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Katie Murray, Deputy CFO, RBS

Chris Manners: Good morning, everyone, and welcome to the Royal Bank of Scotland's fireside chat that we're having this morning. I'm joined today by Deputy CFO Katie Murray, soon to be the Interim CFO in two weeks' time when Ewen steps down. And so, Katie, thanks very much for joining us today at the Barclays Global Financial Services Conference to represent RBS.

Katie Murray: Pleasure to be here. Thank you for having me.

Chris Manners: Yes, so maybe if we start off the questions -- thank you, get you a water.

Katie Murray: Perfect. Thanks.

Chris Manners: Yes, maybe we could start the questions on the U.K. macro and on Brexit. Sorry to do that.

Katie Murray: It's always good to get straight into it.

Chris Manners: But yes, obviously we have a lot of U.S. and international investors here. So, clearly, something that's top of mind.

So, how do you -- how is RBS thinking about the impact of a potential no-deal Brexit with reversion to WTO rules or a hard Brexit prioritizes sovereignty over the economy? And maybe, given the domestic focus of RBS after all the reshaping that's been done over the last sort of 10 years, you could tell us about how you think about the outlook and how you're preparing for tail risks.

Katie Murray: Yes, sure, absolutely. Happy to, Chris. I mean, I think when you look at Brexit, it's sort of helpful just to remind what's kind of happened in the economy. So, I mean, one of the obvious ones, it's obviously around inflation. Just in late 2017, it was around 3%. We see that recovering now to about

2.5%. And the consensus would suggest that it's going to continue to improve, which is helpful.

I think, though, that's also led to quite a lot of pressure within the U.K. and population. We see savings are at a multi-decade low in terms of that piece. We're also seeing some softer investment going on, as well as the sterling weakness, which I think as well -- is well understood. So, those things all tied together, starting to make the U.K. a harder place to do business at the moment, just as the macro is not quite as good as it was a couple of years ago.

So, when we look at it in terms of our own plans, we work with a base plan, which has a GDP growth of 1.5% over the next couple of years, so still modest growth. We don't think it's going to be anything other than that as our base working assumption. That assumes a Brexit with a transitionary kind of rule.

We then work with a couple of different scenarios. The first scenario, it is really just a down side. We kind of refer to it as a one-in-four type scenario, where you see growth fall, and it's kind of very much a stagnation of the economy, and then probably a 10-year kind of recovery back to where we are. So, very low -- kind of low growth, drawn-out kind of experience. The second is much more of a stress situation, where you see real fall in the GDP growth, significant increase in unemployment happening, and really a very sharp dip in terms of productivity.

Now, when you look at both of those scenarios, while they are not our base case, it's important that we as an organization spend time to think actually in those scenarios what is it that we would do differently, which bits of business might we start to write less of, where would -- is it better for us to invest more in so that we're able to manage and flex the business should those kind of come to pass. And I think that's been our real -- a real kind of focus at the moment.

And then we -- you start to get to some of the administrative aspects of Brexit. This is a huge project that the organization has to go through, so we are very much setting up a business in Amsterdam so that we're able to continue to service our Western European clients that kind of cross-border. And that's something that we're in the process of doing that at the moment, but it's progressing well. We're looking at how we manage to continue to do our Western European payments through a branch in Frankfurt. And again, that process is continuing. And obviously making sure that we can continue to do the trade that we do with our important subsidiary in Ireland.

So, a lot of admin has go around about it, and of course the challenge that we have, and the rest of the U.K. economy has, is the rules are not clear yet. So, actually, you don't know within what envelope you're actually working, which is, I think for all of us, quite frustrating. But, we'll -- I mean, we'll get there, and we're preparing ourselves for whichever eventuality.

I think the last important thing, of course, that we have done is to actually make sure that our balance sheet is strong. So, we have really high liquidity levels at the moment, which is quite a deliberate action. And also, we're sitting, as you know, on a very strong CET1 ratio. So, we know that we'll be able to see through the process. The high liquidity will enable us to support our customers as they work through that basis. And the CET1 just really means that we're comfortable with our balance sheet. It's in a really good state to kind of enter this period of uncertainty.

