H1 Results 2017 Fixed Income Investor Call
Moderator: Ewen Stevenson
4th August 2017

FORWARD-LOOKING STATEMENTS

OPERATOR: This is Conference # 59282614

Operator: Good afternoon, ladies and gentlemen. This afternoon's call will be hosted by Ewen Stevenson, Chief Financial Officer. Please go ahead, Ewen.

Ewen Stevenson: Thanks, (Laura), and thanks all for joining the call this afternoon or this morning, wherever you are. It's Ewen Stevenson here. I'm joined by Robert Begbie, our Treasurer; and Matt Richardson, Head of Fixed Income Investor Relations.

We put some fixed income slides onto our Investor Relations website, which Robert and I will now step through. I'll provide a quick review of our half year results that were out earlier today, then focus on our key credit messages.

Robert will provide an overview of our balance sheet along with our issuance plans. And then we'll leave plenty of time for your questions at the end.

So for those of you who've got the slides in front of you, please turn to slide three.

Overall, I'm encouraged by these results. Second quarter in a row of bottom line profitability.

Attributable profits of GBP 680 million in the quarter, a statutory return on equity in Q2 of 8 percent, and we're on track to meet our 2017 and 2020 financial targets.

In the core bank, good continued momentum. Relative to the first half of 2016, we delivered a strong operating improvement. Our income was up almost 9 percent, and that included 4 percent growth across PBB and CPB.

Costs were down 4 percent, and that drove JAWS of almost 13 percent and reduced our core cost:income ratio from 62 percent to 54 percent. The adjusted return on equity was up more than 3 percentage points to 14.1 percent, and our adjusted operating profits were up 29 percent.

On our legacy cleanup, we're getting there. Since the start of the year, we've resolved most of our remaining larger legacy issues, including the 2008 rights issue litigation and FHFA.

We're well progressed with the solution for Williams & Glyn. We're comfortably on track to wind up Capital Resolution by year-end, and we're back to being investment grade rated by all three agencies, which has helped drive much lower funding spreads this year.

On our core capital, we achieved a strong core capital build in the first half. Our core tier one ratio was up 140 basis points to 14.8 percent. And this is further underpinned by today's disclosure on IFRS 9, with a day one impact for is expected to be modestly core tier one accretive.

But as we look out for the next 6 to 12 months, we recognize it's a more uncertain macro environment. And given this more subdued outlook, we believe we're being appropriately cautious in our overall risk appetite.

On the next slide, slide four, the progress that we've made during this year makes us increasingly confident in our credit story. Firstly, given our business mix spanning retail through the wholesale, we've got a well diversified income stream.

We're not overly reliant on any single customer or product segment. Secondly, our combined three core businesses are generating attractive returns and having consistently doing so now for the last 10 quarters.

Thirdly, we've been deliberate in how we allocate our risk appetite growing in areas that we want to grow, while being much more selective in other areas. And fourthly, we aim for 2017 to represent the last year of heavy legacy cleanup across Capital Resolution, Williams & Glyn and litigation.

And alongside the other progress we've made during the first half, we've continued to build both our core capital ratio and also to right size our capital stack towards future developments.

On slide five, with the progress we've been making and putting legacy issues behind us, the strength of our core business becomes increasingly transparent.

What differentiates our credit story relative to U.K. peers, I think, is both the spread of our income and the increasingly low income volatility across personal, private, business, commercial and wholesale banking.

No segment drives more than 40 percent of our income, and wholesale banking is only 16 percent. Over time, we believe this business mix should drive a much lower business discount rate being applied to our cash flows.

On slide six, if you look at our three core businesses, we're building a strong track record in generating attractive and stable returns.

As we get towards the tail end of our restructuring, this becomes increasingly visible with stable and consistent profit generation, not overly reliant on any single customer or product segment.

On slide seven, a brief word on how we're allocating our balance sheet in broad terms towards secured lending and personal banking and where we can earn appropriate risk-adjusted returns in Commercial.

