for SVR and in the back of my mind is somewhere around the 3 per cent mark. If you think that is very wrong you should shout.

Israel Santos
I don't think it would be much from that.

Douglas Radcliffe
Yes that is exactly where I thought it was as well.

William Chalmers
Okay so Chris I think if you took that, you are going to be pretty close.

Your 5 to 10 per cent question Chris, it is entirely a fair question. It is a H2 comment to be very clear and apologies if I confused anything or muddied the waters earlier on. Our projection is based on the back of our macro and our expectations for the market and our position is 5-10 per cent down in the second half. As said earlier on, we of course hope that the macro is better than we project it to be. We would also of course hope that the consumer activity is more lively than we would expect it to be. If it is, to the point that Ed was making earlier on, we would expect to be as a major market share player, a major participant in that, but we are not banking on it and the projections or the assumptions that I have given you, the guidance given to you is predicated upon H2 being 5 to 10 per cent down.

Israel Santos
William just one to add as I don't know the question's coming at it from the same angle as the previous question on SVR cap. Just to bear in mind that the circa 3 per cent number that you have given is all of our back books, some of which are BBR linked and some of which are SVR.

William Chalmers
Yes, that is a good point of clarification.

William Chalmers
And Chris, in the spirit of clarification, I am talking there around the balances for the unsecured book when I talk about the 5-10 per cent down, I think I said yesterday and maybe it's just worth reiterating today that we expect the mortgage book, the open book in mortgages to be up very slightly over the year, not much but very slightly.

Chris Cant
On the consumer credit piece, obviously you are talking about the motor, the loans, the cards and the overdrafts, but you have now moved loans and overdrafts into retail other and it is in this segment with Dutch mortgages and business lending and German cars and all sorts of other stuff. Do you have a number in mind for the gross retail unsecured as we would have looked at it at the first half? I am just trying to think about how to model this out because the 5 to 10 per cent comment is useful and helpful, but obviously it's beside the sub-components of balances which you haven't broken out for us on a gross basis. Just wondering what you think the gross retail unsecured was, so overdrafts, loans and cards combined in H1?

William Chalmers
Obviously as you say Chris a lot of those numbers are broken out to the extent they are on page 5 of the RNS in terms of the balance sheet. But your query is specifically as to the retail other components is it when you ask that question?

Chris Cant
Yeah I guess I can follow up with IR. I am a bit confused as to the business logic of retail other as a managed segment. It kind of makes sense to put in your random bits and bobs of German cars and things in there, but you have now included UK business banking, UK personal loans, UK overdrafts and they are quite different things from a cost of risk perspective to think about the asset quality trends going forwards. And I am not really sure how to go about it, to be honest.

William Chalmers
I understand. We should be a bit careful before going beyond the disclosure obviously. But Israel I don't know whether there is any comment you can make on that?

Israel Santos
I am mindful of where he is looking actually because on the balance sheet in the RNS we do show motor and overdrafts and loans separately.

Chris Cant
I think that is the net number right, and then we can't see the provisions that you have taken?

Israel Santos
We have never given that disclosure ex-provisions in that granularity have we?

William Chalmers
I don't think we have.

Chris Cant
You used to give retail unsecured for about 5 or 6 years of the category, gross.

Jon Burgess
Yeah and to be fair there is a change in the credit part of the release this time around, which is to provide the credit card book separate to what we call retail unsecured given the interest in the credit card part of it. We were certainly trying to provide more granularity on a part of the book we knew there was specific market interest.

Question 7 – Guy Stebbings, Exane BNP
The first question was just on payment holidays or a request really, and thanks for some helpful disclosure already on slide 28 in particular. I was just wondering if you might be able to give us the balances on payment holidays rather than the number of accounts for mortgages, credit cards etc.? And if you are able to include the commercial capital repayment holidays too that would be very helpful.

And then there's a couple of quick ones on Wealth and Insurance revenue. New workplace planning and retirement income was down quite materially versus last year's levels. So help us to gauge how much of that is just because of the auto-enrolment rate benefit we saw in previous years which gets amplified by embedded value accounting approach versus how much is actually a dip in business as it were?

And then similarly on the Wealth line, it was quite soft but you had the transfer of assets into the Schroders Personal Wealth. So should we be doubling the £50 million lost revenue that we saw in the first half as a run rate and then think about growth on that base, or can you help us think about how we should be modelling that going forward?

