CYBG PLC Interim Results Transcript

David Duffy

OK, good morning everyone in London, and good evening to those of you joining our webcast from Australia and welcome to CYBG's interim results presentation for 2018. I think you'll be pleased to know that our objective today is to limit the presentation to thirty minutes. I will briefly take you through our strategic process and then Ian will talk through the detailed financial performance.

So, if you just look at the headlines, as will be evident from this we continue to execute on the strategy we've outlined. I'm happy with the progress we've made in the transformation plan and, we are where I hoped we'd be at this stage. That being said, we still have a lot to do, of course, but I have a lot of confidence in the momentum we have, in particular, and in our people. You will see we've also taken significant action on our legacy conduct matters during the first half and Ian will cover some of that in more detail later.

The important fact to me, is we've grown at five per cent from an annualised lending growth perspective and we have a six per cent reduction in our cost income ratio to 64 per cent. And then have generated on the back of that 27 basis points of underlying capital in the first six months. And as a result of that, our underlying profit has increased by 28 per cent to £158 million. The underlying ROTE has also improved to 10.6 per cent, but just to be clear, after adjusting for a prior year tax correction, the comparable rate to look at is 8.7 per cent. And that still represents a significant year on year improvement in our performance.

I will come back at the end of the presentation today to touch on the longer-term potential in Open Banking, but just a small amount on that. Then our SME franchise and then the opportunities from RBS alternative remedies package. But before I get into any of those, let me hand you over to Ian who will take you through the details.

Ian Smith

Thanks, David and good morning everyone. It's nice to see some of the usual friendly faces out there today and good evening to those following this from Australia. I'm very pleased to be able to report a 28 per cent increase in underlying PBT compared to the first half of 2017. And we have continued to deliver improved business performance. Key contributors to the profit growth were increased net interest income, commensurate with growth in our balance sheet, costs seven per cent down half on half, and once again, a very low cost of risk.

In terms of KPIs, our net interest margin was 218 basis points in line with our guidance of circa 220 basis points, and a little ahead of the Q1 figure. We continue to improve the cost income ratio which now stands at 64 per cent. And as David mentioned, our underlying ROTE at 10.6 per cent was flattered by an unusually low tax charge, which included a substantial prior year adjustment.

That prior year adjustment was £26 million, this relates to the revaluation of the deferred tax asset for losses following a change in tax legislation. Applying a more normalised rate of tax, the ROTE would be 8.7 per cent. I think you'll agree that's a decent increase building on the progress we made last year.

Now, before I move off this page, a few words on non-interest income, as we don't cover it elsewhere. The income performance across our key business lines was pretty solid and broadly flat half on half. The headline reduction that you see here was caused by a couple of charges being taken against the non-interest income line. And the main one, was the cost of our £250 incentive in our successful personal current account recruitment campaign in October 2017. And that recruited far more accounts than we had expected. We were deluged with applications and the 25,000 new customers that qualified to receive the incentive, cost us £6.3 million. And that was taken against non-interest income.

Now, it was a very successful campaign, particularly in terms of attracting our target segments of younger, more affluent customers. And with a good geographical dispersion. But very much part of our test-and-learn approach to marketing and PCA acquisition. And we'll review whether it's something we do again. There are a lot of competing incentive offers out there. So, as I say, learned a great deal from it, but it was taken against the OII line.

The key takeaway here is the core income performance is solid half on half.

Turning to statutory earnings, you're familiar by now with what we exclude from underlying profit. And clearly the main item here is legacy conduct. You'll recognize the bulk of the P&L charge of £202 million, that relates to PPI, which we announced a month ago.

The other £18 million relates to a small basket of non-PPI issues, most of which have been closed out. These are legacy issues, but the impact is much greater than in previous periods, because now we bear the full cost, whereas NAB used to pick up 90 per cent. So, other than PPI, we're not materially exposed to legacy conduct issues.

The deposit machine continues to tick along nicely, with balances growing across all three of our product sets. Our standout contributor in retail is our baby, B who will be two years old shortly. B has attracted over 170,000 customers with 1.6 billion of deposits and great customer satisfaction scores. David's going to talk a bit later about what's to come in terms of new B related capability, so I shan't steal his thunder.

But it's not just a retail story. My SME colleagues wouldn't thank me if I didn't mention the contribution of the SME franchise to our liabilities mix. And we've seen continued growth in our low-cost SME deposit base.

Now, I've said consistently that getting the volume and mix of deposits right is key to margin management, in an environment where retail asset pricing remains super competitive.

Our blended average cost of deposits in the half ticked up slightly compared to the previous six months. And the increase relates primarily to the base rate bump in November last year, where we increased some customer rates. There's also a slightly richer mix than we planned for. But overall, I'm going to say that we stuck to our promise of blended cost of deposits staying flat. On wholesale funding, nothing much to say there other than we closed out TFS drawings where we planned to be and it's only 7 per cent of our lending balances.

We've seen good asset growth in the first half across all three of our asset classes. Mortgages started the year with a great tailwind from a healthy pipeline. Things slowed a little as we got further into 2018. More on that later. But we've still growing at twice the market.

There have been no big changes in the type of business we've been doing, compared to the previous six months, right across purchase, remortgage, buy-to-let, and first-time buyer. I guess I'd say we've observed a slight reduction in the buy-to-let proportion of our new business, compared to the second half of 2017. But the other categories have picked up the slack.

In the half, SME maintained pace on origination. So, that's new facilities granted. And also, on drawdowns. But attrition, which can be quite lumpy as you know was lower in the second quarter. As a result, core SME balances grew by 5 per cent, annualised. The business we're writing that space continues to be well-dispersed across the real economy, and we're doing well in a market with slightly subdued demand for credit.

Now, despite what the bar chart appears to show, retail unsecured really has grown 5 per cent annualised. We've seen modest growth in personal loans balances offset by small reduction in credit cards. Now, we've always said that while the PL market remained competitive and we lacked capability, we'd be circumspect about growing in that space. So, while the market might not be much better, we certainly are. We started to build a little bit of momentum in PLs in the second half of 2017, mainly when we sorted out our smart-search capability for aggregator sites. And in the first half of 2018, we saw the introduction of in-app purchase functionality. So, customers that are pre-assessed for credit worthiness can now secure a loan at the click of a mouse. Our average personal loan front-book pricing in the half was 6.2 per cent, down from 7 per cent in the previous six months, reflecting the competitive market.

