RBS

Personal & Business Banking Investor Seminar

24th September 2018

RBS

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Frans Woelders, UK PBB, Chief Digital Officer

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Introduction & UK Personal & Business Banking Overview

Les Matheson, UK PBB, Chief Executive Officer
Thank you, thank you very much for coming along to our centre here in Regent's House in Islington.

As we talk about the future and we talk about the digital world, it's sort of funny to think this place, once upon a time, was a cash handling centre for RBS and NatWest across the UK and now it's a digital centre for us. So we appreciate you all coming out this far north of London.

Today we have, me Les Matheson, I'm the CEO of Personal & Business Banking. We have Frans Woelders, who is in a new role; he's our Chief Digital Officer. Frans joins us actually from ABN Amro, he was there the Head of Retail, but his background in particular has been in technology and we've purposely brought him in to further accelerate our digital capability.

Then we have Lloyd Cochrane, he's the Product Director Home Buying & Ownership lead for us and he's going to talk about home buying and mortgages and the like. And then Claire Baird, who is the Finance Director for PBB, appointed in June 2018, so she's looking forward to your detailed technical questions as a relative newbie. But happily for us she joined, she's been with the bank for some time, actually 17 years, and actually joins us from Operations and Technology where she was Finance Director. So her knowledge and experience there has been really helpful for us.

So I'm going to start off and just give you an overview of the business, what's working, what's not working so well, where we're going. I'm then going to get Frans to talk in particular about our digital capabilities in the future. We will then have Lloyd talking about home buying, given the importance of that category. And then Claire is going to wrap up and talk a little bit about the financials.

So let me go straight in with an overview. So we're talking about Personal & Business Banking. We believe we are well positioned in a rapidly evolving digital market to continue to deliver long term sustainable growth. We'll talk about our financial contribution and we'll talk about how we've managed to consistently grow income and significantly reduce costs.

Now we're going to talk about our vision for customers and we are going to talk about in particular, digital proposition and how we're shaping those. And you're going to see that we have chosen to grow among certain segments and in certain areas where we think that we are well positioned and we'll talk a bit about the investments that we're going to be making there.

What you have seen us do is managing this transition from physical to digital. It's happening in very different parts of the world, not just in finance, but it's really an important and a significant driver for us. And you see that both in terms of the reduced investment that we're making in physical capability, as people are able to use things that are simpler and easier more and more often.

Just as a sort of grounding and a reminder, we're talking about Personal and Business. Personal is about 80% of the income and Business is about 20%. When we talk about Personal we're talking about mass and mass affluent, mass affluent for us are customers who have liquid assets of between £100,000 and typically £500,000. In terms of Business Banking it's businesses that have a turnover of between zero and £2m.

We're talking about three brands; we're talking about the Royal Bank, principally in Scotland, but also with W&G coming back to us in England and Wales. We're talking about the NatWest brand and then in Northern Ireland we're talking about Ulster Bank.

So where are we? Look, we think that we continue to drive the business from a position of strength. So we have been consistently growing our operating profit, you've seen, I think more than most in the industry a steady trajectory on cost reduction and you've also seen a strong and improving ROE.

I think our scale and depth of relationship with customers is particularly important, but at the same time and with an eye to the future we're continuing to focus on digital adoption and how we make sure that we stay ahead of the front of the curve.

But if you look at the right hand side in terms of growth our focus has been on growing mortgages over the last six years or so and you can see that we've been generally outgrowing the market. And interestingly we've been largely doing the same on the deposit side.

So looking at each of the priorities that Ross talks about: customer experience; simplifying the bank; supporting sustainable growth; strength and sustainability, and employee engagement; taking each of those in turn working from left to right.

First of all in terms of NPS or customer satisfaction, we've seen some improvement, but actually this is an area where we still have a lot more work to do we think. So this is the one area in particular and you'll have seen that with the CMA Report, with NatWest in around the middle of the rankings, that's and area where we still have work to do.

In terms of simplifying the bank and this is on an adjusted basis, you'll see our cost to income ratio has been coming down. I think at the half year for example we reduce our costs compared to the same time in the previous half year by 9%. That was industry leading. So you continue to see a focus from us on costs through this year and you should continue to see that focus.

In terms of growth you've seen loans and advances growing over the last four to five years. We expect we'll continue to grow about in line with the market as we look forward.

In terms of sustainability, obviously a growing return on equity. And then one of the areas we're particularly proud of actually is our engagement score, at plus 87, that puts us in the top quartile of global high performing companies. And our view is if we can have really satisfied colleagues in time that will also lead to really satisfied customers.

At the same time we've been actually we think very balanced, if anything erring on the slightly conservative side in terms of risk. And if we take the middle column for example in terms of unsecured, you're currently looking at us having about 8% of our balances in unsecured. And if you go back pre the financial crisis that was actually above 20. So in terms of the earnings volatility of the business it's significantly less volatile as a result of that. Actually you know I'm certainly very comfortable from a risk perspective with that.

If anything I'd like to see that edge up a little bit. And then in terms of mortgages, I think as Ross and Ewen have talked about you know our SVR proportion of the book is, compared to the market, relatively low. It varies somewhere between and 10 and 14%, depending upon month on month, and flows into the back book. But that we feel is about a natural point, we don't expect that to go up or down very much, but we do think that positions us well versus the rest of the marketplace.

So looking forward what are we trying to achieve as we become a more and more digitally focused bank? What we want to do is we want to be the most trusted financial platform. So we want to be the gateway that people will come to for all of their financial needs. Now I know many organisations like to do that and what we'll talk to you about is how we aim to achieve that.

But at a simple level it's by making things consistently simple and easy for customers. We want to make things effortless every day, but when there are particular issues, particular crises, we want to make sure that we're brilliant in those moments that are particularly important for customers.

With our platform we're looking at things from a customer perspective and we're aiming to help people in four areas. One, helping people with their everyday banking; two, helping people with short term borrowing, which is overdrafts, personal loans, credit cards; three, helping people manage things to do with home buying and that's focused on leading and mortgages, but in time we expect that to grow and to evolve; and the last one is helping me manage my small business or my start-up. So those are the areas of focus for us.

If you look at the bottom of this chart or the bottom half, first of all we do see, and all of us see every day in our lives, this continuing increased emphasis and focus on digital. And there needs to be a sort of parallel, if you like, reduction in the level of service that we have in terms of physical capability, because people just aren't going to our branches as much as they used to. So our transactions, the number of transactions are going down, the number of cheque usage is going down, and so our physical branches and the bits that focus on transactions are declining.

But we still see a real need for branches, because they are there for when people want to talk about detailed, difficult things where they need and advice and guidance, on a mortgage, on an insurance, on a credit card. But we have reduced significantly the number of branches that we have from close to 2,000 down to at the end of this year we will have about 850.

What we have said is we're going to pause there through next year and we will reassess in 2020 in terms of the actual footprint. But of course a branch isn't just a footprint, there's the size of the footprint, there's the number of people in the branch, there's the infrastructure that exists within a branch. And those are all things that we are thinking carefully about as we evolve our footprint.

At the same time, obviously on the other hand you have a growth in digital capability, you're going to hear more about that from Frans, but we now have more than six million of our customers using mobile. We have something like 8.3 million customers actually using either mobile or online, so it's a little over 70% of our total base. And as a result and as a result of that capability and the ease and simplicity what you are getting and what we're getting is more mobile payments, more logins, and more digital sales. So

27% more digital sales in the first half of 2018 compared to the first half of 2017. So a real speed in terms of this transition from physical to digital.

One of the things that's helping us and one of the things that is encouraging people to use our digital capability is that not only are we making it simple and easy but we're also innovating as we go in a number of different ways.

So we were the first bank actually to launch TouchID, and for any of you who call to login, or have to try and remember a number, I think many of you know how easy it is either just to use your fingerprint, or actually just to look at your phone. And more and more I think that's how people are going to access their banking.

We have been leading the way on artificial intelligence, working with IBM Watson; we were one of the first organisations to do that, that was actually at the beginning of last year. And the use of that is continuing to grow, not just in PBB, but other parts of the bank as well. And not only externally with customers, but also internally and how we manage our business; we're starting to use artificial intelligence to make things simpler, easier, more accurate and more consistent.

In Q3 of last year we launched the first paperless mortgage, Lloyd is going to talk to you a little bit more about that. But just to give you an idea of the speed with which these developments are taking place, now over 90% of our mortgages, either through the branch, or through telephony are done using a paperless process. So over 90% from zero about a year ago, so real fast take up and it's a process that customers really, really like.

The other thing that we're doing from an innovation perspective is we are working with different FinTechs; we're working with a number across the bank. As an example, one that we started to work with was one called FreeAgent. They have a software accounting package that we use for our small business customers. That has been working really well; we've been working with them for more than a year. And based on the - how enthusiastic our customers were about using that we actually ended up deciding to buy FreeAgent.

Although we're keeping FreeAgent as a separate organisation and allowing it to grow and develop as a FinTech, but working in particular with, and supporting our customers. It is actually a whole of market offering, not just to RBS and NatWest, so it's an interesting proposition and it's something I think you should expect to see more of.

And then the last area I thought I'd mention is building on new ecosystems. And if you take the home buying ecosystem we have a proposition called Home Agent, which looks not just at mortgages, but a number of aspects around the home buying process. And again we'll talk to you a little bit more about that, but that's something that's new actually, just in the second quarter of this year.

