Q3 Results Fixed Income Round Table

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Katie Murray, CFO, RBS

FORWARD-LOOKING STATEMENTS

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Katie Murray: Thank you very much for joining us. I think we have met. I'm Katie Murray CFO from RBS. Robert is well known to you, as is Paul and Alexander and we are joined by Scott Forest, the Head of Debt Capital Markets, I imagine many of you know as well, also. Happy to take any questions. I thought before we started Robert and I would say a few opening remarks. As we look at Q3, I reflect upon the performance and how we sat amongst our peer group. There were some things obviously we were pleased about within our results, the core bank, the commercial bank is continuing to perform well. And the underlying performance remains solid in what we all accept is a tough operating environment. The lending is up to our, 2-3 lending target, 3.2% analysed which is a good position to have found ourselves in. Credit goes to the mortgage book and the growth we are seeing there. It is a high returning, low-capital intensity book and growing nicely at the smaller ends of commercial as well which is pleasing. We are also attracting new customers to the bank. That is a very important sign in terms of longer-term sustainability of the bank. The costs are coming down, we are on track to do 300 million this year. We have a return on equity of 7% once you exclude the pain of the PPI charge which we will all admit caught us by surprise in terms of the volumes of claims. So overall a comfortable place to be. There are issues around some of the NatWest market performance, not the capital but in terms of the performance of the rates business particularly. As I said, PPI was the big negative in the numbers also. Robert, I don't know if you would like to say something also?

>>: Maybe a couple of things. Clearly there is a lot of uncertainty out there, uncertainty generated by Brexit and uncertainty generated by other global,

political or macro-economic factors. We are not immune to that. Clearly, we are a more UK-focused institution now so therefore, UK economics and UK interest rates are the primary factor behind the way we look at things. There you are aware that things have been volatile over the last couple of months as sentiments have swung on a Brexit and a political basis in terms of not only interest-rate expectations but the shape and the impact it has on the banks and the net interest income. So we monitor that and model it and do various other things and clearly update it as part of our budget process and the full-year results. However, the thing that we take great comfort from is that we have a strong and a sustainable balance sheet. We are capital generative in Q3, capital generative on an ex-PPI basis and continue to try to find ways to deploy or to distribute that capital, similarly from the liquidity perspective, we have been above or around the 150% LCR and 148% at the end of Q3. You know it could be argued that is high and talk about how do get that down. I am sure we will talk about the liquidity aspects of that. But in the current environment where I think you are seeing the signs of strain around some of the competition, I think it is a good place to be as we head into where ever we are heading to over the next 12 months. We have continued to make progress both in terms of our issuance plans. This year you will have seen we have done a couple of transactions in the last few weeks, $750 million-dollar tier two. At issuance over $7 billion of orders for that transaction and the first social bond last week which we were pleased to have launched and pleased with not only the demand for the bond and also the types of investors or the new investors it brought into the issuances. From a group perspective we had targeted 3-5 billion this year, based on where we ended up last week, we are at 3.8 billion or something. So we are comfortable where we are for the year. Clearly if there is opportunistic issues we could do in terms of pre funding next year we will look at them but we are comfortable where we are. Similarly on the NatWest Markets side, they have done their funding but again we will look at potentially what the refinancing needs are for next year. The one area which for obvious reasons we have not met funding targets is in the covered bond space where we don't need the liquidity, we did a £750 million covered bond (Sonia linked covered bond), so from an issuance perspective we have been as clear as possible. From our transactions we have been pleased partly as a result of the timing of the markets and the team and also it is a continuing endorsement of fixed income investors in terms of the strategy and the strength of the balance sheet. In the one area where we are probably a little frustrated on is credit ratings, I am sure we will get into that. You will have seen the Moody announcements in terms of the sovereign and the UK sector. It is obviously pleasing to still be on that kind of positive trajectory but clearly, we still feel that the gap between us and peers in certain ratings is too wide given, I think, the structure of our bank now and certainly the ability to navigate it in a stress environment. So, I will maybe pause there and open up for questions.

>>: One question, I hope it does not sound too provocative, one I have heard from investors a lot is given the poor performance of NatWest markets why have an investment bank of that size? What is the rationale? Should you be basically shutting it down?