Our net interest margin was 218 basis points, as I said, in line with our guidance of circa 220. When we set our guidance six months ago, it was in the context of flagging a step down in margin compared to 2016 and 2017, because of continued pressure on retail asset pricing. To recap, we said we'd see lower retail yields, flat SME, and flat deposits.

So, I've already covered what's been happening in deposit costs and front-book yields in retail unsecured. I thought it might be helpful to make some remarks about what's going on from a yield perspective in our two largest portfolios, and really do something rather than a mechanical step-through of a NIM waterfall. And I guess for me the point is that this is not just about what's happening to front-book pricing, or swaps, or Libor rates. The basis for comparison is first half of 2018 versus first half 2017, and I'll talk a little bit about how average yields have changed this year compared to last.

So, the average customer rate on mortgages is down 19 basis points. The base rate increase in November gave us four or five bps to play with, but this was offset by mix changes, principally a tick-down in SVR and rate reductions as more of the book has moved, over the last couple of years, to lower-fixed rates. The bulk of the net reduction is therefore customer pricing in a competitive market, and I'm sure that won't surprise anybody.

Conversely, we've seen the 17-basis point improvement in SME yields. Now, much of this is rate-related. Our SME lending is base and Libor-linked. So, really, around about 13 basis points of the increase is driven by rates, and about 4 basis points relates to improvements in customer mix and pricing.

So, I guess the key question is, where do we go from here? We're not expecting to see big changes in SME rates or deposit costs over the next six months. And that helps to underpin our NIM guidance. And so, in that respect, it's really all about mortgages.

The margin management and mortgage business have been challenging over the last year, year-and-a-half. The vast majority of business is fixed-rate, and an overall increase in yields across the swap curve hasn't been passed on in customer pricing. And we'll continue to look to achieve the right balance between margin and volume. And indeed, over the last six months, we flexed our pricing at times, really to try and preserve as much margin as we can.

Going forward, we expect the mortgage market to remain competitive, but we're confident that a combination of our range and our propositions means that we should be able to balance growth and margin considerations. Accordingly, we're happy to reiterate our overall NIM guidance of around 220 bps for the year.

We're really pleased with the progress we've made on costs in this half. We've been tracking down half on half over the last two years, and the initiatives we've landed in the first half of FY 18 allow us to improve our guidance for the full year.

Now, in terms of what we've been doing on the cost front, it's a similar picture to what we showed six months ago, but we've banked a further £30 million of run-rate savings delivered across all four buckets of our key initiatives. And that adds up to £120m of gross run-rate savings so far for the program as a whole. The biggest contributors were network efficiency, where we continued to benefit from sorting out our branch network, and central cost management. And that's principally procurement savings, both in the investment space and in terms of third-party services.

Now, I've said previously that the last lap on the cost savings program is the hardest. But we have a clear line of sight to achieving our goal of more than £100 million of sustainable net cost savings.

So, we previously guided to below £650 million this year. We're now confident that we'll do better than that and deliver a cost out-turn below £640 million for FY 18. And you'll notice that's getting dangerously close to the below £630 million, the absolute target that we've set for the end of 2019, back at our capital markets day.

Asset quality remains stable. Our CRO wouldn't let me say pristine; I think that's because he's worried that'd be some sort of curse. But anyway, our credit performance was very strong. And once again, we've seen a very low cost of risk at 13 basis points.

So, this slide shows a very solid picture at top of bank and also across our three key asset classes. I think the only thing to call out here is that the SME cost of risk has settled down after a couple of larger specific provisions in the second half of FY 17. And that lumpiness is always going to be a feature of credit in SME land.

In terms of asset quality measures, other than cost of risk, all of the key portfolio metrics, such as impaired asset levels, are either stable or improved.

Of course, those metrics are really only a snapshot of the book today in what is a very benign credit environment. And key to maintaining quality is sticking to rigorous underwriting with clear risk appetite settings. So, you have to build in the asset quality upfront. And those can be quite hard to evidence with a few stats, but I'll try.

In mortgages, loan-to-value and loan-to-income metrics are tracking well, with small changes attributable to mix. And in the case of indexed LTV, also impacted by the slowdown in HPI in London and the Southeast. In SME, our internal risk ratings and the probability of default spitting out of our models on the new business we're writing are all better than the current portfolio averages. Now, I'd be happy to spend more time waxing lyrical about credit in a benign environment, but I'm pretty sure you guys get it. And suffice it to say, the book is in really good shape.

Now, as you're well-aware, from our announcement a month ago, we've taken a significant top-up to PPI provisions. And this top-up captured two things: the additional cost of closing out our closed-case remediation program. And while the cost overrun was disappointing, at least it's now possible to say we're done. And as a result, the remaining provision of £367 million is entirely for dealing with walk-in complaints. Now, we've tried to be a bit more helpful this time and show utilisation and provisions on an all-in basis with the admin costs associated to those two programs of activity.

So, turning to walk-ins, similar to our peers, we've seen elevated levels of complaints in the first half, really driven by frenetic CMC activity and media coverage. The FCA advertising campaigns had some impact on volumes, but it's really the other two factors that are the main drivers.

Looking ahead, similar to our peers, we expect to see CMC activity abate, driven by the fee cap and limitations on cold calling that have just come into U.K. law. We think these limitations will have a material impact on CMCs who drive the majority of our incoming walk-in complaints.

So, our planning assumptions in setting the provision top-up were that we'll see continuing high levels of complaints for the next six months of so , really sort of at similar levels to the first half run-rate, followed by a reduction after that out to the time-bar at the end of August 2019.

There are two other key assumptions that drive the cost of closing out PPI. We've seen a substantial reduction in the uphold rate over the last 12 months as CMC-driven claims have become more speculative and of lower quality. And similarly, we've seen average redress paid come down over time as we've worked through the more complex, more expensive compensation claims.

So, I hope you'll agree, that we've been clear in our assumptions, and as we've consistently guided, the key sensitivity is the level of complaint volumes going forward, and we've already seen a number of analysts estimate what that sensitivity might be, and we'll keep you updated on progress.

Now, I want to be clear on one other important point of detail, given the recent disclosures of some of our peers and some analyst comments about the read-across to us. We don't have a Plevin problem. We've had to grapple with a number of issues in PPI over the years, but thankfully Plevin is not one of them. Redress costs directly related to the application of the FCA's Plevin rules have been less than a million pounds. And put simply, this is because over the last couple of years, we've undertaken a full past business review of every customer and policy since 1, January 2005, and we have also remediated all 184,000 of our previously closed complaints. And in doing those two exercises, we've applied the highest standards in dealing with those complaints, including consideration of the commission levels earned.