We do continue to invest in delivering long term sustainable growth. And that's true whether it's in customer propositions, whether it's in digital capabilities, whether it's in simplifying the process, or whether it's in making us stronger and more sustainable. We already talked to you about the investments and the investment envelope that we have so we're not proposing any changes to that. But it's just to say of the money that we are spending these are the sorts of things that we're investing in.

So it's things like propositions that are helpful for customers like paperless mortgages, it's things like enhancements to our mobile platform. You will see a continual change in terms of the physical footprint and what people actually do in a branch and how they use the branch. And we'll be continuing to invest just from a resilience perspective and everybody can see the reason for that after last Friday, or last week in general, across the industry, the importance of continuing to invest in the underlying technology and particularly in APIs and API connectivity.

The other thing that we're doing is we are adapting how we work. So we have organised ourselves into end to end customer journey groupings, so those around home buying, those around everyday banking and payments, areas around short term borrowing, and around business banking.

And we have a leader for each of those and we have a number of work streams in each of these areas, but basically they look at things and work from the customer back through the organisation and we have teams of people from technology, from marketing, from design, all working together in small agile teams. And that's a change that we began towards the end of Q3 last year and we've slowly been rolling that out across the organisation. And again this is something that we're doing not just in PBB, but actually across the broader organisation.

What it means is continuing to think about things from a customer perspective and figure out how to be more fast and agile in terms of the changes that we are making so that we can keep pace in this digitised world.

So look overall I think we are well positioned in this rapidly evolving digital market to be able to continue to sustain the growth that you've seen from us over the last four to five years. You know you've seen I think a strong financial performance, particular focus, continued focus on costs, good growing market positions in certain segments and a rebalancing of our digital and physical, which again you'll continue to see with us investing at the front end of digital and how we can be more innovative and use the technology that's becoming available to us.

And now to pick up a little bit more on all of that and digital capability, let me hand over to Frans. Frans, thank you.

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Investing in Digital Capabilities

Frans Woelders, UK PBB, Chief Digital Officer
Thank you Les and thank you all for being with us here this afternoon.

So Frans Woelders and I'm the Chief Digital Officer for PBB and I'm going to take you through a few things and one is to start with our digital strategy. Then how does this digital strategy payout. And in the third part of it I'm going to talk about what is next on our agenda.

So, first, on our digital strategy and we invest heavily in one aspect that I really want to call out here which is about data and data intelligence and our brain behind data. Because that intelligence is helping us for customers to adopt mobile banking, to increase the usage of mobile banking, but also to increase digital sales.

And next to investing in that data and data intelligence we also invested in our people, we invested in our frontline staff. We have trained 850 TechXperts, so colleagues that are really highly capable and helping out customers on let's say digital banking. And next to that we have trained, only this year already, 5,000 of our frontline staff in helping customers with digital banking.

And that leads us actually to - using this data and using this data intelligence to both deliver prompts to our customers, through the app, or through online, but also to our frontline staff with personalised customer messages and customer prompts. And we're able to deliver now five million of those prompts that are again personalised, a day, to our customers. Something that of course would never be possible with just your branch network. So these digital capabilities are opening up a whole new world.

There is - we also have online always on propositions for customers. So every time, every single time, they just press the button in the app, there is an offer that is tailor made for that customer already, real time. 35,000 of those message a month that are sales related, are leading to sales.

So that is investing in data, investing in technology, investing in our people and this is actually listening to customers. So listening to customers to focus our investments. So the key element that customers feedback into us is the simplicity of our app, which they like most, and then being followed by the functionality that it offers, or the additional functionality. So it’s not just adding more and more functionality to the app, it's also about how you do it, how easily accessible it is and how simple it is for customers to use.

And I mean many say that they have the best banking app, we actually have it, we won the British Bank Awards twice now in a row and that's customer voting. So that's just a fact.

We also engage customers in helping developing the app as well. So for new functionality or for developing - let's say throughout the development lifetime of enhancing functionality as well.

And it means transforming our assisted channels. And you can see on the left hand side of this picture that the number of branch visits is clearly reducing and that has enabled us also to consolidate our number of branches and Les already talked about that.

97% of current transactions are already taking place through digital channels. And of course the number of overall transactions is also massively increasing; so through any of the self-service channels. Still, 86% of our customers are within 15 minutes' drive of a branch and 99% of our customers are within 15 minutes' drive of a point of present.

Also related to the reduced number of branches, if we look at our customers leaving or retaining is 97% of the customers still bank with us also after closing a branch. It marks the shift into other ways of banking and it proves that point.

So on the right hand side, because it made us think, of course, about the added value of the channels that we have and especially the branch channels, that is not so much linked to transactions, it's moving away from transactions and it's moving into added value for customers, it's about their financial life and their financial health check, it's about educating the customers and again moving away from transaction based help.

Also, our customers are in direct contact with our staff through our secure messaging and we are able to answer over 400,000 of secure messages per month through our app.

We have, I was mentioning listening to our customers for the development of our app, we also listen to our customers in terms of using the telephony and the branch channel. We implemented closed loop feedback, that's feeding back - customers feedback into let's say changing behaviour and improved behaviour and improved service within the branch or in telephony. But it also allows us to look at what is really important for customers, where would we have pain points in processes and how to resolve them. And you see here the 45,000 of those - of feedback has been followed up by our staff.

And this is where it is leading us in terms of where does it bring us in mobile adoption. And in two years' time we were able to move from 4.2 million to over 6 million customers, 6.1 million customers now using the mobile app. And that's over 50% of our customer base. In just two years we moved from a mid table position to be the number one in the UK market in terms of adoption. And I mentioned to you how we did it on all of the previous slides and in the story I just told. And these are the facts and these are the concrete facts of what it has led to.

And on the right hand side, in terms of our sales and transactions, you see that this year, in the first half of this year it was the moment that we did more digital sales than we did through branch sales. And not because branch sales decreased that much, but you can see the numbers here. So it's a 9% decrease in branch sales, but a 38% increase in digital sales. So I think that's really a very remarkable moment in time that now digital sales has passed branch sales for the first time.

At the same time we see, and this was the number that Les referred to, we see 7% down in transactions done through branch and we see a 41% increase in transactions through our digital channels.

Mobile and online, but especially mobile is also helping us to engage customers with the brand. And we see more interactions, we see about - on average one login per day, per customer. But we also see and I think this is quite an important point is that customers that are mobile, engaged have 29% more products than customers that are not mobile engaged.

So just to be clear, so the one group is mobile engaged, but of course banking with us through all our means, so not just mobile. And the second group, non-mobile active. But we think of the value, the value of mobile for these customers. You see also the consequence of that in our brand NPS, so the overall NPS is 16 points higher for customers that use our mobile app.

That's all good, that's all great, but now about the time that customers spend and the convenience for customers and that's on the right hand side. And convenience and time spent for customers is highly related to time and money for RBS as you can see as well. So this is about a few facts around averages though, around paying someone through our branch channel, paying someone through telephony and paying through the mobile app. And clearly, I think that's not a surprise, that the mobile app is far quicker and easier to do for a customer than one of the other channels.

The interesting thing here is that on telephony the transaction time takes longer because of security, authentication, and legal aspects through the telephone. And you can see the related costs for RBS and being less than a penny a transaction for a mobile transaction.

We don't stop there, we don't stop there, we continue and look for ways of how to engage the customer, how to make it more convenient to bank with us, and combining that with cost efficiency for RBS. And you might know Cora, or if you don't know Cora she is our AI [audio jumping] relationship with IBM Watson and we were the first bank globally to engage with IBM Watson to develop Cora.

And she is now, just after introduction, it's roughly about six months after introduction, she handles around 600,000 questions of customers a month, and 90% of those questions through messages, through Cora, are handled like we want them to be handled. So sometimes it means Cora can completely answer the question, sometimes it means - and she has the intelligence to move the question to an agent.

We are looking to further expand the usage of Cora to also answer questions from customers about their transactions. And the next step would be to do simple transactions for customers and we're looking at a voice interface, because currently she understand natural language quite well, as you can see here on the right hand side, it's written natural language and the next thing is voice enablement of this interface. So again I think it shows to be massively successful because customers are using it and they have a very high customer satisfaction on the use of Cora.

Another way where we are - or another example, I think, of where we change the things we're doing or used to be doing is in terms of opening an account. So we've now started to provide for customers and account opening process that is really 100% paperless, that brings down the number of questions for customers to be answered from 120 now back to 16.

And I think, very important here, is we're not talking about a happy flow, you know this is also about customers that may not have the right documentation at hand, but still at the end of day - sorry at the end of the process they are able to receive their account number and sort code, irrespective if they have fully provided all the required documentation. We are able and we are able to provide them with an account number and sort code.

We're now also piloting with a FinTech, HooYu, to look at the in app identity verification as well to further improve this process.

So this is about strengthening relationships, it's about a new era, and it's about and Open Banking era where it is even more and more important to strengthen the relationship with the customer. And I think we are very well positioned on Open Banking, again because of the way we can use data and the data intelligence that we have behind it.

These are two examples we're currently developing, the left hand side would be an in app personal financial manager and the right hand side would be a chat based AI enabled financial assistant which we're currently developing. And again, just key to further engage with customers and to help them in their financial life, to help them with budgeting, to help them categorising their spends. And at the same time it would also offer us the opportunity for cross sales and for product offerings as well.