Customer loans across PBB and CPB grew by 4.1 percent annualized in H1, and customer deposits were up by 4.9 percent.

In Personal Banking, we're prioritizing secured mortgage lending. Mortgages increased to 49 percent of our total loan portfolio, up from 47 percent at year-end. And we're consciously trading off some NIM to continue to build market share.

Over the past three years from the strategically underweight position, we focus on building share in the mortgage market with average LTV of new lending consistently around 70 percent and average LTV of the book overall consistently less than 60 percent. We've been more cautious in the unsecured consumer space, most notably, our absence from the 0 balance transfer credit card market.

In Commercial Banking, we're continuing to be cautious on segments like commercial real estate and also re-pricing or exiting lower-returning corporate relationships.

On slide eight, despite the GBP 1.2 billion of exceptional items in H1 from restructuring and conduct costs, as we progress towards the end of our legacy issues, our core tier one ratio improved by 140 basis points in H1, including 70 basis points in Q2. With our core tier one ratio of 14.8 percent at end-Q2, we're comfortably in excess of our 13 percent target.

On RWAs, in total, these were down by GBP 13 billion in H1 to GBP 215 billion, including a reduction of more than GBP 6 billion in Q2. One of our targets by the end of 2018 is to work the capital in the core bank much more productively and to reduce gross RWAs by at least GBP 20 billion.

We've reduced them by just under GBP 9 billion in the first half, so we're comfortably on track with our Q4 2018 target. That underpins the improvement that we're now seeing in our core returns. And with that, let me hand over to Robert.

Robert Begbie: Thanks, Ewen, and good afternoon all. It's been a busy and successful 6 months in treasury. The balance sheet continues to improve, and we have reported strong regulatory ratios for both capital and liquidity.

We have completed the release of GBP 30 billion of distributable reserves from our capital reorganization. We are firmly on plan to meet our issuance needs for the year.

I've been particularly pleased by the strength and reception to our deals with issuance across senior HoldCo, OpCo and our return to covered bond market. The markets have recognized those strategic progress with spreads tightening sharply across the capital structure.

And I'm delighted to have received an upgrade to our baseline credit assessment from Moody's, which moved our senior HoldCo ratings to investment grade for all agencies. And finally, we are delivering on our structural reform agenda with ringfencing plans progressing well.

So turning first to an overview of the balance sheet on slide 11. We have maintained a solid set of key balance sheet metrics over the year. Our loan-to-deposit ratio held steady at 91 percent, as deposit growth broadly supported targeted lending in our core franchises.

Whilst our LCR is up from 123 percent to 145 percent, reflecting the benefits of issuance programme, with GBP 7 billion raised, and our continued use of that Term Funding Scheme. Although I would note, a recent settlement with FHFA will reduce the ratio by approximately 6 percent.

We continue to monitor regulatory developments, including changes to leverage ratio regime in the U.K., the PRA consultation paper on liquidity and MREL buffers, impacts on capital costs by an introduction of IFRS 9 and the ongoing evolution of the Basel regime.

Ewen already touched on the major movements in our capital and leverage positions during the first half, so let's turn to look at regulatory requirements on slide 12.

A chart you will recognize from previous presentations. This outlines how regulatory buffers continued to face towards full implementation in 2019. It's a stable position over the half year, following the significant progress we made in 2016.

As a reminder, last year's pillar 2A requirement reduced by 1.2 percent, and our G-SIB requirement reduced by a third. We also note the reintroduction of the countercyclical buffer from June 2018, albeit this is already factored into our capital plan.

Ewen outlined why we view ours to be an improving credit story, and we continue to believe this improvement will be aligned with the phasing in of our capital requirements. Our progress in resolving legacy issues is, of course, central to revealing our underlying earnings profile.

Turning to slide 13 and our ability to service coupons. H1 2017 saw the successful reclassification of our share premium and capital redemption reserve accounts, increasing holding company distributable reserves by GBP 30 billion.