I'll spend a minute or two just on how the CET-1 ratio has moved since September last year, so, our customary waterfall. Back in September, I talked about 2018 being an inflection year in terms of capital generation. With hindsight, I might wish I hadn't said it quite so loudly, given what happened in PPI, but I stand by my point. I argued that we'd see stronger gross capital generation. And as we put the heavy lifting phase of investment and restructuring behind us, in addition to dealing with legacy conduct, that would lead to net capital generation. And I think the signs are there. In the first half of FY 18, we saw underlying net capital generation of 27 basis points, and this compares to 13 basis points for the whole of FY 17.

We're doing a lot to ourselves in order to improve the performance of the business, and I think it's making a difference. Clearly, the item that had the biggest impact on the CET1 ratio was the PPI charge we announced a month ago. And just to be clear, the 28 basis points of other CET1 absorbed, that's a mixture of things. It's got separation costs. It's got dividends. But the principal item is a movement in reserves relating to a one-off adjustment to deferred tax. And that's a clean-up of the NAB indemnity. Now it's been fully utilised, and therefore that won't recur.

An 11.3 per cent CET-1 ratio. We continue to hold a significant buffer to both the PRA and CRD-4 requirements. We show the position versus CRD-4 on the slide, as we're not allowed to disclose the PRA's requirements.

We've continued to make good progress on IRB, and we've thought for a while about how best do we convey that? I guess, as we said before, the PRA has been pretty open and helpful in setting out their expectations of applicants and being clear about the process that they have to go through. There are 10 modules in the evaluation process, and we've completed eight of them. Now, notice I say "completed" rather than passed. When we discussed this wording with the PRA, there are pains to emphasise that it's a single pass or fail decision, and that's Module 9.

But we've had extensive contact with the PRA over the last two, three years, and submitted a great deal of evidence to them. And we're confident, based on the feedback so far, that we'll be successful. What happens after the decision in Module 9 is there's a period of implementation where we'll confirm the risk weight outcomes and discuss the capital requirements with the PRA. We hope to complete Modules 9 and 10 in the second half of the year, in accordance with our guidance, and secure IRB accreditation for mortgages within the next six months.

So, having taken you through the performance for the first half, what do we think about the remainder of the year and beyond? First and foremost, we remain confident that we'll deliver on our medium-term guidance. So, no change there. As far as the FY 18 outturn is concerned, following on from the first half performance, we're continuing to guide to a NIM of circa 220 basis points. I've already talked about the improvement in cost guidance, and we now expect to be below £640 million for the full year. There's no change to our funding approach. So, the loan-to-deposit ratio limits remain the same.

In terms of asset growth, our SME pipeline is strong, and so we expect to see more of the same in the second half. And unsecured continues to build from a low base. We've got our offering right in personal loans now, so expect to see continued measured progress.

So, we saw good mortgage growth in the first half results. And that was enabled by a healthy pipeline of applications coming into the year, and also sterling work by our people in converting those applications. The pipeline at the start of the second half is a little less strong. The market in 2018 has been more subdued. Plenty of re-mortgage activity, but lower levels of new lending, and competition remains pretty fierce. We've also had some challenges to deal with in our mortgage operation. In late 2017, we brought processing back onshore from India as part of our customer journey improvement initiatives. And we encountered some teething troubles in the early stages with new people and processes. And that means for a period in early 2018, our broker pipeline build was lower than we'd hoped.

Now, this move onshore, and the changes to our mortgage customer journey were absolutely the right thing to do for the long-term success of our business and our growth ambitions. And I'm pleased to say that application volumes are now back on track. It does mean, though, that

Q3 will be much slower than normal for balance growth, because that's when we'll see the impact of lower applications from the start of 2018. But very much back in the saddle and expect to return to growth in the fourth quarter.

Despite this blip, we expect to be within our market guidance on mortgage growth for the year, albeit at the lower end of the range. And more broadly, we're now in a better place to deliver our long-term growth ambitions.

Finally, the eagle-eyed among you will have noticed that our CET1 operating range no longer appears on the page. We're currently outside that range following the conduct charge taken recently, albeit with a comfortable buffer over the regulatory requirements. We've consistently said that we'll revisit our CET1 operating levels after IRB, and that remains the plan. And I hope to be able to talk to you about that at the full-year results in November.

So, that concludes my remarks, and I'll now hand you back to David.

David Duffy

Thank you, Ian. I'd like to just cover a couple of topics. But if I quickly turn to Open Banking We've trailed this at the full-year results, but we have continued to build out this technology at pace, in order to deliver what we see as an enhanced digital experience for our customers. Now, we've talked about this a lot, but Open Banking has begun, but I think we will see a slow evolution reflecting the industry challenges still to be overcome, and also the need for customers to understand and build credibility and trust in the process. However, from our perspective, we're ready today. Our iB platform provides us with a market-leading technology offering, and we are beginning to roll that out to our customers this month.

Our vision of the future of digital, as we've described here, is to provide customers with a core offering -- including our flagship B account -- and as has been mentioned, 170,000 customers and £1.6 billion of deposits since its launch less than two years ago -- and that low-key launch, where we didn't do a lot of advertising -- has achieved more success than many other neo brands. We will also launch B account aggregator as a tool at the end of this month, and then we will roll out a market-leading digital offering for SMEs later this year.

And in addition to that core offering, we'll supplement with a customer-focused marketplace of products and services. Now, these products and services will help make it easier for customers to avoid unnecessary cost, firstly; to spend less per unit., so, if they're spending money, how do they spend less? And to plan and manage their finances more effectively. As you can see, we're continuing to make the progress as we've guided. And we're pretty excited about the longer-term opportunities for us in Open Banking.

We are, in fact, the only bank outside the CMA9 who committed to meeting the deadline for Open Banking. But I think we will give you a much more fulsome update on progress, what consumers are doing, and how we're delivering in the fullness of time.

I thought it was also important, before we close, to spend a few minutes on our SME proposition and why I believe we can create a credible national competitor with the right support. And too often, people compare us to other challengers without understanding the full strength of our SME franchise. We're the only challenger bank with scale in SME, and we have a fantastic franchise in our historic heartlands. And to give you a feel for what that means, we have a 3.5 per cent market share of business current accounts nationally, but we have a 15 per cent share in our home markets. And if you can replicate that on a broader geographical plane, I think that's very attractive. And that demonstrates our ability to compete with the big five banks today.