So actually the left hand side of this slide is about deepening that relationship and providing more input on their life with the bank. The right hand side is actually broadening the relationship, it is also helping and providing information and providing the options for instance to change utility provider and to interact with retailers. That's more of an assistant that is let's say AI based, it's triggering the customers for opportunities.

And this is actually my last slide about what's really next. So Les talks about what we're doing in terms of also changing the culture. So we're currently going through a transformation in really bringing technology and business together, changing the culture that is historically I think with every large institution, because especially with every bank silo based into a culture of agile working and really let's say bottom up ideas and bringing them to life. And that culture will also bring us, you know the right ideas, to experimenting and enable us to quickly point out is it something that you want to pursue, is it not something that you want to pursue.

We also have our scouts across the globe in the US and in Asia and in Israel to help us identify opportunities throughout the world, new technologies, FinTechs. There are a few here on the right hand side actually that we're already partnering with and we will determine every time, is it the right thing to do to partner? Would it be the right thing to do to acquire? Or would it be the right thing to do to develop ourselves?

We are currently building an open architecture API based platform that is absolutely key, again, also related to Open Banking as well. And it will allow us a faster development time and full integration. And I think key to that is also it will be future proof, so especially with putting the APIs in place it will allow us to put things in that we currently don't know, but that the future will bring us. I think that's the really exciting part of actually also joining RBS at this time, I think there is massive opportunity; there's massive opportunity of leveraging the capability that we have, but also building new capabilities.

On that note, Lloyd, I'll hand over to you.

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Home Buying & Ownership

Lloyd Cochrane, Product Director Home Buying & Ownership
Thank you Frans. Afternoon everybody, as you can see I'm Lloyd Cochrane; I'm the Product Director for the Home Buying & Ownership business. I'm going to take you through a few slides on an overview of the mortgage business and the portfolio and then as Frans and Les have said, concentrate more on what we're doing for new customers and existing customers, particularly providing them with digital services.

In terms of the business overview to start with. You can see there that we've grown to be a scale mortgage lender in the UK, reflecting now the scale of our overall retail franchise. We've grown our stock and we expect to continue to do so. We manage the business for value, so we look to compete on customer experience and customer services across that and not compete on price. So you will see us consistently competitive on price, but never top of the market from a price point of view.

We have done all of the growth through developing our product range, through investing in the capacity and capability in our business and importantly in building a really strong intermediary franchise. About three quarters of UK customers go to a broker, new customers, go to a broker for their mortgage and we have a very well established and strong intermediary franchise that's part of that growth story.

Throughout the growth period, and we will continue having a very stable risk appetite. Our strategy to balance our risk criteria so that we are limiting our exposure in particular risk concentrations. That's probably the point to move on to the portfolio overview.

So just a few points here on the mortgage book, more from a credit perspective. Top left as you're looking at it shows our book loan to value, the average there very much in line with our peer group. Underneath that average to my point earlier about our credit strategies, underneath that average we have risk appetite concentration limits for particular buckets of risk, so we will have a limit for lending we do to customers above 90% loan to value so we're controlling risk within those quite big metrics.

We brought out the buy to let market share that we have, which is below the market level, and we're continuing to be thoughtful in that market that landlords have a few challenges with changes in their income given what's happening to the tax and the regulatory regime. So we're continuing to be thoughtful in that space.

We have also brought out our geographic split. You'll see we have a very natural geographic split in the UK, not the London concentration that you will observe in a number of our competitors.

And then the bottom right from your perspective we have also brought out the interest only proportion of our book, again, we have got amongst the lowest concentrations of interest only lending amongst our peer group. So the growth you see and the franchise we have in the mortgage business is very much built on that stable foundation and one which we think is a good platform from which to innovate and to growth.

We have talked here about how we drive digital advocacy, how we drive advocacy for our customers using digital services largely. And Frans has covered this in some areas of our business. We will come to talk a bit about the paperless mortgage in a moment in terms of a customer offering. We were the first bank in the UK to offer a paperless mortgage for our customers. You can see the positive impact it's had on our applications the offer time to speed to which we give a customer a binding offer. You can also see how customers have responded to the paperless process. The net promotor scores between paper and paperless are absolutely fantastic.

It's led us, on the far right from your perspective of the chart to be number one for the net promotor score for the apply and set up journey. So in the UK, we've got the best apply and set up process for new customers.

In the middle of that chart, because it's really important not just to focus on new customers, in the middle of that chart it shows some of the evidence for the changes we continue to make to our existing customer offering. And as Les said earlier the secret to increasing the usage from our customers of our digital services is to make them as simple and easy to use as possible, providing good value to customers for the services we provide.

We have made significant improvements in the digital space for our existing customers being able to retain more of our mortgage customers. And we have seen the use amongst that group go up by getting on for 25% between half one of 2017 and half one of 2018. So using digital to drive customer advocacy, even from the customers' point of view reducing our cost and improving our position.

In terms of paperless I'm going to play a video for a minute or so now. This video is what you experience as a customer applying for one of our mortgages through the branch or through the telephone. So put yourselves in the shoes of a customer now, you've phoned up, or you've gone into a branch, you've booked and appointment, we send you this video out to explain to you have the paperless process works and what to expect next. It's much better that hear what we tell customers than me talking about it.

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Video Played

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Lloyd Cochrane, Product Director Home Buying & Ownership
As I said, far better than me explaining it. What we have done there is put the customer in control of the journey, giving them the ability to upload their documents when and where they like rather than relying on us being open either on the telephone or in a branch.

We've talked about the net promotor score and we've talked about the turnaround times. There's a great human story that brings it to life for me. We got a letter a month or two ago from a British solider based on Cyprus who has a property in the UK that was being re-mortgaged to us. They were able to go through that paperless process without needing to come back to the UK, without using the bags to post all of their documents, without spending €3,000 on the only mortgage broker in Cyprus who allows UK services to broker their mortgages back to the UK.

So that solider using our paperless process completed their - got the mortgage offer in around three days, something that they wouldn't have been able to do without that in place. So it's a great example of the power of putting a customer in control and a more human story, as well as all of the numbers.

It's not just about new business though, which is something we're very passionate about, but something that is sometimes missed around the place. We are determined to make the customer relationship an enduring and ongoing relationship, not just a mortgage transaction, which traditionally is what the industry has been about. There are a few examples on here of things we have done to help bring that to life for customers, to deepen a relationship with customers.

We have a welcome video, it's the third along of those tiles that's personalised to each individual customers. So let's pretend you're our solider on Cyprus, post completion you'll get a video, it's personalised to you, it will tell you the rate you're on, it will tell you through the graphics, you probably can't see, but on that coffee cup there it says tracker rate. So that will be your video, if you're bought a tracker rate it will tell you that on that video. It will tell you the term of your mortgage, it will tell you when the rate that you've acquired comes up for renewal.

So you have a lot of information that's personalised to you that lands with you in your inbox, highly relevant, a few days after you've completed your mortgage.

It also directs you to logon to our digital self-service offering. So we're helping customers to, at the point at which they're most engaged with our mortgage, logon to the site so they can see their balance, they can see how they can transact in the future digitally rather than needing to contact us directly. Again, putting them in control of the journey and providing them with the information to do so.

We are continuing to develop our pricing and different products that make it easy for customers to transact themselves and we'll talk a little bit about the ecosystem development on the following slides.

Before I do that though we've spoken, Frans and Les have both spoken about how we are looking to digitise our business. They both mentioned Open Banking, there is a huge opportunity. The mortgage business as it currently stands for existing customers and for new customers, is, despite our paperless process, is a very manual process. The data is not digital to any great extent.

Open Banking provides that opportunity to get income and expenditure details from customers digitally and using AI to automate how we interact with that. It allows us to use digital property data that's available pretty widely to again provide customers with better automated services; freeing up our people to have conversations with customers about the things that really matter, the product recommendation, the term that they can afford, whether they should spend a bit more money to reduce a 23 year mortgage to a 21 year mortgage. The stuff that really matters.

We have talked about connectivity and product flexibility, leveraging that data which we get digitally to build links out to the broker marketplace, as well as direct to consumers. So I've mentioned the brokers is a really strong relationship for us and a strong part of our business, linking up with brokers to enable them to interact with us digitally removes a huge amount of cost from our proposition and from theirs and continues to make us a partner of choice in that market.

And so that's the way in which we're thinking about extending the ecosystem that we've started to build for our Home Buying and Ownership customers.

And finally I wanted to provide you with an example of that in practice. Again, focused on our existing customers and focused on retaining as many of them as possible at a value that is appropriate for us. We manage both our new business and our existing customers business for value. So we won't look to retain every single customer that comes to us with a new mortgage and we'll retain customers where we see value in it and where they value the exchange with us.

What you've got in front of you is Home Agent; Les mentioned it in his opening. This is an offering to our existing customers which provides them with the start of a home buying and ownership ecosystem, provided with some services from Zoopla who provide things like uSwitch. So as a mortgage customer, an existing customer of ours opening this service you can use uSwitch to see how much you can save on your household bills as an example.

You can use our services to understand what additional borrowing we can give to you and you can also see the latest value of your property.

And the start of that ecosystem we launched in May of this year, it launched as a minimum viable proposition that's what he MVP stands for. Essentially version one of a platform that we will grow having learnt how customers are using the first version.