To put our reserves of GBP 38 billion in context, annual CRR compliant AT1 coupons are approximately GBP 300 million per annum and the nominal outstanding legacy tier one equity accounted preferred shares are just below GBP 3 billion.

Turning to look at how we are moving forward with future MREL requirements on slide 14. We received guidance in May on our MREL requirement. Fully phased, this will be approximately 28 percent, including CRD IV buffers.

The major focus for us is building up approximately GBP 25 billion of bail in securities over and above CRR capital requirements.

This equates to approximately GBP 3 billion to GBP 5 billion senior HoldCo issuance per annum. The outturn will, of course, be sensitive to our end balance sheet size and final capital requirements.

Turning to slide 15. For a number of years, we have been very transparent that we intend to manage our legacy capital stack for value. I want to take this opportunity to give investors some guidance about recent decisions we have taken to prioritize the call of securities with highest economic benefit.

Firstly, we have decided not to exercise the first call option on two non-step equity accounted preference shares. These securities offered transitional tier one benefit through the remaining CRR grandfathering period, while redemption triggers significant FX revaluation related CET1 impact, which we cannot justify given the marginal offsetting coupon saving.

Second, we intend to redeem two other equity accounted tier one step-up securities when the call period opens in two days time. Whilst this redemption leads to a CET1 impact, the securities offer limited future regulatory capital value.

And third, we intend to call seven debt accounted tier one securities now or in the near future. These command coupons ranging up to 9 percent, with no associated FX translation loss.

Turning to look next at our issuance plans on slide 16. I've been delighted with the strength and breadth of market access we've been able to demonstrate in the first half. With respect to funding, we made a successful return to the covered bond market after a five year absence.

This is a program which will provide ring-fenced funding and liquidity in the future. And we also issued shorter-dated OpCo senior intended to support our future non ring-fence entity, NatWest Markets PLC.

You should expect to see us continue to issue in both markets going forward. And we have continued to be an active participant in the TFS scheme, albeit we do this with a clear mind to refinancing ahead of maturity.

And with no active need for additional tier one or tier two, our focus has primarily been on building our MREL stack. Year-to-date, we have issued GBP 3.6 billion equivalent of MREL senior HoldCo securities versus our GBP 3 billion to GBP 5 billion target.

And finally, a quick word on ring fencing on slide 17. Our plans are progressing well following legal entity transfers at start of year. The next step is to begin customer migration. We do not expect to move any of the existing issued debt from its original entity.

So for example, debt issued from RBS PLC today will remain an obligation of the entity, which will be known as NatWest Markets PLC in the future. The exception is the covered bond program, which is in the process of being transferred from RBS PLC to NatWest Bank PLC.

We continue to work with the rating agencies as they evolve their view on future implications of ring fencing, and now S&P have recently guided to non-ring-fenced entities being one notch lower.

Also as part of our planning for the U.K.'s departure from the European Union, we will repurpose our existing license in the Netherlands, RBS NV, to provide products and services for our customers who operate then or need access to the single EU market. And with that, I'll hand back to Ewen.

Ewen Stevenson: Thanks, Robert. So in conclusion and before I open up for Q&A, overall encouraged by these results. Second quarter in a row of bottom line profits. In context, our best set of bottom line half year results since the first half of 2014. And we're on track to meet our 2017 and 2020 financial targets.

In the core bank, good continued momentum and strong operating JAWS. On our legacy cleanup, we're definitely getting there.

And on our core capital, we've achieved 140 basis points core capital build in the first half. But as we look out, we recognize that it's a more uncertain macro environment, and we do believe we're being appropriately cautious in our risk appetite given that outlook. So with that, if I could please open up for your questions.

Operator: Thank you, Ewen. Ladies and gentlemen, if you would like to ask a question, please press the star key followed by the digit one on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions. We will take our first question from Aditya Bhagat from HSBC.