Chris Manners: Thank you. If we sort of move on to what's happening in the U.K., sort of right now as well, last month we did actually see the Bank of England raise the interest rates above 50 basis points and up to 75 bps for the first time in almost 10 years. Can you help us think through how this impacts your business in terms of potential margin benefits, impact on loan demand, and asset quality? And particularly, if we think about the savings book, how much did you pass through to the customers in terms of deposit Beta?

Katie Murray: No, happy to. And look, at the bank, we're probably one of the more sensitive to a rate rise, so we welcome it. We know it's the second one. It came a little bit earlier than we had expected in our own plans, so it was really - it was good to get it.

In terms of the actual numbers, when we look at a 25 bps rate rise of over a three-year horizon, that would build up to £350 million of additional income. So, it's obviously important for us and certainly helpful as we enter into the whole kind of Brexit story, as well.

In terms of what it's doing to our NIM, I think if we talked about NIM early in the year, Chris, which as I'm sure we did, we -- our guidance would have been very much of actually that you'd expect NIM to kind of be going for -- so from flat to slightly up, and I would say at this point, given the competition, it's probably actually flat to slightly down is what we're probably experiencing more at the moment.

But, when you look at what's happening with the rate rise and what it's doing to kind of loan demand, what I would say, we're still at incredibly low levels of rate. So, really, it's not having a big impact on loans. The impacts on loans are because of much wider macro conditions and competition. So, where people are softening their investment because of Brexit or where there is a greater competition within the market, I think that's what you'll really see is -- in terms of what's impacting on the loans piece. And there, it's about us being more competitive to be able to make sure that we're competing.

I think importantly, though, as we are seeing more challenges in that space, it's not about rate changing your asset quality. We're very clear that we're still sitting within the same asset -- the same risk parameters that we have had, and we need to make sure that we stay within that.

When you look at our customers, if you are sitting with, say, a £160,000 mortgage, which should be a very kind of average size of mortgage, the impact of the rate rise would be about an extra £20 a month. So, it's not particularly impactful. And when we do the affordability test for those loans, we test them at the SVR rate plus 300 bps. So, that's around 7%, 7.25%, so at a very different level from what they're paying today. So, we're comfortable in that place, as well, in terms of where we're going.

Chris Manners: That's a fair point, especially given just the gradual nature of these rate hikes.

Katie Murray: So, very gradual. I mean, in our plan, we -- this came a bit earlier, which for us was obviously quite helpful.

Chris Manners: Got you. Maybe you could talk a little bit about competition in the U.K. market. You've obviously been taking significant share of the U.K. mortgage flows, with maybe 14% share of approvals versus 10% share of the stock, I think you said last quarter. How competitive are you finding the U.K. mortgage market at the moment? And what is the sort of margin impact of taking this share for RBS?

Katie Murray: Yes. I mean, the market at the moment is very competitive, and I think it might be helpful for a U.S. audience to kind of understand a little bit why that is, why is it so competitive. So, I think there is -- I fear I might mention Brexit in every one of my answers, but there's definitely a bit of a Brexit impact on the housing market. The stock is just moving a lot less. I think we all know people that would like to be moving and aren't because they're just waiting to see kind of what rolls through. So, there's much less stock. We've changed in terms of regulation some of the Buy-to-let rules. We've seen some competitors who have got really significant excess liquidity, and they're really coming in to compete on price within that space.

So then, you have to say, bank, so what are we doing about it, and actually how do we make sure that we're ready to compete, because we are pleased with our level of penetration, and that we are exceeding kind of market growth in terms of what we are attaining (ph) as part of the flow. And it's very much around how do you simplify your business, making sure it's much simpler for the customers to interact with us. We're making -- we're doing a tremendous amount on digital, on paperless.

So, today if you came to get a mortgage from us, historically it would have taken 23 days before we gave you approval. Now, if you're in competition for a house with someone that's going to take you 23 days to confirm that you can get it, you're not in a great place. So, I mean, I think we have accelerated that to 11%. And that's beat 11 days, sorry, and that's been very much about the improvement in our whole paperless journey. If you can take just the steps out of the process, it's good for us on a cost basis, but it's also really important for the customers.