Also, our SME franchise is liability led. It's also relationship driven and one that contributes low-cost funding to our overall franchise, not just the SME lending. The business also has multi-generational relationships - very sticky. And many of the 200,000-plus customers have been with us for over 10 years. In addition, we have over 300 relationship managers who have an average tenure of 14 years and deep sector specialism. So, this isn't an easy business to win in, but that capability gives us great strength. The SME balance sheet also, now, is about £9 billion of low-cost deposits, at around 25 basis points, with a lending book of £7.4 billion at an average yield of 388 basis points. And the OOI yield or OOI as a percentage of lending is around 100 basis points, which is double the overall group's yield, allowing us to drive strong OOI growth as we scale the franchise going forward.

The SME business that we have also has strength that others can't replicate easily. It's hard to build this business. These are long-term relationships, sector specialisms, the risk management capability. And people forget that -that's fundamentally important. And as I mentioned, we'll be adding a market-leading digital SME offering later this year.

From my own perspective, since we've talked since the IPO, I'm delighted to see this business going from strength to strength. And we remain on track to deliver our published guidance of £6 billion of lending over the three years, to 2019.

Now, why is that also so important? If we turn to the RBS remedies package, with this franchise in place, we think we can scale the franchise nationally by leveraging the RBS alternative remedies package. Now, our initial focus is on participating in the incentivised switching scheme, and we stand ready to offer what we think is a very attractive home to customers leaving RBS.

We have made a lot of progress in designing the switching and building infrastructure behind this. We have the people and the processes to ensure a smooth transition for those that switch to us, and that's fundamentally important, because in order to successfully switch and retain those SME customers, you need brand recognition. You need to be able to match their existing products and services, processes, and systems. In addition, you need the risk management and relationship management experience, all of which we have today. And just to put it simply; if you don't have these products and services, you cannot meet the required competition criteria because you have nothing to switch them too. So, it's fundamental. And therefore, we think that there are a very limited number of competitors who have the capabilities to participate meaningfully in this scheme. We have confidence that we should be able to attract quite a sizable proportion of the 120,000 customers being switched.

In addition, we are focused on Pool A, which is the capability and innovation funding. And that's the top awards. And these top awards are not there to build a start-up capability. They are there to provide the necessary resources to scale an existing capability quickly to compete on a national basis. So, our ambition therefore is to leverage a significant reward from Pool A to accelerate our roll-out and to genuinely disrupt the market on a national basis.

Now, clearly, it's a competitive process, and therefore somewhat out of our hands. But we will provide you with updates on the process as it unfolds. The key message there is, if you have the capabilities, you can switch. If you don't, you can't. We do have a fantastic capability and we're hoping to leverage that with the funds to build national competition.

Okay. So, in summary, we recognize this is a challenging operating environment for U.K. banks. We anticipated this when we reset our growth targets back in 2016 at our capital markets day. Since then, what we have focused on is executing the strategies within our control, and we're on-track with the delivery of our strategic plan.

As you can see from this slide, we adopt a prudent pre-funding approach to our balance sheet growth. And critically, we have a wide range of funding sources across retail, SME, and wholesale. We also benefit, from our loyal customer account base. We have not been a heavy user of TFS, as Ian has shown. And simply put, we believe that a sustainable growth model shouldn't be predicated on the assumption of a permanent supply of cheap government funding.

We have a strong customer lending platform, both across SMEs, mortgages, strong capital, and a scalable Open Banking technology that is already built and being deployed this month, today, and not in years to come.

So, in my opinion, we're well-placed to capitalise on these opportunities that we have ahead of us, like the IRB accreditation we're confident on. We have the RBS alternative remedies package, which I think we'll do very well in. And we're incredibly well-positioned with Open Banking.

So, finally, you have listened patiently for approximately 30 minutes without me mentioning the topic which I believe a lot of you might be interested in. But I can confirm that I'll have to sorely disappoint you, given all of the restrictions imposed by the U.K. Takeover Code. What I can say is what I've said publicly, that I believe that a combination with Virgin Money would create the U.K. leading's challenger bank, and no doubt would deliver increased value for shareholders, which is one of our core criteria, and would be supportive of customers in a positive way.

But as you will probably be aware, Ian and I cannot answer detailed questions on that topic today. As we've always said, our organic strategy is our primary focus. However, we do look at inorganic opportunities as they arise. But the Board will only proceed with a transaction if it is in line with our strategic objectives, as stated, and is in the best interests of our shareholders.

As a result, should we not conclude a transaction, it would not impact the delivery of our existing commitment to shareholders, and I can't stress that enough.

With that, I will thank you for listening, and we're now happy to take any questions on our results. Thank you very much.

Q&A

Raul Sinha: Hi, good morning. It's Raul Sinha from J.P. Morgan Cazenove. Can I have three, please? All on results, if I may.

Just the first one on the IRB transition. I was wondering if you'd give us some sense of where you expect the mortgage risk weighting to land, now that you have come a lot closer to the implementation period? And have there been any changes since the last time you gave us some disclosure or guidance around that?

The second one is around your assumption for stable deposit costs. Clearly, your TFS usage has been low, but there are a number of other banks in the market that have taken significantly higher levels of government funding, as you called it, David. So, I guess there is an expectation that there could be strong deposit competition ahead, and could you give us some sense of how you expect to mitigate that?

And then the last one is just to understand the IT transformation ability inside CYBG. Could you tell us if you have migrated any of your existing customers onto B, who were already in the bank? How much of the 170,000 customers are new to bank versus existing? And also, the £1.6 billion deposits that B has gathered; how much of those are current accounts? Thank you.

Ian Smith: Okay, I'll do the two numbers ones. So, on IRB and risk-weighted assets, I guess we had a couple of uncertainties when we set out our assumptions there, and the assumptions were that we would deliver £5 to £5.5 billion of RWA reductions. And critically, for the purposes of our targets, we'd assumed an average risk weight density of 20 per cent. Nothing we've seen in our models as they've come closer to approval have threatened those assumptions. And the other uncertainty we were looking at was the impact of the Basel III finalisation and in particular the application of risk weight floors. And again, as we've seen the final proposals come through that – although they're not yet adopted haven't changed our assumptions in that regard.