>>: Let's explore that question a little. When we started out with the investment bank about four years ago, we made the announcements in 2015,

what our plans were. We talked about something that was strategically coherent with the rest of the group. If you look at the revenue share in terms of currencies and financing that is definitely the case, it is an important delivery mechanism to meet the needs of many and our mid-large corporate clients and our larger rates business which is where the poor performance was in Q3. While that is used by the corporate clients it is used far more by other financial institutions types of businesses. But it is used by the corporate clients as well and the revenue share mechanism is smaller as the business is more expensive to run, which is why you don't see the volatility coming through the revenue share line.   It is easy to say why not shut it down. In terms of shutting it down, given than the mid-and large corporates use currencies and finance to such an extent, in shutting it down you are saying you can now no longer service many of your mid-and large corps, that would clearly impact on the core bank. So there is not an option to shut it down. The debate is given what has happened in the three or four years since you did the announcements of what you were planning to do, given where the rates have gone and terms of where our expectations of rates would go at that time, and given what we are seeing with other large investment banks should you be shrinking it? What we realise is that those investment banks that do well, all of those that are doing well, all of those are struggling to return 10%. And those doing better, by better that is 6-8 return, they have massive scale. So given that your subscale business that is in our UK markets, that is specialised in sterling and Euro rates, does that make sense as you go forward? So as Alison has come in, I think it is day ten today in terms of looking at that, she is looking at Ulster, looking at where we are in digitisation. She'll be spending more time with the personal bank as she is much more of a commercial banker and broker. NatWest market is one of the things she is also looking at. We are aware it is time to give you the update of the next stage is for that bank, we will do that in February. The shut it down is an easy and a natural response. I would have said it myself internally, when you see the options, you think, this is a bit too difficult. But it is not really an option, it is so important. Otherwise you would be saying that is fine, I am happy to take RBS to be a Nationwide plus a small commercial business that can do no financial transactions of any particular complexity.

>>: So the risk-weighted are at that to 20-25 percent of the group? Do you have a figure of in mind of where it should be?
>>: Smaller than that. It is important to look at that piece. There is 5 billion which is legacy assets, that we look at to see if we can off load any of the legacy assets, some we know we can never remove, they are long-dated, they require trustees to look at them, you would never get rid of them. So always a portion of that and NatWest markets carries that burden. But in terms of the size, we will talk more about it in February.

>>: The other thing, from the perspective, a more recent phenomena, we set up our repurposed N.V. entity to handing the corporate business. Prior to that, it would have sat within the ring-fenced bank, as it moves over and you transfer the RWAs over with that. That is not a big number at this stage. But part of that migration of Western European corporates is also part of that bill.

>>: What should we expect out of the living will process. I guess there is a time frame for that? Or the impediments to resolution process, by what I mean the

bank are talking about plans, by what do you have to submit, by when and what do you see coming out of that process?

>>: I think it has been running for certainly two, close on three years now. Clearly 2022 is a very important in-date for the bank and therefore for all other banks that are involved in this process. Until now you have seen very little. Effectively there are various parts of it that have been progressing at different paces. As much driven by clarity around the requirements as in terms of the banks actually meeting the requirements. So if I think back to last year's focus a lot was on what is called OCIR, which is operational continuity in resolution that corresponded to ring-fencing at the same time which gave you the opportunity to really look at the critical functions and services and map them and get them in systems, agreements in place, that was going on beneath the surface. We don't talk about it, it is not so exciting to talk about but there was the expectation from the Bank of England to get to certain places and they come in and sample test to do that type of stuff. That went on last year. The other things that we were, MREL is an ongoing journey, we feel comfortable with that journey, it is a very important part. When we go to the Bank of England they want to talk about that, as much to understand the condition for MREL and to understand where we are. There was the liquidity buffer aspect as you need to hold a small buffer for ongoing expenses that would be incurred in resolutions so if the bank had to come in, they would know that they had access to the segregated buffer. So there are many component parts to it that are ongoing and developing at different stages. This year there is focus on valuations in resolutions, so how to value the business in a number of different ways in a resolution type scenario and working on different methodologies and