So we didn't spend two years, which is maybe what a bank traditionally would have done, building every feature for a great big grand launch. We decided that we would work with a team consisting of technology and non-technology people from across the business on a perfect slice of something we know is going to be much larger overtime. And we're learning from the services that we've put in front of customers already what they really value and they're telling us what they'd like to see next.

And so we started in January, thinking about what that first slice, what that first product would be and we launched it in May. The next iteration, so version two of Home Agent, is launching in around three or four weeks' time, based on more learnings from customers.

And so we've done that in an agile way, we've spent a small amount of money on a test launch, we've taken less risk and we've got it to market more quickly and we're learning from customers and playing back to them what they've told us is the most important thing.

So to sum up, we've got a very strong platform. A scale lender managing for value with a strong portfolio and a good set of risk appetite settings. We've got a really strong track record in providing great levels of service and experience for customers and I would stand here and say that to you, but we've got the net promoter scores here which are customers telling me and by extension you guys the same thing. And we're starting to build out on the mortgage ecosystem, the Home Buying and Ownership ecosystem that I've mentioned.

Paperless is the spine from which we can automate using Open Banking and property data to make the experience for customers better and quicker and make it cheaper and lower risk for us. And so from that positon of strength, we think we've got great opportunities to continue growing our stock, acquiring more new customers and retaining as many customers as makes valuable sense for us.

So as I say an overview of the business and much more time spent on what we're doing and what we are planning for the future. And I will pause there and hand over to Claire.

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Financial Performance

Claire Baird, UK PBB, Finance Director
Thanks Lloyd. Good afternoon everyone, as Les said earlier, I'm Claire Baird, I am the newbie, I think he was trying to manage your expectations accordingly, so let's see how we get on.

So it's the numbers bit, probably the bit you've all been waiting for. So if we start first by setting the economic context, you'll all be aware of this, but just to pull out a few of the key factors that impact our performance. As you'll know the economy has been growing overall, but very slowly, so GDP at around 2% or more.

Unemployment is also at historically low levels, it's at a 43 year low, I think in Q2 you have less than one in one hundred percent chance of being made unemployed. This low unemployment level is supporting low arrear and impairment on the lending side of our balance sheet as you'll see in a moment.

Interest rates are also low, they are expected to be lower for much longer. The Bank of England estimates the neutral rate of interest or the equilibrium rate has fallen by over 2% now to between 2 and 2.5%. So while that means that rates are lower for much longer from a current position of 75 basis points the good news for us is that there is still room to grow.

Those low interest rates support consumer demand for lending. They also impact the deposit market because we're seeing a greater proportion of balances now held in current account than savings products.

We have benefited from the recent base rate rises due to our large variable rate deposit base and our conservative hedging strategy, which we'll talk about again in a moment. Overall as you can see here and as Lloyd referred to the overall mortgage market stock has been fairly slow, again fairly small lending there year on year. But at the same time the Bank of England Term Funding Scheme has injected billions of pounds of cheap funding into this market, which is creating intense pricing competition. And that is something again that we're having to manage very carefully.

So if we look at what these combined factors mean for UK PBB, if we just have a look at our performance. So we believe that we have delivered consistently strong financial performance year on year. Income growth has been supported by above market growth on both the assets and liability side of our balance sheet as Les referred to previously.

We are seeing a small decline in NIM and there are two dynamics there, I guess one is mortgage margin pressure, which you're aware of; we're seeing that differential between front and back book mortgage pricing. The low interest rate environment has constrained opportunities to widen deposit margins, but we have benefited from the recent Bank of England base rate rises.

Our operating costs are lower as we transition from physical to digital distribution; while at the same time invest in simplifying our customer journeys. Our conduct and strategic costs are also lower.

As you will see here in 2015 and 2016 we benefited from significant impairment provision releases and recoveries and recent debt sales will reduce future recovery levels. But that said, underlying default levels in the book are stable.

Our risk weighted assets declined between '15 and '16 and this was driven largely by the favourable economic conditions and the impact that that had on our impairment modelling. The growth from '16 onwards is in line with our balance sheet growth.

So all of these combined factors have delivered a very healthy return on equity, which Les referred you to earlier.

If we go into it in a wee bit more detail, I'm sorry there are a lot of numbers on this one. As you can see on the balance sheet, lending increased by 15% between 2015 and half 1 '18 and at that same time our deposits increased by 13%. This has helped us maintain a very healthy loan deposit ratio, just around 90%.

Stripping out the one off impact of debt sales, particularly last year and we had quite a big one; you can see that our income has grown steadily during that period.

As we referred to earlier, digital adoption has driven down our physical branch presence, it's driven down our headcount and hence our costs. And that has resulted in a significantly improving cost income ratio and return on equity year on year.

If we go into costs in a little bit more detail and I'm repeating some of the data that you were given earlier, but we'll just go through it again. We continue to improve our operating efficiency and resolve legacy issues while investing in our future.

Conduct costs came down significantly between 2015 and 2017 as we worked through some legacy issues such a PPI, packaged accounts, and investments advice. We have less than a year to run now on our most material conduct issue, PPI. So hopefully soon we will be able to put that one behind us too.

We have incurred strategic and restructuring costs as we've executed our branch closure programme, reduced headcount, rationalised our head office property estate and simplified our technology estate. We do expect to incur future strategic costs in the medium term to keep delivering those costs take out benefits and further simplify and improve our customers' journeys.

You will see in the top right hand, I'm sure some of you have done the maths already, that that reduction in the number of branches is not exactly correlated with the reduction in staff costs; it's 25% versus 21%. And the main reason for that is when we close our branches we also reinvest some of those savings in things to support our customers, like the TechXperts, that we talked about earlier and also things like community bankers. So we are putting some of those savings right back into our customers again.

So I'll move on now and have a look at some of our individual products. So this - first starting with short term borrowing, our personal unsecured lending. As Les said earlier, our proportion of the book that's in unsecured is relatively low compared to some of our peers at about 8%. That was from a position of over 20% ten years ago, but when we look at some of our big peer banks who are sitting around 13% to 15% that positions us quite favourably if there were an economic downturn to come.

We have made targeted growth in personal loans, supported by digital initiatives and advanced analytics, including our always on capability on our mobile app. And what that does is it just lets customers know how much they're likely to borrow from us and at what rate. And that alone has resulted in a significant increase in sales year on year.

We're also helping customers in overdraft by implementing some simple things to support them inadvertently getting into an overdraw position. We've implemented act now alerts and we're also checking all contactless transactions to make sure customers have available funds before we're processing them. So this has resulted in a small decrease in that fee income line year on year but we believe that is the right thing to do and it's sustainable for our customers.

When we look at the overall performance of the book, the default rates have remained very stable throughout. And some of these are really factors like who we sell to, we only sell personal loans to our existing customer base, so that helps us manage that overall risk profile on the book.

If we go onto mortgages, or Home Buying and Ownership, I'll talk in old money terms, as Lloyd said earlier in mortgages our focus is very much on returns rather than growing market share. We make very considered decisions around the target segments and the product sets.

You will have also seen if you were to go back to Lloyd's slides that this is as relatively young book; it's grown quite substantially between 2015 and 2017. And what we're seeing is that as deals roll off we still continue to observe around an 80 basis points differential between that front book and back book margin, which we're constantly trying to manage.

That said, we do believe we're favourably positioned relative to some of our peers, given we do have a relatively small back book, so our SVR at around 13%, some of our peers have in absolute terms back books of up to four times the size of ours. Low exposure to buy to let and interest only mortgages, plus we benefit from a strong stable deposit base that funds this business.

So I think our continued focus on improving customer journey, simplifying and automating, together with targeted pricing strategy, these all deliver a strong return on equity and we do expect that to continue, even taking account of the expected increase in regulatory uplift in RWAs, as we move from a point in time to through the cycle methodology.

You should also note that we're already taking account of some of the uplift through our Pillar 2 uplift, so it's - we've got the credit risk - I think we said it was about 8% and then we all saw uplift through Pillar 2, so we're already moving through that methodology.

If I just take you into the mortgage book and again I think Lloyd covered a lot of this off, so probably no need to go through it in much more detail, but I guess what this chart is trying to show you is that we've grown our mortgage book ahead of the market between 2015 and half one 2018 at about 19% versus 7%, without increasing our risk concentrations. And again you can see that through things like our exposure to London and the Southeast and our low share of interest only and buy to let products.

So moving on, deposits, as I said we do have a very healthy loan deposit ratio and our deposit base does provide us with a source of stable, relatively low cost funding, which you can see here. The low interest rate environment has seen an increase in customers holding more balances in current accounts rather than saving accounts, so you can see that that mix has changed slightly over the past few years.

When we look into our current accounts, our fee paying current account, so Reward and Package customers continue to hold higher balances with us than non-fee paying customers and we also have higher cross sales from those customers. So again it's another example of this is not just looking at interest rates alone, it's the overall proposition that we can offer them on these products that attracts and retains them.

We recently launched Reward for the customers who are part of the former Williams & Glyn business too, so we have now levelled our product set for all those customers.

Our recent current account Switcher campaign, yielded a high quality of new to bank customers with good cross sales and resulted in NatWest being a net switcher in from other banks at the half year.