On deposit costs, I agree with you that we would expect to see a more competitive environment, certainly over the next two to three years. Remember, our guidance is for the next six months, and what we've seen is a number of our competitors fill their boots ahead of the deadline. So there's no question deposits get more competitive. One of the reasons that we feel good about where we are in that space is, first of all, mix, and that's, both in terms of current account capability but also SME. And SME has been a great source of deposits for us going forward and with the RBS alternative remedies package. Remember, this is a portfolio that is liability-led, so a significant opportunity for us through switching and other mechanisms. But that ability to leverage the mix of funding and our diverse space -- I think we're better placed than others to deal with the next two to three years in that regard.

David Duffy: Sure. And if I turn to platforms, I'll be explicitly clear that I'm not commenting in anything to do with Virgin when I talk about this platform. The technology capability we have I just described as follows. We invested £350 million in the core platform and digital over the last few years. That has gone very well. That has allowed us to create one common database for all of our customers, and we have migrated the majority of customers onto that B platform.

Debbie, our COO, would have to give specifics on the finality of some of that where I do know that we're staging and moving chunks of customers on to the IB platform in the SME world and the business world right now, but the majority of it's done. So, if you think of this calendar year, just for convenience, we will have a fully integrated platform for retail and SME and all of our customers, with a Fintech layer capability, plug-and-play for Fintech, and an Open Banking platform launched and operating in the market. So, that mix is our investment in resilience, core capabilities, and then digital. And then I would add to that that we've talked before at the IPO and subsequently that we have scalability in the marketplace in terms of the platform that we apply to the marketplace. So, as we look to add growth in our model, we're not constrained in anyway. So, that's really what we invested in, and that's what we've delivered, and that's all I can really say on that. And B?

Ian Smith: So, in terms of B, just to clarify something David said there, when we say, "migrated customers onto the B platform," what we did was replicate the B platform functionality for our Yorkshire Bank and Clydesdale Bank customers. And so, they have that same capability and can use the functionality in the same way. So that's applied right across our two million current account base.

Raul Sinha: It's just the top layer, then?

Ian Smith: Yes.

Raul Sinha: ...put in for the....

Ian Smith: Yes, the IB microservices layer. So to the extent that we've sort of moved two million customers onto best-in-class digital functionality, we've absolutely done that. In terms of our 170,000 B customers, most of those are new to bank.

Raul Sinha: And the £1.6 billion of deposits

Ian Smith: Most of those are new to bank. So, we haven't actively moved Yorkshire and

Clydesdale customers to B. Clearly, where people make the choice they do that. I guess a data point I can refer you back to is we talked about winning 25,000 new customers as a result of our incentive campaign; 90 per cent of those went on to B.

Raul Sinha: Sorry, and the £1.6 billion of deposits, is that all PCAs, or is that a mix of?

Ian Smith: It's a mixture of, so, when we sign customers up to B, we have a current account and a savings account related to it. So, it's across those two products.

Raul Sinha: Thanks.

Robert Sage: It's Robert Sage from Macquarie. I've just got a quick question. I was thinking about your SME spreads, because, looking back, the TFS was obviously instrumental in terms of sparking price competition in mortgages. And I was just wondering your view in terms of when the RBS alternative remedies package comes through, whether you think this could actually have some slightly negative impact competitively on pricing on SME yields.

David Duffy: Yes, I'll start, and Ian can follow. I think that the RBS remedies package -- 120,000 customers is going to be in involving three or four players, so it's not 30 players. Now, there will be some element of competition, but if those three or four players are going to win the majority of that because they have the existing capability, then I think it's not a comparable universe to what we've seen in the rest. But there no doubt will be some competition as people seek to put special offers on the table to attract that first tranche of customers. But beyond that first wave I expect that to stabilise.

John Cronin: Thank you. Three questions from myself, if I can. Just to come back to the IRB point again, so the previous guidance you issued was approximate, and it was with respect to a potential reduction in the market risk weighting upon IRB migration to 20 per cent. Just trying to tie that in with a couple of things.

A, your comments today around lower PDs on new business, which I appreciate is but also, to an extent, interwoven; and, B, for example, nothing to do with the current bid, but Virgin Money's application to get its own risk weighting on its mortgage book down from about 17 per cent. I appreciate it's not an apples-for-apples comparison. It's a different model, but 20 per cent seems rather high on both of those views at first glance from my own perspective. If you could help there, that would be useful.

And also, Part B of that question is in relation to the SME book. While you've clearly articulated that the mortgage book would be the first to move, the risk weighting on the SME book is still in excess of 100 per cent, I believe, and it's very high in the context of the impaired loans coming down quite substantially. So, anything you could say around potential for change there on a medium-term view would be helpful.

Secondly, just to come back to the SME growth point. While you've clearly articulated how well you've done in your core regions historically and currently, there does seem to be a bigger prize at stake. Even organically, how quickly could you move to expand in contiguous regions in terms of getting meaningful lending growth? And thirdly, not sure how much you can say about this, but in the event that you were to migrate to IRB credit risk models in the relative near term, how likely is it that you think ignoring any possible use in acquisition currency terms, do you think, that the PRA would be supportive in terms of an outright distribution to shareholders, particularly given what we've seen in the case of some European banks? Thank you.

Ian Smith: Okay. Shall I? I'll lead, so, your first question about IRB risk weights for mortgages and related to that, PDs. I'm not going to be drawn on narrowing the range other than to say we don't expect to be out of market. So, because of the uncertainties associated with this we try to be helpful in terms of shaping this, adopting a conservative planning assumption, certainly in terms of performance targets of 20 per cent RWAs. And we also expressed it in terms of an absolute RWA reduction at that time. Clearly, the book's grown since then. So, suffice to say, we don't expect to be out of the market in terms of where we end up, particularly now we've had clarity around Basel III finalisation, and that was a big uncertainty as to where people would go with output floors.

The lower PD comments, John, that's really about it in SME, where the new business we've been putting on, and those PD models, it's relevant to your second question or Question 1B. So, those PD models are the ones that we are we're using in our foundation IRB application. The thing to understand about the rest of our book and we're making good progress and going pretty quickly in terms of SME and retail unsecured, is that net net we'd expect IRB to be a fairly positive outcome for SME. That's primarily because of the levels of collateralisation that we see across the book, and we'll benefit from that collateralisation. The converse of that is we would expect IRB to push up average risk weights in unsecured.

So, you know, I think let's wait to come back to you on that as we make more progress. But progress is good in both of those spaces.