We also look at tie-ups with different organizations, so Zoopla is our Internet-based Web estate agents in the U.K., and we've got very strong ties with them. So, our ability to compete is there, and we're very keen, and have always had the philosophy that we will not compete on price. We make sure that we're kind of in the middle of the pack. Now, clearly, there's any number of different combinations of mortgages that you might buy, but for us it's very about how do we make sure that our service is excellent.

And what we can see in the NPS scores, we're number one for the origination side, and number two for mortgages overall, which is really important. And our customers, their behavior is changing. You see more of them go to five-year mortgages, which 52% compared with two years ago when it was at 23%. So, that means that we are getting comfort of their time with us, and you don't see the same churn in the portfolio. And they also get comfort around the rate rises. And all of these things I think band together to kind of see how we're really facing up to the whole competition aspect within the market at the moment.

Chris Manners: Thank you. Maybe just follow on on your sort of digitization point and I think how that flows into costs, and I guess you used to have that £6.4 billion target for 2020 cost base, sorry to bring it up. And I know that obviously it's probably going to end up a little bit higher than that. And you seen much more focused on reducing your cost-income ratio to below 50% now rather than on a -- was a hard cost number. How much investment do you need to do of the future here, and how do you see the trade-off of investment versus cutting the future cost base of the bank?

Katie Murray: Yes. No, absolutely. Look, we did back off from the £6.4 billion. We believe that, strategically, it was the right thing to do. So, at the moment, we're very much guiding people to a 6.9 number kind of all-in, including a small amount of strategic costs and conduct, and probably a 6.4 kind of operating cost line. And we seem to be pretty much in line with consensus, which is always helpful.

I often -- I hear the question, Chris, around how do you marry investment with a need to cut cost, but the reality is -- and what we can really see is it's that investment that's cutting cost. I talked earlier about the paperless mortgage. You can just see within our retail business the true benefits of actually taking out all of that kind of level of manual touchpoints across the organization. We've delivered significant cost savings over a number of years, and we've taken out enormous amount of headcount and old systems and buildings and things as we do that. So, it's very much around continuing that journey.

As I look at the whole -- where we're spending our investment and make our innovation, we've been open before that, within our operating expenses, there's probably over GBP1 billion a year in there that's very much investment in the future of the building. We've also guided the market that we're spending sort of £2.5 billion in strategic costs between now and the end of 2019. So, we're making a huge investment in this business which will enable us to be able to take the costs out and really get rid of that old tangible structures that we used to have. I mean, in the U.K. press, we get a lot of beating on branches and things like that, but it's how do you actually move from the bricks and the tarmac and the paper moving around the building to actually much more of a digital pace. When you can do your entire mortgage now on your phone, that's quite a tremendous move forward.

And that story repeats itself when you get into the corporate business in terms of what we're doing with our bank line system, and then when we get into NatWest markets, it's a digitized business. And that I think is why we're really quite comfortable around our targets around costs. And it really is sub-50% income -- cost to income ratio that we're aiming for.

Chris Manners: Yes, that makes a lot of sense. Maybe we could switch tack and talk a little bit about capital return. Obviously, RBS has come a long way since the bailout back in 2009. You've cleared the Department of Justice RMBS penalty, which obviously was a big deal. And the core business is profitable. Capital ratio is around 16%. Obviously, we heard Chairman Sir Howard this morning making comments about potential for special dividends. I think the market is pretty pleased by the fact you've been able to actually announce a dividend for the first time in 10 years. Could you share with us how you and the team are thinking about capital return potential above that sort of 40% dividend?

Katie Murray: Yes. No, absolutely. I mean, look, we're a very well-capitalized bank. At the half-year, we were at 16.1%. And it is important to remember that was after £4.9 billion to the DOJ, £2 billion that we'll pay to the pension fund. And the smaller £250 million that we'll pay in terms of dividend. It's a really strong position to find ourself. And we know that we are naturally capital-generative, which is very important. We also know that, with the Alawwal transaction, that some of you will be familiar with, which is for the benefit of you that don't know, is our bank in Saudi that we're in the process of extracting ourself from. It's a longer-term transaction, and we expect that to come through in H1 next year. And that will add a further 40 basis points onto our capital. So, really sitting in a very strong position, which is great.