Aditya Bhagat: Firstly, congratulations on a very good set of results and for the upgrade earlier. My question is unsurprisingly on the non-steps, non-call.

I wanted to understand how can we -- would the -- could the decision be different if this was not a non step instrument but a step up? And secondly, how could -- how can we read parallels or can we read parallels when making call decisions on AT1 bonds when they have similar FX losses or gains?

Robert Begbie: Thanks for questions. Let me take them in order. I mean, you will see as part of the package today, we did call some step-up securities.

So I think in relation to the lenses we look through in terms of whether to call or not, clearly that's a consideration as to whether they offer any transitional value.

The non-step ones did. The step-up ones didn't. So therefore, despite the fact there was a CET1 hit on the step-ups, it clearly made sense to go ahead with the call on those ones.

I wouldn't read too much in to today's decision in terms of future decision-making around AT1. I mean, we manage our FX positions on a portfolio basis. The securities, FX exposures is part of that, but there are other parts of that around subsidiaries and income we have in different currencies.

So I think the main feature really was if you look at the coupon reset on the securities, then it made a lot of sense for us from an economic perspective to hold onto them at the moment as the transitional tier 1.

Aditya Bhagat: And just to follow-up on that. Is there a -- would you consider a possibility that these could count as tier two eventually? If I know your pillar three currently states that, that these will not count. Is there scope of that changing?

Robert Begbie: I mean, we've eventually taken a pretty conservative view on looking at the legacy portfolio. As things currently stand, we look at emerging regulations in the same as everybody does. But as things currently stand in the moment, we're comfortable with the position we’ve taken in terms of that conservative view.

Operator: Your next question comes from the line of Lee Street from Citigroup.

Lee Street: Two questions from me, please. First one on the non-call security hit. You specifically mentioned ratings considerations. Can you just give us more detail on that? Does it relate to ALAC benefit in S&P?

If it does, is it safe to assume that over time as you issue more and more holding company senior that that will replace it in terms of ALAC benefit. And secondly, a little bit of a hypothetical one.

Once RBS is settled with the DOJ on RMBS, did you think you'll keep a buffer in excess if your 13 percent CET1 target ratio to account for the pension impact of Basal IV?

As we've seen many of the continental banks do, or do you think you'll be otherwise looking to return excess capital to shareholders. Those are my two questions. Thank you.

Robert Begbie: Thanks, Lee. I mean, I'll take the first one and probably get Ewen to answer the second. Yes, I mean, look, we've - LGF and ALAC is one lens we look through, we're in a journey here in terms of both retiring securities and issuing new securities that are 'bail-in'able securities through MREL.

So we just need to keep on a watching eye on that. Clearly, the -- those metrics are forward-looking as well in terms of future issuance plans.

So yes, I mean, we would expect over time to clearly get to position where the new securities will meet in what we require. And we're also putting that in the context of our underlying story that we are an improving credit as well.

And we've seen some of the benefits of that coming through in terms of the recent Moody's action. So yes, you would expect to see those new securities replace them over time. And yes, we just need to keep an eye on those metrics as we kind of go through that transition period.

Ewen Stevenson: Yes, on the second question, it's a very good question. As you know, we've got a 13 percent target. As we look out and talk about all of the things that we sort of know and unknowns today, to some extent, we know that we've got mortgage floors coming in Q1, probably during 2020, probably the back end of 2020.

I would think that's going to lift mortgage risk weightings in the U.K. towards 15 percent. We know that we've got IFRS 16 on, which will bring back balance sheet at lease owned property.

There is the incremental capital and earnings volatility introduced by IFRS 9 that we're still working through. As you alluded to, there's Basel III amendments, as and when they get finalized and as and when we understand the implementation timetable.

And we're also doing some additional work around ICB and some of the loss of diversification benefits on capital that, that creates as a result of the structure. All of that is a very long way of saying that I think while we are targeting normalizing for 13, we still don't know what 13 is in the future.