Ian Smith: I think net net on SME -- because of the collateralisation we'd expect to go below the 100 per cent figure we are currently at. SME growth and thinking about growth outside our core regions. David, you won't be able to resist taking that one?

David Duffy: No, I think, to look at it just genuinely, the £2 billion that we've been talking about we delivered last year, and we're on track to deliver this year and next year, that is not just in our heartlands. That also covers the Midlands, you know, Birmingham, where we've set up an office there, and we've won awards for our business banking there. Coming across into the Northwest, which wouldn't have been part of our heritage, in Manchester we have a business that is growing well. So, all of those are growing at a good level and supporting that £2 billion.

We're opening up a new flagship office in Manchester, just like the one we've done in Birmingham. So, if you look at that, there's a level of activity that is good, it is strong, and it is moving into the right areas where there is significant growth potential in terms of the scale of the geography. What we're looking to do on the Williams and Glyn activity is take tens of thousands of customers from that process in those heartland areas and also in Midlands and the Northwest and then apply award sums to leverage that. So, it's a two-part answer. I think we are not waiting for RBS to grow our capability., but we're hoping to accelerate it significantly if we do well in this process.

Ian Smith: And then, to your third question, John, just about the PRA's disposition towards a distribution of capital surplus. So, the first thing we've always thought about with this is, "Well, let's focus on delivering IRB lower risk weights and have the conversation about capital."

Our answer to "What do you with the capital surplus that may arise post-IRB?" has always been about saying, "Well, first of all, it'd be nice to have." Secondly, it's really a conversation with shareholders about the best way to deploy that. Some of our shareholders have asked the PRA directly about whether they would stand in the way of distribution of genuine excess capital, and the PRA have said no. Now we'll cross that bridge when we come to it, but, I suppose what we're focused on is, first of all, delivery, and then, what we do with anything that comes from that is a good conversation to have down the line.

David Duffy: We have two questions side by side over here on the right.

Guy Stebbings: Thank you. Guy Stebbings from Exane BNP Paribas. Two questions. The first one on the RoTE target for 2019; presumably, that was set when you would've have expected to go into 2019 with quite a higher tangible equity base pre-PPI top-up. Obviously, there's sensitivities around whether you could have distributed some capital before then, but presumably your starting assumption would have been a higher tangible equity base. So, with that in mind, are you actually targeting significantly higher than a double-digit RoTE target for next year, or am I reading too much into that? And then, secondly, on capital and IRB, just interested to know the timing of any ICAAP work that you're doing, stress testing, related to that and how that interacts with IRB approval, given the equity on ratio has obviously come down quite a bit, and the headroom now to your capital stack is somewhat less.

Ian Smith: Gosh, Guy. To be honest, we're a bit focused on making the business work. I haven't really thought about the advantage of a lower equity base. You know, I suppose the arithmetic is what it is. We've been focused on really delivering the R part of that RoTE equation. And I guess what I'd bring it back to is that 8.7 per cent for the first half, positive trajectory, both in terms of where we are with growth in the business and with costs. You know, we're heading in the right direction, and we're probably, going a little quicker than people expected us to at this stage. So, we're really focused on the return part of it. I haven't genuinely really thought about the impact of a lower equity base.

In terms of ICAAP, capital assessments, all those sorts of things, our conversation with the PRA is quite complicated, because, on the one hand, this a year for a capital SREP for us, so there will be an assessment later in the year, and that'll update the capital guidance we've had from

PRA almost two years ago. And there's the IRB equation, and while IRB does drive lower risk weights, so lower Pillar I requirement, there's a discussion to be had around Pillar II and those kinds of things. Not for just, for you know, stuff you with a capital add-on, but to think about concentration risk and other things that come into a more complex equation. So, I think by the time we sit down with you guys in six months we'll have greater clarity on both of those issues.

Chris Cant: Hi, thanks. It's Chris from Autonomous.

Two, if I may, please. If I could go back to slide 12 in your deck, the PPI assumption slide, and you've given us that sort of little schematic of what you expect to happen with the claims rate. If there's 110,000 complaints prospectively, you've got -- 59,000, I think, is implied by the first dotted shape in the second half, so that'd be about 118,000 for the full year, your fiscal year to September, and then, implicitly, it's dropping to about 51,000 in 2019. And I get that it's not quite a full year, but it is 11 months to the deadlines. So, you're going from 118,000 in 12 months to 51,000 in 11 months. I think most of your peers are probably assuming a broadly flat claims run rate out to the deadline, and I guess there's a bigger admin component in your provision than I expected, because I thought you'd be saying the same thing today. So, why are you so confident that the claims rate will drop? I get that there's the CMC point, but as we go into the deadline, is there not a risk of some pull-forwards of claims that would otherwise have gone in later periods as people try to squeak in ahead of the deadline? It seems like a very precipitous drop in your assumed claims run rate. That would be the first question, if you could speak to that please.

And secondly, on your targets you've reiterated your guidance for next year. Just conscious that you set a cost income target for next year rather than just a specific cost number, and you've said that you're dangerously close to your 630 cost number for this year. You've just missed on revenues. Should we be expecting you to deliver your cost income target with a lower revenue base and a beat on that 630 number? That would be the second question. Are you now expecting lower pre-provision profit in absolute terms than you were previously for 2019? Thanks.

Ian Smith: Okay. So, I agree with your arithmetic on the volumes of claims. Our view is that we see what peers have done; we think it's appropriate to do what's right for our own situation. And I don't think the impact of CMCs on the market can be underestimated, and similarly, I think that the new legislation is going to be helpful in that regard.

About 70 per cent of our claims activity over the last six months have been CMC-driven. We have pretty good contacts into the CMC network, as you would expect, because we deal with them on a regular basis. The general sense in that community is the fee cap is a bad outcome for them and their business models, and we would expect to see, once the fee cap's applied, them to turn their attention elsewhere. So, that's what underpins our volume assumptions. You know, people can form different views. I think we try to be as helpful as we can in terms of those volumes, so I guess I would say there.

In terms of cost and cost income ratio, I go back to saying , that we're not revising our guides today. We're good at costs. We're really good at costs. And we've specified a range for cost income ratio for 18 months' time and our reiteration of guidance means that we expect to come in that range.

David Duffy: Thanks. Are there more questions here, or do we have on the line or elsewhere?

Operator: Yes, the first questions come from the line of Jarrod Martin from Credit Suisse. Please ask the question.

Jarrod Martin: Good morning. A couple of questions. First of all, on the RBS remedy package to provide a timeframe which you think the capability award will be announced.