I mean, you're absolutely right, Chris, we've guided that we'll get up around 40% payout ratio in the ordinary basis, so it really is time to start thinking about what's next. Now, we've spoken very publicly about our desire to do some directed buybacks. A directed buyback is not as common a transaction in the U.K. as it is, I understand, over here in the States. And so, we are in the process of working through, with the PRA, how we might do that, what's the timing of that. The basic rule is that we would be calling an EGM at some stage to get permission from our investor community to be able to do directed buybacks rather than general market buybacks, and that we would then have the capacity to buy up to 5% of our stock in terms of the market cap. And what we need to kind of balance is actually what's the right pace for directed buybacks. That won't get us there, even the amount of capital we have in the short-term, and then actually what we do with dividend. So, I think this morning the Chairman didn't declare a special dividend despite the headline, but he certainly said that it would be something that we are considering and then looking at. So, I think we'll work our way through that. But, I would temper enthusiasm. We have a stress test result, which is coming out later this year. We won't do anything around EGM. There are things prior to that result coming out, and that's on the 5th of December. We're -- given what we've built up in terms of extra -- excess capital over the last year, I mean, 250 bps stronger than a year ago, a lot of management actions in terms of actually taking businesses volatile to stress off the books. We're in a good position, but we need to get through that, as well. So, it will come, but it will take us a little bit of time. I think as we work out how to do it and what's the best kind of ratios to do things in.

Chris Manners: Got you. No, that makes sense. Yes, I would have thought, once the DOJ penalty has been paid, that that--.

Katie Murray: --It has been paid--.

Chris Manners: --Yes, that the stress draw (vol) around that number should be a lot lower, so that should hopefully just give you one benefit in the Stress testing --.

Katie Murray: --No, no, I mean, certainly it should do.

Chris Manners: And maybe we could ask a little bit about the government shareholding. U.K. GI, which is the sort of less familiar, is part of the U.K. treasury. Still owns over 60% of RBS shares. How do you see a sell-down playing out? And how can RBS assist? It's very interesting, the point you make about the directed buybacks. So yes, so maybe just a few thoughts around that would be good--.

Katie Murray: --Yes. No, absolutely. So, I think the U.K. GI, and this is a question we get lots about when do we think and what they will do with their shareholding. Ultimately, it's their shareholding, and they will certainly decide what they do with it and when they sell it down. But, the things that we do know, that in the treasury, they have GBP3 billion of income from their sale of their stock from RBS for the next number of years. So, that's something. They did a disposal quite recently, and it has gone through. And I think the important thing for RBS is to make sure that we give them the very best story possible for them to be -- to enable them to do the sell-down. I think the directed buyback is part of that, so if that is something that they want to use that we are in a position to be able to participate at that point, so we need to make sure that we're ready for that. But, it's really a story of making sure that we continue the quarterly profit trend that you've seen coming through and that we deliver on our 2020 targets, and so that they're in the best possible position to make the best sale that they can.

Chris Manners: Okay. Well, thank you for that. Maybe what we could do is we can move the audience response questions and have a number of questions for the audience. It'd be great if everyone can participate, and then maybe we'll see the answers and maybe have a sort of discussion--.

Katie Murray: --Yes, no problem--.

Chris Manners: --On those. So, everyone should have a -- the pad in front of them with the numbers on, so please don't be shy in voting. So, the first question is, "What would cause you to become more positive on RBS shares?" Is it, A, better macro environment; positive revenue surprises; greater cost savings; stronger capital dividend payouts; or reduction in U.K. government ownership?

Okay, there we go. Wow.

Katie Murray: I think the what -- the audience is quite decided. I mean -- and the macro environment, I mean, that very much leads back to our first question, I think, in terms of -- I mean, if you look at where we were in 2014 to 2016 and where our growth expectations were, where inflation was running, those are all things that we will revert to, over time. It's just a question of time, but then there's definitely something there. I mean, stronger capital and higher dividend payments, I think we can assure you that they will be coming. And certainly, the dividend payments, I'm not sure in terms of being one of the strongest capitalized banks that you see at the moment. You'd see stronger capital, but certainly on the dividend side. And I think we all agree on the reduction in U.K. government ownership. This is helpful to have much more of a free float, and that's certainly what they're very keen to do, as well. But, 72% for better macro environment, and that's quite a strong message.