trying not to have to create a brand new system or a platform to do resolution type evaluations, rather building on what we do from a BAU stress testing perspective and how to link those together to a corporate finance perspective, how to link it to get to valuation resolution. The big thing you will see next year is the self-assessment. So the Bank of England have laid out guidelines in terms of resolution self-assessment, the processes that we have to do that piece of work ourselves, working on a self-assessment framework, to go about doing that to share that with the bank so that they can comment, so they can say we like that, you need to work like that or maybe a little more like that. And to work through that in terms of trialling that through next year and ultimately taking that to the board as they need to get comfortable it is their assessment, ultimately, they are signing off on it, in terms of where we are against the barriers and broader than that. There is no set guidance. But we think it will run into probably at least a couple of hundred pages in terms of the full document. What is not yet clear is to how much of that will be published. Effectively the bank will make their assessment of your self-assessment and then come out with an opinion that you would hope is broadly based around the same sort of opinion that your boards get to. That is an iterative process in terms of you are not just landing a document on them to say OK, we think this is resolvable, and they say you are not. We meet with them on a regular basis, Katie and I, to go through where we are in terms of all aspects of that. There should not be surprises as there is an ongoing dialogue and requirements and set of expectations as to where we are and they are quick enough to point out if we are not quite where we expect to be at this point.

>>: Ultimatley are we are expecting a list back from the Bank of England, or a prescis, that these are the impediments and this is what you have to do to resolve them?

>>: I don't think it is exactly that, that they will say this is what to do to resolve them. They will point out where they think, perceive we still have work to do. You know, they are not necessarily always as direct, to say you have to do this, this, this. It tends to be, you have seen the guidance, you are falling short in some areas, come back with a different plan.

>>: Can you see a surcharge if there were a list of things that you were falling short on?

>>: I definitely could.

>>: Is there a capital surcharge present within the pillar 2A for those type of things or that would be new?

>>: No.

>>: To be clear we are not anticipating one personally ... but we could philosophically anticipate them putting that on

>>: There has been discussions with them about what it would look like. But I think that there is a subliminal message when you have meetings we have expectations that the banks get to a place we would want them to be by 2022

and clearly the current capital requirements with based on the fact that banks will have an acceptable resolution and strategy in place by the end of 2022. That is as far as it has gone.

>>: Would you expect that to be a form of MREL add-on or pillar add-on?

>>: I don't know. I guess in some ways that the easier way to do it is to add to the end requirements, you need refinancing every year, so it is not there forever if you raise it. But if they do that or if they try to introduce it through some sort of ICAAP type ... honestly, there has been no dialogue on that.

>>: It flows back to the same position as the MREL requirements [inaudible]

>>: A question on politics if I may. Obviously with all of these things there is a lot of variability. Clearly in the last election you had the unfortunate position of being named in the Labour Party manifesto about their various intentions there. Is also the discussion about potential second Scotland referendum and all that can create. I wanted to understand if this is something that management even thinks about or there are contingency plans or it is something that you have to tackle as it comes so to speak.

>>: There is a blend. You have to tackle it as it comes. What then happens is the reaction to some of these things, that is hard to do. What we do is we have a SCEXIT plan in terms of Scottish independence. We did it a while ago, we are dusting it down. So we have done dusting. There is a paper going to the board but it is not really active planning but from time to time, what I

would say is that we are probably in a far simpler place than at the time of the last referendum having gone through ring-fencing, so previously the Royal Bank of Scotland entity based at the Scottish bank was completely intermingled with the investment bank. As a result of moving the clients to Adam and Co, to become the new Royal Bank of Scotland it is much a cleaner entity. As there are English locations within there, we talk to the customer to say do you want to go on to the NatWest balance sheet, it being an English bank? It is interesting, the Royal Bank of Scotland, people think of it as a Scottish bank I think it is fairer to think of it as a Scottish and a north-west of England as it has the Williams and Glynn balances in it but it is much cleaner than it was. Clearly the old Roytal Bank of Scotland entity, it is still a Scottish entity, as are we. We said we would look to relocate them, our view is not unchanged on that. And while it may irritate the Scottish Government emotionally, rationally, when you look at the size of their economy, they don't want a bank the size of NatWest or an investment bank sitting on their domestic balance sheet, so you get to a point of agreement. Those are things from the last time we dust down and observe and I think we are in a slightly better position. In terms of who may or may not win the next, this upcoming election, we work a lot with all of the parties. We are awaiting their manifestos, what I would say is that Labour, in our view, over the last number of years, has moved quite a lot. They started off in there saying we would be broken up. Then they said we would move to a directed lending vehicle and then they said we would hold them and take their dividends to fund their own direct lending vehicle. We do a huge amount of work on regional lending and I think the social bond supported the regional lending debate that we had. They didn't understand that, we spent time talking them through some of those things. The reality is, RBS, despite the share prices, it is still a highly valuable asset that the Government could monetise in terms of some quite expensive manifesto promises I think we may see in the next few weeks, so let's see what happens. There are different scenarios, our view is let the politicians do what they do in Westminster, our job is to run the bank.