So we have to do all of that work as some of this other stuff becomes clearer. And I think realistically, as we saw with Lloyd's, when they started returning to capital distributions, it will take some time to normalize back to our capital target at that point.

Operator: Your next question comes from Greg Case from Morgan Stanley.

Greg Case: So just a couple from me, if you don't mind. So I'm just thinking about how you guys evaluate the call and non-call decision. Is it -- could you give any guidance whether or not you look at it from a payback or an NPV basis?

I'm also just thinking about the FX loss baked in within that. Given that the step-ups had a significant FX loss, I guess, the accumulated coupon as well added to that cost of taking those bonds out. Is it fair to say that FX was primary driver behind this non-call rather than the excess tier one value?

And then the second question will be following on from that point, if consider that one just a single question. I'm just wondering around your -- where you want to be running as a level of tier one capital obviously from a non-equity perspective.

You guys clearly already have an excess, so leaving these outstanding is just adding to that. So just any guidance on to any -- the level of management buffer you might want to operate over and above the pillar one and pillar two minimums?

Robert Begbie: OK, Greg. It's Robert here. Let me kind of answer that in order. I think I've kind of partly answered your questions as still some of the other questions. I mean, FX is one lens to look at, but it's not certainly the primary one. The primary lines was just really in terms of looking at the overall security mix we had.

We looked at the re-set on these particular bonds and they're effectively the cheapest transitional tier one bonds we have left in the bucket. So a combination of that, some NPV calculations. And yes, clearly FX was a factor.

But as I said, we were -- it wasn't the main factor as you've seen with the step-ups where we were comfortable to take that loss into it. I think on the legacy and where we with end up with the buffer, I think we'd look long term for a guide from the Bank of England on that.

I mean, we've -- I think what we've done today or what we've announced today actually takes us below our grandfathering cap for this year anyways. So we are getting on with this, and we've retired over 2/3 now of that legacy stack going through.

Greg Case: OK. So it's primarily a discussion with the regulator rather than kind of aiming for pillar one and pillar two?

Ewen Stevenson: No. Greg, I wouldn't characterize it as primarily driven by conversation with the regulator. I'd say it's primarily driven by conversations that we have internally and our views, as Robert said, on the range of factors.

Robert Begbie: Yes. I think future buffers will evolve from the regulators, but the call decisions themselves were taken by management here.

Matthew Richardson: Greg, credit to the UK regulator, I mean we have the guidance this half in terms of our MREL requirements, which is broadly in line with what we're expecting before so we've got a clear solve-to and it's just navigating that path from here.

Operator: Your next question comes from Corinne Cunningham from Autonomous.

Corinne Cunningham: I think most of my questions have actually already been answered, but just one quick one on the FX effects. Should we be simply looking at the spot

FX versus the spot rate issue? Or are there any other hedges and things going on in the background, which would mean that's just not a 1 for 1 movement?

Robert Begbie: Yes, I mean, the answer is yes, you need to consider it in the round. I mean, it's to say we are despite the fact we're getting a smaller bank from an international footprint point of view and clearly, we don't have as many overseas businesses as we had, having divested Citizens and clearly we've got a much smaller U.S. footprint now.

It is the round the way the overall hedging program works. I mean, we operate on the basis, we're trying to minimize impact on CET1 through to FX movement.

So the fact those securities were issued at some point in the past when cable was a little higher, the benefits the other side to that has come through over time in terms of other aspects of the balance sheet.

Matthew Richardson: The numbers that we've given you, for example, in the slide and disclosure today is that's just solely though on the translation of those securities. So we haven't factored in a hedge number into that.

And I think if you're having a look at the excel doc that we've got on there from the pillar three, you can back out the rates which these were originally put on that. I mean, there’s a notion versus that which we're carrying in Sterling, so it will give you a good idea.

Operator: Your next question comes from Robert Smalley from UBS.