Chris Manners: And that's a huge skew from the other questions we've had earlier today. I think that's the highest we've ever had on a single--.

Katie Murray: --I won't necessarily take that with pride, rather than -- I agree with your aspiration. It would certainly be helpful for all U.K. businesses.

Chris Manners: So, if we can move to the next question, it's "What do you expect to be the biggest influence on RBS's revenues in the coming 12 months?" Number one, volumes; number two, pricing; number three, policy rates; number four, fees and commissions.

Interesting, say policy rates being--.

Katie Murray: --Interesting, yes, policy rates. And I think we'll see -- our view is that we'll see another rate rise, so that will certainly have an impact. And I shared the numbers earlier, but are (ph) positive that is for us. I think for me, it's interesting, the question we have around competition. I really do think that volumes will play a bigger part, then maybe suggested here were the 11%. I seem to have quite large skews, as 69% up there on the policy rate.

So, what's interesting is very few are saying on fees and commissions, so that certainly something for us to have a bit of a think about around what narrative we use on our non-interest income, because I think that is some way that we can create value as we move forward.

Chris Manners: Interesting. If we can move to the next question, please? "How do you think about RBS cost savings efforts?" Number one, likely to exceed stated targets and boost the bottom line; number two, likely to meet the stated targets to boost the bottom line; number three, likely to be offset by cost inflation or revenue attrition; or number four, needs more effort, not enough action underway.

Katie Murray: So, Chris, I'm responsible for the cost program, but I would certainly hope that we get closer to one than needs more effort, but we'll see what the assessment is. Not trying to lead the audience in any way there, but, I mean, likely to me, I think we've got -- meet stated targets. I think we have a very strong history of doing well on our targets, and we obviously don't have a target for this year, but we do obviously for 2020. So, it's great to see the confidence that people have in that. So, again, 73%.

Chris Manners: Next question is, "How do you see RBS positioned on capital and dividends?" Number one, upside surprise (ph) and regulated clarity; number two, upside surprise from earnings and restructuring; number three, downside surprise from earnings and restructuring; and number four, downside surprise from further increases in regulatory appointments.

Katie Murray: Much more of a split audience this time. And so, I'm conscious people are on our webcast as well, but kind of 38%, 38%, 17%, and 7%. So, I mean, I think where we'd see clarity, whether that be in the form of Brexit or Basel IV I think is something where we really are waiting for, as well. And it would be great to see that that comes out more positive. I suspect that Brexit will come out more positive. That's a personal view, just once we get the clarity. So, it's good to see that the view definitely is that we're very much on the upside of things.

Chris Manners: I think it's really interesting on that point, as well, just about the stress testing, given there's a history at RBS in the stress test now, much better chance to come through with a sort of clear score--.

Katie Murray: --No, and I mean, the stress test is really interesting. And the conduct impact has been huge for us in the past, and the settlement of DOJ is important. We still have other conduct issues, but they're just obviously so much smaller in terms of quantum that we need to deal with them. But, when you look at our underlying books and portfolios, we perform well, along line with the rest -- in the rest of the market. So, we're -- we really -- we're hopeful that we'll get to the right place around the stress test this year.

Chris Manners: I guess also because you've been de-risking your consumer finance book compared to what some of the other banks have.

Katie Murray: No, and we've been very, very deliberate about that and sent GBP20 billion of RWA off in the first year. We have another five billion to 10 billion coming this year. So no, very deliberate on the de-risking that we've taken.

Chris Manners: Thanks. I think we have a last question on technology. "So, for Royal Bank, do you expect technology change to be positive or negative?" Number one, positive because of additional revenue potential; number two, positive because of cost savings; number three, negative because of cost burdens; number four, negative because of pricing pressure; or number five, negative because of new entrants taking away business.

Interesting. So, the biggest Response says 54% on positive because of cost saving potential.