>>: On the topic, was there a conversation regarding the privatisation deadline?

>>: Not in terms of deadline but we know he is supportive of their policy to date. It is important, people think, why have you not bought it yet? But understand while we have closed periods, we don't talk to yourselves, if you think of a directed buy back we cannot participate.   It takes 4.5 months out of the picture. The government has a lot of closed periods, so when there is an election going on, they cannot do anything. When there is a date of anticipated budget, they cannot do anything. So when you had the issue of a budget on the 6th of November it kicked them from the market once again. There could be other issues going on in a number of different Government departments which would mean it was insider information. So if you look at how they sold out through Lloyds, what we would observe is that most of the activity happened in the first half of the year as it is an emptier calendar but this is our third election in five years or four year, but the third election in five years, I don't know how many budgets we have had and how many Brexit type critical insider information moments, I feel that the UK GI when we meet them often they are frustrated as aim is to dispose of our shares in line with the budget. The fact that their hands are tied and they get their hands tied at the

point that the share price is improving a little and as the hands are untied, the share price has come down. They have their own fair value considerations to get. The dividends we paid them in the last nine months helped them in that.

>>: Thank you.   Can you talk a little about what trends you are seeing in asset quality? Looking at the credit migration numbers for UK banks, loans going from stage one to two to three, it looks like there is a slight deterioration but nothing significant? In terms of impairments, we are seeing a lot of banks not just in the UK but across Europe, with higher loaning impairments and blaming that on unconnected single exposures or lower recoveries than last year. But looking back it seems to signal the start of a downturn. I don't know if you are seeing a strain.

>>: What I talk about in our calls and questioning, they were seeing a small sign of strains. So the 22 basis points for the year, we were about 16 basis points in the same period last year. So I would say 2018 was exceptionally a good impairment year. We had no tall trees. Many of the things you saw happening in the market, Debenhams or Patisserie Valerie, there were not exposures, if we had we would have dealt with them previously. The smaller retail things we were not exposed to, so we had a very good 2018 but a poorer 2017 with a large single name we had to deal with. This year, we have had four or five different names, none of them individually significant but an interesting creep-up, all non-regional, non-sector specific, so you cannot say it is all problems around the north-west or something like that. In terms of the modelling changes, of which there has been about 50 million year to date, half were to do with deterioration in PDs on the personal side and in terms of against our

original assumption, it is not a big number but it is important. We put in our economic uncertainty overly at the half. At Q3 as well. We did coincidentally at the same Q3 last year, it is not a Q3 plan, but to show that the economics are a bit harder. And as the economics get worse, we are told, from the end of June to September, you expect to see some kind of impact coming through in your area. It is not one single name or lower recoveries that we are seeing, but there is some slight strain in the market. But it helps us today, is the continuing high levels of employment. Although they have gone down. They have gone down from the best level in 40 years to the best level probably in 39 years. The movement is so tiny. But it is a movement, Alexander and I were talking last week about it. There are less vacancies being advertised as well. That is another sign. So a few little signs of strain.   It is not, it is important not to overinflate them, nor important not to ignore them either.

>>: You mentioned the Sonia link covered bond. We've seen Nationwide consent on theirs, what are your plans [inaudible] there are various things that are LIBOR linked and LIBOR related?