When we look at the returns that we make on our deposit balances I know we have told you previously that about 65 billion roughly of our current accounts across Personal & Business Banking are non-interest bearing and we hedge them on a rolling five year average basis, the rest of the book earns a variable rate of return.

Following the recent Bank of England rate rise we increased customer rates by on average 10 [BP], but with more on select products and we also widened our deposit spreads accordingly. About 96% of our customers benefited from a rate hike accordingly and the other 4% were already earning 75 basis points or more from us.

Les talked to you a little bit earlier about Business Banking, so just to reiterate this supports about 860,000 customers. 87% of those customers are managed through our One Connect channel and 13% are relationship managed. The important thing to call out though is that all of those customers benefit from our digital offering, so digital account opening and digital lending.

Business Banking has achieved strong lending growth ahead of the market; it also has a very nice strong inexpensive deposit base as referenced earlier. It's delivered good income growth year on year with disciplined pricing and profitability management.

We talked to you earlier about the acquisition of FreeAgent and why I think that's an important one to look at is that it's a proof point of how by when we make additional products and services to our customers it increases their overall level of engagement with us. So when we look at the net promoter score of customers who have Free Agent, it's on average 20 points higher than those who don't. So again this is a proof point of how these investments continue to benefit our customers and ourselves.

So what does this all mean for the medium term outlook? I will give you the usual legal caveats around the arrows and don't measure them too closely, this is purely indicative. So if we look at income we've - and some of this is just a continuation of the current trends. So income we have had steady stable growth year on year and we do expect that to continue.

We expect also to see this continued dynamic between mortgages on the one hand and that very intense pricing pressure and how that resolves itself and the benefit of our strong deposit base, particularly if we get another one or two interest rate rises under our belts.

When we look at costs, again we have a strong track record here of cost take out, as we continue to invest in our customer journeys and move from physical to digital, we expect that trend to continue. And we have said previously that we are coming to the end of our conduct issues, or the big known conduct issues, so again that should benefit the cost line.

We continue to expect to have strong balance sheet growth on loans and deposits and we would aim for that to be ahead of the market as it has been to date.

A couple of points to note I guess, we spoke earlier about the RWA uplift on mortgages in 2020, we have signalled that to you previously. So when we roll that through we expect, all things being equal, that will mathematically result in a reduction on return on equity. The one thing I would point out though is that we will still make sure that all of our business hurdles at our cost of capital as it does now.

So in summary PBB has and will continue to deliver strong returns supported by robust pricing and productivity disciplines. We continue to target above market lending growth, supported by our strong funding position. Our deposit base provides us with a competitive advantage from a funding and liquidity perspective and we are well placed to benefit from any future base rate rises.

Our transition from physical to digital has supported a strong track record of cost take out and is already delivering simpler, easier customer journeys. Our balanced risk appetite, or disciplined risk management supports stable default rates and low impairments, all of which make PBB a strong investment case.

Thanks for your time, I'll hand you back to Les now.

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Les Matheson, UK PBB, Chief Executive Officer
Thank you very much, thank you Claire. Right, with that we are ready for questions. Now we're also taking questions online, is that right - so when they arrive. So yeah, let's go. Go ahead.

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Questions and Answers

Unidentified Analyst
If I can maybe start with two. Just the first one on the growth rates, obviously in the past you've grown faster than the market and you've now sort of talked about growing in line with the market, can you talk a little bit about why that is the case given you still have a deposit surplus within the business? And perhaps there is a point about trapped liquidity, whether or not you want to deploy that more aggressively? And I've got a second one as well.

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Les Matheson, UK PBB, Chief Executive Officer
Alright, sure we'll start with that one. I think, you know, what you should expect to see is us growing, you know, about in line or maybe a little bit ahead of the marketplace. I think we - you know we will be careful just from a risk perspective and also from a pricing perspective. But you know I think we'll continue to grow a little ahead, but you know we are seeing, market and market growth coming down a little over the last year or two and so just in an absolutely sense you should see us not growing as strongly as we were doing say three of our years ago when the market was growing faster.

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Unidentified Analyst
Can I ask you what you think the market will grow perhaps next year, what your operating assumption is for the growth in the market in mortgages?

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Les Matheson, UK PBB, Chief Executive Officer
In mortgages?

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Claire Baird, UK PBB, Finance Director
I think we're still expecting that overall, sort of fairly sluggish overall market position to continue. We have seen quite a lot of activity on the re-mor I think that's fair to say, Lloyd.

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Lloyd Cochrane, Product Director Home Buying & Ownership
Yeah, I think the re-mortgage market is up about - in turnover terms about 16% this year. I think the UK Finance are calling next year a low single digit asset growth.

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Unidentified Analyst
I think in your comments Les I think you also mentioned you'd probably like to grow unsecured from where you are. I mean obviously you've taken quite a public stance against certain products within the unsecured market, but I was wondering if you could talk to us about what products you are comfortable with and where can we expect more growth?

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Les Matheson, UK PBB, Chief Executive Officer
So look I think we are certainly comfortable with our Personal lending and you know with our overdrafts. You've seen Personal lending in particular grow quite strongly. There are certain credit card products that we do have. I think we've been working hard at trying to find a way at developing a zero percent balance transfer type product which can actually help customers to pay down their debt, rather than them actually take on more debt. So we're looking at a product like that. We have actually developed it and we'll just see when the right time is to come back into that segment in a way that we think can be differentiating. So that is a segment that we're actively looking at.

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Alastair Ryan, Bank of America / Merrill Lynch
Thank you. So two things, one on the sort of Open Banking hype cycle, you know where are we in that? So Open Banking was going to remake the entire system back in January and nobody has talked about it since May, but presumably it's actually going to be a big thing and you talked about it more as an opportunity for the way that you work, but there's a lot of FinTechs out there would like to eat your business?

And the same thing, just to follow up on the mortgage market, given that you're smaller in stock if re-mortgages is growing faster than the market, wouldn't you be growing a bit faster than you'd have thought before relative to the market, or is it your appetite has stepped back because the pricing is not there is what I'm trying to get at?

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Les Matheson, UK PBB, Chief Executive Officer
I think on mortgages you're right. I mean I think we just need to be really careful in terms of the pricing, particularly on re-mortgages. But you know we'll look at, as Claire said, moving - growing a little ahead, but perhaps not twice the market rate that we had been growing at.

To your first point on Open Banking, look I think you know the market and the media may have got ahead of themselves a little bit. What you've got to do first of all is get the sort of infrastructure in place. And I think that is what the industry has been doing this year. It's available, but I think you know it's likely to take some time. Some time means a number of years before everybody has the infrastructure and the capability to be able to connect with and make a difference for customers.

So it's something that we need to be very thoughtful about, we need to be ready for it, but I think the opportunity is ours. We - you know we have a lot of customer data, if we can bolster that with additional data from other areas that opportunity for us to be able to do more for our customers I think is really there.

I mean what I expect is that we'll three stages if you like; one is a capability to aggregate your various accounts, which is slowly coming. But that will be slow because right now it's only current accounts, that will change to all payment accounts next year. But right now there is no requirement for example for mortgages or insurance products, or other lending products to be a part of that. So there is a number of years before you have a sort of whole of market view of a customer's financial relationship. That's the first step. At that stage it's interesting but not that useful.

The next stage is to be able to take that data and actually make suggestions to customers, so use that and your existing data to be able to say to people, actually you know you live on this particular street, relative to ten other people who also live on that street you might like to think about doing, x, y, or z, that's the sort of second stage.

And the third stage is for us to be able to say; actually we can do that for you.

Now the infrastructure needed to be able to do each of those steps is still being built and it's a multiyear programme. So you'll continue to hear about Open Banking, but I expect it's a number of years before it actually starts to have a real impact across the business.

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Andrew Coombs, Citigroup
Good afternoon. If I could just have one questions and perhaps a couple of follow ups depending on your answer.

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Les Matheson, UK PBB, Chief Executive Officer
If I get it right.

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Andrew Coombs, Citigroup

Slide 46, the flat revenue guidance that you've given for the medium term, previously you were talking about the NIM stabilising in the second half of the year, you've been talking about growth at, or slightly above the market rate. So I'm just trying to work out what the - just to square the circle, is it a case of this is a downgrade on your previous NIM guidance? Is it a case that fees will be lower because of the run off of the previous credit card book? I'm just trying to get a feel for the moving parts.

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Claire Baird, UK PBB, Finance Director
Yeah, so I think as I said the arrows, we didn't measure the exact degrees on it, so I think in terms of income you know we do expect it to be broadly in line with consensus; you know it was sort of small growth, low growth, not flat, I would hope to be better than that. So that's one thing.

I mean I think in terms of NIM we're not giving any new guidance on NIM today, what we're just telling you is that there are a few dynamics at play here, some of which we can control, some of which we can't control. We're really well positioned if we get one or two more base rate hikes; we get a natural uplift on that.

And then on the mortgage piece it very much depends what happens with the market over the medium term. I mean we have seen some pricing action from our competitors, that I think Lloyd would describe as illogical over the past six months, where we have seen swap costs go up and pricing comes down. How long is that sustainable for, especially when we know that you know so many of them have taken cheap funding from Term Funding Scheme, pumped it into mortgage lending and will have to repay that over the next couple of years?

So I think there is still room to go on this whole mortgage pricing dynamic before we see where and how that flows through into our NIM. But we're managing it all very carefully.