And then, how you'll actually account for those awards and in conjunction with your expense guidance. And then, secondly, just on the current account incentives that you incurred in the first half, the likelihood is that the competition will demand you need to put incentives in again, and therefore it is a permanent step down in other operating income?

David Duffy: Okay. Thanks, Jarrod. I'll pick up the first point and Ian will follow on the second. I think it's a little difficult to be precise because it is a government target that has been moving about, but I can confirm they have appointed the independent body which is going to oversee this process, so that has begun. What is likely to happen as a consequence, if they move at a reasonable pace, is that we would see a summer bidding for funds period, June, July, but hard to be exact, and that you probably would see the switching begin in September, October.

It really depends though on how we see the independent body get up to speed and how they move on delivering the process for this. But that's what the market sees as the most likely outcome for now, but we'll keep people updated on that. And then Ian.

Ian Smith: G'day, Jarrod. On the accounting. So, if we were successful in winning £100 million that would be spent on building capability and infrastructure. So a digitally enabled SME bank. So that goes into your fixed asset base and is amortised over time and essentially, and again, my more precise finance colleagues will be holding their breath here, you amortise the grant received. And so, I would expect that the amortisation of the grant would offset the D&A associated with the investment and therefore, you're neutral from a P&L perspective.

Your second question just on PCA incentives. This generally was a sort of stick a toe in the water and we are trying a number of approaches to attracting PCA customers at the moment. And there are a lot of banks out there offering incentives. You know, our incentive was it is fair to say very popular and paying customers to switch alongside more compelling offerings, what you might do on attractive interest rates, all of those kinds of things, is really just part of the suite of offers that we consider. So, I genuinely don't think of this as a permanent deduction.

As I say, we're thinking hard about how we attract customers going forward and I think our entry into the Open Banking environment with our partnership model with some of the capability that we're deploying, which is really, really strong, I think will be a powerful basis on which to attract customers. So, I don't see it as a permanent feature, but it was something we learned a lot from. And there are some people out there who take the incentive and then go somewhere else. Someone that's offering another incentive, and we've seen some of those customers walk across the road to NatWest and good luck to them. But broadly speaking, we're going to rely on a package of measures to attract and retain customers.

Operator: Next question comes from the line of Ed Henning, from CLSA. Please ask the question.

Ed Henning: Hi, guys. A couple questions for me. Firstly, can you just touch on, obviously no dividend in the period. Can you talk about what your thoughts are on the dividend going forward and how we should think about it half on half? Or was this really to do with the conduct charge this half? And then if we look at your growth rates, quarter on quarter, mortgages is obviously well down and you're talking about another slowdown in third quarter. Is that going to slow down from your second half run rate? And then on deposits, deposits and there was a big of rounding out here, but deposits is actually negative in the second quarter and obviously had a very strong growth in the first quarter from the incentive campaign. Is that really just showing how hard it is in deposits at the moment?

Ian Smith: Okay. I'll take your questions in reverse. I'd see it differently. I'd see that the deposit performance in the second quarter shows how good we are at deposits. You know, we've got a number of levers that we deploy and flex in order to match liability gathering with assets. We had the foot down strongly coming in to FY18 and we take the foot off the accelerator from time to time. Very confident that, we're in good shape from a deposits perspective.

Quarter on quarter growth and mortgages, Ed, I've come back to what we've said about guidance. We expect to be in the range albeit towards the lower end for mortgages and that's really about a single quarter blip. I mean, this was a very, isolated but impactful on-shoring of that capability. The important thing for us is we're back in the saddle and applications volumes are where we expect them to be, so quarter four is normal service being resumed.

And then in terms of dividend, we're really starting out on this. We have in mind, in our medium-term guidance that we would expect to build to a substantial payout ratio over time. We took our first step last year. I can't remember whether we said this publicly; probably not because you'd have remembered. But we'll come back to this at the year-end and the board will consider very carefully where we are on dividends. But we expect to make progress over the next number of years on dividend, but recognise that we're starting out in this process.

Operator: Next question comes from the line of Brett Le Mesurier, from Shaw and Partners. Please ask the question.

Brett Le Mesurier: Thanks. You said that you were getting a large benefit in your current accounts as a result of your marketing spend, but when I look at your average balance sheet, I don't see a benefit there at all. I just see the current account and balances being stable, no change from the second half 17 to the first half 18. So why are you talking about current accounts being a big win?

Ian Smith: Well, I guess the critical stat for us is we acquired 25,000 new customers right in the sweet spot of customer acquisition and that was the direct result of the advertising campaign. You know, we'll see fluctuations in average balances and things like that over time. Our current account business is in good shape and is an important part of our deposit mix, but, the PCA campaign attracted 25,000 customers in a week.

Brett Le Mesurier: And so, you're saying that you got more customers and lower balances? That's the conclusion, isn't it?

Ian Smith: Well, no. That's maybe your conclusion. But what we've got is a current account business that is going well.

Brett Le Mesurier: Okay. Can I ask another question? Can you tell us what the additional capitalised software expenses was in this half?

Ian Smith: I don't have that number in front of me, but we'll get the IR guys to supply that.

Brett Le Mesurier: The change in the intangible assets was £32 million. The intangible assets were equal to the capitalised software expenses in the annual report. I would presume that the answer would be close to that?

Ian Smith: Yeah, you may be right, but we'll give you the number.

Brett Le Mesurier: Okay, thanks. And lastly, can you, you previously gave us the interest rate on new mortgage business, but you haven't this time. Can you tell us what that is or what that was for the half?

Ian Smith: Yeah, I mean, we haven't disclosed that as you say. Our focus is in what's happening across the whole book. So, we're not disclosing that at this point.

Brett Le Mesurier: Okay. Can you tell us whether it was up or down compared to second half last year?

Ian Smith: When I was talking about what was happening across the mortgage portfolio as a whole, I said that the 19-basis point reduction in the average yield across the book was related to lower customer pricing. So, I think you can take from that that we're in a competitive market where we are seeing that front book rates have gone lower in the last six months.

Brett Le Mesurier: And finally, just one other question. Do the rating agencies look at whether or not you get advanced accreditation on mortgages as a factor in your credit rating?

Ian Smith: Typically not, Brett. They've got their own methodologies for assessing risk and capital requirements. They tend to ignore sort of IRB basis, they sort of almost think about it in a quasi-standardised approach.

Brett Le Mesurier: So do they think you have excess capital?

Ian Smith: They haven't really expressed a view.