>>: Well, we are working through the bonds individually with our legal team. Scott can jump in, he is more heavily involved in this. But many of them have fall back language incorporated into the existing documentation anyway. Whether or not we will have to deal with that. There is a broader piece, I will touch on, that Scott can touch on the securities in there. So, I'm also responsible for the overall LIBOR transition programme for the banks. So I think if I put that in a list of areas of challenge, it probably would not be near the top. As you look, at a generalisation is to look at the market type activities we feel the market will find ways to resolve them and there are ways to

resolve them through various mechanisms. I think that there is another two chunks, one is what I call the internal plumbing and wiring of any organisation. The more you look into it, the more you see there is second order areas that may reference LIBOR, even in contracts you may have with suppliers. So there is a whole host of internal plumbing and wiring things from models to your elements or the transfer pricing based on LIBOR, some of your, which feeds into the budgets and so on and so forth. So a whole host of internal models, transfer prices and documentation and then the big, large corporate lending book which for all banks is the biggest challenge of them all. We have done the first corporate linked Sonia loan and that is great and the PR and the media coverage but that is the tip of the large iceberg and how to migrate the clients in that timescale is a challenge for the industry.

>>: Do you think that the industry will meet the deadlines?

>>: As you sit here now, I think there will be a challenge. This is a personal view. I think there will be a moment, probably next year, where the industry and the regulators have to sit down and part of it will be, we will get a slap on the wrist saying we are not moving quickly enough. And part of it will be, well, look, there is an enormous body of work here. And by the way, many of our customers, it is not in the top of their in-tray at the moment in terms of what they are worried about. It is going to be a migration journey. So, we all have plans that say we will get there. We have plans to say that we are getting there, I assume that every other bank has as well. But it is an enormous exercise to get there. Scot?

>>: Yeah, I would add in terms of the context, you have also got sterling LIBOR, US dollar LIBOR, and once again, the Bank of England are really leading the agenda in the debate. Then we are seeing ... [inaudible] along, so we are probably at the sharper end at this stage relative to some others. If we look across our instruments, we don't have a huge number there that are impacted in terms of the timescales. Some of those you look at, soft bullet redemption process, well, that is, you would only get into that situation if the instruments have not been repaid and you have the one-year extension so, that takes a portion. Then there is only a small handful of others there. As Robert was mentioning there is time there to evolve to finesse those.

>>: Is there a cost guidance given before the impact of this change?

>>: A guidance in terms of the impact of the change?

>>: Additional costs?

>>: There are two aspects of that. One is, there is clearly a cost of the whole transition. I try to put it under Katie's nose and run out of the room when she looks at it. It is a big cost for the whole industry. It takes you on to the point, this is no pay back, what you are trying to do is to neutralise the economics of it, both on your side and on clearly on your counterparty or your customer side. So, again, that is by no means an easy thing to get to an absolute number on, there are many component parts, some of which you can work out, some of which, I think, and this is partly where you get to the issue of how quickly you can move, which is certain aspects of it, you almost can't move alone. The

industry needs to move. So the term, Sonia rate, right so, you know, the regulator's view or what it has been has that it is not our problem. We have said you have to reference Sonia, that is an overnight rate. To create a Sonia term curve, that is your problem. We are not running out to create a Sonia curve on our own and Lloyds get a different one and Barclays another one, that is a recipe for carnage. So some of the things must be industry-wide solutions and fallback language is another one. The loan markets associations are discussing those things but until they land, and this is partly how they think at some point that the regulator gets frustrated at the lack of the progress from the industry in terms of agreeing some of those things and you cannot move forward. Without agreement on that you cannot fully work out what the economic impact of the transition will be. So, yes.

>>: You did your social bond, I guess last week.

>>: I did.

>>: Could you do social capital or tier two, AT1? Is that possible?

>>: Oh! Good question.

>>: Obviously ...

>>: Our inaugural transaction. We have seen some green tier two comments. I think conceptually it is something, there that could we consider at some future point in time. With these things we are keen to be able to walk before we can

run. This was a particular programme. It is aligned well to the overall strategy in terms of supporting SMEs up and down the country. So it ticks a number of boxes from an alignment perspective. The framework does provide for the green issuance in terms of assets in terms of clean transportation and renewable energy and other social factors that could come in to align to the social bond principles as well. So it is something. I think going through out exercise it is not the first product I would bring to market in terms of the tier two capital.