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Andrew Coombs, Citigroup
I guess my couple of follow ups then, just on the interest margin, firstly on the mortgage side it's quite notable that at the lower LTV end you haven't been necessarily aggressive on price and yet you've taken a good share through some of the initiatives like the paperless mortgage and so forth. At the higher LTV end I think over the summer you did cut your rates to give a 90, 95% LTV bucket, so is that a change in mindset for you there?

And then my second question on the liability side, the deposit beta - I'm just trying to follow your previous comments, but I know it was 60 to 70% last year you previously guided, it sounds like it's a bit lower this time around, is that fair?

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Lloyd Cochrane, Product Director Home Buying & Ownership
Should I take the mortgage product question?

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Claire Baird, UK PBB, Finance Director
Yeah, go on spread it.

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Lloyd Cochrane, Product Director Home Buying & Ownership
I mean Les mentioned it just now, the greatest competition, the least return; the least value from our perspective is two year low loan to value fixed rates. So we will continue to be competitive, but thoughtful in that space. There is still more value within our risk appetites at higher loan to values and within the two year space, 60% there's value in five year offerings versus two year offerings. So you've seen us tilt out book.

So in sort of order of preference five year low LTV, two year low LTV, higher LTV within appetites and that sort of continual assessment is what a number of us do quite a lot of the time.

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Claire Baird, UK PBB, Finance Director
Yeah and I think that five versus two, I mean things - so some of the economics off it, the broker proc fee is the same whether it's a five or a two year products, so your return is naturally higher then, so that makes it a more attractive product for us, plus it helps support retention overall.

Your section question was on deposit pass through. So I think what we saw on this base rate rise is we said on average we passed on about 10 basis points of the 25. We did go higher than that on some of our key products, where we passed on up to 50% - 50 basis points, pardon me. So yeah we saw that that was pretty much in line with what our competitors did, some of them did a little bit more, some of them did less.

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Andrew Coombs, Citigroup
Very good, thank you.

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Robert Sage, Macquarie
Thank you. I just wanted to ask briefly on Williams & Glyn, because I presume just the numbers, the effect of that is actually going to - sort of included within your guidance, etc, but just sort of two quick questions on it. Firstly of all presumably, or could you comment on how it's sort of progressing, whether you're sort of seeing any changes to the quantification and the possible impact here?

And secondly in terms of trying to sort of phase the impact in terms of lost revenue, should we look at it as being largely coming through in 2020, or will there be a significant impact in 2019 as well?

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Les Matheson, UK PBB, Chief Executive Officer
So as hopefully you know the programme of making offers to customers to encourage them to leave, which is a strange thing for a bank to be doing, but there we are, starts

in February of next year. You know I think we are going to be absolutely doing to the letter of the requirement - what we've been asked to do; the question obviously is the extent to which our customers take up that offer. Honestly your guess is as good as mine in terms of how that's likely to go.

I think, you know, remember that about half the business is in Business and Commercial and about half in Retail. Obviously the bits where we're encouraging customers to go are on the Business and Commercial side. And you know it may be that the whole thing ends up taking two to three years process, that's the sort of timeline that we're allowing. But in terms of the speed of take up, we're really not going to know until the programme begins. What I can say is there are a number of our competitors out there who are applying and who will be making offers to our customers.

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Alvaro Serrano, Morgan Stanley
In one of the slides in particular in transaction you show the different cost between sort of offline and online. Can you give us a sense of what the different revenue profiles are broadly? I guess you haven't disclosed the exact figures but just to get a sense of the revenue. Obviously they're more engaged and there's more cross selling but the overall revenue.

And also Alastair talked about open banking but in payments which is a lot more advanced in terms of the new competition there, how has pricing evolved? And as you put these different tools in place are you also lowering pricing there? Just a sort of general overall picture. Thank you.

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Les Matheson, UK PBB, Chief Executive Officer
So to your first question I mean what we and try and do is manage our pricing and cost to get a similar return, irrespective of which channel we happen to be in. Now that's you know an evolving process and it's not always an exact science, but by and large that's what we're aiming to do. So in other words if there is a cost benefit in terms of the direct channel then we'll aim to pass a proportion of that onto the customer, but we'll still be aiming to make the same sort of return as we're making as if you had taken the product through a physical channel if you like.

Your second question? I've forgotten.

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Claire Baird, UK PBB, Finance Director
I guess just on the first - so you know I mean customers can use any channel available to them right now. So it's really to them to decide. What we do is try to prompt and make it easier for them to make those decisions. So that becomes the natural choice to go to the digital route rather than the physical route.

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Alvaro Serrano, Morgan Stanley
Maybe asked in a different way. If we think about the Revolut's of this world where they have the app and in particular the pricing, have you changed pricing in FX for example?

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Les Matheson, UK PBB, Chief Executive Officer
So that was your second question yeah. So the answer is that we haven't in the mainstream but we have tested a number of things that we might do. So one thing you may have seen if you're a customer is that over the summer we actually had free FX on some of our products, on our debit card for example or to some segments of customers on our credit card, so we're just testing what impact that might have over a period of time when people are particularly interested obviously in FX.

We also on some of our products, so on our reward product and one other, we actually have taken away some of the FX charges. So those segments of customers that we have that are more valuable, we have given them additional back by removing that. But if I look at our fee income from FX products, and we get that in a range of different ways right, so you get it on your debit card and on your credit card in terms of payments, in terms of charges, but also if you transfer $20,000 to the US or whatever there's obviously a fee and charge on that. If I look at all of the FX charges that we have and I look back over the last five years, our income hasn't really changed.

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John Cronin, Goodbody
I have a couple of questions. The first one is on how would you differentiate what you're doing in a digital context strategically? What I hear a lot about is cost efficiencies and perhaps there is no great strategic advantage here vis-à-vis what other players in the market are pursuing, but I'm keen to understand your thoughts on that? And would I be correct also in interpreting that any ultimate revenue efficiencies that you - or revenue win that you expect to accrue from this investment is very much long dated in line with your comments around the expected evolution of Open Banking?

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Les Matheson, UK PBB, Chief Executive Officer
I mean in that regard you're right, the whole market is trying to do the same sort of thing. So one of the challenges for us is just to keep pace or be slightly on the front end of the changes that are taking place. But you know in terms of the investments that we're making, the thing that we found that tends to be most important actually is finding out how to use digital to make things really simple and easy for customers. If you can do that that will have a disproportionally positive impact for you.

So I'll give you a real example. If you take our personal loans, because we have - we only give personal loans to our existing current account customers. But we make it so easy and simple for them that when our existing customers want a personal loan 85% of them take it from us. So by making the process easy, by making it good value for them we find that we get a very good take up as a result. That's the area that's most important for us to focus on. How do you make it so simple and easy and helpful for customers that they always come to you first?

. . . .

Claire Baird, UK PBB, Finance Director

And John that was the piece I talked about always on. So that piece you log in, it comes up straight away, hey John did you know you could borrow 20 grand at X%. So it's that piece alone, we don't have to do anything on our pricing, it's basically just helping customers understand that it's there and it's available for them.

. . . .

John Cronin, Goodbody
And a couple of other ones if I may. One is on the point that Ewen mentioned at the half year results stage around a sense he got with respect to the ultimate Basel III final reforms package and the timing of that. If there is any update you can give us on that or any sense you're getting from the discussions you've been having that would be helpful?

And then finally just on buy-to-let. I note your comments around it being a plus point I guess that your exposure there is relatively minimal. What, if any, are your short or medium term plans with respect to gearing up in the professional buy-to-let market?

. . . .

Les Matheson, UK PBB, Chief Executive Officer
Yeah I mean I wouldn't describe them as minimal but I would say that they are not as large as some others in the rest of the market. But it is an area that we're continuing to develop.

. . . .

Lloyd Cochrane, Product Director, Home Buying & Ownership
Yeah so there is growth we think in the more affluent end of the buy-to-let market, so customers with incomes above 75,000. We go up to ten properties portfolio wise. Our judgement is there is more cost and complexity as well as pure risk above ten and that's for specialist lenders, not for us. But within our sweet spot there are some propositions, particularly for the wealthier end, that we're looking at extending.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
And Basel III, any idea?

. . . .

Claire Baird, UK PBB, Finance Director
I don't believe there's any change.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
No change.

. . . .

David Lock, Deutsche Bank

I've got two please. First one on retention. I think you mentioned in the past that your retention was running about 65% to 70% which is a bit below Lloyds. I just wonder if you could perhaps explain why that might be and if there's anything you're trying to do to improve that side of the process?

. . . .

Les Matheson, UK PBB, Chief Executive Officer
I mean we're broadly running at around that level still, so we're sort of maintaining that. I think we are trying to be very careful about making sure that when we retain we retain people on the same level of profitability as when we first generated them. So I think we are maybe a little bit careful about how we do that.

But we are looking at what are other ways in which we can improve that number without giving away value. And they'll be the kinds of things that I was talking about earlier. So how do we make some of those processes simpler and easier? How do we add value to customers in maybe other ways other than just reducing the price? So I think there is an opportunity for us there but we will continue to be careful about how we manage that for value to the franchise.

. . . .