William Chalmers
I will address the first two certainly and partly address the third and switch to James and then Wealth, I will perhaps partly address and also go to Jon as well. On payments holidays balances it is a totally fair question. They are broadly similar to the account numbers and I will give you some numbers just to back that up if you like. The mortgages number is about £63 billion of mortgages, which is about 22 per cent from a volume point of view. Cards, there is a discrepancy between the number of accounts and the balances, but the balances are about £1.5 billion which again from memory is about 10 per cent of the overall balance within the payments holidays. Motor I think is about 14 per cent which in turn is about £2.2 billion of the overall assets. So hopefully that gives you what you want on the balances on payment holidays. It is worth just adding a couple of quick comments on that actually. One notable feature which we didn't really get the chance to talk about yesterday in the call simply because it didn't come up in the questions, we are seeing from the published data that a lot of those payment holidays are now coming back onto regular payments, which is obviously good. We are actually seeing an increase in that tendency. The younger the cohort if you like. So as they come into mature, the proportion of those who are going straight back into payments is increasing. In the draft of the RNS before the one that got published we had something like 70 per cent going up to about 72 per cent and in many cases we expect it to continue in that direction. We will see precisely where we end up.

The second point is that when we measure the payment holidays, it is taken from the actual last payment date of the individual payment holiday and so it is a stable number. When somebody has resumed their repayments on a payment holiday we know for a fact that they have resumed their repayments, because they are paying us. Likewise an extension of the payment holiday, same comment. The definition of the end of the payment holiday is when the customer is due their payment.

The third point I would make is that we have got some payment holidays that are either not repaying or are not extended, and therefore fall into early arrears. I would be a bit cautious in interpreting that number because a number of those early arrears effectively become cures. They are one payment down arrears and I am sure many of us on this call have missed one payment on their credit card, but that doesn't mean that we are long term arrears credit card payers. So just be a bit careful when you look at that arrears number and put it through the appropriate filter.

Moving onto workplace auto-enrolment. There is no doubt that workplace last year was affected by auto-enrolment and I think I put a number in the opening remarks in the presentation yesterday as to the size of the auto-enrolment benefit that was enjoyed last year which was over £100 million, it was a three figure number from memory. This year the workplace products have actually continued to do pretty well on the whole if you take out that auto-enrolment piece. And James will give you some more precision on this, but overall the workplace products continue to make progress, but it is on a comparative basis affected by that auto-enrolment feature of last year. James would you like to add on workplace?

James Hillman
There is not a lot more to add to that. It is £120 million we disclosed in terms of the one-off benefit from the first half of 2019. I think what we have is our new business is measured by new members to existing schemes, new schemes and increases in contributions from individuals, which tend to be related to salary rises, all last year from the auto-enrolment. And of course we have seen a bit of a slowdown in that over the second quarter as recruitment has slowed down and as market activity slowed down in terms of switching schemes. But it has been pretty resilient, but £120 million was the number that was disclosed for the one-off last year.

William Chalmers
Jon did you want to comment on the Wealth question?

Jon Burgess
I didn't catch the Wealth question William so I am finding that challenging, apologies. James might have the answer if he caught it.

James Hillman
Can you repeat the Wealth question?

Guy Stebbings
I guess I was just trying to gauge how much came through from the transfer into Schroders and therefore what is the underlying dynamics coming through? I know you quoted the £50 million transfer from the revenue point of view, but in terms of underlying trends would you expect to see growth from here?

James Hillman
It is a growth business so we would certainly expect to see growth from here. I think in terms of the transfer of income and expenditure to the joint venture it is relatively small contribution to the overall PBT. So we would expect it to grow from here on in, and it is certainly the ambition.

Guy Stebbings
Is there any chance you are able to give the capital repayment holidays on the commercial book as well? I appreciate I don't think any of your peers have so if you do it would be great.

William Chalmers
I don't think we are giving out an exact number on the balances right now. We have given out obviously the number of accounts, not that there is anything particularly challenging about it. I just don't think we have actually disclosed it at this point.

Douglas Radcliffe
So I think that was the last question wasn't it? So in that case, bearing in mind that we have used the full 45 minutes, in fact gone a little bit over, I think it probably makes sense to conclude the call there William.

William Chalmers
Sure. Well just to say thanks to everybody for joining. I hope it has been a useful call and we will obviously look forward to staying in dialogue over the coming weeks and months. Thanks very much indeed for taking the time.

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