>>: As a matter of principle it does not matter about the interim issue, that the

>>: That the proceeds are utilised.

>>: I think two other points, one of which Scott touched on, the other is the flip side, the demand. I mean the bond issue is the ultimate expression of all of the work that goes on internally to develop the framework and make sure that the data is there and ongoing reporting, so on. Clearly, we will say that we are moving at a faster pace than we were a year ago in terms of implementing the frameworks and ensuring that we can properly categorise under ESG principles, so on, the way that we run the bank and both in terms of running the bank and in terms of the way that we interact with our customers. I think that the flip side of that is the demand. Clearly, this bond was interesting, an interesting way of us looking at demand and the different investors that came in. But also the dialogue going out. Paul and I were in Japan two weeks ago, there was an asset manager in Tokyo, we spent 45 minutes talking about ESG, now a year ago that would never have been the case. So everything is moving very quickly in this space. Therefore, we need to at least keep pace with what

the market expectation is, the way that society is moving in terms of their adoption of this.

>>: Do you have internally the target of what is the funding mix in the future for a social issuance?
>>: That is interesting. I guess when you do something like the first social bond, there is lots of people internally then want to talk to you about how to leverage it quicker?

>>: You have never had so much internal queries on issuance!

>>: Absolutely not, the same with the social bond you cannot start to issue or claim something until you can absolutely prove you can do it and prove it on an ongoing basis and a lot of the work that Scott has done with the people across the bank is in making sure that is the case. Having done the first, clearly, we are encouraged and it ties well into the ways that Alison has talked about, the way that the organisation is going to go, to push resources into this, and the whole getting an issue out there will energise the organisation in terms of us going faster, our ability to do this.

>>: I did see a suggestion that we should have such a target. I shall go to play on the interests of the external market, Robert. Best get thinking.

>>: Sorry, on that, in terms of distribution of your basically, book, how much of it was social orgreen? How much was just pure asset managers?

>>: Scott can answer it in detail. There was about a third?

>>: How, that's right. How we decided to allocate the book, actually, when going through the process of looking at what the credentials were. So we set out three basis one do you have a dedicated ESGM list, have you signed up to SRI? Have you been active participant in two of the three actions and if you had two, you were assigned an ESG investor and then we go through an allocation process internally and then we consider the credentials when we were aligning it with the book.

>>: So there was a third that were social or green?

>>: Just over a 30% of, well, it depends how you categorise it in terms of the book that came in. About 30% of new interest was in there from accounts we have not seen in previous transactions, because of where the focus lies. On that two thirds criteria you could take it up to 70%.

>>: It is slightly difficult in the sense there could be an existing investor but it is the funds that are participating for the first time in your issue. But a lot of the meetings now on the equity side, the ESG and analysts are coming into the meetings themselves.

>>: And the strategy of the framework, are you changing your operations or was it just a labelled active part? Do we have social lending to issue a social bond or are you going to increase the social lending or green lending?

>>: We have, we certainly have more than enough lending on the books to support that bond issue. In terms of the sustainable lending aspect of it, the green aspect of it, that is working alongside the overall strategy. But there is much more visibility around what the market would expect now and therefore how we are targeting.

>>: The framework allows a number of assets to be considered for utilisation. I think the way in which we have designed the social bond for the recirculation. So we will take methodology similar to RMBS and maintain a dynamic pool there. So we plan a number of filters and criteria. So that pool is reviewed on a monthly basis. It is always something to refresh. Always be maturities. We start off with an SME log book of 26.4, filtered down to 8.6 and taking the bottom 30% off that book as aligned to areas which are deprived, so areas of high unemployment with low gross value add per capita, that is the bottom 30%. So we will monitor that bottom 30% in the context of the filtered pool of 8.6. So anything that is three years old gets filtered out. Anything which gets an encumbrance added on to it, it is filtered out. So it will be dynamic and looked at and the impact, the data released from the Government to be able to assess the number of jobs created directly and indirectly induced as well.

>>: I was going to say, two other factors, you are starting to see research along the lines which is companies that are more ESG enabled and focused and perform better over time than companies that are not. To this, there is not a lot of history to back that up. But you are starting to see research. From a fixed income perspective, it may not be linked, but is that, is the pricing of the low securities in terms of the price to the investor differ from known social

issuance? I think historically that has not been the case but I think we would, Scott, I think we would expect over time we may well see that.