Katie Murray: Yes. And I think that that is very fair, and it's what we are really seeing just now. I mean, I think the reality is they're positive because of the additional revenue, which the 14% which is still quite strong, but if you look at kind of our views around GDP goals, 1.5%, to kind of get much more than that is going to be challenging.

But certainly what we really see, I mean, and I have spent a lot of time trying to really think about and go and visit companies where you're seeing technology change. You can really see it has got the absolute potential to change your cost base. And then, it will also really change your customer experience, which will help with your customer loyalty and make sure that your revenue is secured. So, I think technology for any industry, but for banking in the next three or four years, it's going to be a very exciting place to be.

Chris Manners: : Perfect. So, I think that's what we have for the audience response questions. And so, maybe what we can do is we can open it up to the floor for any questions we may have from the audience. So, please, don't be shy.

Chris Manners: We have a question? Please state your name and your question.

Harry: My name is Harry. Question is what do you think about your expansion in the European markets in particular, just adjacent markets to your home base?

Katie Murray: Thanks. Thanks, Harry. I mean, I think at the moment, the -- RBS has spent a long time focusing in the last number of years of how do we really become a U.K. and Ireland domestic. And today, we obviously have some global presence for -- to meet our customer needs. I don't think in the short-term that you would see us looking for expansion, particularly with some of the ambiguity around. I know the Western European piece is interesting and what might become of that, but it's certainly not something that's high on our agenda at the moment. We're very focused on being a U.K. and Irish retail and commercial bank at this stage.

Chris Manners: Thanks. Should we take the next question? So, maybe one for from me just while people are gathering their thoughts. This would be on open banking and PSD2. We've got new European regulations that are designed to open up customer data to a wide range of players outside the traditional banking sector, as well as to your sort of established competitors.

Katie Murray: Barclays, for example.

Chris Manners: Right, Barclays, for example. Yes, how do you see the impact of potentially increased price transparency and competition playing out? And what steps are sort of Royal Bank, and I suppose your NatWest brand, doing to get ahead of the curve?

Katie Murray: We are really excited about open banking. I think when these things first come out, your first reaction, "Oh, more regulation." But actually, open banking I think is regulation that will help the consumer a bit actually I think is a great opportunity for us as well. The same as -- others will be able to see the data that they have on our clients, within our groups. We'll also be able to see the opportunities there. So, we've been doing quite a lot of work on it. The technology we believe, industry-wide, is really fundamentally safe. It's good technology to use. Customers need to understand that they are opening up their kimono, so to speak, but what I really like about it is, well, when you do that first opening, then 90 days later you get the chance to reconfirm that you still want to stay out there. So, it's not one of those things. I've given you all my data, and I'll never be able to close the door on it again, which I think is something that's important for people.

Really, we're doing a lot of developments, and I think a weak on Monday, we have a seminar with our personal business, where they'll be talking a lot about what they're doing and their response for open banking. So, in fear of stealing some of their thunder, I'll probably just do a little bit of an advertising pitch for that. So, it'd be great if people would like to come and join and really hear about it, but it's something we're very excited about. I think it will have lots of opportunities for us to really help our -- the customer base expand their financial wealth, not in terms of investing and things like that, but actually how can they change the day-to-day reality of what's happening within their financial life. So, I think it will be great. And as AI gets stronger and stronger and stronger, I really think we'll be able to add more and more value to our customers.

Chris Manners: Thank you. See if there's any more questions potentially from the floor? Thank you. Gentlemen?

Emmett Thanks. Thanks, Katie.

Katie Murray: Hi, Emmett.

Emmett I was just wondering about NatWest Markets and how you think about that business, moving forward. So, you did roll back quite a few legacy assets into that division, which you're basically looking to run off. Basically, what's that kind of trajectory we can think about the drag from those legacy assets in that division? And then, when do you think we're going to get to a position where NatWest Markets is kind of in its end state? And is it going to continue kind of -- this is what NatWest Markets is going to look like, going forward, or do you imagine there's any opportunities to kind of expand the proposition?