Robert Smalley: A couple of quick questions, and I don't mean to beat the dead horse on this one. But just broadly speaking, how will you be looking at calling the remaining legacy equity accounted tier ones?

Because I've noticed that like the 6.6 preferred S series is outstanding still. That's -- so just broadly, how will you address that, is my first question. Second of all, in the appendix on Page 22. there's a -- do the numbers that you have year include the calls, et cetera? Or is this going to look as significantly different next time we see the slide?

And then thirdly, very good results in Markets, but on Page 20 in the appendix, you've got the adjusted ROE in markets at 7 percent. Is this part of the capital allocation or reallocation that you're looking at doing?

And then I'm sorry to add a fourth one, but LCR ratio very high in the presentation you did earlier this morning. It costs 8 bps in NIM, increased liquidity. What do you think the right number is for that?

Robert Begbie: So I'll -- Robert, it's Robert here. I'll cover probably one, two and four, and I'll let Ewen talk about the market business performance. Yes, I mean, well, in terms of the future portfolio, the legacy portfolio will go less.

We'll continue to do it on the same way as we've done this, which is really look at what transitional value there is, what the cost of that is and any associated hedging benefits or otherwise that accrue from that. So as I say, I don't think people should take any indication based on what we've done today.

I mean, today, we've announced a package, which we felt that was the right way to guide the market, so we're fully transparent about what we were doing at this point in time. And I said, we're kind of 2/3 of the way down the legacy stack, and we're getting on with that. On the table I'm reliably informed that's after calls, so it's down one and a half on the other.

On LCR, I think Ewen talked about it this morning but I may just touch on it. There's a number of factors building up our liquidity position in the first half of the year.

I mean, one clearly we were aware that we had some sizable U.S. litigation to pay out at some point during the year. We've settled the FHFA part at about USD 5.5 billion. And we intentionally got out of the gates reasonably early in terms of our issuance plans.

We felt that the market was in a good place. You've seen what's happened to spreads generally. And certainly, our spreads have performed well and there was a good open, active and interested investor market for us.

So if you put together the MREL, the OpCo, the covered bond, we've got to around 7 billion, which was certainly ahead of our run rate for our issuance plans for the year. The TFS, part of it -- well, TFS we believe is a good source of liquidity, efficient funding for the next 3 to 4 years.

There is a window of drawdown, which closes in February next year. So we had in the plan a certain amount of TFS we wanted to draw. We feel it's a good way to help fund the growth in our business going forward, especially the mortgage business where we're seeing good growth.

So a lot of those things came together in terms of the build-up of liquidity. Clearly, that had an impact on the net interest margin because of the high interest-earning assets line.

We paid out the FHFA. I think, as I said, that's about 6 percent of the ratio. We will still have some future U.S. litigations with DOJ at some point, and we'll have business growth that's built into that.

So we have our own internal liquidity risk appetite that we would certainly expect to be above going forward. I think I'm reasonably comfortable. We don't want to be accused of not being efficient around liquidity but I'm certainly comfortable with the fact that we're in a healthy position going to the second half of the year.

Ewen Stevenson: Yes. Robert, on your question on NatWest Markets. I think we're still in the middle of a multiyear restructuring of the business.

We set out that we are trying to build a business that has GBP 30 billion of RWAs, has an all-in cost structure of around GBP 800 million and therefore, should be able to produce acceptable returns with revenues of about GBP 1.4 billion, GBP 1.5 billion. So there's currently some very heavy fully expensed investment spend that's going through the cost structure.

But if you look at the -- you double the number that's on Page 20 on adjusted operating expenses, you can see that we still got a long way to go to get that cost structure down to where we need to get it to.

And therefore, had we produced the income streams that we had produced in first half with an GBP 800 million of cost structure, the returns would be substantially higher and well above the cost of capital.

Operator: Your next question comes from the line of Christy Hajiloizou from Barclays.

Christy Hajiloizou: Most of my questions have been answered actually, but I've picked up a couple of others. Just on the PRA mortgage review, Ewen, you mentioned it's early.