>>: Is there a sector you are reducing exposure to [inaudible]?

>>: In 2018 we announced a target of 10 billion of lending finance for the renewable energy and for clean transportation. Alongside of that there was a number of projects that we say we stopped financing so the thermal coal artic oil, sand oil, and there was a commitment to reduce exposures to a corporate that derived more than 40% of the income from those activities as well.

>>: Are you aware of discussions with the Bank of England on any green supporting factor that would affect your RWAs? There have been discussions in Europe about that, how to get a waiting on how you distribute your loan book. Have you heard of anything here? Do you think it will be something that is…

>>: I have certainly not. I have daily discussions with the Bank of England specifically but not on that. I think that the danger is on the flip side of that. When you start to see climate change incorporated into the stress test, then by definition you may end up having a higher capital charge because of your ability to withstand those types of stresses and to what extent that builds into the social aspect of your organisation. So I certainly have not heard of any RWA multiplier benefit or whatever from it. I know Europe have talked about it.

>>: I think that the regulator are accepting that they have to work out how to manage and to understand the impact for longer term sustainability because of climate. We thought that they would do the BEZ on a climate basis but the reality is that they know that the banks would not be ready to do that. But they have said today that they will in a couple of years' time. So they are working their way through. So what you ask is the ultimate conclusion that you would most likely get to in terms of your RWAs but any conversations we are having now, again, I have not had any but they would be exploring around how this works. They're, you know, I think, they, like us, they are a prudential regulator focused on capital, now to work out how to move into a regulator with a deep understanding of climate. So they are on their own learning journey.

>>: I think that the fact that Mark Carney is there, he has been the most vocal out of any of the global Central Bankers on this, taking a lead on it. I think he will expect the Bank of England to be there at the forefront of designing new frameworks around this.

>>: Thank you.
>>: Just coming back to the stress test point, a number of your peers hold buffers above the [inaudible]tier two requirements. They are coy as to why they do that. As you start down paying down that and head to the 14% target. Do you expect to hold more [inaudible] tier two requirements?

>>: Part one of that is the journey, with the capital target and the regional target, it will take some time to get there. Then, by the time we get there, is

that a medium term capital target as well? We are capital generative, a lot of this is around, as we have been talking about, is how can we help the government diverse its shareholding and if not, how to invest the surplus capital or distribute it. So I think that with all of the things and MREL is the same. You have to kind of work on doing assessments of what ifs could happen and what ifs you can't access the market for 3-of months for whatever reason, a hard Brexit, whatever it may be. And the downside of breaching regulatory requirements as a result of that. Some of it, it does not happen by accident, but as you change and we clearly, we have gone through a major restructuring over the past number of years. So to an extent we feel we have managed our capital stack as best as we can within a major restructuring and tried to, we have tried to certainly have no surprises in terms of what we have done and in terms of the way that we managed down legacy tier ones, so on and so forth. So it is an ongoing analysis. I sat down with the budget team this week. I think it came back through you from me, in terms of through tier one and how does it look. But at the end of the day we have talked about the challenges to bank's profitability. And the low interest rate, the low growth in that environment. And there are levers to pull and optimising the stack has to be a part of that. We can't have redundant or ineffective balance sheet anywhere, otherwise we are just letting money bleed from the system, when we cannot afford it.

>>: You both mention the stress test has, that is coming up in the next two weeks?

>>: December 16, delayed because of the elections.

>>: Sorry, I guess you are advanced in the process. Last year was the first year where the results came out strong without any results. You were receiving approval for a clean-up on the legacy? Is it something that we could expect this year post-stress test?

>>: Well the, the alignment of the securities and the stress test result, I think that I have said this before, it was genuinely a coincidence. It just happened to be there be. It followed. There was no tie-up between doing that exercise and the result of the stress test. You have to apply for prior notification that you are going to retire instruments and there is a 90 day turn around and sometimes they take the 90 days, sometimes they don't take the 90 days, it so happened that they took the 90 days that corresponded two days after ...

>>: They brought the stress tests forward.