Katie Murray: Yes. So, I mean, I think NatWest Markets has done a phenomenal job in terms of their own transformation from what they were and then bringing in the legacy business, which we did at the beginning of this year. I mean, in reality, they always -- they worked closely together, just given the product and the intellectual powerhouse we needed to kind of help with the legacy business.

So, as I look at it, they will have finished their transformation. They've got another year of big spend this year, and then again into next year, and then the past is sorted. And we've always talked very publicly that you would expect that business to be GBP1.5 billion of income, GBP1 billion of costs, and GBP30 million of RWAs. So, that's the trajectory that they're on. And I think then, at that stage, it's very much to look about how can we actually continue to improve that position while staying within the risk appetite framework that we have for that business. So, I think it will be post-that event. It's just kind of let's see where we've landed, and then continue to build on from there. But, it's important part of the group. It serves our large -- enables us to do our large corporate business. So, obviously, a lot of the income that we get also fits within the ring-fence bank in terms of the servicing of those larger and corporate clients, as well. So, it is something that, strategically, we are very -- is very important to us.

Chris Manners: Thanks. Should we take the next question? Maybe potentially I could follow up with another question. Just on the term funding scheme, the stimulus that was the GBP127 billion of stimulus put in by the Bank of England in the wake of the Brexit vote, obviously RBS is very liquid, 162% LCR. How do you think about repaying your TFS? And also, how do you think about that, I suppose, repayment of the stimulus cash impacting competitors and the funding for the broader sector?

Katie Murray: Yes. I mean, I think the TFS was for all of the banks, so a very good outcome. It was some very nice funding, which we availed ourself of. So, we will repay it as and when it makes the right time for in terms of the management of our balance sheet. It's not something that we're particularly reliant on. I should say we've got a very high LCR. I think what's interesting is there's still a lot of TFS money in the system, so what we -- I think that's a small part of the competitive story, not as much as sometimes there's just a natural liquidity that exists in some of the bigger players.

And as we look at TFS, I think what will be interesting is the dynamic as other start to pay it back, particularly in that challenger space, and what that maybe does to deposit rates, as they have much more of a need to build up their own funds. And so, I think we watch that space in our competitors with interest. But, for us, TFS, it's a very nice solid tool in our arsenal to have, but it's not something that we're dependent upon, as, of course, you know.

Chris Manners: Yes. It's quite interesting, because after the rate hike, and actually is costing 75 basis points, so it actually looks now expensive versus some of your other funding sources.

Katie Murray: Of course, yes. And there will be others that will feel that more than ourselves, so that is a good point, Chris.

Chris Manners: See if there's any more questions? Don't be shy if you have a question for Katie. Please, go ahead. Yes, the mic's just coming, so it'll be there in a second.

Safa Muhtaseb: Thank you. Safa Muhtaseb, ClearBridge Investments. Maybe a separate broader question, not specifically just for RBS. As banks, European banks, U.K. banks have recapitalized, are subject to greater scrutiny, regulations, stress tests, et cetera, et cetera. The overall system has just become a lot healthier, yet your cost of capital, specifically equity, is still high. What is it, in your view, that the markets are missing? Why is this aspect still not appreciated?

Katie Murray: It's a great question. I mean, if you look at U.K. banks specifically, I mean, we know that we've got the Brexit, overhang when you get to European banks and you start to look at the Southern European banks, they've also had, I think, a particular story which is still playing out In terms of their own position. And I think that there is also some nervousness and anxiousness just in the system of actually, look, we're very well capitalized, but there continues to be a lot of regulation that's coming our way in terms of things like Basel IV that's coming our way, so actually how much more do people need to add onto that piece as they continue to meet the -- I think the levels of registry requirements that they have upon them.

So, I mean, it's interesting. As we sort of say its the 10th year anniversary of the whole crash, in many parts of Europe, it's not -- it's a much more recent story than that. So, I still think we still have that story within the marketplace as we move forward. But, we remain confident that it will be something that continues to improve as we see our way through these Brexit outcomes.

Chris Manners: Thanks. Well, I guess if we don't have any more questions from the room, it remains for me just to say thanks very much to Katie Murray, Deputy and soon-to-be Interim CFO of Royal Bank.

Katie Murray: Lovely. Thank you very much indeed. Thank you for your time.