So I'm particularly interested and given the bank has focused a lot on growing mortgages above the average market rate recently, I'm interested to what extent you're already taking into account the proposals on the sort of the higher mortgage risk rates and your underwriting fee mortgages? Or is it something that you'll probably do later on given that it’s still in proposal?

Ewen Stevenson: No, no, no. We're absolutely taking into account and have been for a long period of time.

Christy Hajiloizou: OK, great. That's the first one. And the second one, just a couple of quick clarifications on the legacy tier ones on the two non-steps that's not being called. Just going back, I think, to Lee’s question early on rating agency treatment. I'm not -- I'm quite rusty on the rating agency approach myself at the moment.

But can you explain how rating agency recognition changes over time? Does it change over time in the same way that the regulatory tier one recognition declines, does rating agency recognition decline over time in the same sort of way?

Matthew Richardson: We'll leave the rating agencies to explain their criteria, if we may. I think the fundamental piece that we're working to is that, of course, more is better both in terms of protection above, and any credit line also alongside that.

So we were delighted with the support we got recently in terms of our rating changes and we're very conscious and mindful of the contribution this has to our overall rating.

Christy Hajiloizou: OK, great. And finally, just a final clarification. I think earlier, you're saying that you're being very conservative in terms of the additional regulatory value, so you're not sort of including any into tier two capital post 2021. Are you including the -- these non-step tier ones in your MREL stack at the moment?

Matthew Richardson: No.

Operator: Once again, if you wish to ask a question, please press the star key followed by the digit one on your telephone keypad. That’s star one for asking a question. Next question comes from Alexei Lougovtsov of Merrill Lynch.

Alexei Lougovtsov: My question is again on the two securities, which have not have called. Clearly, 370 million is a very big cost to call them.

Let's say the exchange rate stays where it is now, does it mean that you're hardly motivated to call these two bonds ever, given that the FX translation costs associated, I mean, even after the end of the grandfathering period?

Robert Begbie: Yes. I mean, I doubt the fact that the exchange rate will stay where it is now. But look, as I said, it's part of an overall hedge program we have.

So it's not -- we use that number to just give the number if we took them now that's the number we would have to generate, clearly that number will move around in terms of the movements in cable over a period of time. But there are other items on the balance sheet that are part of the overall hedging program.

So it's not the fact that we're waiting for cable to move back up and then doing something differently. It was just to reflect the fact that if we had to call them versus the amount we would have taken at that point in time.

Alexei Lougovtsov: And so even if cable stays where it is, there is a chance for securities to be called?

Robert Begbie: Well, as I said, the FX is simply one lens we look through. I mean, the main way we look to this is really the transitional costs of the tier one security.

So -- but at the time that, that -- we'll continue to monitor that on an ongoing basis. Clearly, the next call is out 10 years, but we've taken a view that they will offer transitional tier one. So again, we'll just continue to monitor that moving forward.

Alexei Lougovtsov: And is the next call is in 10 years, but at the same time, there is a potential for regulatory call when the capital treatment is completely discontinued. That means they can be called before 2027 when the regulatory call is allowed?

Robert Begbie: Yes. I mean, that's a reasonable assumption around that. Yes.

Operator: Thank you, and I'll now hand the call back to you for closing comments.

Ewen Stevenson: OK. Well, thanks all for joining the call this afternoon or this morning, depending on where you all. As you can hear from our sort of tonality, we're very pleased with these results. Just to recap, our best six months bottom line profits since first half of 2014.

Core bank’s doing very well with very good operating leverage coming through as evidenced by the 29 percent improvement in operating profit. We've got through a lot of legacy issues so far this year both on litigation, Williams & Glyn, Capital Resolution and really the DOJ remaining.

So overall, very happy with the results and but obviously, given the uncertainty that exists out macro economically, we're trying to be appropriately cautious as we look out ahead of us. So thanks.

Robert Begbie: Thank you all.

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