David Lock, Deutsche Bank
I had a second one which is on your multi-brand strategy or particularly the brand strategy in general. I mean Lloyds talk a lot about this and they price differently for each of their products whereas as far as I can tell pretty much the functionality in the products are the same across the two brands. Obviously there's a geographic split. But all the NPS scores are NatWest and if we look at the RBS ones they are negative minus 21 I think is the latest one. So I just wonder what is the future of the RBS retail brand and what is the strategy that you actually have for that brand, because it strikes me that that is perhaps what's holding back part of this business?

. . . .

Les Matheson, UK PBB, Chief Executive Officer
Well that's a great observation. Look I would say first of all our strategy was to try and focus our brands by geography, to have NatWest in England and Wales, the Royal Bank in Scotland and Ulster Bank in Northern Ireland. To have a very simple infrastructure and operating system that sat behind that that was relatively consistent, and a relatively consistent offering which obviously helps us from a cost perspective. Now that was at a time when we didn't think that we were going to be keeping the Royal Bank in England and Wales.

So we now have to think a little bit harder about how we manage the Royal Bank to your point in England and Wales. Now actually you know to some extent that's a sort of an additional opportunity for us if you like. You're right, we generally talk about NatWest in terms of NPS and so forth, that's because it is 80% of our business. And because we think that actually the NPS of NatWest more accurately represent what customers think about the product and service.

Because as you point out the service for the product on the Royal Bank is almost identical, the fact that the NPS is substantially lower indicates something else which is an overhang from all of the media damage frankly that has happened to RBS through the financial crisis.

So I think we've still got some work to do to think about in England and Wales having a dual brand strategy, and I do think we are thinking through what the best approach for that is but I do think it gives us an additional opportunity in England and Wales across the product set that we have.

. . . .

David Lock, Deutsche Bank
Sorry if I may follow up, would you be able to give any kind of sense of how much it costs to run the separate brands? Because I notice you've moved a lot of the sponsorship onto NatWest now but walking to this event I went past two RBS branches in London. They could have been NatWest branches. And is that one of the options that you're thinking about?

. . . .

Les Matheson, UK PBB, Chief Executive Officer
I think the easy answer to that question is no, and there are sort of two reasons for it. One, as you saw with us with Williams & Glyn, we tried for a number of years to be able to just take all of those customers and move them out of the bank. So to take the Royal Bank customers and move them to be NatWest customers from an operational perspective is probably too hard.

But the second reason is they've been with us for many years, and particularly over the last seven years if you think of what we've done to these poor customers as we've told them that they're going to one company or another bank and now we're going to be making offers to them and other banks are, and yet they're still there right. And they think of themselves as Royal Bank customers so there is a really valuable franchise that we have. And what we're looking at, and actually what I was looking at over the weekend, is a proposal around what you are talking about which is how do we take that Royal Bank strategy from Scotland and make it more relevant in England and Wales. And I was talking to Ross yesterday actually about the branches that you've been walking past and what we should be doing with those.

So we have some plans and actually some investment money that we've already put aside as part of the whole Williams & Glyn investment that we'll be using to rejuvenate those.

. . . .

Guy Stebbings, Exane BNP Paribas
Question just following up from something you said before Claire on the mortgage book and moving from point in time to through the cycle models. I think you said Pillar 2A, might see an offset of the back of that, you were carrying sort of within Pillar 2A. Just to clarify is that within Pillar 2A right now you've got something?

. . . .

Claire Baird, UK PBB, Finance Director

Yeah that's right, sorry if I didn't explain myself clearly earlier. Yes obviously we have our credit risk, RWA at about 7%, 8%. We also do take an uplift through Pillar 2A that reflects that difference between point in time and through the cycle. We still think there probably will be a net uplift to come which is why we've showed you that trajectory through on the ROI but we're already baking some of that in. So I think when you're looking at us versus some of our competitor mortgage books who are already on through the cycle you're not looking at 8 versus 15, you're looking at somewhere much closer.

. . . .

Guy Stebbings, Exane BNP Paribas
And just linked to that in terms of medium term outlook and the ROE guidance with the arrow going down slightly which is presumably all to do with capital employed for the business because operating profit is being guided up, what are you capturing within that given you've said you've got a bit of an offset there? Presumably you are capturing all of Basel IV as well within that?

. . . .

Claire Baird, UK PBB, Finance Director
Yes we are and we've also a little bit of an EBA uplift in the outer years coming on unsecured as well that we're factoring through there.

. . . .

James Invine, Societe Generale
Can you say a little bit about your performance in current accounts please? Because if I look at the switching data you seem to be consistently losing accounts. And from what I can make out it seems to be not so much that you're losing more than your competitors, it's just that your new business flow seem to be lower. So again does it come back to a branding issue that David was talking about or is there some other problem? Thanks.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
No it's I think much simpler than that, and it is more to do with new accounts. So really it's been over the last few years it's just been a question of focus. I mean we haven't focused a lot on growing current accounts. We've allowed a sort of natural flow. But what we find is that a large proportion of new accounts tend to come through some sort of promotional programme. So either pay £100 or open the account and you get £100 back and £100 for your friend. And we've tended to try and stay away from that.

Now actually over the first half of this year we have started testing that, recognising that we haven't been taking our natural share, and we've tested I don't know three or four different kind of promotional programmes. And in two cases it actually got us, for a two month period that we were running the promotion, to our natural share of 15% or 16%.

So we've been testing what we might do. I think you'll probably see us doing that a little bit more because, to your implied question, in the end current accounts and the payment accounts are really important for us. I mean we're fortunate in that we have a relatively large market share, depending upon where you are we have a 16% share or so. We have been also trying to be a bit more targeted by segment but we've been just working through what the most sensible way for us is to start growing that again.

. . . .

Claire Kane, Credit Suisse
I have a follow up on the retention question and then a question on some of your income and margin disclosure. So firstly on the retention, how much of that is done self-service versus through brokers booking that business with you?

. . . .

Lloyd Cochrane, Product Director, Home Buying & Ownership
We take between 10% and 15% through brokers, so the remaining what 85% of customers coming to us either online or through the branches or the phones.

. . . .

Claire Kane, Credit Suisse
Great. And on the mortgage income disclosure that you give and you specify a product margin, can you tell us what funding costs you're allocating against the mortgage gross income that you get?

. . . .

Claire Baird, UK PBB, Finance Director
Yeah sure because I was actually looking at the difference between my margin and your margin in your paper this morning Claire, so trying to figure out why are we different. So I think the key thing that's the difference between the two is the interest rate risk management, so the hedge basically. So that two year or five year swap cost, I think that's the primary thing on top of the analysis that you had done that probably is our difference in how we look at it.

. . . .

Claire Kane, Credit Suisse
So do you use the same market reference rate, those swap rates against your deposit income to show that that's going up?

. . . .

Claire Baird, UK PBB, Finance Director
No I mean because when we look at mortgages and we're pricing against products that we launch for a particular period of time, so it's very much the swap rates that are available at that time that we lock in at. So I mean it's quite a precise hedging mechanism that we follow on that side, whereas when we look at the deposit side of the book we say that's a five year rolling average hedge. The current accounts, there is a core element of that that really doesn't move much year on year so that rolls quite slowly. So they are - we look at them together but they are hedged separately.

. . . .

Ian Gordon, Investec
We read over the weekend that the UK is a nation of fraudsters. Can I have two questions not on PPI?

Laughter

Firstly can you talk about the current level of expensed operational losses you're seeing driven by your customer frauds and your expectations of how that may evolve?

And then secondly, given recent regulatory comments which suggest that fraud imposed on your customers by others, the burden of responsibility may ever so subtly shift from the customer to the bank. How do you think about your level of exposure there?

. . . .

Les Matheson, UK PBB, Chief Executive Officer
So as to the first one actually one of the highlights for us over the last couple of years or so has been our ability to control and manage fraud and bring down the cost of fraud. So our cost of fraud between today compared to two years ago is about half. So we've really been able to bring down the cost of fraud and we've done that through basically introducing a whole series of different technical capabilities and utilising capabilities that you're probably familiar with like threat metrics and so forth.

So we just upgraded to a lot of the latest systems and really been able to significantly bring from I think a number that was probably above market in terms of the cost that we were paying, to a number that's more in line with or slightly below the average in the marketplace. So that's just in terms of our fraud costs, operation fraud costs.

As to your second question yeah look there's been a lot of discussion about that in the media. You know it's an interesting challenge for us, so there are some who are suggesting that if a customer pays money away by mistake and if they have been fooled into doing that that somehow we should be responsible. Now if you really want us to be responsible then we will need to change our operations and our systems and the way in which we check and basically slow down dramatically the whole payment infrastructure in the marketplace. Or there is some other mechanism for people being defrauded and fooled into doing something.

Now if the government wants to initiate some sort of a scheme that helps pay for that and they'd like to pay for it themselves then obviously welcome to do that. I think it's something that the industry is quite focused on and has been over the last couple of months as you may know, and we have been working as an industry to just try and manage that threat if you like.

. . . .

Facilitator
There's a question from the webcast. It says one of the new FinTechs is talking about their cost of managing a current account is now £15 a year. Are you close?

And the second one for Claire which is struggling to square your comments around pricing in mortgages with your slide suggesting front book ROTEs above 15 and back book above 20. What am I missing?

. . . .

Les Matheson, UK PBB, Chief Executive Officer

So you can think about that one for a second. I don't think we're going to give away our operational cost.

. . . .

Facilitator
Are you close was the question.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
Are we close? Do we have a feel for are we close?