Operator: Next question comes from the line of Edward Firth from KBW. Please ask the question.

Edward Firth: Yes, good morning. Thanks very much. Just two quick questions. One was just on the intangible asset number, the increase of £30 million, could you just give us an idea of how you expect that to progress going forward? Is there a lot more of increased investment that you would expect? I guess that's question number one.

And then question number two, if I give you them both, just going back to Chris' question about your cost income target. I mean, you're currently at 64 per cent and you're targeting, well, I guess at top end it's 58 per cent, which is you've got to start that within six months' time in terms of delivering for the year. And certainly, on my numbers, that's the only way you can get there is with a huge uptick in terms of revenue performance next year or a cost number that's going to be way below your target, like, you know, 610, something like that. So can you just give me some idea of how you're thinking about that balance? Certainly, is my math's correct, I guess that's the first question. Then secondly how you would expect to come in on that 58.

Ian Smith: So, Ed, let me answer your question on investment, I guess I'd say a couple of things. What we talked about before, so what's in the market is we're investing heavily in a couple of things that are coming to an end this year. The first is the TSA exit, so our separation from NAB, and that has been a substantial investment requirement. And then secondly, we have invested very heavily in the last 18 months or so or spent quite heavily on IRB. And I've given a number before in that regard which was around about sort of £50 million. So, when both of those programs complete by the end of this year, the burden of investment is reduced and that's, again, going back six months ago when I was talking about how we move from a heavy capital absorption because of what we're investing in the business. That is what will drive net capital generation, conceptually. So that's what we said last time and we'll stick to that. In terms of cost income...

Edward Firth: Without wishing to be a model filler, does that mean therefore that we should expect a further uptick towards the year end and that should be broadly it?

Ian Smith: I'm not giving guidance as to what we're going to spend in the second half of the year. Sorry, Ed. And then, we're in a situation here where we've made some pretty clear disclosures and we'll stick with them.

In terms of cost income ratio and your reprise of Christopher's question. So, what we're talking about here is hitting a cost income ratio target in 18 months' time. And a business that is showing revenue growth and we've explained the basis for the reduction in OOI in this first half. So, we're seeing revenue growth and we're seeing a really good performance on cost. So, I think over the next 18 months we will make progress and that is what underpins the confidence in our medium-term guidance. So, thanks, Ed.

Operator: Next question comes from the line of Rob Noble from RBC. Please ask the question.

Rob Noble: Morning everyone. Just a follow up from one of the previous questions. I'm interested in how mortgage pricing has moved in the last couple of months, because I see that you've put out a 99-basis point mortgage, for example. So, have all of the mortgage rates come down in the last couple of months or which direction have they gone? And similarly, on buy to let, how has that moved as well? A lot of your competitors have said different things in terms of mortgages repricing higher in the last couple of months and swap rates declining and that being a benefit? Just wondering if you've got the same thing? Thank you.

Ian Smith: Rob, it's a really mixed picture. There are some of your compatriots who have asked lots of questions about our 99-basis point mortgage offer. Suffice it to say, we haven't written a lot of business at that rate and we've got a range of product propositions and we come in and out of the market. I realise I'm not being particularly helpful but it's a complex picture. If I was to sort of give a gut feel, I think our experience over the last couple of months from a pricing perspective feels a lot better than the first quarter of the year. But, things can change. It's a competitive market and things can change.

Rob Noble: And on the buy to let space, is there anything different?

Ian Smith: Is your question about pricing or volumes?

Rob Noble: No, pricing as well. Yeah, has the pricing moved up on the buy to let space as well or, sorry, has it moved up in the buy to let space?

Ian Smith: Yes, I think our last pricing move was upwards in buy to let, but it's a relatively subdued market at the moment. So, in the space we play, which is the sort of non-commercial landlord type.

Operator: Last question comes from the line of Azib Khan from Morgans. Please ask the question.

Azib Khan: Thanks very much. Look, your conduct charge in the half with respect to non-PPI issues was £18 million. How much of that related to FRTBL? What is your FRTBL provision balance as at 31 March, and in your FRTBL provisioning assumptions, are you assuming a tapering off of complaints?

Ian Smith: Hi, Azib. So, there were sort of five or six issues included that charge of £18 million. As I say, in the good old days, that would have been a charge of £1.8 million. And that, I say that not to diminish it in any way but to say that's why it's so impactful compared to previous. A small portion of that relates to trickle of FRTBL activity and we are seeing very, very low levels of incoming complaints on FRTBLs and so that's something we feel is in a good place. In terms of what the remaining provision is, I'm looking at my IR colleagues to see if we give that. If we disclose it, we'll draw your attention to it, but broadly speaking, FRTBLs is a very small item for us.

Azib Khan: So, just a second question, if that's okay. And apologies if you've covered this already, but in terms of your effective tax rate on an underlying basis, it looks to be very low in the first half at about 4 per cent. Can you please explain what the driver is behind that one?

Ian Smith: Of course. And again, I'm sure my IR colleagues would be happy to share how that works if I inadvertently confuse you now. So, there's two things in the tax charge which coincidentally offset each other which means on a statutory basis, we're round about 20 per cent. Which, for a bank that isn't paying surcharge on profits, is the mainstream corporation tax rate. But the two things that are in there that offset each other is first of all, a good deal of conduct expenses is not tax deductible.

And then we have going in the other direction a tax credit for the revaluation of deferred tax assets relating to historical losses. And coincidently, those two offset each other, more or less. The trouble is when you then split between underlying and below the line items, clearly the non-deductible goes against conduct and the credit goes against your underlying. So, that's one of the reasons why we wanted to be very clear about what the sort of look-though ROTE is. Broadly speaking, our effective tax rate at 20 per cent is in the right place. And it is this construction of underlying versus below the line that leads to a slight anomaly there. If I've inadvertently confused you there, the IR guys can help a bit later.

Azib Khan: So, and just one last question, if that's okay? With your mid-single digit asset growth guidance? Can you just confirm that that doesn't take into account the incentivised switching scheme?

Ian Smith: That's correct. It does not take into account the incentivised switching scheme. As David said, our expectation is that is something that is going to start later in the year.

David Duffy: Okay, thank you. I think we're going to, given the time has gone a little over the allocated time and I know you have a lot to do. We're going to call it there so thank you to everybody in Australia. Thanks to everybody here. If there's anything leftover, we'll hang around for a couple of minutes and we can follow up. Thank you all very much. We'll close it there.