>>: Look, if you think about where we continue to be from a CT1 perspective which is about 16%. Which is where we started this year, which is going to be roughly where we are now. It is not really an issue in terms of the types of discussions. So, it really just comes down to a road management discussions about when on earth we are going to look at that and clearly to go through the modification process. But ... I can't remember the last time I had a conversation with a PRA about any single security or anything like that. It is just, when you are set at 16%, it is a different conversation to when you are sitting at 8%.

>>: What is the current thinking of the longer dated legacy T1s, the 2030 calls?

>>: We continue to review it. Clearly there is potential regulatory call type activity to look at. But, we, it is part of an ongoing annual process.

>>: There is not just a magic switch you can just pull and you drain yourself of all of the legacy instruments and there is no corresponding knock on education. The instruments provide support and benefit in the various lenses and providing benefit in terms of what is given failure or calculations from the agencies, there is benefit there. If there is capital, this is still tier one capital, the overall pool size is an overall benefit.   It has been helpful for us, particularly in the days pre-DOG settlement in terms of having elevated overall capital levels and particular buckets of capital as well.

>>: Presumably from 2022 this well not count as MREL, or the value.

>>: The value will change at that point in time.

>>: Is the biggest factor then the coupon, in terms of the carry expenses?

>>: Some are. Some are actually that we provide cheap funding on a going forward basis. If you look at the capital stack in its entirety you cannot just look at the overall external coupon rate but you need to take into account for debt instruments and what the correspondent hedging position will be in an off-set benefit.

>>: Looking back as well, Andrew Gracie was pretty adamant that capital securing was at the upper end of the campaign a no-go going forwards and Sasha Bell, well she does not talk to us that often. But does the Bank of England still try to push you to get rid of your operating securities? The MREL suggested are these impediment to resolution or are they not?

>>: It has not been as much of a discussion point since Andrew left, basically. He is now at Deloittes, probably advising others on their legacy securities. I mean, to be honest, we have, we have been more asking questions than necessarily being asked questions. I think that is part of it. So we are keen to understand where the boundaries are. We need to understand what we need to do or not do or what the economic costs of that may be. So, Scott, I don't know if you want to touch on that.

>>: There is less of them. That is one aspect. I think you have to look at the, if something is an impediment to resolution, I think there is a materiality. A materiality part there in the consideration and the determination that needs to be taken into account. You could take the view that if the difficulties that may arise, if the equitisation as a result of the bail in from an operating company that is not consistent from the overall single point of entry, I don't know. I think that the dial and the focus has been turned down, slightly. It is less. As Robert touched on it, it less of an issue or less focus.

>>: Some of your peers suggested things like US law are more of a problem. Have you gotten that impression? Foreign law, I should say.

>>: We have regular dialogues at different levels as Robert touched on. It is not something that is front and centre in terms of focus. Robert mentioned it earlier, that the main focus has been in terms of what is your capability to continue to turn the cogs in a resolution event through OCIR.

>>: One final one. I'm not sure if you will have the number but it is still miles away, the headroom under grandfathering, that will not be an issue for any of you?

>>: Our starting point was 14 billion.

>>: It was over a billion per annum. We have 1.5 billion of legacy tier ones left [inaudible]

>>: You mentioned PPI earlier.

>>: I thought we were getting away with it there.

>>: We will make this the last one.

>>: What are the chances of further privileges next year?

>>: We put in a number that is our best estimate. Ewen said never say you are finished on PPI. But I have given you sensitivity in the document. On 1% we have an uphold rate of an £11 million charge. So we have to find the uphold rates in the later boxes all arriving in the last day to be substantially improving

over what we have been receiving in the last nine to ten months that include a number of peaks to have a very material movement on the number. But every 1% is 11 million pounds.

>>: When will the process actually be done?

>>: No new claims. That is important. We reckon by June of next year they will have dealt with the claims that have come in. It is about a month to deal with a month. But they throw people at it but the reality is that it does not speed it up, you have to train them, that is expensive, you make mistakes and the quality control goes up and up. What may take longer is the conversation with the receiver. That is a bulk negotiation that they will try to do industry wide. We will see how that goes through. We have made a bit of provision for that. In terms of additional provisions, it is not something we are planning but we have to finish going through the boxes. OK. Thank you very much indeed. Thank you. Thanks for coming.