. . . .

Lloyd Cochrane, Product Director, Home Buying & Ownership
I wouldn't comment on that.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
No comment, exactly. But whoever was asking the question I think you can see from - you can imagine from some of the things that we've been showing what the level of cost might be for opening something digitally.

. . . .

Facilitator
And on pricing?

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Claire Baird, UK PBB, Finance Director
So tell me the question again.

. . . .

Facilitator
So the question was struggling to square your comments about pricing in mortgages with your slide suggesting front book ROTEs greater than 15 and back book at greater than 20. What am I missing?

. . . .

Claire Baird, UK PBB, Finance Director
Doesn't look like we're missing anything are we? Tell me.

. . . .

Facilitator
So I think the answer to that is around the RWAs and also around margin pressure.

. . . .

Claire Baird, UK PBB, Finance Director
Yeah so I mean we talked about the RWA uplift so hopefully that's been clarified now.

. . . .

Facilitator
Yeah.

. . . .

Michel .....
A question on the data access that you have in Open Banking. I guess the FinTechs and all you guys will have access to data but what actually becomes quite relevant for the operators who have been there for a long period of time, so what data is just available to the likes of Lloyds, likes of RBS, likes of NatWest which differentiates? I mean so is everyone going to have the same access of data and how you mine it is the differentiation? Or actually the long operators will have data which is not available to other people; there will be a differentiation on product offering? Thanks.

. . . .

Frans Woelders, UK PBB, Chief Digital Officer
I think it's actually further to your first answer because I think it's a phased approach. In the first stage it will be limited in terms of the access to data; it will be developed over the years to have access to more data.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
So the completeness is what helps us which is maybe what you implied. So I know that if you're a current account customer, I know all of your data that relates to a mortgage or that relates to an insurance product or that relates to any other product holdings you might have with me, if you're a FinTech you can't get access to that. What you can get if you are anybody else in the marketplace is you can get current account data and you can say to me as a bank please give my data. So you as a customer say to me as the bank give my customer data to this FinTech and all of my historical payment information. But what the FinTech then has is they have that information but for current accounts.

So the advantage that we have is if you have a broader relationship with the banks which most people do, then I have already much more information on you. Now in time, I don't know what time is, three years, five years' time, maybe all of that will be available. But one of the questions that you have to ask is how many people are really going to want to give to a FinTech all of their historical transactional data.

. . . .

Chris Cant, Autonomous
Thanks for the presentation. I just wanted to follow up the preceding question on your ROTE on slide 42. So you do state that your new business - well ROE rather than ROTE, in the second quarter is more than 15% taking into account the future regulatory inflation you foresee. So I'm also trying to square that with your comments about or a

lot of your comments seemingly stepping back from the mortgage market slightly and talking about irrational price action. More than 15% is obviously in excess of your Group return target so why aren't you looking to grow more in that space? Are you expecting that ROE to continue compressing and you're just trying to get ahead of that by guiding consensus to not expect too much growth because you expect that 15 to be 10 by this time next year? What are we missing there? It doesn't really square off to me either.

. . . .

Lloyd Cochrane, Product Director, Home Buying & Ownership
I'm going to start and you can correct me. The number is a portfolio number so think of a curve. At the bottom of the curve is a, I'll make it up, 12% return for a two year 60% loan to value mortgage which is the lowest we would possibly go. At the other end of the curve risk adjusted is a 95% first time buyer product with a return in the 40s let's say. That's a deliberately vague number; if it's not vague enough it should be vaguer. The point is when you add them all together within a risk appetite you get a portfolio number, although the portfolio is a new business portfolio. And what Claire was saying earlier is when we refresh our pricing at individual product level price points, so that's a 60% mortgage with a £995 fee, that level, individual product level, each of our products has to hurdle. And that's the value discipline that Les and Claire have both been talking about. When you aggregate it you get a number that's bigger than the least competitive lowest return number.

. . . .

Les Matheson, UK PBB, Chief Executive Officer
So we disciple ourselves to do that and it may be that some of our competitors don't. So they are happy with an average if you like hurdling, whereas we require every single mortgage that we issue to be able to hurdle.

. . . .

Claire Baird, UK PBB, Finance Director
Yeah I mean the other thing that we do on pricing as I said on these fixed rate products we look at the return in deal, whereas I think anecdotally we believe some of our competitors look at lifetime where they assume some sort of - you know the product then rolls onto SVR for a while, it then rolls onto some other product. So I mean we are quite strict in saying you know we can't guarantee the customer will stay beyond the end deal, so that's what we need to hurdle on at that point. So again that's another way that we measure the NPV on the products that we sell.

. . . .

Question
Just to finish off a question on the branches. One of your competitors that has got very high NPS scores likes to highlight the fact that their branches are open very late in the evening and open over the weekends. And obviously it's a move that the industry probably hasn't quite followed yet. So I was just wondering if you could share with us your thinking around this obviously might be a popular move from a customer service perspective. Do you think that actually it doesn't really add that much to go to that point, or do you think that there is a cost pressure on you that you have to think about as well?

. . . .

Les Matheson, UK PBB, Chief Executive Officer
I think we're open to it and I think that we need to continue to think about how we evolve what we do and the service we offer in our branches. So I think branches are going to become and they are becoming less places where you have any - where you do any transactions and more a place that you go and talk about a mortgage or you open a current account or you talk about an insurance. And they're things - or by the way they're a place where you go and you say okay I downloaded the app now can you just remind me how I use the thing. So we more and more have a lot of technical help actually in the network.

I think that we need to keep thinking about how we evolve that presence as it relates to what it is that you're doing in the branch. So I do think that you will see us being probably more flexible in how we use and the opening times that we might use, but you know the particular competitor you're talking about, I mean we have monitored their branches and how often customers are going in and out of them and when they're going in. And actually at midnight or whatever it is they don't tend to have a massive amount of customers.

So you know I think it's a good differentiating point. I'm not sure that it's something that people use necessarily but I think, to your specific question, I do think you will find us being more thoughtful about what we're doing in the branches and that may include being more open to being open in the evenings or on Saturdays and so forth. We have done that to some extent but probably not as fast as some others.

. . . .

Claire Baird, UK PBB, Finance Director
And we're open 24/7 on our mobile app.

. . . .

Question
So is everybody else.

. . . .

Chris Mellors, Barclays
Just a couple of questions for you. Claire I think you mentioned the comment on the deposit BP pass through 10 basis points for 25 basis points hike. Given where the LDR is, slowing asset growth, tough mortgage competition, why did you pass on as much as ten basis points, you've got one chance to widen the margin this year, and how do you think about that in the future?

Second question, I suppose we haven't talked too much about asset quality, obviously your impairment charges are very low at the moment. Are there any areas that you are being more cautious? And also how do you think of potential stress testing of your portfolios and any parts that you're worried on? Thanks.

. . . .

Les Matheson, UK PBB, Chief Executive Officer

So let me take the first one. I think really in terms of pricing what we try and do is think about it relative to the market and what's happening. So if you go back and you look at the various announcements that were made I think we came out either third or fourth. So we looked at what some of the other players were doing, not Barclays by the way who I think were last if they've even come out yet, I don't know.

Laughter

But just picking one at random.

Laughter

But you know what we do is we sort of look at what other people are doing in the marketplace. You look at where we are relative to them and we try not to be too out of line. And then we pick one or two areas, for example regular savers, but it's limited up to say £10,000, where for certain segments of customers it's particularly important to try and - or where rates are particularly valued. Actually for many people what's much more important is to have a good savings habit rather than whether you have 1% or 1.1%. But really that's how we do it or how we did it on this occasion is look carefully at what competitors are doing and then try to follow and make sure that we're broadly in line from a deposit perspective.

Your second question, stresses on the portfolio.

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Chris Mellors, Barclays
Just anything worries you at all and also if we did get some sort of economic shock?

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Les Matheson, UK PBB, Chief Executive Officer
Look honestly there isn't a part of the portfolio that we are today seeing any stresses in, in secured or unsecured. We are for good and bad really well positioned because if you look through the last financial crisis - typically you will get ten times the losses in unsecured that you get in secured. And because we've got a proportionately lower amount we're better positioned for that. We're not seeing any untoward stresses right now which I think is true across the marketplace by the way. So yeah right now it's relatively benign.

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Jenny Cook, Mediobanca
I was just following up on slide 42. You state that your new business ROE is based on expected impairment losses, about 25% to 40% above current levels. I just want to see to what extent is that being reflected in your pricing? And also you state that that's conservative, is that conservative relative to peers or anything else? Thanks.

. . . .

Claire Baird, UK PBB, Finance Director
Well we believe it's conservative relative to how we see the book performing right now. And does it impact our pricing? Well it informs us as to what we believe the return on

the product will be, but that isn't the only thing that impacts our pricing. As Lloyd said earlier we are in a very competitive market. We want to be competitive in that market but we don't want to be top of the price table. So we're very much looking at the overall pricing of our competitors versus ourselves as well. And then we use our calculated NIMs and pricing models to help inform if we go with this, this is what it will return for us.

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Les Matheson, UK PBB, Chief Executive Officer
Great, other questions?

All out? All right well that's great. Look we're going to be all around so if anybody wants to come and chat to any of the team here, and there are one or two others around the floor as well, then you are welcome to do that. Thank you very much for coming along.

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